



# INVESTOR & ANALYST DAY

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**April 8, 2021, 9 a.m. EDT**

Jim King: Good morning and welcome to the 2021 ScottsMiracle-Gro Investor and Analyst Day. I'm Jim King, executive vice president, chief communications officer, but most importantly, your host for this event. If you're with us this morning, clearly you know the ScottsMiracle-Gro story, at least at a high level. The goal today is to provide a clear understanding of our thoughts about the future, and the steps that we're taking to capture the opportunities that lie ahead. The subjects we'll cover are a direct result of the conversations I've had with many of you over the past year. You've wanted to know whether we believe our US Consumer business can continue to grow in a post-COVID world. You've asked what differentiates Hawthorne from some of the names that have recently gone public in other ancillary areas related to the US cannabis market. We're going to answer those questions today, and you're going to get a chance to hear from a group of my colleagues who normally don't interact with Wall Street.

Jim King: As we have assembled the content for today's meeting, I've learned a lot myself and I trust that you will as well. In a few minutes, I'm going to turn things over to Jim Hagedorn who provide a strategic update, and then Jim will turn to Cory Miller and Mike Lukemire for a quick update on how we see the current year evolving. From there, we'll move into a deep dive to discuss Hawthorne, with five separate presentations that'll take a little bit more than an hour to complete. We'll then transition to the US Consumer business with four presentations. It'll take roughly 40 minutes at that point. We'll take a short break, about 10 minutes and then begin a live Q&A session. To facilitate Q&A in an orderly fashion, here's what we're going to do: the sell side analysts who cover ScottsMiracle-Gro will join me and my colleagues for that part of the meeting. We'll give them all a chance to ask questions. In addition, I'll pose any questions that are submitted by our shareholders or buy-side analysts during that time as well.

Jim King: Throughout the meeting this morning, you'll have a chance to send questions to us through the Open Exchange portal. You can do this at any time by accessing the Questions tab in the upper left corner, I'll sort through the questions, look for common themes and then pose them on your behalf. We've got a lot to cover, so let's get started.

Jim King: As you know, we're going to make forward-looking statements this morning. So it's my job to remind everyone that our actual results could differ materially

from what we discussed today, due to a variety of risk factors. I'd encourage investors to familiarize themselves with those risk factors, which are listed in our form 10K filed with the Securities and Exchange Commission.

Jim King: I'd also tell you that we're going to discuss a variety of non-GAAP financial measures. There's a link located on the left portion of the screen, where you can find an attachment with our reconciliation to our GAAP results. And finally, by tomorrow, we hope to post a full transcript of this meeting. That transcript can be found on our Investor Relations website, [investor.scotts.com](http://investor.scotts.com). An archived version of this meeting also will be housed on that website in the event that you can't watch it all today. So I want to thank you once again for joining us today, I'm optimistic that you're going to find this to be time well spent, and I look forward to hearing your feedback. We're going to start the program with some thoughts from my boss, our chairman and CEO, Jim Hagedorn. So Jim, why don't you take it away?

Jim Hagedorn: Hello everyone. I'm Jim Hagedorn chairman and CEO of ScottsMiracle-Gro. I want to thank you for spending the time today to learn more about our company, and our commitment to continue driving shareholder value. Over the next two plus hours, we'll share what we believe is an optimistic and compelling story. And that story goes well beyond the record results we've been posting for the last several years, or expect to post again in 2021. Yes, you'll hear us set new guidance targets for fiscal '21 on both the top and bottom lines, but the focus of this meeting today is not about our performance this year, it's about the way we're set up for the future.

Jim Hagedorn: At the outset, I'll say I'm happy to hold this meeting virtually, and we're going to do our best to ensure the virtual aspect of this meeting is not your typical Zoom call. Throughout our presentations, a dozen or so, members of our team will take you on a road trip of sorts. You'll see manufacturing and distribution facilities, R&D operations, cannabis growing operations, retail stores, growing facilities, and our own storefront in Ohio called Greendigs, which is a part of one of the native brands we've been developing. You'll hear from some of the best talent in our organization, a diverse team with backgrounds in finance, marketing, science, government, sales, and supply chain. By the time we're done, I believe you'll better appreciate what we're doing here at ScottsMiracle-Gro and why we are so bullish in the future.

Jim Hagedorn: I have three goals for today's meeting: first, to reframe how you see our business. This will be the third consecutive year in which both segments are significantly outperforming the long-term growth expectations we laid out several years ago. Even if I try to strip out any impact from COVID, we're still ahead of where we thought we'd be. This multi-year run has forced a disciplined re-evaluation of how we prioritize our uses of cash to ensure we're properly supporting the business. You'll hear us talk about strengthening our infrastructure and building our brands. We're no longer satisfied with the

assumption that our core businesses mature, and we see the marketplace for Hawthorne, continuing to expand as well.

Jim Hagedorn: Second, I want you to understand why we feel this way. The majority of our time today we'll focus on Hawthorne. It's a deep dive that explains our vision, our portfolio, selling process, commitment to innovation, and the view of the current political landscape. I'm confident you'll walk away, not just with a better understanding of Hawthorne, but with the firm belief that we are better positioned by far than anyone else in the industry. I hope you draw the same conclusions about our US Consumer business. We'll talk about our marketing initiatives and the major improvements we've made in our direct to consumer efforts, and since we're in the midst of spring, we'll take you on a virtual store walk to remind you of just how strong our brands are in the marketplace.

Jim Hagedorn: My third goal today is to demonstrate our depth of talent. It's interesting when you're CEO; you're not responsible for the execution, instead, you strategize, you direct, you lead, and then maybe a few months, maybe a year later, you see your ideas come to life. And they're brought to life, not by the CEO, but the people around him or her. I could not be more fortunate than to be surrounded by the people you'll hear from today. They've done the work to take this business to an entirely new level. When people at ScottsMiracle-Gro set out to do something, they do it. It's one of the things that I've always admired the most about this company. I used to say our competitive advantages were brands, supply chain, innovation, and our sales force. Those remain important weapons in our arsenal, but from where I sit our most powerful advantage is our team.

Jim Hagedorn: Unfortunately, you only hear from a dozen of us today, but later in the program, we'll spend a few minutes introducing you to a broader group of up and coming young leaders. They deserve to be in our radar screen because I'm confident many of them will be sharing this stage in the not too distant future. I clearly remember when I first stepped on the stage. In May, I'll mark my 20th year as CEO of this company. Those who've been around awhile, know that I've never been one to worry about the next quarter or even some degree, the next year. What's been core to my view since the day in 1995, when my family's business Miracle-Gro joined forces with the Scotts company, was focused on driving long-term value creation by setting aggressive targets for what's possible, and then driving the business to get there. The result is not always been a straight line, but I'm really proud of our track record over that period. Indeed, our market capitalization has grown from about \$600 million when Scotts and Miracle-Gro combined, to more than \$12 billion today. I'm proud but not satisfied. None of us are. And hopefully you'll agree with us by the end of the day that we have a lot of runway still ahead of us.

Jim Hagedorn: So let's get started. I'm delivering this message today from my office in Marysville, Ohio. With the exception of a few members of our corporate communications team, the building is still empty. It has been since March 12th

of last year when we closed our offices because of COVID. In the weeks and months ahead, we'll begin to creep back into the office. I can't wait to see familiar faces, and feel the energy that's apparent to anyone who walks through our front door. This past year has been challenging in countless ways. COVID has been a global crisis beyond what any of us could have imagined, and we all wish it had never happened, but it did as the stewards of this business, it was the job of my team to get us through the crisis. How this team navigated the past year is the proudest moment of my career. Second place isn't even close.

Jim Hagedorn: What we've learned over the past year is all of the work, all of the planning, the reconfiguration of our portfolio, our years long focused on leveraging our competitive advantages, the nurturing of a family-centric, corporate culture, all of that came together over the past 12 months to make this company stronger than I believe it's ever been. We took advantage of a period of time where there were virtually no rules, and we dismantled our own bureaucracy. We had smarter conversations, focused on making faster decisions, and then moved on to the next issue. And the more it worked well, the more it worked. Clearly, the benefits that accrued to us during 2020 were well beyond what we could've expected, but the fact that our mindset has changed and our strategies evolved is not merely a reaction to what we've seen over the past year. Our mindset was changing before COVID hit.

Jim Hagedorn: In 2019, we started off as we always do guiding the flat sales to plus two in our US consumer segment. We delivered 8% growth, 5% without pricing, but our ability to grow and take three points of pricing in that environment speaks to the power of our brands. In 2020, we got it low again, but our sales and marketing team was telling us they believe that real growth opportunity was five or 6%. That's the path we were on. And then COVID hit. It's hard to tell you what precision, what COVID meant to our sales growth last year, but we already were seeing the opportunity for more growth, and beginning to see the need to reassess our strategy we laid out for shareholders in 2015. That's when we launched an initiative, we call Project Focus. In short, we said we focus on three things. First, strengthen our market leading position in our US Consumer business and drive cash flow.

Jim Hagedorn: Second, supplement growth in the slow growing core by reconfiguring our portfolio. We sold our European consumer businesses and Scotts Lawn Service. We reinvested that money in a minority position in Bonnie Plants, and started making investments in what is now Hawthorne. Our belief then was that these businesses could grow at twice the rate of the core.

Jim Hagedorn: The third pillar of Project Focus was returning cash to shareholders. We changed our compensation programs to incentivize more consistent cash flow performance, and the goal was to use that cash for significant share repurchases. When you brought it all together, Project Focus was designed to enable the company to grow three to 5% and consistently generate double digit shareholder returns, and we succeeded in a big way. As I look back, it was the

right strategy at the right time, but it was largely defensive because we didn't see much growth on the horizon in the US consumer segment, and none of us anticipated what Hawthorne would become. Half of the shareholder return we set out to deliver from that effort was from either share repurchase activity or dividend payments. That's not what we believe today.

Jim Hagedorn: Let me be clear: I still believe cash flow was the real driver of value, and I still believe in returning cash to shareholders, but I also believe that ScottsMiracle-Gro is better positioned than it's been in at least a decade for growth to be the primary driver of shareholder value. I also want to stress that we're not talking about a full-out departure from our strategy, just a refinement. As I've taken to saying lately, the music may not sound familiar at first, but if you listen carefully, you'll still recognize the tune. So let me play it for you, starting with our US consumer segment.

Jim Hagedorn: When we launched Project Focus, we talked about lawn and garden being a relatively mature category. We were worried that millennials would not become homeowners in the same way their parents did, and that the relevance of the category would be challenged. Today, we believe just the opposite to be true. While we're certainly focused on keeping as many of last year's new users in the category as possible, a focus on near term results is not what's driving our actions or our optimism. We believe demographic and other societal changes will be a friend of this category for years to come. The largest generation in history has finally made its way to home ownership. We're often asked about the impact of housing on our business. We don't talk about it much because we've never been convinced it's had a profound impact, but over the last several years, it's been the demographics of the housing market that have caught our attention. Millennials represented 37% of the housing market in 2018, and they became the largest cohort of buyers in America. The next year, it inched up to 38%, and when they became homeowners, they started to become gardeners.

Jim Hagedorn: According to our research, 70% of millennial homeowners are active gardeners. That's a higher percentage by double digits than any other demographic group. Their interest in our category is greater than that of their parents. And we've realized we need to take our cues from them, not the other way around. They're driving us to find new ways to reach them, to find new ways to work with our retail partners to engage them, and to build new competitive advantages, to meet their expectations in an online marketplace. In short, our relationship with millennials is the essential ingredient in ensuring the continued relevance to the lawn and garden category over the next 20 years. And the opportunity we see leads us to believe US Consumer, even off a higher post-COVID base, can grow two to 4% annually. As we look ahead. Essentially, two basis points more than we believed entering 2019.

Jim Hagedorn: Getting that growth requires a commitment. That's why we will invest more in marketing and media than ever. Josh Peoples will share more details with you

later today, but we are at a critical point in our relationship with consumers. We have the ability to create relationships with a new generation of consumers that could benefit us for years to come. When we think about it through that lens, the investment in 2021 is not a complicated decision. We're also investing more heavily in new delivery systems and brands. We're rather agnostic about whether consumers have products delivered to their homes, whether they buy online, they pick up in store or whether they continue to shop the old fashioned way, which we believe the vast majority will continue to do. What's important is that they have easy access to us, and the products and solutions that we offer. They also may or may not want our traditional brands. If they want something new, we want it to come from us, and so developing a new native brands is also critical to our future growth.

Jim Hagedorn: All of this work falls under the leadership of Patti Ziegler, and she'll talk about the work of her team in more detail. And as you've heard me say repeatedly, the live goods category is an important part of our future. I told you previously that we wanted to be seen by consumers as a gardening company, not just a gardening products company. Consumers don't go to the store on a Saturday morning because they have an overwhelming desire to buy more soil, or pest control products; they engage in this category because they're gardeners. Some of you on Wall Street may not get it, but there's an emotional element to this business that drives consumer behavior, and if we want to be a true leader in this industry. We can't just be the people who sell inputs.

Jim Hagedorn: That philosophy is what drove our initial investment in Bonnie Plants, giving us a 25% stake at the time. We leveraged their best-in-class capabilities and growing and shipping plants. They leveraged our marketing and sales force. It was a complimentary relationship that led us to agree in recent months to a 50/50 joint venture that we have today, frankly, we're willing to buy 100% of Bonnie, but their owner, Alabama Farmers Co-op also believes in the opportunity, and they wanted to stay engaged. We have a partner in Bonnie that also sees the benefit of a broader footprint. In fact, Bonnie's CEO, Mike Sutterer, a former leader in our US Consumer business is part of the agenda today. Working together, the goal of our two companies is to acquire other assets in this space, and find more ways to use plants as a way to strengthen our relationship with consumers.

Jim Hagedorn: I can go on at length about the other opportunities that we see and the steps we're taking to win. We continue to make progress with natural and organic products. We continue to see exciting opportunities in the fast-growing grass seed market, and our controls portfolio has never been stronger, but those are not the details that matter here today. What matters is that all of you watching today understand why we see the opportunity for growth, and understand why we're confident in our ability to capture it.

Jim Hagedorn: The second reason we're so confident of course is Hawthorne. The potential for sustainable double-digit growth in the coming years at Hawthorne is real. Many

of you want to know what that means. Frankly, it's hard to say because so much of it is dependent on issues beyond our control. For example, given the timing of when some markets may open, or when some major projects may get completed, some quarters growth might be only 10%, some quarters that might be 20, 30 or 40%. I'm not worried about the choppiness, and I hope it's an issue all of you understand. As well as I said, at the outset of my remarks, I have never managed quarter to quarter, and I'm not going to start now.

Jim Hagedorn: What do I know? That the ability for long-term value creation from this business is real, and that if we're focused on the long term, then we can tolerate some choppiness as we navigate our future course. Remember, our original intent for Hawthorne was to focus on urban gardeners broadly, not on professional cannabis and hemp cultivators, but when presented with the opportunity, we seized it. The pioneers in this industry; small, but savvy entrepreneurs took their businesses as far as they could. They knew the landscape was changing, and they were looking for someone who would treat them with respect and help them take their businesses to a new level. The consolidation that ensued gave birth to Hawthorne, as we were willing to enter a space that other public companies openly avoided, and most still do. We leveraged our vision with our history and knowledge in professional high-end horticulture to create an industry leading business. We saw the growth in state authorized cannabis, but we chose not to play directly in the space. We also knew that our heritage was in helping people grow healthy plants. So, investing in hydroponics and indoor growing products allowed us to take advantage of the cannabis wave.

Jim Hagedorn: While the legal cannabis space remains a young industry, there are already a lot of lessons. First and foremost: you can't win just by showing up. Obviously, that's not the approach we're taking here. We've been taking a long-term approach from day one, even at a time when some of you didn't fully understand what we were doing, or agree with our approach. At an Analyst Day meeting in 2016, we announced the acquisition of general hydroponics. There was a great deal of skepticism about that deal. It continued after the acquisitions of Botanicare, Gavita and Can Filters, and in the middle of a massive industry downturn in 2018, we stepped up and bought Sunlight Supply. It remains the largest acquisition in the 153-year history of our company.

Jim Hagedorn: The fact that we stuck with the strategy, when so many questioned it says something about who we are at ScottsMiracle-Gro. We weren't being stubborn; after 2018, we did sit down and reevaluate everything we were doing, and we came away from that process with even more optimism. So I believe this period in our history could be defined by word, "Conviction." Just like we did with our consumer business. In the 1990s, we sought to build a portfolio of the best products and brands in the industry, and then we turned around and acquired the supply chain infrastructure to bring it all to life. While no one knew what the growth rate of the businesses would be when we ventured down this path, we knew the potential was real. Still, we were disciplined in our approach to M&A, paying on average about eight times earnings.

Jim Hagedorn: Remember what I said about Project Focus; the original vision for Hawthorne was to grow only at twice the rate of the US Consumer business, which would have allowed SMG to add another point of two to the top line. That mindset was factored into the prices we were willing to pay, so we've significantly exceeded our deal cases in every instance. Our appetite for M&A remained strong. We have a number of ideas in the pipeline, but will exercise the same financial discipline that we've shown since day one. If you're wondering, yes, multiples are getting higher. That doesn't mean we'll chase deals that don't make economic sense. Frankly, we'd rather compete with those businesses than to overpay for them. Longer term, assuming there are ultimately changes to the federal laws, we're likely to look at M&A through lunch that puts us closer to the grower, and the end user. In a few minutes, you'll hear more from Chris Hagedorn about our vision for Hawthorne, and our goal to establish ourselves as the single most critical supplier to cultivators who are working in the authorized cannabis industry.

Jim Hagedorn: You'll learn more about the breadth and depth of the product portfolio from Dan Paradiso, who is the chief operator at Hawthorne. You'll also hear from Brian Herrington, who was recently promoted to vice president of external affairs at Hawthorne. He'll help you with a better understanding of the political landscape, both at the state and federal level, and the opportunities we see for new markets to open in the next few years. Jeff Kwiatkowski will share more details about the steps we've taken to strengthen our sales force in order to provide a level of service that is well beyond anyone else in the industry, and you'll also hear from Paula Powell about the critical role of innovation in this industry, including the running of our new R&D facility in British Columbia, the first of its kind in the world. We believe Hawthorne has just scratched the surface. We see a market landscape that is filled with opportunities, and we're going to put our resources to work in the space.

Jim Hagedorn: Speaking of putting our resources to work, I want to pivot and talk again about our allocation of capital. By the end of year, we project the US Consumer segment will have grown by more than 35%. Over the past three years. We never envisioned that. Even if the growth rate in '22 and '23 is flat, or even if it falls backward a bit, this new base requires a different level of capital investment. Over the balance a year, we'll continue to assess what we need to do. Our biggest focus is in our grown media business, which is likely to have grown by more than 50% over the period I just outlined. Not only that, but we continue to believe gardening to be the biggest growth opportunity going forward. And so, it is essential that we invest properly in our growing media infrastructure.

Jim Hagedorn: At Hawthorne, we've been continuing to build out our infrastructure, but our growth over the same three-year period, well over 100%, requires us to look harder at what's required to meet the future needs of this business. Here's what I can tell you right now: in fiscal '21, we expect our capex to be in the range of \$125 to \$150 million. The high end of that range is double the runway to the



business over the past five years. It's possible we'll see another year of investment at this level in fiscal '22, as soon as we have a better handle on that, we'll let you know. The other reality we're facing is the rapid acceleration of our growth rate in both segments has taken our inventory below an acceptable level, which has caused two problems. First, we've left sales on the table. We believe we lost at least \$200 million in sales in 2020. The second problem is worse. Our service level over the past 12 months have fallen to a point lower than any of us can recall over the past 20 years. That's something Mike and I will not tolerate.

Jim Hagedorn: We used to tell our retail partners and our investors we considered our supply chain to be a competitive advantage. We called ourselves, "World-class." By the end of fiscal '22, I am committed to telling you once again that our supply chain is delivering world-class performance. I want to be clear in my view here: I believe that value is driven by cash flow, not EPS, and then smart decisions with how we deploy that cash. So, even if our cash flow gets a bit choppy in the near term, our long-term commitment is unwavering. At Hawthorne however, I'm not convinced the cash flow should even be a part of the discussion over the next three years. We continue to see significant growth opportunities, and along the way, we expect our profitability to improve as well. But this is not the time in the life cycle of this business to be stingy with our investments, we will continue to build the inventory we need to be a better partner, and we'll continue to build and improve our infrastructure; people, processes, and systems.

Jim Hagedorn: We will continue to do what is necessary to dig a wider, deeper, and more impenetrable moat around our business. In terms of overall use of capital, I want to reiterate what I said earlier. In addition to ramping up our capital spend in the near term, we will allocate more dollars to M&A for both US Consumer and Hawthorne. But even if we execute against everything in the current pipeline, we still have plenty of capacity. The bias of our board of directors to continue authorizing returning cash to shareholders. We'll likely repurchase about \$75 million of shares in this year and continue paying our regular dividend. Additionally, we still have a bias towards some level of special dividend payment later this year, the ultimate size of which is likely to be determined by how the year is coming together. Our leverage ratio currently stands at about 2.2, five times debt to EBITDA. Our target leverage remains at 3.5 times, which we can maintain, even if we execute everything I just outlined.

Jim Hagedorn: As I wind down and turn things over to my colleagues, I want to say just a few words about them. I've been around this industry for most of my life. I've been the CEO of the company for 20 years, and I'm being sincere in saying I've never felt better about the team around me and the teams around them. When we launched Project Focus, I would tell you that our cupboard was pretty bare when it came to talent. One of the reasons we created a five-year incentive compensation plan was because the board and I wanted to make sure we did everything we could to keep our very best leaders in place. 16 of the 19 people

who were part of that original retention plan are still with the company. Over the past several years, many of those people have demonstrated the ability to operate at an even higher level. Part of how they've done that has been developing and strengthening their own teams. I'm confident in saying today that our business, make that your business, is in great hands.

Jim Hagedorn: I want to thank you once again for spending time with us today, we've worked hard to develop the content for this meeting because we view it as an important discussion. The bulk of the presentations you hear today will focus on Hawthorne, and that's a direct reflection on the request we've heard from many of you, but before we get into those discussions, I want to give you all update on how we see fiscal '21 coming together. As I said earlier, we're going to call up our numbers today, which is something we rarely do this early in the year. However, it's clear already that our US Consumer business is going to do better than we originally expected. Even with some of the cost pressures and an increase in investments we've been talking about on our Q1 earnings call. This higher level of growth also means we'll see EPS at a higher level as well. To give you a better sense of what we're seeing right now. I'm going to turn things over to both Mike Lukemire and Cory Miller.

Cory Miller: Good morning, everyone, and thanks, Jim. It's good to have a chance talk with all of you again. As I've been settling into my new role over the past few months, one aspect of the job that was new to me is talking to our analysts and investors. This has turned into one of my favorite aspects of the role. Perhaps part of the reason is, I get to keep sharing good news. This is my fourth opportunity to speak publicly about our business since January. It is the third time I've had the opportunity to deliver positive news. As you know, we announced last month that we now expect to show positive sales growth in our US Consumer business this year.

Cory Miller: The previous guidance we provided was a growth range of flat to negative 5%. This morning, I can now tell you. We expect sales to increase in the range of four to 6%. We still expect the cadence of the year to remain the same. We'll see a strong start in the first six or seven months, then likely see some challenges in the final months of the year, as we compare against the record sales, we posted in 2020. At Hawthorne, we continue to expect sales growth in a range of 20 to 30%, though I now believe the top half of that range is more likely.

Cory Miller: So, on an enterprise basis, we now expect company-wide sales growth of eight to 12%, compared to a previous range of one to 6%. That means we now expect our adjusted earnings to be in the range of \$8.60 to \$9 per share. This compares to our previous range of \$8, to \$8.40 per share, and our fiscal 2020 performance of \$7.24 cents per share. And as a reminder, our adjusted earnings in fiscal 2019 were \$4.47 cents per share. So we have the potential to double the earnings of this business in just a two year time period.

Cory Miller: As it relates to adjusting our P&L guidance, we're focusing on sales and adjusted EPS, until we get further into the season. We said in early February, we could see gross margins decline 125 to 175 basis points. That's still a good estimate. All our current trends would suggest the more negative end of that range is most likely.

Cory Miller: As you all know, the commodity environment is challenging for everyone right now. Also issues like product mix and fixed cost leverage could vary a bit in the coming months, depending on how the sales finish. I'll come back to the topic in a few moments, and provide a little more color on the commodity front. Back to our guidance, as it relates the SGNA, as we said in February, we still expect it to decline three to 8% on a year-over-year basis, we can spend time fine tuning every line of the model, but frankly, I don't believe that it's a productive use of time. Within the broad parameters of sales, gross margin and SGNA guidance, you can find your way to the EPS range we provided.

Cory Miller: It's too early to know what the gross margin rate impact would be if sales in the US Consumer were up just 4% versus 6%. And without that knowledge, it's difficult to predict with precision what the impact would be on variable pay, or whether we might choose to defer certain investments in fiscal '21, or perhaps pull investments forward into fiscal '21, or perhaps, pull investments forward into this year. Suffice it to say, that even though it's early in the lawn and garden season, we're confident in these updated ranges. We will provide you with as much clarity as we can as the year progresses, just as we have throughout this unusual two-year period.

Cory Miller: As relates to cash flow, again, much depends on how things evolve over the next several months. I can tell you however that we now expect free cash flow, that's operating cash flow, net of capex, to be closer to \$250 million compared to our original guidance of \$325 million. There are two items driving this number lower, both of which Jim alluded to in his remarks. We are stepping up our capital investments this year. Without doing so, we leave ourselves vulnerable in future years. This is not the result of under investing in the past. All of us believe that the previous capital spending was appropriate given the growth prospects of the business at that time. But if we hit our updated growth targets for US Consumer, this business will have grown more than 35% over the past three years. Hawthorne, during that same time period, will have more than doubled. All of that growth was organic and well beyond what we expected.

Cory Miller: The other unknown right now is working capital. As we said on our last call, we called up our production levels late last fall in anticipation of what we believed would be higher retailer demand. We were right in that assumption, but how much inventory ultimately sells through versus how much we carry over year end is dependent on which end of the sales growth range we hit. Now is not the time to pull back on inventory. So if we find ourselves carrying more inventory at the end of the year than we anticipated, I'm okay with that. In fact, it could

actually create a tailwind for fiscal '22 if we continue to see upward pressure on urea and resin prices in particular.

Cory Miller: Speaking of those inputs, let me address the issue of commodities more broadly. It is a near constant focus of questions these days for obvious reasons. Commodity sensitive materials represent a little more than 20% of our total cost of goods bucket. In five commodities, urea, resin, diesel, grass seed, and sphagnum peat moss, make up about 60% of that bucket. Entering April, we are roughly 85% locked on urea, resin and diesel for fiscal 21. This is a slightly higher level of exposure than we would normally have this time of year, but that is due simply to the fact that our sales targets are now exceeding our original forecast. We are also increasing pricing this year, in fact, at a higher level than average. However, those increases do not kick in until the fourth quarter, which contributes to the gross margin rate pressure for fiscal '21. The fourth quarter price increases carry over into fiscal '22. So we feel comfortable we'll be in a better position as we plan for next season.

Cory Miller: We committed long before I took this role that we would be transparent throughout the year and keep you updated as things unfolded, and that's just what we've done, but please understand we continue to operate in an unusually fluid environment. But it's our ability to navigate these unusual times that gives me even more confidence in ScottsMiracle-Gro. I couldn't feel better about the commitment of our team, the way the business continues to operate, and the opportunities we have to continue driving value for shareholders. I look forward to talking with you again later this morning, but for now, let me turn things over to my colleague, Mike Lukemire.

Mike Lukemire: Thanks Cory, and good morning to everyone. While I spend a good bit of time working with other key external stakeholders, mostly retailers and vendors, I know our shareholder community is critical as well. So, I'm glad to be with you today and looking forward to helping you better understand ScottsMiracle-Gro. Jim often comments on our conference calls about what an optimist I am, and he's right. I see all the opportunity here and can't help but believe that we have enormous potential for continued growth. You just heard our new guidance ranges from Cory, and if you've been following us at all for the last six months, you'll know I'm not surprised.

Mike Lukemire: While COVID has created a good bit of uncertainty, especially related to the back half of this year, I have always believed we had the capacity to see year over year growth in our consumer business. As I sit down and talk with our retailers, every one of them is optimistic about the season. In fact, I don't recall a time when I've ever been this bullish before the start of the lawn and garden activity. They see lawn and garden as a destination category, and they see our brands as being critical to keeping foot traffic flowing through the door. Later this morning, you'll hear from Josh Peoples, Patti Ziegler and Tom Crabtree who will talk about the steps we're taking from a marketing, direct to consumer, and sales perspective, to deliver another strong year.

Mike Lukemire: As Cory said, even with our increased outlook, we believe the second half will be challenging. Still, this is an exciting time to be involved in the lawn and garden category. I agree with Jim's assessment that there is a demographic and generational change happening, and I'm confident this category will benefit from that trend for some time to come. That's why I pushed our marketing and sales teams to challenge me. I told them they were unconstrained in what they asked for. As long as they justified it, I never said no. The investment in marketing is not just about growing the business in '21, it's about keeping new gardeners engaged year after year after year. Our investment in improving our infrastructure, which Jim mentioned, is also about looking years down the road.

Mike Lukemire: While I'm extremely optimistic about our consumer business, I am even more energized about Hawthorne. Jim said we're just scratching the surface, he is a hundred percent correct. There are two important things to take away from what you'll hear in a few minutes. First, no one is better positioned to take advantage of the growth in this industry than Hawthorne. We have a better portfolio, a more complete business, and real competitive advantages that will be difficult for others to match. Second, the success we've seen so far is not an accident. Yes, the growth in this industry has been significant. There is no denying that fact, but we have invested heavily in people and processes that have helped transform this business. While we have a lot of work still ahead of us, we have improved literally every aspect of the Hawthorne business. I just celebrated 25 years at ScottsMiracle-Gro, and Hawthorne remains one of the most interesting and exciting opportunities I've seen for this company.

Mike Lukemire: I often joke that I wish I was 30 years younger and working in this business. That's because we're doing much more than simply driving sales growth at Hawthorne. We are building something, a better and stronger business that is well positioned for the future. So yes, Jim, I am an optimist. It's hard not to be when I see all the opportunities in front of us. If we can take advantage of those opportunities, it should drive value for all our shareholders watching today. I'm going to clear the stage now, so you can hear it from a broader group of our leaders in both businesses. I'm proud of this team, proud to know them, and proud to work with them. So I'll see you again during the Q&A session. For now, let me turn things back to Jim, to transition to the Hawthorne presentations.

Jim Hagedorn: Thanks Mike. Before we move into the Hawthorne discussions, I want to share some thoughts about the team you'll be hearing from today. I'm going to interject two other times this morning to talk about our people, because I think it's an area that's too often overlooked by investors. The people you know the best here, me, Mike and Jim King, are far closer to the end of our careers than the beginning. A big part of our jobs these days is to work with our HR lead, Denise Stump, to make sure that our succession plans are sound. Grooming the next generation of leadership has also become a conversation with the board of directors. Denise, with the support of the board, has been running a process to assess, mentor, and grow a group of roughly two dozen people we believe are

the next generation of leadership of this company. Many of the people you hear from over the balance of the day are part of that group.

Jim Hagedorn: As it relates to the Hawthorne team, this group has done a great job across the board over the last several years and deserves a lot of credit for their efforts. Those of you who've been around a while know that they have some battle scars, and you also know that I was openly critical the way we were navigating some of the challenges we saw in 2018. Don't be fooled into believing the strength of the marketplace is the only thing driving Hawthorne performance. What I believe they will demonstrate this morning is how far they've come in professionalizing this business. And they have quickly built competitive advantages that have put Hawthorne far out in front of the competition.

Jim Hagedorn: You'll hear first from Chris Hagedorn. Chris is group president of Hawthorne and an executive vice president of the corporation. I'm not going to dodge that Chris is my son. And I'll tell you directly, it is a hope of the Hagedorn Partnership, which owns about 26% of ScottsMiracle-Gro, that Chris will be a part of the leadership team of this company. Our family has been directly involved in leading this business for 70 years. My father founded Miracle-Gro in 1951. And as we matured, most of the kids, there were six of us, were involved in one way or the other. My twin sister, Kate, serves on our board and is chair of our finance committee. We, the family that is, don't simply look at our ownership stake from a financial perspective. It's part of who we are. And it's our hope that another generation of Hagedorns will build on a legacy that our father created.

Jim Hagedorn: As for Chris, he is proving himself as a strong leader and an important voice in the industry. We've given him the latitude and independence he needs to operate the business. And the results speak for themselves. The team Chris has surrounded himself with has been critical to our progress. So let me tell you a little bit about them. Following Chris, you'll hear from Dan Paradiso, who is the chief operating officer at Hawthorne. If you've been around a while, you'll recognize Dan. He has spoken at analyst day meetings in the past when he ran our lawns business. He left the company for a few years, but worked at another firm that was still involved in lawn and garden. And then in 2018, we invited him to come back and work at Hawthorne. Chris and Dan have created a partnership that's been extremely good for the business. All of us are glad Dan decided to rejoin our ranks.

Jim Hagedorn: Dan is going to turn things over to Jeff Kwiatkowski, who is vice president of sales, planning and communication for Hawthorne. Kwi, as we call him, is another person who moved from the US Consumer business to Hawthorne. He led our lawn's team for a few years and also let our UK business when we were still operating in Europe. Kwi has done a great job at all of his roles over the years in helping us understand the needs of our customers and then find creative solutions to meet those needs. What you'll hear from Kwi is how our sales processes have evolved and how we engage with our retail partners and cultivators. The second half of his brief will focus on our level of engagement

with commercial operators. It's important to pay close attention because this is something that no one else is bringing to the table but Hawthorne.

Jim Hagedorn: One of the other things that no one else is bringing to the table is a commitment to innovation, like Hawthorne. To help you understand what we're doing, you'll hear from Paula Powell who leads our R&D efforts related to nutrients and growing media for Hawthorne. Paula is among the PhDs who work in our R&D group and as part of emerging leadership team that we believe is critical to our future.

Jim Hagedorn: One of the other folks in that category is Brian Herrington, who leads our external affairs efforts at Hawthorne. Brian is one of the most knowledgeable people in the country when it comes to the politics of cannabis reform. He's been on the front lines of performed efforts from California to New Jersey. More recently, he's been taking a more holistic view and working on federal issues as well. I trust you'll find his briefings to be insightful. So without further delay, let's move on.

Chris Hagedorn: Hi, everyone. Thanks for taking the time to learn more about what we're doing at Hawthorne. We know there's an enormous amount of investor interest in our business these days. And with good reason, we also know there are a fair number of gaps in what investors know about our company. We'll work today to fill as many of those gaps as possible. By doing so, we hope you walk away with the firm belief that we're on the right track at Hawthorne, and we're well positioned to keep serving the needs of our customers, providing growth for our associates and driving value for our shareholders.

Chris Hagedorn: At a high level, it's easy to look at our business and get excited about the recent growth rates and the fact that new markets are opening every year. It's also easy to listen to dialogue in Washington and believe that change is coming at the federal level too. This industry has come a long way in a remarkably short period of time. 36 states have now authorized cannabis cultivation for medical purposes, 17 have authorized recreational use. That means that 70% of Americans live in a state where cannabis use is legal at some level. There were \$18 billion worth of state authorized sales in those combined markets last year. Though some believe total cannabis sales, which would include the illicit market, are worth more than four times that number. The goal obviously is for all those sales eventually to occur within a legal and regulated framework.

Chris Hagedorn: Consumer purchases of licensed cannabis products in the United States grew by almost 50% in 2020 during the pandemic according to the market research from BDSA. Even without federal legalization, it's expected that state authorized sales will more than double in the next five years, aided by new states coming online, as well as continued growth in existing markets, while the illicit market is expected to remain flat.

Chris Hagedorn: It's little wonder that there is a lot happening in the space, and there are a lot of players who are currently pursuing the opportunity. I'll remind you that we were among the first to do so. It's pretty odd actually to think that when we first launched this business six years ago, we had to be careful about how we described it. We rarely use the words, marijuana or cannabis, and in fact, at times, went out of our way not to use those words. So let me be crystal clear today. We supplied the best products for efficiently growing plants indoors. And our mission is simple, to build the world's premier business service state authorized cannabis and hemp growers.

Chris Hagedorn: Our success relies in the success of the cultivators who use our products. Our goal is to give them the tools to become better growers, to improve their businesses, and have them see our products as an essential part of their own success. We talk about brands a lot with investors, and generally in this business, we're talking about General Hydroponics, Botanicare, Gavita and the like. What we don't talk about enough is the Hawthorne brand, which doesn't appear on any product that we sell. But the Hawthorne brand is what will define our success, both in the near and long term, and it's all about putting the grower at the center of everything we do. This is what sets our business apart from everyone else in the space.

Chris Hagedorn: Our goal is to give you a better understanding of what the Hawthorne brand is all about and the capabilities that truly differentiate us in the market. We want to help you understand the critical elements of our business, our product portfolio, our selling strategy, our commitment to innovation, our distribution network, and our technical support services. But we also want you to understand how we see the future, both in terms of the marketplace, as well as our place in it. We'll show you our manufacturing and distribution facilities, our R&D facilities, and also show you how our products are used in growing facilities. In fact, I'm recording this message in a growing facility operated by one of our commercial customers. If you walk through each of the growing rooms here, you'd find our products being used in virtually every application. What you'd also see is the highly technical nature of this industry. Indoor cannabis cultivation utilizes some of those high tech growing methods in the world. And we're proud that our products, including the innovation that we brought to market, are helping take this industry to a new level.

Chris Hagedorn: Before we jump into any of that, I want to cover three things myself. First, our vision for the business and why I believe Hawthorne has a right to win. Second, our team. I believe we've assembled a great deal of talent here. Most of the people came from either core SMG or from the companies we acquired. But I have little doubt that we have the strongest team of any company in either the direct cannabis industry or in the ancillary space where we currently compete. And third, I want to talk about the future. I can't tell you today what the growth rate in this business will be over the long term, but it's clear that the growth potential is significant. It's also clear, to us at least, that Hawthorne has benefited greatly from our first move advantage. We've developed an



understanding of this industry that positioned us to do even more in the future. So why don't we dig in?

Chris Hagedorn: I remember one of my first encounters with Wall Street was during one of our quarterly conference calls. I said at the time that it was easy to grow cannabis plant, but pretty hard to grow a good cannabis plant. Growing cannabis indoor remains a challenging feat, whether it's a greenhouse, or warehouse, or the basement of the house you live in. Imagine the room you're in now transforming into a grower room. You need a replacement for sunlight, a way to move air, the irrigation, nutrients and growing media, and of course, you need something to grow the plants in. Also, you need to stay on top of disease issues. That's why the dehumidification is so important, not to mention pest control products. And finally, whether you're a cannabis user or not, it's hard to argue this point, the plant has a strong smell. Most growers try to mitigate the odor, and quite a number of state and local ordinances require them to do so.

Chris Hagedorn: Clearly, the needs of a cultivator in this space are both complex and diverse. So if we want to be viewed as a strategic partner to our growers, then we have to demonstrate leadership in every step of the process, and that starts with the portfolio we built. We entered the industry in 2015, when we purchased General Hydroponics, the leading brand of plant nutrients in the industry, and Vermicrop, a leading growing media brand in the space. The following year, we acquired Botanicare. While also a manufacturer of nutrients, Botanicare is better known for plant supplements, growing trays and growing tables. At the same time, we also announced our acquisition of Gavita, a company based in the Netherlands that was the leading lighting brand in the industry. In 2017, we acquired Canadian-based Can-Filters, the industry's leading manufacturer for the filtration devices designed for odor mitigation. These five acquisitions gave us the most unique portfolio in the indoor cultivation industry. Not only had we quickly assembled the best products and brands in the space, but no one else had taken such a diversified approach.

Chris Hagedorn: Historically, the nutrient guys only played nutrients, grower media guys played there, same with filters, lighting and growing systems. But in a two-year span, we created a cross section of the leading brands in nearly every category. What was missing for us was a more efficient way to get to market. Before 2018, every brand in the industry, including each of ours, made its way to growers through a multi-step distribution system. We sold our products primarily to three different distributors. They, in turn, sold them to retailers, who in turn, sold them to growers. A model of efficiency it was not. That's why we acquired Sunlight Supply, and a deal that remains by far the largest acquisition in the history of ScottsMiracle-Gro.

Chris Hagedorn: By the way, while we were busy assembling an industry leading portfolio and integrating Sunlight, we had a few other things going on as well. We partnered with Canadian cultivator to build and operate the world's first cannabis-focused R&D center. We increased the capacity of R&D field stations in Ohio and Oregon

to focus on the cultivation of hemp because it's a close proxy for cannabis. And we implemented SAP across the entire enterprise, giving us far greater capabilities than any of the individual companies we acquired could ever have imagined. We consolidated nearly all of our durable manufacturing efforts into a single location. We hired a world-class sales consulting firm to help us build a more technically proficient sales force. We invested heavily in helping shape the political dialogue of the industry, stepping out publicly in the halls of Congress when other companies were afraid to do so. And we recently dedicated millions of dollars in our corporate foundation to take on the issue of social justice related to cannabis reform.

Chris Hagedorn: This trip down memory lane is not for the purpose of reminiscing. It's to reinforce the mission I laid out earlier, to be the world's premier company serving cannabis growers. It's a non-starter if you can't develop new products on your own, or if your sales team doesn't understand the technology that goes into them. And in terms of having a right to win, well, that's a non-starter too if you're not willing to put up the capital and take on the risk to win in the first place. There were naysayers when we started. Some on Wall Street wondered whether SMG, as a consumer-facing business, could compete in the commercial space. And some in this industry questioned our credentials and worried that we were only focused on making a quick buck. As we enter our sixth year in the industry, I'm confident we've overcome those concerns.

Chris Hagedorn: This was never a matter of being B2B versus B2C. It's about using our century and a half of know-how to help people grow healthy plants, just in a different category. It was about replicating the core strengths of SMG to make the businesses we acquired better, more competitive, and more capable of going to the next level. All of that rolls up to enable our right to win this industry, and we are winning. For fiscal '21, we expect Hawthorne to report sales of at least \$1.2 billion. We expect to report an operating margin of 12%, which is a 100 basis point improvement. We expect to have more than 20% of our sales come from our R&D pipeline, and we expect to further solidify our position as the clear leader in our industry.

Chris Hagedorn: Investors often ask us, how long it'll take for us to reach our operating margin goal of 15%, others ask why we don't do even more to build a moat around our business and driving even higher level of growth. My goal as the leader of this business is to strike a balance. If we pivoted today and focus primarily on margin, there are several hundred basis points of improvement that we could capture. I'm confident Cory Miller would tell you the same thing, but I believe this would be a short-sighted approach that would haunt us in the long run.

Chris Hagedorn: I won't lie, it's fun to work in a fast-growing and highly visible industry and it's fun to be part of a business that's clearly winning the marketplace, but I don't just want to win today, I want to win tomorrow and the next day. I don't want to just win this year, I want to win every year. There are a lot of people throwing around money in this space right now, trying to cash in on the cannabis

industry. Some of them will, most of them won't. And as I said earlier, it's not as easy as simply showing up. I'm a big believer in the idea of building a moat around the business, the wider and deeper the better. So think about that list of investments I shared a few moments ago, which of those would you suggest we eliminate in the name of short-term profit? The fact is we can strike a balance. I'm confident we can continue to grow our business, we can continue to improve our market share, we can continue to work to open new markets, and we can incrementally improve our profitability over time.

Chris Hagedorn: By the way, one of the reasons that we're able to strike this balance is because of our integration with our corporate parent. We're taking full advantage of SMG's assets in areas like supply chain, R&D, corporate finance, public affairs, and HR, just to name a few. Unlike others that are trying to navigate the space, we don't have to recreate everything. We can focus on running the business, and relying on our friends at corporate, drives the air cover to do it. By no means are we ready to spike the ball and declare victory, this industry remains highly competitive and dynamic. While we expect to see new markets continue to open, we also expect to see some sharpness along the way. Also, there's some well-capitalized and well-run competitors out there who are working just as hard as we are to chip into our lead. So there's no time to catch our breath and certainly no time for complacency.

Chris Hagedorn: Complacency is not something I worry about much at Hawthorne. You're going to hear today from some important members of my team. Dan Paradiso is the chief operator. He's been invaluable to our business. He drives for results every day and allows me the latitude to get out in the field and meet with other leaders in the industry, to explore potential partnerships and M&A opportunities, and to engage Jim, Mike Lukemire, and other members of the SMG team on longer-term efforts. Dan will share some of the details of our portfolio, explain our manufacturing and distribution footprint, and also talk about some of the investments we're making to drive further growth.

Chris Hagedorn: You'll hear from Jeff Kwiatkowski, who's a key leader in our sales group. I expect this to be an enlightening presentation for all of you. Jeff will help you understand the complexity of this business and demonstrate the technical proficiency of our sales force and understanding the needs of our cultivators who rely on our products. Then you'll hear from Paula Powell, who is a key member of the R&D team that has been absolutely essential to our success. Innovation is and will continue to be one of the cornerstones of our business. It's an area where we're leaps and bounds ahead of everyone else, and is quickly developed as a competitive advantage that we must leverage even further.

Chris Hagedorn: Finally, you'll hear from Brian Herrington, who leads external affairs for Hawthorne. We've been actively engaged in the political dialogue in this space for years, well before any company I can think of. Brian's engagement in these issues has been critical for our business time after time. The mention of Brian's work brings you to a final point I want to cover, and it's important, the future of

Hawthorne in this industry. I'll start with this. We believe more states will legalize cannabis in the next two years and it's possible to see some form of federal reform during that period as well. The misconceptions and stereotypes about this industry and its products continue to be set aside with each passing day. You'll hear more about that later from Brian. As a result, we'd expect cannabis consumption, especially legal consumption, to rise significantly in the years ahead with THC being used in products like beverages that are yet to be introduced to the American marketplace in a meaningful way.

Chris Hagedorn: And you can't have high-quality cannabis products without healthy, high-quality cannabis plants. So the opportunity for Hawthorne to continue to benefit is obvious. As new markets open, especially on the East Coast, we would expect to see a geographic shift in our business as well. But do I expect to see California be anything less than our largest market in the country? Not a chance. The market there is well entrenched and our brands are as well. New growth facilities are still being built and old growers are still being retrofitted. Also, the annual increase in our consumer demand in California is greater on its own than the total size of the market in some of the new smaller states coming online.

Chris Hagedorn: Regardless of the size of each market, the one thing they have in common is increased consumer demand. And what we've seen in state after state is that per capita consumption of legal products rises every year, even in the most mature rec market of Colorado, the first state where recreational use was approved, we continue to see an increase in per capita use. From 2013 to 2019, Colorado has seen a 4X increase in its per capita sales, with state legal sales surpassing \$2 billion in 2020, up 26% over 2019. This growth can be attributed to long-time cannabis users utilizing the legal channels, as well as new consumers embracing new forms that allow for more discreet and easier usage. And despite what you might've heard in the past, we see federal legalization is a good thing for our business. If federal legalization happens, as some key democratic senators have been suggesting, with a bias towards protecting the rights of individual states and small business operators, it could be even better, not just for us, but for the thousands of cultivators and dispensaries that are operating state authorized markets today.

Chris Hagedorn: I realize all of you want to know how we're thinking about the annual growth rate of this business over the next five years. Is it 10%, 20, 30? I wish I could tell you. Jim has already addressed this to some extent. The truth is, is that any given year, it could be any of those numbers. Obviously the growth has been a great deal higher than that lately, as we posted four straight quarters of more than 60% growth. While we don't expect the current rate of growth to remain the standard, it's hard right now not to see meaningful double digit growth well into the future.

Chris Hagedorn: In terms of our current daily sales volume, we've continued to see strong performance across the business. Cory already told you that we're trending to the higher end of our guidance range of 20 to 30% growth. And you've heard

from others already, we're still working hard to get our inventory levels in the right place because we know service levels are an important part of our relationship with our customers. Last year, we struggled to keep up with demand and that's not acceptable moving forward, so we continue to work hard to get that right.

Chris Hagedorn: And finally, we are actively looking at M&A opportunities. We like our portfolio, but we do have a few product gaps and there are existing categories where we can get stronger. There are also capabilities that we can acquire to make us a smarter business, and there are thoughtful bets we can place that will put us in a better position if and when the federal landscape shifts. We will not chase growth just for the sake of it. In fact, we've walked away from deals that we liked because the asking price just didn't make sense. There are plenty of places for us to invest, but we're going to take the same strategic approach to every step we take just as we have from the very beginning.

Chris Hagedorn: As I prepare to turn things over to my team, I'll say my only regret about this format is you'll only hear from five of us today. I wish you had the opportunity to hear from our head of marketing, of supply chain, of legal, of HR and other areas. While I'm proud of the results that we post over the past few years, I'm even more proud of the people behind that effort. Our team believes in the mission. They get it, they see the long-term opportunity out there, and are energized to be part of what they believe will be the winning team in this industry. I'm energized by it as well, which I've always been evident to all of you today. Thanks again for listening. I look forward to hearing your thoughts and questions later in the day. Next up is Dan Paradiso, chief operator of Hawthorne.

Dan Paradiso: Thanks, Chris. Hello everyone, and thanks for watching today. My goal this morning is to give you the nuts and bolts of the business. I want to help you better understand the Hawthorne product portfolio, the geographic breakdown of our business, our opportunities to improve our profitability, and our operating footprint. I'll also discuss some of the opportunities we see that can make us even stronger.

Dan Paradiso: Before I dive into my presentation, I want to share just a few personal thoughts. Jim already mentioned that this is my second trip around the track at Scotts. I'll be honest, when he called and asked me if I wanted to return to the company and work at Hawthorne, I wasn't sure. The business didn't even exist when I left, and I didn't know what to expect. Not only that, but 2018 was obviously a pretty tough year and that made me pause even more. But the more I studied the opportunity, the more interested I became. What became evident was not just the growth opportunities at Hawthorne, but the ability to build a large strategic business. We've made a great deal of progress over the past two years, and there remains a lot of upside here. So I'll say, I'm really glad Jim called and I'm really glad I said yes.

Dan Paradiso: Okay. Let's dive in. I'm going to focus my remarks solely on our North American business. We have over a hundred million dollars of revenue in Europe, nearly all that comes from lighting. Is there a longer term potential there? Yes. Is it a good business? Yes. But for today's meeting, our focus is on North America. Also for reference, when we talk about North America, it's worth noting that more than 90% of those sales come from the US. You know the gross story already, but this slide shows just how dramatic decline has been. Of course, in the early years of Hawthorne, we've benefited from our acquisitions and organic growth, but since the acquisition of Sunlight Supply in 2018, it's been purely organic growth and we have more than doubled the size of the company.

Dan Paradiso: When we completed the Sunlight deal, our sales were pretty evenly divided between durable products and consumables. That split in North America today is closer to 60-40. These charts show you the breakdown of each side of the business. The largest category in durables is lighting, and the largest category in consumables is nutrients. The key to this change has been innovation.

Dan Paradiso: Sales in lighting increased more than 100% last year, driven by nearly a 400% increase in the sale of LED units. The demand for these products was so strong in 2020 that we struggled to keep up all year. And by the way, we have already sold more of these units in the first five months of fiscal year '21 than we did all of last year. You'll hear more in a few minutes about another LED innovation coming to the market from our Gavita brand. So we believe there is still a long runway in front of us for our lighting business.

Dan Paradiso: To be clear, our consumables business did great last year, too. Nutrients grew almost 50%, and growing media grew 62%. These are very strong numbers for the consumable category. Another trend that continues to work in our favor is the split between sales of our brands we own ourselves, which we call signature products, versus distributed products we sell on behalf of others. Remember, prior to the Sunlight deal, we only sold products with our brands: General Hydroponics, Botanicare, Gavita, Can-Filters, and VermiCrop. And while Sunlight owned some proprietary brands, like Sun System lights and Mother Earth growing media, it was primarily a distributor. In fact, more than two-thirds of Sunlight's sales came from distributed products, of which almost a third or a quarter of the total business were Hawthorne products. In fiscal 2019, after we closed on Sunlight, 57% of our sales came from our signature lines. That number was almost two-thirds of our total sales at the end of Q1, and we believe we can inch closer to 70% by the end of the year.

Dan Paradiso: I remind you of two things: First, that improvement was purely organic. We have not made any other brand acquisitions over the past three years. Second, our goal for the 2021 split between owned versus distributed products is essentially the exact opposite of our closest competitor. You've already heard from Chris, and you will hear more from Jeff in a few minutes about the differences between being a strategic partner and a transactional partner.

Dan Paradiso: If there is one data point in our portfolio that proves the importance of this issue, it's the percentage of signature sales. The improvement also shows the importance of properly investing in our business. Our conversion to SAP put a bright light on a number of weaknesses, one of which was the fact that we just had too many SKUs. When I started in 2019, we had more than 6,500 SKUs. Today, we have 2100. By rationalizing the line, we not improved margin, but drove a higher percent of sales to our signature products, our brands.

Dan Paradiso: Let me elaborate a bit further here. Chris also told you we're trying to strike a balance between growth and profitability. And I know many of you ask about the margin profile of the business and how we can improve it. I'm not going to be overly specific here, but it's important to know that the margin profile of our signature business is much closer to the company's US Consumer segment than you might think. On the distributed products, the margins are pretty thin. It's easy for an outsider to say we should walk away from that part of the business if the margin rate is that challenging. But this, again, is where putting the grower at the center of what we do leads you to another decision.

Dan Paradiso: Many of the distributed products we sell are essential in nearly every commercial operation. So I believe a split of 70-30 is pretty close to where we want to be, given the importance to the growers of our current distributed products. So we're unlikely to ever be in a position where we only sell signature products. Instead, our goal is to form stronger strategic relationships with our distributed product partners. We have exclusive distribution agreements with several of these partners already, and we will work to have more in the future.

Dan Paradiso: Let's move on and talk about the geographic breakdown of the business. California is still far and away the largest market we serve and drives about 45% of our sales. This number was about 10 percentage points higher three years ago. Still, investors are often surprised by the strong growth rates we continue to see in California, which are in line with the overall average.

Dan Paradiso: Two things are happening. First, there is continued growth in the market. Growers are coming online and others are expanding their footprint. Second, a significant number of existing growers are retrofitting their facilities with LED lights and other equipment. The fact that LEDs use less electricity means they often qualify for rebates that help offset the costs. Also, growers are seeing great results in their crops when they use these lights. You'll hear more about this issue from both Jeff and Paula in a few minutes, but I'm confident there is a lot of upside for LEDs still out in the market.

Dan Paradiso: Outside of California, the next nine states, which are listed in order on the slide, make up just under 40% of our sales. People will certainly ask, "What about the states that just went legal?" Brian Herrington will talk later about the lag between the voters deciding to legalize and the actual market having product for sale. But if you look at the five states that just voted to change their law, New Jersey, Arizona, Montana, South Dakota, and Mississippi, you'll see we had

combined sales of just \$20 million in those markets last year. Once the markets are up and running, we'd expect to see dramatic growth rates, and the changes in New Jersey, we believe, are likely to create a domino effect in the neighboring states and create a nice runway for growth over the next several years.

Dan Paradiso: Let me pivot again and talk about our operating footprint. Because Hawthorne is the product of an aggressive acquisition strategy, we had a pretty diffused network just a few years ago. But since the Sunlight deal, we have consolidated seven different manufacturing facilities into two primary locations. Most of our durable manufacturing, including lighting, benches, filters, and other hardware, are manufactured in Vancouver, Washington. We purchase a good number of the components for our signature lighting brands in Asia, and they are assembled in Washington. Today, all of our liquid manufacturing occurs in Santa Rosa, California, which was where General Hydroponics was based.

Dan Paradiso: While we have worked to consolidate our manufacturing footprint, the opposite is true for our warehousing and distribution facilities. Our warehouse footprint has grown from 840,000 square feet in 2019 to an excess of 2.2 million square feet adding another one million square feet, as well as two more distribution facilities, in fiscal year '21. During that same period, our head count will have increased by 125% as well. These investments are allowing us to do a good job staying in front of the market. Let me give you an example. One of the new distribution facilities we're opening this year is in New Jersey. So we're setting ourselves up nicely to handle more east coast volume in the future, but those kinds of investments are likely to continue to be necessary as we look forward.

Dan Paradiso: The other challenge, which Jim mentioned earlier, is getting our inventory levels closer to where they need to be. I was there. I saw it. We did leave sales on the table last year, and our service levels, while better than our competitors, were not where we want them or need them to be. But I'm glad to say we are making tremendous progress on this front this year.

Dan Paradiso: As I wind down, I want to return to one of the first slides I showed you. The remarkable growth curve of the business. We obviously believe strong growth opportunities still exist and will for years to come. And since none of us could have predicted a doubling of the business in just two years, it's no wonder that the system is a bit stressed right now. So the operating team is working closely to examine the needs of the business and to work with our corporate partners to make sure we continue investing in Hawthorne like we should.

Dan Paradiso: While I would have enjoyed presenting to all of you in person today, I'm glad to have the opportunity to at least share our story virtually. I hope I've given you a better understanding of the business and also helped you better appreciate why I'm so glad to be back at ScottsMiracle-Gro and to be part of the Hawthorne team.



Dan Paradiso: Thanks for listening. I will now turn it over to Jeff for insights on the sales front.

Jeff Kwiatkowski: Hello everyone. Over the next few minutes, I'm going to help you understand what we're doing to better serve our customers from a sales perspective. There are a lot of things that have changed dramatically at Hawthorne over the last several years, and how we manage sales is right at the top of that list. I believe we have brought a level of professionalism, business insights, and technical capabilities to this category that set us apart. That improvement hasn't just made us more efficient, but also has made a big difference to our retail partners and the cultivators who use our products.

Jeff Kwiatkowski: Out of the gate, I want to stress an important point. No one in this industry is doing what we are doing. In fact, you'll hear me use the word "exclusive" multiple times in this presentation. This is particularly true when it comes to meeting the needs of our growers who use our products. If the grower succeeds, we succeed. As Chris said, we view ourselves as strategic partners with both retailers and cultivators. We are not interested in simply being transactional. In the second half of my presentation, I believe you'll get a much better sense of what I mean.

Jeff Kwiatkowski: First, though, let me give you some broader context about our customer base. As you know, we do not currently sell directly to growers in the United States. As a result, we have to be flexible and customer-focused on how we transact our sales in the US. We work with growers of all kinds to help them understand the products they need, how much, how many, and where. Most importantly, we help them understand how all product solutions need to be meticulously coordinated to create the optimum growing environment.

Jeff Kwiatkowski: One of the first questions we ask any cultivator we work with is, "Who is your retailer of choice to purchase from?" Most licensed cultivators have a local retailer where they already have an existing purchasing relationship and have for years. We respect and compliment those cultivator and retailer relationships. That is why the vast of our sales are still through traditional retailers. Some cultivators don't have a preferred transacting partner or are unhappy with their existing purchasing relationships. In those instances, we provide them with alternative ways to acquire our products in a way that suits their needs. Again, this is all about what the cultivator wants, and our business is set up to service them at their choosing.

Jeff Kwiatkowski: In the US, we have roughly 1,200 retail accounts operating a little more than 1,400 stores. In Canada, there's another 200 accounts. Additionally, online sales account for about 5% of our business today. Let me share a bit of detail on the relative scale of our retail partners. We break down our retail customers into multiple levels based on their relative size. There are roughly 100 customers in the first three levels combined, and they drive approximately 70% of our revenue. The other 1,100 customers make up the remaining levels, and they drive the remaining 30% of our sales.

Jeff Kwiatkowski: If you know the SMG story, you know that this is vastly different from what we have in our US consumer business, where I used to work leading our Lowe's business development team. At Hawthorne, we have only one customer with about 50 rooftops. So there is a long tail to our business. The approach we take to doing business with these retail partners is focused on transparency and overall consistency. There is a standard pricing grid that applies to all, but retailers can qualify for incentives based on their overall level of support of our brand portfolio and performance. This is in contrast to how many manufacturers and distributors in this industry operated just a few years ago.

Jeff Kwiatkowski: Remember, Hawthorne is the result of a number of acquisitions over time, so we inherited a pretty inconsistent approach to selling that we quickly had to adjust. As part of the integration, we created a comprehensive program that harmonized the previously disconnected brand level programs that we acquired. Because of these changes, we can avoid, for example, two retailers operating across the street from each other, having a fragmented incentive program that they may have experienced with other manufacturers and distributors or pre-acquisition.

Jeff Kwiatkowski: Our aim is to offer simplicity and a platform for mutual success. Every Hawthorne retailer understands what they pay for each SKU and why. We also help them understand the various incentives we offer that correspond with the levels of support and sales growth performance. This level of transparency isn't simply a win for retailers, but it's a huge benefit for us. It helps us with customer program margin insights, and with sales growth planning by customer mix. It also provides insights as we implement pricing and trade decisions.

Jeff Kwiatkowski: Going forward, we're looking to implement even further changes that will be exclusive to Hawthorne. We believe the approach we've taken is already well ahead of our competition. And so I don't want to be overly specific on our next steps, but I will say we are working to give our retailers better visibility into their own businesses and help them manage inventory more effectively.

Jeff Kwiatkowski: So, I want to pivot here and talk to you about the ways we serve multi-state operators and large-scale licensed commercial facilities. We believe our approach is far ahead of what anyone in our industry is doing or is able to do.

Jeff Kwiatkowski: Chris explained earlier how complex an indoor growing facility can be. You are recreating nature to some degree, and the margin for error can be pretty small. Disease can spread quickly within a grow facility and decimate a crop in a matter of days. Also, the smallest mistakes in the design of a facility can have significant implications. It could result in higher operating costs or lower plant yields, either of which could have a significant financial impact for the grower.

Jeff Kwiatkowski: When we sit down with a multi-state operator or MSO, as well as a large scale licensed commercial cultivator, we start with a slide like this. Hawthorne 360: An end-to-end turnkey solution for growers. I won't walk you through every

step of the process, but I want to share enough with you to help you understand the highly technical nature of this business, our selling process, as well as our services, it starts with the team we bring to bear. Large-scale licensed commercial customers and MSOs have the ability to benefit from a team that includes degreed horticulturists, biologists, soil scientists, engineers, economists, designers, and cultivators. Building this type of industry-leading talent is a direct result of the relationship we have with our parent company.

Jeff Kwiatkowski: Jim and Chris both said it. For 153 years, ScottsMiracle-Gro has helped people grow plants. Hawthorne customers are not interested in lighting, or fertilizer, or irrigating. They're interested in growing plants. It's their livelihood. There are dozens of one-trick competitive lighting, nutrient, or growing media manufacturers in the market today. To my knowledge, none of them, that means zero, combine Hawthorne's OEM capabilities, the Hawthorne 360 solution, and the Hawthorne technical expertise that we bring to the table every day. We put cultivator success at the center of every conversation, and provide holistic facility solutions to support them.

Jeff Kwiatkowski: So, we have a diverse team. Great. What do they do? We start by understanding the cultivators' needs, whether that is to design, build, retrofit, expand, or address problems in their existing operation. If we focus for a moment on the design, build, and expansion process, the sequencing of how a facility is designed is critical. Every sequence and step are interdependent and must work together. And that makes it all the more important to support a grower with a holistic approach, including a broad portfolio of products.

Jeff Kwiatkowski: There are simple things, like how much power a grower has available. We've had a major customer call us to retrofit a facility because a competitor's lights kept failing. It turned out the lights weren't the problem at all. Because of the way the lighting plan was designed, the electrical wiring in the facility was the problem. Our lights would have failed too. The difference is that our competitor never looked at the wiring. All they cared about was the transaction. We cared about the success of the grower and delivered a long-term solution, not just a sale.

Jeff Kwiatkowski: Our Hawthorne 360 process always begins with a full evaluation of the entire site. We then review, in the cascading order you see on this slide, the sequence in detail of each growing environment component. All of these products and components are dependent on each other to work in harmony. You cannot have a lighting discussion until you understand the benching layout review. You cannot have talks about HVAC or airflow mapping until you know and understand everything listed here beforehand.

Jeff Kwiatkowski: If the process is not followed, and if harmony within the growing environment does not exist, disaster will strike. To give you a very basic example, the photo you see here is a grower here in the United States. The grower was struggling throughout the facility to get plants to grow at the right rate to deliver the

expected yield. You'll notice the lights are directly over the aisle in the facility. They're supposed to be over the top of the plants. This was a huge and costly mistake that occurred before the first plant was grown. It's a mistake our competitor never saw because they didn't take a holistic approach to understand the entire facility. The singularly-focused competitor only wanted to transact a lighting job and did not ensure that the customer understood the total cultivation facility plan.

Jeff Kwiatkowski: Those are two simple instances where the differences between being a comprehensive strategic partner versus transactional was critical. We have hundreds of examples just this year that are far more nuanced. One of the other things we help the grower understand is the net operating cost for their operations. In many areas, products that draw electricity have the opportunity to qualify for an energy rebate. For example, traditional high pressure sodium or HPS lighting fixtures are far less expensive than LED fixtures, but HPS fixtures consume much more electricity and create significantly more radiant heat. That increases HVAC costs and other temperature and humidity factors that can create complications within the room.

Jeff Kwiatkowski: Hawthorne has an exclusive relationship with a third party that scours the market for available energy rebates for growers, both on lighting and other components. Because LEDs are so much more efficient, a lot of energy companies provide rebates to growers for buying and installing LED lights. So we can help them lower the purchase price of a light and their ongoing operating costs.

Jeff Kwiatkowski: After the design and selection process, we also help customers visualize the space. This is far more important than simply presenting an animated look at the room. It helps us avoid mistakes due to other architectural design elements in the room. It helps us make the best product recommendations by ensuring that we've got the footprint right, the flow of traffic right, and that we maximize the room to its fullest extent. It provides a virtual look at the finished product and is simply another technical service exclusively offered by Hawthorne.

Jeff Kwiatkowski: One more thought as it relates to our Hawthorne 360 approach to sales. There's plenty of competition out there, and I have no doubt a commercial operator can get a cheaper price on lights, or nutrients, or any other input if that's all they care about. But who do you call when your third or fourth party non-manufacturer or own brand lighting fixture doesn't work, or if you need troubleshooting support, or if you call when your nutrient blend in the fertilizer is too hot? Or who do you call when you need products to address dead directional airflow pockets in your large grow room? The answer, you're pretty much on your own. But if you work with Hawthorne, you call us. You call us directly.

Jeff Kwiatkowski: As Dan said, our manufactured and owned brands will likely make up 70% of our total revenue this year. We control our own product performance and service

destiny. Our competitors have a drastically different mix. We're there for ongoing technical service. We're there for warranty and claim support. We're there for service and replacement parts, and we're there to simply troubleshoot if something in the facility isn't performing like it should. Simply put, we are the growers' strategic partner. In a few minutes, you'll hear from Paula Powell, a key member of our R&D team for Hawthorne. The insights we get from Paula and her teammates already make our sales team more effective, and the exclusive trials that they're currently conducting will take us further down the path of providing data-driven technical solutions for our customers.

Jeff Kwiatkowski: This is a fast-moving industry. With every new market, there are new investors, new growers, new customers. As Chris said earlier, it's easy to grow a cannabis plant, but quite difficult to grow a good cannabis plant at scale. As more growers enter this space in the years to come, we are confident Hawthorne will be the partner of choice as they realize we are really the only player in the industry who can offer them such a wide range of exclusive professional services. I could have spent twice this amount of time sharing more details about our process, but I hope you found my comments useful and that they've helped you broaden your understanding of what we're doing to drive value at Hawthorne.

Jeff Kwiatkowski: Thanks for listening. Now, let me turn the program over to my colleague, Paula Powell, to talk about the steps we're taking to drive innovation at Hawthorne.

Dr. Paula Powell: Hello, everyone. I'm Dr. Paula Powell, and I lead several of the R&D groups driving our innovation efforts for Hawthorne. At the outset, let me state that our goal is to drive innovation that achieves the maximum genetic potential of the plant in yield and quality. In our genetic research program, we strive to take the potential of plants to new heights. This translates directly to grower profitability. Over the next 10 minutes, I will tell you how we are going to achieve this goal.

Dr. Paula Powell: Let's start by talking about our R&D capabilities themselves. I'll begin with our R&D facility in Kelowna, British Columbia, the only facility in the world dedicated to cannabis cultivation research. We have a team of nine people there that collaborate daily with over a dozen of our lead scientists in the US on trial protocols, data analysis, and results. The facility has 20,000 square feet dedicated to cannabis cultivation research, divided into 10 grow rooms. Each of the grow rooms can be controlled independently to create specific environmental growing conditions similar to a commercial grower. The building layout allows us to conduct simultaneous but distinct trials that are focused on lighting, nutrients, growing media, and growing environment inputs. We also have post-harvest drying and curing rooms, and an analytical lab that allows us to analyze plant chemistry in addition to traditional plant growth measurements.

Dr. Paula Powell: I want to re-emphasize that an exciting aspect to the Kelowna facility is that we can conduct trials with our products, commercially available or experimental, while mimicking the exact conditions in most indoor growing facilities. We can examine how our nutrients pair with different growing media, how application rates and timing differ under different grow lights, and how the grower may adjust irrigation patterns in a way that crop performance is maximized. We can study the connected system. Plus, we aren't studying our products in small reach and grow chambers like a university might do. We put ourselves in the same shoes as the growers who we are trying to serve.

Dr. Paula Powell: Furthermore, our Kelowna facility enables competitive product testing in order to validate the superiority of our products versus the competition. However, not everything needs to be tested on high THC cannabis to gain insight for product development. That's why we also use our licensed R&D facilities in Oregon, Florida, and Ohio to conduct research tests on hemp. Hemp is very closely related to high THC cannabis, so it serves as a great proxy crop for research. At these field stations, we can conduct both greenhouse and field trials to compliment the work done in Kelowna. Moreover, we can tap into the extensive resources at our SMG headquarters in Marysville to execute comprehensive analytical testing and utilize our state-of-the-art formulation facilities to develop new experimental products.

Dr. Paula Powell: At our Hawthorne west coast headquarters in Vancouver, Washington, we have tremendous capabilities to develop lighting innovations. We have specialized lab equipment, such as our integrating sphere and goniophotometer, which are used for developing and qualifying new lights and controllers. We also have a certified satellite ETL lab for rapid compliance certification. These tools are critical to rapid innovation and outpacing our competition. Understanding how to use sophisticated facilities and equipment to the benefit of our customers is our competitive advantage. As Chris told you earlier, the grower is at the center of everything we do, and growing plants to produce consistent yield and quality is a task far more difficult than it sounds.

Dr. Paula Powell: In order for you to understand some of our efforts, it may be helpful if I first explain the basic growth stages of the cannabis plant itself. Think about the plant's growth in three stages: Propagation, vegetation, and flower. It is a common misconception that cannabis plants are grown from seeds. They can be, but generally are not grown this way in commercial grows. Instead, a grower will take cuttings or propagate from what is called a mother plant. The cuttings are then transplanted into small cubes. The new cutting is very tender during propagation. It needs very low intensity lighting and a supportive substrate while it takes root and begins to grow.

Dr. Paula Powell: The story changes, however, at the vegetation and flowering stage. This is when high-intensity lighting, the right growing media, and nutrient management becomes necessary. In the vegetative stage. Most growers will keep the plant under light for about 16 consecutive hours a day. This mimics the longest days

of the year in nature. During this stage, the grower is managing nutrients and water in a way that builds healthy, uniform plants, capable of setting and supporting multiple flowers.

Dr. Paula Powell: Once the plant is ready for the flowering stage, the intensity of the lighting is increased even further, but the duration is cut to 12 hours on, 12 hours off. This sequencing triggers the plant to form flowers, which are grown for several weeks until reaching full maturity, and then harvested. During the flower stage, the grower also changes the nutrient management program and other growth factors to favor flowering instead of vegetative green growth. The focus is to dry flower yield, which results in the creation of terpenes, flavonoids, and cannabinoids within the plant.

Dr. Paula Powell: This entire process may take 10 to 12 weeks, enabling four to five crop turns a year. If you're growing outdoors, the process takes closer to five months. So given the change of seasons, growers typically turn only one crop a year. This background is helpful to understand the subtleties of cultivating the best crop, and also supplies the roadmap for all our innovation. From lighting and engineered products, to growing media, nutrition, and pest management there's so much to exploit to enhance the grower experience.

Dr. Paula Powell: Beginning with lighting, the traditional source of lighting in a growing facility was the high-pressure sodium light or HPS. These have been the preferred choice of professional growers for decades. Our own Gavita 1000-watt HPS has been the industry gold standard, but HPS lights consume a significant amount of electricity, 1,000 watts per fixture. At the same time, they generate a ton of heat. Growers usually need to cool the grow room to prevent the plants from getting too hot and reduce plant stress.

Dr. Paula Powell: So, it's not surprising that growers are turning to LEDs. It's not just the financial savings, but LEDs also have significantly lower carbon footprint as well. It is only recently that LED technology and cost have improved to the point where they are not only effective for growing plants, but also an affordable investment for growers. LED grow lights can now deliver the light energy the plant needs using about 20% to 30% less electricity. Thanks largely to our in-house efforts, we were able to create the Gavita 1700E, which has quickly become the newest lighting standard in the industry.

Dr. Paula Powell: The newest lighting standard in the industry, our newest LED innovation, the Gavita 1930e is just now hitting the market. This compact LED is designed to be a one-to-one replacement with HPS lights. The Gavita 1930e is designed with the light intensity and light distribution patterns that match the HPS standard. Just disconnect the HPS lights, connect the 1930 lights and you're back to growing. Yet, every good botanist knows it takes more than just lights to grow a plant and Hawthorne doesn't just want to grow plants, it wants to grow the best plants. Nutrition, temperature, moisture, and air are all key. That's why our nutrition and growing media are also at the leading edge of our innovation

efforts. The proper application of nutrients during the right stage of development can increase yields by over 10%. Understanding the nuances of fertility and supplemental additives that impact yield, terpenes, and chemical content, are some of the most important trials we're currently conducting in our grow rooms.

Dr. Paula Powell: Some commercial growers value flexibility and seek supplements to their base nutrient system to enable precise nutrient delivery at specific times in the growing cycle. We also know some growers seek top plant performance with straightforward, simplified solutions for their grow. No matter the need, we are working to develop new nutrients and supplements that result in both higher yields and higher quality plants that payback immensely for the grower. Innovation growing media is also a critical part of our efforts and is driven by three areas of focus. First, the development of state-of-the-art methods of measuring substrate properties. Second, high-performance product specifications, and third, process controls to ensure our products are made the way we do design them. This disciplined approach allows us to transform commodity ingredients, such as coconut core into highly engineered, value-added products that deliver predictable outcomes on plant yield and quality.

Dr. Paula Powell: Growing media is used in two ways in commercial grows. Some growers use loose-fill growing media. You might think of that as a super higher quality equivalent of our consumer growing media products. Other growers use pre-formed growing media, such as synthetic cubes and blocks. While both are common, most industrial growers choose the cubes and blocks because of their cleanliness and efficiency. Our innovation efforts are taking these preformed media to a new level of performance. We believe this work will result in important new product offerings that meet grower needs and enhance their profits.

Dr. Paula Powell: The final potential use of technology is the plant itself. Over the years, we've used crossbreeding and biotechnology to develop improved strains of grass and ornamental flowers. Lately, we're exploring whether we can use our understanding of plant genetics in this category as well. Our efforts have paved the way for us to be a pioneer in the genetic space. While our work is still in the early stages, we believe the potential is significant and could provide meaningful opportunities if and when cannabis cultivation is legal at the federal level in the US. I would have enjoyed providing more specific examples for some of our trial work, but we don't want to get too far ahead of ourselves in our public discussions. Suffice it to say the R and D pipeline is extremely full on the Hawthorne front, and we're confident the pipeline will develop significant growth opportunities for us in the years ahead. I appreciate your time today and now I'm happy to turn things over to Brian Herrington, to discuss our view of the political landscape.

Brian Herrington: Hey everybody, I'm Brian Herrington and I lead external affairs here at Hawthorne. I've been with the company for 10 years now, but I've spent nearly



all my time over the last four years, supporting this side of the business. Much like Dan Paradiso said earlier about his own experiences, I've also found working in Hawthorne to be one of the most rewarding parts of my career. I'll provide the details in a few minutes about how the political landscape is evolving, but what Chris said earlier is correct. We're going to see more states legalize, and I believe it will happen quickly. I also believe federal reform is coming too, though, perhaps slower than most people think. Before I jump into those details, I want to spend a few moments explaining the extent of our public affairs efforts.

Brian Herrington: I don't believe you'll find another company that has done more in the political space than ours to improve the understanding of cannabis issues. That is true at the local, state, and federal level. One of the most gratifying parts of the job is that this topic is unique and no one has done this kind of work in the past. One of the other rewarding aspects has been our willingness to invest to do it right. Mike Lukemire said earlier that he has urged this team to be unconstrained in what they're asking for, as long as they can justify it. Jim King, who oversees all the government relations work for the company, has given me and the team similar guidance. Chris Hagedorn has provided the business support and expertise that is required. As a result, we're in a great spot. On a company-wide basis, we currently have seven people dedicated to government relations. Three, including me work exclusively on Hawthorne issues, primarily at the state and local level.

Brian Herrington: Most of the others on the team spend a significant portion of their work focused on Hawthorne as well. Also, we recently hired a vice president of federal public affairs who will be based in DC and we'll focus primarily on Hawthorne. This person served in a highly visible role in the Obama Administration for seven years, working with Congress on a daily basis. He has extremely relevant corporate lobbying experience over the past four years. He will lead our engagement with the administration, Congress and regulatory agencies as the discussion about federal cannabis reform continues to take shape. He's a big addition to the team. We also utilize lobbying firms in 19 states and have two federal lobbying firms, one with democratic ties and one with Republican. We are active participants in state-level trade associations, like the United Cannabis Business Association in California, the New York Cannabis Growers and Processors Association, and many more. We will also continue to help establish a voice for the industry federally as part of the Minority Cannabis Business Association, Cannabis Trade Federation, the newly formed United States Cannabis Coalition, and other efforts that complement our strategy.

Brian Herrington: Let's spend some time talking about what we're seeing right now and what we believe it means going forward. Let's start with some polling data. Voter attitudes continue to embrace cannabis reform. State and national polling continue to show year-over-year growth and support across all demographics. In addition, voter support is growing across political parties, making this a nonpartisan issue. This was even noted by Trump pollster, Tony Fabrizio just last

year. The well-known statistical analysis shop FiveThirtyEight, analyzed data from Gallup and Pew research to rank issues that are the most political polarizing and found that the legalization of cannabis was the least polarizing political issue. If you want proof, consider this, cannabis legalization efforts are garnering more votes statewide than the most popular political candidates. In 2016, Donald Trump received 48.6% of the popular vote in Florida. Cannabis legalization received 71%. This year Biden got 49% of the vote in Arizona and legalization got 60%.

Brian Herrington: If you want to know how fast things have changed, consider this. In 2012 when Colorado and Washington legalized, national support for the issue was polling at 51%. Today, it's 68%. The map's going to continue to evolve. Here's what we believe to be a likely scenario over the next two years. New York in the last several days has finally approved full adult use legalization. Legislators have worked through questions related to social equity, along with teen access, impaired driving and other legitimate concerns that opponents often raise. A big part of the reason New York has moved is related to economics, and that's true in a growing number of states. COVID has had a brutal impact on state revenue streams and job numbers. Legalization helps on both fronts. In fact, a recent economic impact study from The New School suggested the state could generate tax revenue \$765 million annually in a few years, and create more than 50,000 new jobs from legalization over the next three years.

Brian Herrington: Citing similar reasons, Virginia lawmakers last month voted yes on legalization and Pennsylvania's governor has consistently been a vocal supporter, but you'd be wrong if you thought this was just a blue state issue. This past November, Arizona, Mississippi, Montana, and South Dakota residents voted in strong majorities to legalize. In Texas, 60% of voters now support legalization. A decade ago, polling indicated majority of voters there were opposed. Polling also shows support for adult use legalization in North Carolina and Ohio. Just four years ago, about two thirds of Ohio voters said no to adult use. The state legislature then voted to approve a medical market. I believe the state political map could look like this within two years. As many as seven more states having legal adult use markets and all but 10 states allowing for medical use. It's worth pointing out though, that not all states are created equal when it comes to the rules around legalization. States like Oklahoma and Michigan have little to no limits on the number of cultivation licenses that can be issued.

Brian Herrington: This helps explain why we benefited from such significant growth in those two markets. States like Florida put strict limits on licenses. While we do not know all the rules yet in New Jersey, we do know that they are limiting large-scale cultivation licenses for the first 18 months. There are no limits on micro businesses, which can grow up to 2,500 square feet. This is why the work of our sales force and providing technical services is so important. It's also important to understand the difference between legalization being passed and the marketplace opening up. Whether legalization happens through a ballot initiative like Massachusetts, or a legislative action like Illinois, it typically takes

12 to 24 months before the first licensed product is sold to consumers. The delay is due to the need for state regulators to set up the rules and infrastructure. They need to review business applications. In most cases, operators do not put shovels in the ground until they are sure to license.

Brian Herrington: Let me move on and talk about the federal landscape, which is more difficult to predict. Remember I said earlier that this is not a polarizing political issue. The question in DC is not whether cannabis reform should happen, but how? There is finally solid support at a high level. However, questions around social issues like expunging past criminal records may prove to be a pill too big to swallow for most Republicans. When you understand the rules of Congress and the number of votes needed to move legislation, there is still significant work to be done. Even if there was bipartisan support to get something done, the issue is more complex than most realize. It goes well beyond whether to legalize or not legalized. Here are just a few of the questions Congress needs to address if cannabis is made legal.

Brian Herrington: Who will the regulatory agencies be? Will the plant be regulated or just the end product? Will federal licenses be required for cultivators? How will social equity be incorporated? How will Congress ensure that the hundreds and thousands of jobs, thousands of businesses, and billions in tax revenue in states that have an existing legal market are not wiped out in a new federal market. There are several well-known pieces of legislation that many of you may be familiar with and Congress may attempt to tackle some of these issues. Let me address each of them. Let's start with the STATES Act, which essentially would have allowed cannabis use for any purpose to be legal if the state authorized it without otherwise changing the federal law. The bill is effectively dead. It was introduced by Colorado Republican Senator Cory Gardner. It was never fully embraced by either party. Of course, Senator Gardner lost last November to Democrat John Hickenlooper, who is an advocate for broader reforms. Then there is the MOORE Act, which got a lot of attention last year after it passed the House with bipartisan support.

Brian Herrington: While we're glad to see it pass, we also had concerns about more because so many of the questions related to regulatory structured were not addressed. Still, many saw this as an easy yes vote for House members because everyone realized it would not be taken up in the Senate. Observers now feel with the reduction in the Democratic majority on the house side, the MOORE Act will face a much closer vote. Then there is the SAFE Banking Act, which some predict would open the banking system up to all aspects of the cannabis industry. Access is one thing. Actual granting of credit and other services will take time as the market is still in its infancy and risk factors need to be understood. This is a measure that we were actively engaged in, and it passed the House with strong, bipartisan support. In fact, Politico singularly credited our efforts in helping Republicans get onboard with the issue.

Brian Herrington: However, this is another measure that stalled in the banking committee of the Republican-controlled Senate. While some believe there is a chance for SAGE to get another airing, the Senate may prove a problem again, as a Democratic leadership of the same committee has vowed not to approach cannabis reform with a piecemeal solution. Where does that leave us today? Actually, in a much better place than it may sound. Senate Majority Leader, Chuck Schumer joined by Senator Booker of New Jersey and Senator Wyden of Oregon have announced their intent to introduce significant cannabis reform legislation in the few weeks ahead. We viewed the approach the Senate is taking as a potential best case scenario for existing industry and Hawthorne. Leader Schumer has publicly stated that he will only support an approach that protects small business operators. In other words, the current base of Hawthorne. The senators are out to make it difficult for significant consolidation.

Brian Herrington: Also, there appears to be some support to allow existing state regulations to continue to govern the market until a federal regulatory framework could take shape. It's worth noting that hemp cultivation has been legal for three years now. There is still not a complete federal regulatory structure in place to govern that marketplace. I've worked in and around politics, literally my entire adult life. I offer this caution, it all could change tomorrow. Still, from my perspective, I believe some level of federal reform is likely, driven primarily to the social justice concerns that few people will dispute. The more complicated issues related to the regulatory framework could take years to work out. Like my colleagues, I could spend a lot more time talking about these issues. While brief, I hope this has helped you better understand that landscape and also helped you appreciate the steps we're taking to proactively understand and manage these important issues. Chris, I'm going to turn it back over to you to wrap up now.

Chris Hagedorn: Thanks Brian. I'll just take a minute or two to summarize what my team and I have been trying to communicate with you today. It starts with this key point. Hawthorne is unlike any company serving the needs of the cannabis space today. More importantly, we are better positioned than anyone else to be able to meet those needs in the future as well. We have a superior operating footprint and we benefit from a world-class technology platform that provides us the insights to improve our business and better serve our customers. Speaking of our customers, no one does what we do when it comes to customer service and technical support. Our sales process is a competitive advantage that will keep us ahead of the competition.

Chris Hagedorn: [inaudible 01:54:52] our commitment to R and D, we could have allotted the entire hour this morning to Paula and the other members of the R and D team. Innovation matters in every industry, but in this industry with change happening so fast, it is particularly important to be on the front end of that change. As Brian has just shared, we're also out front in our understanding of the political landscape impacting this industry and the resource we're adding to the team will help us even further. Leadership. That's what the Hawthorne brand's really

all about, and I hope that's what you took away from this briefing. Really appreciate you guys listening and I look forward to talking to you during the Q and A. Now, I'll turn it over to Jim Hagedorn to talk a little bit more about the US Consumer business. Thanks.

Jim Hagedorn: Thanks, Chris. I'll also add my point of view. I like talking about building moats, and what you've heard this morning is all about building moats around the Hawthorne business and putting us in a great position for the future. I won't repeat the comments I made earlier today, but I will say this, I don't mind saying that it's hard not to be impressed with the story you just heard. I hope we filled some of the knowledge gaps that you've had coming into the day and help you understand the future potential of this business. Speaking of potential, we're going to shift gears and talk about our US Consumer business, and so I want to say a few words about our speakers, Josh Peoples, Mike Sutterer, Patti Ziegler, and Tom Crabtree. These people are all important leaders in shaping the future of this company. We named Josh as our chief marketing officer last year, and it was a recognition that was a long time coming.

Jim Hagedorn: He's basically grown up at Scotts and has had a tremendous run of success here. He takes a thoughtful and analytical approach to everything he does and is exactly the right person to lead our marketing efforts as we navigate a pretty aggressive transformation. He works in a highly collaborative way, and I'm confident he and his team will be successful as we work to nurture our relationship with a new generation of gardeners. Part of his work means collaborating with Mike Sutterer, who is CEO of Bonnie Plant Farms. Michael was with us for nearly 20 years in a variety of roles, including leading our garden and controls business for a while. He is a great partner for us at Bonnie. This category is in his blood, and he's also one of those people who is always looking for a way to make the business better. Our 50/50 partnership with Bonnie is critical for us going forward, and I'm glad you'll get a chance to hear from him today.

Jim Hagedorn: Afterward, you'll hear from Patti Ziegler. She's another member of the team who's always striving to take things to a higher level. Patti's been with us for over 10 years and had an agency background before she joined us. She's been a great addition to the team and is constantly challenging us to think differently. We had been ramping up our direct-to-consumer efforts before COVID hit and things then exploded as a result of the pandemic. Patti and her team are all over it, and I think you'll learn a lot this morning as a result of her brief, and then finally it's spring, so we need to store walk. Tom Crabtree will share a bit about our sales processes and then virtually walk you through some of the stores in Louisiana and Tennessee. Tom is absolutely relentless in his efforts and is one of the most energetic guys you'll ever come across. He's a great fit for our culture. He came out of the supply chain and then led our Home Depot team before leading all of sales, so that's the team. Let me turn it over to them.

Josh Peoples: Hey, good morning, everyone. I'm glad to have another opportunity to talk with you about the steps we're taking with the consumer to drive our business. We remain extremely confident in the long-term outlook for the lawn and garden category and the opportunity for our brands to benefit. At the core of our optimism is the changing consumer. Their expectations of brands are evolving. Purpose and transparency matter. Their consumption of media is different as well. Websites, social channels, podcasts and streaming services are go-to sources for news, entertainment, and social circles. The demographics are shifting. Aging baby boomers remain a big consumer group, but a swell of millennials has entered our wheelhouse. They make up nearly a quarter of the population and are beginning to have families and move into home ownership. Our research indicates they are more interested in lawn and garden activity than their parents and equally accepting of our brands.

Josh Peoples: The population mix is changing too. Minorities are growing and will become the majority in coming decades. They are young and approaching first-time home buying age. Consumers have a healthy appetite for organics, both food and non-food. Organic foods are growing at a rate of two to three times that of total food sales, and 40% is fruits and vegetables. Non-food organics are growing at two times that of organic food growth. Finally, migration patterns are spreading south and west with no sign of slowing down. All this lines up for us. Let me tell you what we have done to capitalize. It starts with innovation. Our new product strategy is driven by consumer needs while being rooted in science. Performance organics, triple action, and ground clear speak to the lifestyle of the millennial consumer. We're developing more natural products that are targeted to a younger subset of the market.

Josh Peoples: We're also making indoor gardening a priority as a way to drive year-round selling, while at the same time, appealing to consumers whose love of gardening transcends any one season. To address the migration shift that I mentioned earlier, you will see us creating products tailored to the needs of the south and west, such as Ortho insect control, and we're leveraging Bonnie Plants to take live goods to the next level. Nutrients, soils and plants are intrinsically linked. I'm going to turn it over to Mike Sutterer for a few minutes, so he can give you a better sense of the power of our Bonnie partnership.

Mike Sutterer: Hello, I'm Mike Sutterer, president and CEO of Bonnie Plants. There's never been a more exciting time to be in the live goods category and to be at Bonnie Plants. As you know, I spent a good part of my career at ScottsMiracle-Gro leading the gardens and live goods team. I bring a unique perspective to the partnership between Bonnie and ScottsMiracle-Gro, which I believe is a win for both companies, as well as gardeners and our retail partners. Live goods is a six plus billion dollar category that offers meaningful long-term growth. This is true, not just in our core of edible gardening, but in other areas of live goods too, like succulents, flowers and genetics. The flower category alone is four times larger than vegetables and herbs, and succulents and indoor houseplants are millennial-friendly.

Mike Sutterer: By cross-merchandising and promoting our live goods with ScottsMiracle-Gro products, we provide consumers with simple solutions to be successful growers. Josh talked about the increase in category participation in 2020 and the intent of gardeners to engage again. In fact, their positive experiences have them planning to grow more plants this season. These new growers are younger, more male, have kids, have higher incomes than the traditional gardeners of the past. In short, they are a great customer for us and will provide years of growth potential for Bonnie. We're seeing signs of these trends in our own data with no letup and demand and sales nearly doubling through the fall 2020 versus the previous year. Bonnie has a huge competitive advantage to capitalize on all the opportunities that lie ahead. We are the only US grower with scale and a national footprint. Retail partners see our reliability where other growers fail. This was evident last year when we responded to demand without the kind of widespread out of stocks that others had. We were able to deliver because we operate 87 facilities in 42 states, with over 15 million square feet of greenhouse space.

Mike Sutterer: This puts us close to our retail partners and consumers, enabling us to have fresher plants and reduce lead times. Our fleet of over 800 trucks with sales representatives gets plants to over 20,000 retail stores every year. We've also built an e-commerce fulfillment network that allows us to deliver fresh plants anywhere in the US in two days or less. We're making our network even better by investing in analytics, automation, and technology. I mentioned earlier how we can win in other segments. Our research and development team trials hundreds of new varieties to screen for success in home garden and patio environments. We're locking up exclusive rights to genetics and varieties in popular segments, including super-hot peppers. While vegetable and herb plants have been the core of our 103-year history, we took steps last year to move into other types of plants as well.

Mike Sutterer: Here are some examples of 2020 launches that are the foundation for further growth. One, Bonnie Harvest Select and Bonnie Foodie Fresh, which are premium genetic lines that command higher price and better margins. Two, Miracle-Gro Brilliant Blooms, a premium-priced flower program with superior genetics and built-in plant food to ensure gardener success. This was our most successful new product launch ever, and won Lowe's Lawn and Garden Innovation of the Year Award. Three, houseplants fulfillment for ScottsMiracle-Gro's Greendigs brand.

Mike Sutterer: In 2021, we're building on these successes. A new Bonnie Colorful Companions Flower Program will pair flowers with vegetables and herb plants to attract beneficial insects, while helping to naturally resist pests and disease. After a successful pilot test, we are launching a national Bonnie succulent line in over 1,600 Tractor Supply stores, and we'll have them online through Bonnieplants.com and other retailers. We plan to expand in-store and online sales in 2022 and beyond. I hope you can tell how excited I am to be on the Bonnie team and how committed I am to making the ScottsMiracle-Gro

partnership as strong as it can be. We have a powerful combination that benefits our stakeholders and increases our ability to continue unlocking the potential in live goods. Thank you.

Josh Peoples: Thanks Mike. I want to spend the rest of my time talking about the consumer. Why we believe they will continue to be engaged in our category, and how we are connecting with them on multiple levels. Bringing us into their world, instead of the other way around. Marketing is the area where we've made the biggest groundbreaking shift. Our game-changing marketing approach places the consumer at the center of all we do. As a result, we're more dynamic, agile, targeted and impactful with our marketing and media. We're more data-driven to become smarter with how and where we connect with people. This actually was our path when COVID hit. COVID made more apparent than ever the power of consumers. They told us what they want to buy, when they want to buy, where they want to buy and how they want to buy. COVID became a catalyst for accelerating our marketing evolution by two to three years.

Josh Peoples: Here's how it came to life. We amplified efforts to reach consumers in the many places they go for information. We went all in on audience-based messaging and media tactics that were culturally relevant. We tapped into digital channels like never before, and we spoke to them differently. It was all about knowing what consumers are feeling and what's going on around us. This was something that was not part of the plan pre-COVID. Here's an example of what I'm talking about. The Our House Campaign.

Ad Spot: :30-second video of the Our House commercial

Josh Peoples: Whether you were new to gardening, a work-from-home parent looking for something to do with your kids or wanting to order your favorite ScottsMiracle-Gro products, we were there with you as a trusted friend and advisor. The results of this approach speak for themselves. More than 20 million people entered our category. Here's what we're seeing now to make us even more bullish than ever. Of those 20 million people new to our category, 86% plan to stay in 2021. Our research shows the majority intend to spend even more. When asked about the relative importance of various spending, consumers say they will prioritize gardening products over eating out, their coffee run in the morning and alcohol if money gets tight. Among new edible growers, 72% say they will plant more vegetables and herbs, boding well for live goods and our garden products. Among the new lawn care consumers, 71% intend to do more lawn care.

Josh Peoples: How are we responding? We did not let up in the late fall or winter months as in previous years. We are talking to consumers, not just 12 weeks during the spring, but rather all 12 months to be top of mind and make gardening a long-term habit. Especially since so many new lapse consumers wanted to do more if they only know what and when to do it. Gardening is not just a warm weather passion. It is a part of the home. It is a form of self-expression that is deeply



personal. We've infused an inviting tone that is entertaining and is grounded in the belief that gardening makes life better. We're also tapping into celebrities by allowing them to share their experiences. Influencers enable us to establish deeper bonds with consumers. This was the strategy behind our first-ever Super Bowl commercial and the Keep Growing Campaign that continued until the first day of spring.

Ad Spot: Video of the Super Bowl commercial featuring multiple celebrities

Josh Peoples: To reach consumers where they are active and engaged, we continue to expand the touch points. These include social channels like TikTok, streaming platforms such as Discovery Plus, Roku and Hulu, and even text messaging with tips and offers. Weather analytics enable us to optimize promotions down to the local level with speed and precision. If we see good weather in the Midwest, we drive messages and product ideas into just about every media channel in a particular community. We're putting increased investment behind what is working. In 2021, upwards of 75% of our advertising will be spent on digital, allowing us to be more targeted and diversify our creative to represent different audiences and their values. I firmly believe that our marketing and innovation approaches are more powerful now than at any time since I joined the company, and that was 20 years ago. Hopefully, this overview provides some clarity as to how we're capitalizing on the opportunities that lie ahead. Thank you for your interest. I'll now turn it over to our chief digital officer, Patti Ziegler, to talk about our e-commerce growth and strategy.

Patti Ziegler: Hello, and thanks for taking the time to learn more about what my team and I are doing to drive our e-commerce business. And I'm happy to say this is the fastest-growing area of the company. Lawn and garden like most other categories saw consumers change the way they shop last year. E-commerce sales, whether through our channels or those of our retail partners grew by 184% last year and the experience was so positive for consumers that it's hard to imagine they won't do it again this season.

Patti Ziegler: Fortunately, we'd been making smart investments for the last several years to advance our e-commerce and direct to consumer strategies. And so when things took off last year, we were ready, but I'm convinced we've only scratched the surface. I'm going to share with you our strategy as it relates to working with our retailers on their direct to consumer efforts, the development of our own channels and the creation of our own brands that are designed for e-commerce. That last point, the development of our own brands is the backdrop for this discussion with you today.

Patti Ziegler: Welcome to Greendigs, Our first living design content studio and consumer experience. On its face Greendigs as a storefront that we opened earlier this year in Columbus, but it's more than that. It's also an online community where people can shop for indoor plants, can get tips to make them more successful

growers and connect with us on a very personal level. The Greendigs storefront is a real-world manifestation of the Greendigs e-commerce and online store.

Patti Ziegler: The studio reflects our team's ambitions to get closer to our consumer and through content creation and real world interactions to deepen our relationship with them. Here, we can interact with consumers and their plants, let them experience indoor gardening and the benefits it brings, whether your plants are for home decor or for growing food, a hobby or something more. We know gardening is deeply personal to people and Greendigs lets them explore it, providing them with information, educational expertise and our products any way they want to shop in real life here and online.

Patti Ziegler: But we're doing much more than this. So let me take a step back and explain what our e-commerce team is doing to drive our business into important areas. First, we are laser focused on supporting our partners in their e-commerce efforts. We work hand in hand with our retailers to help drive product interest, sales, and fulfillment through their own online platforms. Second, we serve as an innovation and brand development team, ensuring all our partners have the product assortment content and innovation they need to drive online sales.

Patti Ziegler: Let's start with product availability and assortment. Last year, we worked with our retailers to ensure the essential lawn and garden products were delivered to consumers. Supporting our omni-channel retailers was a critical building block of our and their success. Buy-online-pickup-in-store (BOPUS) and direct delivery to home were important part of last year's success. We demonstrated then and now e-commerce and connected retail experiences drive our year round performance.

Patti Ziegler: E-commerce sales driven through retail grew 320% last year. A combination of BOPUS, retail direct to consumer fulfillment and our own direct fulfillment on our retail partners behalf. As I said earlier, consumers had a great experience last year and we expect that we'll increase BOPUS sales again in 2021. Here's why our research tells us that about half of consumers are still nervous about shopping in a physical store. We know that 22% of lawn and garden households were BOPUS consumers last year and 90% of consumers were extremely or very satisfied with the experience. So we're planning for our omni-channel retailers who have a great BOPUS season.

Patti Ziegler: You can expect us to continue to support our retailers, keeping our products available through this increasingly important consumer delivery channel. A critical part of our e-commerce success is directly tied to our supply chain, which has become exceptional at shipping individual parcels. Our proficiency was honed during the early stages of the pandemic. In the initial weeks of 2020 spring order search, we went from 6 operational DTC locations to 13, helping our customers meet consumer expectations for handling and delivery time by reducing the distance to ship our products.

Patti Ziegler: These facilities not only support key retailers, but also support our online only customers. ScottsMiracle-Gro and Hawthorne Gardening Company online only customer business grew in 2020, 172% and 44% respectively. Our partnership with our online customers allowed us to succeed in several ways. We expanded our product offering, created easier ways for our consumers to shop, highlighted essential products for beginners, bundled products to improve results and promoted the love of backyards, gardening and indoor growing. The best news is the consumer stayed with us all year long.

Patti Ziegler: Selling 365 is something we do online too. Year-round online product availability matched with the ability to reach engage consumers through online channels is driving this growth. You've already heard about how we have made a shift in our marketing approaches, focusing on digital coupled with compelling content strategies. This approach has also created the opportunity to build new brands with more narrowly targeted consumer audiences.

Patti Ziegler: In 2017, we launched our first digitally native brand Lunarly, a curated collection of plants, candles, and wellness products as a subscription box. Since then, we've launched Bark Yard, a line of lawn care products targeted to pet owners, Knock! Knock!, a front door, live goods, subscription service, as well as Greendigs. This year, we're launching a brand called Instead. It's a line of all natural, lawn care products, delivered as a customized subscription to your home. It's an alternative approach to lawn care for those consumers who want to lawn differently - instead.

Patti Ziegler: Instead launched this March with lifestyle advertising that features Drew Barrymore who beyond her role as brand advocate has joined Instead as co-creative director. We expect this brand will find its audience and grow to become an anchor brand of our natural and organic portfolio.

Patti Ziegler: These audience focused online brands introduce lawn and garden with a twist. Each fits the sensibility of its target consumer and engages them in a new way. The marketing approach for these brands follow suit, engaging consumers with our brands, and more importantly with each other in the branded communities on social media. The birth of these digitally native brands brings to life innovation across our business too. Our e-commerce and R&D teams worked with Bonnie Plants to set up for live goods, growing and DTC enabled shipping facilities for Knock! Knock! and Greendigs.

Patti Ziegler: We've worked with our R&D partners to create a new way to ship plants with less dirt, less mess and not having to make any compromises on quality and beauty of their live goods. This results in a better consumer experience and lower transportation costs for us too.

Patti Ziegler: I'd be remiss if I did not highlight AeroGarden. ScottsMiracle-Gro now owns 100% of AeroGarden, adding an already strong brand to our direct-to-consumer portfolio. Beginning in fiscal '21, AeroGarden is part of the e-commerce team

after being a part of Hawthorne. This unique product line of countertop kitchen gardens is on trend and is seeing strong growth in all channels, direct to consumer, online retailers and that retail. The direct channel recently saw the most significant growth greater than 200% and online and retail grew greater than 95%. We are especially excited with AeroGarden because of its strong connection to growing food.

Patti Ziegler: Consumer interest in restaurant style cooking at home, even if it's adding fresh herbs to a store-bought pizza is on the rise. Many consumers also remain concerned about how their food is grown. The easy to use AeroGarden hydroponic garden is the perfect fit for these and other foodie trends. As we look ahead for this brand, we are sourcing more unique varieties and we'll be developing more systems for seed starting subscriptions, as well as accent decor solutions with flowering plants for home offices.

Patti Ziegler: As you can see, our e-commerce strategy is meeting consumer needs at retail, online and with innovation. We are continuing to build for the future lawn and garden consumers while serving today's consumers with better products and more efficient and personalized solutions for their individual tastes. Across our e-commerce businesses, we work to get closer to our consumers, just like we do at Greendigs. Think of it as not just selling products, we're building more joyful connections to create a total experience in the lives of our consumers that is not tied to any season, but is rather year round. With this blend of online and offline world everyone wins, especially the consumer.

Patti Ziegler: I'm thrilled to have the opportunity to lead this effort and to be supported by a team of incredible creative people. I see e-commerce as absolutely essential to the future of lawn and garden category and to ScottsMiracle-Gro. Thanks for taking the time to hear our story. Let me shift the discussion to Tom Crabtree, our head of North America sales for insights into what's happening with our retailers.

Tom Crabtree: Hello everyone, our sales team is really excited about the retailer engagement that quite frankly hasn't slowed down since last spring season. As the largest vendor in lawn and garden for all of our retail partners, we've been focused on three key areas. First, selling 365. At ScottsMiracle-Gro, we no longer talk about a 12-week season, we talk about 12 months. Whether it's online or in store, we've got solutions for consumers no matter where they are or what time of year it is. Winning locally in our space every store matters and every home space is a little bit different. To win locally data matters. We've got weather analytics that enable localized, rifled media blitzes for the right products at precisely the right time.

Tom Crabtree: Lastly, we're omni-focused. We work with our retailers to be everywhere that consumer journey begins and ends, online and research, BOPUS pickups, curbside or at garden corrals and even local delivery. So let me talk specifically about our Scotts' sales team or what I like to refer to as the Scotts' sales army.

We love to compete, we love to do battle, we win. Let me break down this army for you to give you some perspective on the scale and capabilities we've built.

Tom Crabtree: At a high level, our customer base consists of over 20,000 individual retail locations with nearly two and a half million individual points of distribution or store skew combinations. Big three sales penetration is still massive, but this is lower over the past couple years, as we've seen shopper trends and behaviors favor some smaller footprint retailers, including farm and fleet and hardware, as well as one-stop shoppers at club. And also don't forget the online channels.

Tom Crabtree: So I'll break our sales team down into two core areas for you. We've got account sales and in store sales and service. Account teams focus on strategic selling with all of our corporate merchant partners, building relationships from bottom to top with not only the corporate merchant teams, but also supply chain teams, marketing teams, and integrated omni teams. The account teams focused on partnering across functions to build load plans, replenishment plans, and forecasts, but also partner on assortment, merchandising space plans, category management, promotional, and co-op marketing and media activations.

Tom Crabtree: These teams are responsible for in season execution and adjustments to plan but longer term multi-year strategic growth plans as well. Now, the field sales and service army, while there are boots on the ground, these folks are where the rubber hits the road, they're in retail stores each and every day across the country. This ScottsMiracle-Gro sales army consists of nearly 2,200 full and part-time associates at peak season, and nobody gets more local here. We're aligning on strategic local sales programs, making inventory recommendations, educating store associates, helping consumers, down stocking inventory, coordinating freight 24/7 with our plants and store operators. These troops are critical in our effort to be as locally relevant as we can be. Like I said, every store matters and every store has a different consumer.

Tom Crabtree: As good as we are at the corporate merchant level, you'd say we get it 75% to 80% right. It's our boots on the ground in every store that find that last mile on the assortment. They get that last 20% to 25% right which is what makes that store your store. They have key relationships with regional, district and store managers to mention just a few. They are the Scotts Advantage. They're armed with data and analytics that include POS by store, category and skew data as well as inventory and comp data at their fingertips to make sure that we're fact-based and we don't miss a single sales opportunity.

Tom Crabtree: These local and regional programs account for millions of dollars of incremental POS annually that otherwise would not be realized through corporate plans alone. Our sales teams reach over 9,000 store locations, primarily in the home center and hardware channels. We pride ourselves on growing store locations to the prestigious \$1 million level of POS annually and we grow this store list every year. Not only do we have great relationships from top to bottom with

our key retailers and key store decision-makers, but we have great partnerships as well starting with Bonnie Plants. This partnership with Bonnie means we add another 700 folks to our total army in the stores. Both teams have each other's back and it's a great second set of eyes when the season is exploding to ensure cross-merchandising, point of purchase, inventory space and live goods product quality are being executed flawlessly.

Tom Crabtree: So enough of me talking a good game, let's get out in the field together and see how we're shaping up as the season starts to break. We'll hit two key markets today, one in the South and one in the North. So let's go.

[Video of store walks in Louisiana and Tennessee]

Tom Crabtree: This is the power of the Scotts army right here. Just look across the garden center right now. We're ready from an early season fertilizer standpoint here in the South with Bonus S, our number one weeding feed product down here. We've got bug solutions; we've got exclusive products and support from this retailer like never before. It's all about gardening. You're going to see soils. We'll go to the soil wall in just a minute, but it's also about making sure it's done the right way for the consumer, meaning the total solution, the right project solution. Houseplants, tropicals, this business continues to explode. We want to make sure that we're attaching and providing the right nutrients, the right products that the consumer needs to get the best result with the investment that they're going to make.

Tom Crabtree: This wall here has got everything. It's got garden products, it's got potting products, it's got organic products, synthetic products, it's got a gardening solution for every single need that the gardener may have this spring and take a look across here. We're locked and loaded like never before. Just go ahead and take a look around the garden center. Inventory readiness has never been better than it is this year.

Tom Crabtree: We talk a lot about the Bonnie partnership, it's not just about down at the garden center. You can see some really good work cross-merchandising right here on the front apron. We've got Bonnie over here, we've got soils over here. So really good work going on locally. And again, it's all about having the right innovative products to go with the live goods. So veggie and herb soil to go right here with the veggies and herbs from Bonnie. So everything the consumer needs right on their way into the store, and then you know we're going to be there for them when they come out of the store.

Tom Crabtree: One thing I probably haven't mentioned enough of is private label. Private label plays a key role for consumers and retailers, and we're really happy to have opportunities like we've got here to be able to partner with our retailers and make and supply these products right alongside of our key branded products as well. Got a brand new Triple Action product that you're going to find in more of the transition zone and Northern products. So this one is built for seeding so it's

going to green up the lawn, it's going to prevent early weeds, it's also going to provide key nutrients to help for early seed starting within the lawn as well. So excited about this and then Rapid Grass, you can see a brand new product as well that's going to come up twice as fast as normal grass seed fill in quicker.

Tom Crabtree: We've got a really harsh winter. A lot of folks are looking to repair the lawn. You combine this product right here to give all the nutrients you need to a fast, innovative, rapidly germinating seed product. And this is a great combination to get started. If the consumer's got a really good lawn from last year, does it need to start with seed? We've got Triple Action that's going to provide pre-emergent as well as post emergent weed control and it's also going to green the lawn up faster as well.

Tom Crabtree: We talk a lot about some of the blocking and tackling their field team. I want to give a shout out to, it's so important, we've got a promotion going on here with this retailer it's important to make that really clear to the consumer, to drive conversion. This stuff doesn't just come from our retailers. This is something that our field team work locally, planted locally, worked with our shopper team to be able to pull the right design, the right message together, and then bring this thing to life in store and drive more conversion, make the promo even more effective. You combine this with some of the localized air raids that they have hitting this weekend and this market as well on this particular promotion and we'll go through several pallets of this product this weekend alone.

Tom Crabtree: I mentioned this earlier, but one of the interesting developments we've seen as last year with COVID, we saw consumer shopping behaviors migrate into smaller footprint stores, and we've seen some really great engagement for instance, in the farm and fleet and hardware channel. Consumers may be feeling a little safer about the environment. Last year, there was a lot of shutdowns and some challenging shopping situations and we've really seen these folks continue to lean in heavily to gardening. We saw that start to happen last year and right out of the gates we're seeing that trend continue.

Tom Crabtree: The other piece that I really want to mention here and this goes for several retailers, that affinity of the newer consumer, those 38 million new gardeners and gardeners that have come into the space. Whether they're ending their journey online, or they're shopping research online, it's all about going online, it's about that omni opportunity to pick up, get curbside and where retailers are leaning into the technology, the infrastructure in this space, they're continuing to capitalize and take share. So some really good things going on here.

Tom Crabtree: I mentioned the promotions this year. These folks haven't slowed down since last spring. So continuing to see a really terrific support from the ACE Group. We really, really appreciate the partnership.

Tom Crabtree: There's always a lot going on in the chemicals controls market, one of the most confusing categories there are, the highest amount of walkaway rate in this

category. It's nice to be able to get some of the key products off shelf, the product specifically that the consumer is looking for, where they have the most need, the biggest problems going on. We're hearing kind of a transition market. Couple of key products, obviously fire ant is a problem down here in the mid-South. So you can see fire ant solutions and then continue to be really excited about the progress that we're making in our home defense line. We added this product last year, specific call-outs from an indoor use standpoint, it's a trade up opportunity, helps the consumer to feel better about the indoor applications that they're doing and a great enhancement to our core home defense line.

Tom Crabtree: It comes down to being locally relevant, knowing your consumer that's what's so important about our field team. So important with the operators, the local store managers, assistant managers, make sure we're doing the right thing for those stores. Every store is unique, every store is different.

Tom Crabtree: As you can see, no one has the presence we do in the retail stores, no one. I invite you to check it out yourself. Thanks for your time, I'll send it back over to Jim for our next segment.

Jim Hagedorn: It's great to see the stores rocking again in lawn and garden in full swing. Watching Tom out in the field has inspired me to get on a plane and start doing some of the field visits myself. I said earlier this morning that I believed our people were our biggest competitive advantage. And I hope you now see why. The bencher is pretty strong and keeps getting stronger. I mentioned earlier that we have been working with outside experts to help us assess and develop what we believe to be the leadership team of tomorrow.

Jim Hagedorn: Many of the people you heard from today are part of that process, but there are others too and as I said earlier, I think it's worth your time to get to know who they are. So we're going to introduce them to you here, nothing fancy, we just asked them to pick up their iPhone, introduce themselves. Here they are.

[Video of SMG associates introducing themselves]

Mark Slavens: I'm Mark Slavens, the vice president of R&D at the Scotts company. I have a PhD in horticulture biology from Cornell University, and I've been with the company for 11 years.

Sara Gordon: Hi, my name is Sara Gordon and I'm the vice-president of marketing for our gardens business unit, which includes growing media, plant care and live goods. I've been with the ScottsMiracle-Gro company for 18 years, and I've had the privilege of stewarding many of our brands. I'm also a proud member of the Scotts Women's Network and I'm passionate about our Gro More Good initiatives.



Ashley Bachmann: Hello, I'm Ashley Bachmann, I've been at Scotts for almost 12 years now. I've been in a variety of positions across marketing and sales and I am currently the vice president of lawns and private-label marketing.

Matt Taylor: Hi, Matt Taylor, I lead our e-commerce sales marketing team. Prior to joining the e-com team I spent almost a decade managing our brands here at Scotts, and then I've also worked at smaller digital native companies in operations, sales, and marketing.

Josh Meihls : Hello, everyone, Josh Meihls here, vice president of sales strategy and operations. I've been with Scotts for over 17 years. My family's been from Northwest Ohio to Marysville, to North Carolina and back to Marysville. It's been a great ride and I'm looking forward to it continuing.

Laura Allen Dillard: I'm Laura Allen Dillard, a product development manager in R&D. I came to Scotts after earning my PhD in chemistry from Yale University, and I've spent the majority of the past seven years supporting the Ortho and Tomcat businesses. Currently I lead new product innovation for Hawthorne nutrients and pesticides.

Paul Wilczewski: Hi, I'm Paul Wilczewski, director of manufacturing at the Marysville chem plant. I've been making lawns green and beautiful for just over a year. Prior to joining Scotts, I was in charge of global operations at a consumer product ingredients company.

Alex Grossi: Hi, my name is Alex Grossi, VP of customer service for Hawthorne Gardening. I've been with Hawthorne for two years now with 10 years in the indoor gardening and hydroponics industry. The majority of that time spent with Sunlight Supply on their sales team.

Molly Jennings: I'm Molly Jennings, director of corporate affairs and a 10 year veteran of Scotts Miracle-Gro. Before Scotts I lobbied on behalf of various interests, both public and private. In fact, my very first job here at Scotts was in state government relations. Today, I lead a team of talented corporate communicators for the focus on social impact.

Mike Davitt: Hi, I'm Mike Davitt, VP of sales for our Home Depot business development team here at Scotts. I've been with Scotts now for 10 years, working in multiple roles, including field sales, as well as brand marketing. I started my career at Accenture as a management consultant, and I also have CPG experience working for MillerCoors.

Julie DeMuesy: Hi, I'm Julie DeMuesy, I'm the vice president of human resources for North America and talent acquisition. I've been at Scotts for a total of 11 years. I've held similar HR strategic roles at great organizations like Abbott Laboratories, Elmer's Products and Huntington National Bank.

Kelly Berry: Hi, I'm Kelly Berry, VP of finance for the North America consumer business. I've been at Scotts about 13 years and I've had various roles during that time, including most recently as corporate treasurer. Prior to Scotts I started my career in public accounting. One of my favorite roles at Scotts was supporting the fertilizer business where I learned that the best time to fertilize your lawn in the spring is when the yellow forsythia bushes bloom.

Joanna Mefford: Hi, I'm Joanna Mefford, the director of sales finance at Scotts. I've been here for 12 years and hold a master's degree in accounting and a CPA. What I love about Scotts is my various roles supporting operations has taught me to be a business partner not a bean counter.

Mark Scheiwer: Hello, I'm Mark Scheiwer and I am the finance lead and vice-president at Hawthorne. I spent nine plus years working at Scotts and now Hawthorne. In my prior role, I was also the corporate controller. Previous to the company, I spent 14 plus years working as an auditor at Ernst & Young in the public accounting field where I audited private and public companies like Cardinal Health. Thank you.

Kurt Milburn : Hello, my name is Kurt Milburn and I'm vice president of sales for national accounts. I've been with Scotts for 10 years in a number of different roles, primarily in supply chain and operations. Prior to joining Scotts, I worked for General Motors and General Electric in various engineering and operations roles. Certainly thrilled to be a part of the Scotts Miracle-Gro team. Extremely excited about where we're headed and our future. Thank you so much for your time and I wish you all the best.

Amy Michtich: Hi, my name is Amy Michtich, I'm the vice president of growing media operations where I support the production and direct to store delivery of soils and mulch across the US and Canada. Prior to joining Scotts in 2019, I served as the chief supply chain officer for a multinational beer manufacturer.

Kristin Dean: Hi, my name is Kristin Dean, I am a vice president in human resources. I'm currently the HR business partner for all of our corporate groups. I also lead the engagement efforts for the organization. I'm in my 22nd year at Scotts.

Dimiter Todorov: Hi, my name is Dimiter Todorov, I'm a vice president of legal. I have been with the company for about 13 years in various roles. I was the head of M&A lawyer, the head international lawyer and the head commercial lawyer currently on loan to Hawthorne in a business development role.

Katy Wiles: Hi, my name is Katy Wiles, I'm vice president of legal. I've been at Scotts for about eight years. In my current role, I lead the legal team at Hawthorne and I lead from a legal perspective M&A transactions at both Hawthorne and at Scott.

Adam McCuiston: Hey everyone, I'm Adam McCuiston, vice president of category and marketing at Hawthorne. I've been with the Hawthorne side of the business for about three

years since the Sunlight Supply acquisition. Prior to that, it's been about eight years on the SMG side of the business. Before coming to SMG, I was in the banking industry with a background in finance and strategy. Thanks so much.

Adam Sharp: Hi, this is Adam Sharp, I'm VP of supply chain for Hawthorne. I've been in the hydroponic industry for about 20 years and with Hawthorne for about five. Prior to Hawthorne, I was part of one of the acquired companies, Botanicare.

Jodi Lee: Hi, my name is Jodi Lee. I'm a VP in marketing and I've been with Scotts for a little over seven years. I currently run our controls business. Before I came to Scotts, I worked at Nationwide Insurance on their property and casualty side, and I got to lead a number of affinity marketing initiatives to help them grow.

Mike Totzke: I'm Mike Totzke, VP of sales. I've been with SMG for 15 years in a number of different sales roles. Today, I'm living my dream job leading business development for Hawthorne.

[Video ends]

Jim Hagedorn: I've become so used to seeing people on screens. I really can't wait until this building starts humming again, and I can actually get back to seeing people face to face. Let me close things out here and then turn it over to Jim King. We've got a lot going on at this company right now, and we have a lot of reasons to feel optimistic about the business. We've got to get through this year and see whether consumer behavior changes a lot as the world gets back to normal. But gardening has historically been one of those activities that sticks with people. The demographics are with us in the consumer business that's for sure, and I believe the briefings from Josh and Patti in particular should give you a lot of confidence in our ability to build a longstanding relationship with all of these consumers.

Jim Hagedorn: We are in a different place here regarding the consumer business than we were when we introduced Project Focus. I hope you walk away from this morning understanding why that's true. And as it relates to Hawthorne, we're just getting started. We do have a better business than anyone in the space, and that should be evident by what you've heard today. We also have the financial capacity and the willingness to use it to further strengthen the portfolio and explore other ways to get closer to the grower and the end user of cannabis products if the federal law makes it easier to do so.

Jim Hagedorn: We're doing all this while maintaining a healthy balance sheet and the financial flexibility to continue returning cash to shareholders. I'm extremely confident what the future holds for ScottsMiracle-Gro. And after spending time with us, I hope you are too. Jim, why don't you take over so we can move on to the Q&A.

Jim King: Thanks, Jim. Okay we're going to take about a 10-minute break here before we start the live Q&A. You'll see a countdown clock on the screen that will lead up

to that session. For our sale side analysts please use the second link that we sent you earlier this week. Once you click on that link, you'll join my colleagues and me in a virtual hold area. Once we're all assembled, our moderator will connect us back to the live stream so that everyone can see and hear the discussion.

Jim King:

If you're not part of the live Q&A just stay on the screen, we'll show you some commercials and a few short videos for about the next 10 minutes. So we'll see you then. Thanks.

**[Live Q&A continues on next page]**



# INVESTOR & ANALYST DAY

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## Live Q&A

- Jim King: Okay. Welcome back, everybody. We are assembled here with most of the management team that you just heard from to go through a live Q&A session with our sell-side analysts. As I mentioned earlier this morning, I've got a handful of questions that I'm going to pose as well from shareholders or buy-side analysts who sent me questions over the course of the morning.
- Ground rules are going to be fairly simple here. Try to keep everybody's questions to one or two, and then we'll try to be as brief as possible in our remarks. We're trying to target a 1:00 close, as close as we can get to that. Our goal is to not talk too much more this morning, elaborating on the guidance that we provided. Given the content of the meeting this morning, we'd prefer most of the questions to be more kind of strategic and longer term in nature. That said, as you heard from Cory this morning, we updated sales and EPS guidance, but we wanted to get through ... He recorded his comments about a week ago. We wanted to get through the fiscal month, which we just closed a few days ago, and give you guys more of a real-time update on where we stand from a POS perspective and a retail inventory perspective as we go into April. As you guys know, historically, April and May are the two largest months of the year, so it's a pretty critical inflection point for the business right now.
- So, Cory, before we jump into everybody else's Q&A, if you want to just give folks an update on that, that'd be great.
- Cory Miller: Sure. Hello, everyone. Thank you, Jim. Just wanted to point out that we did close our second quarter on Saturday. Shipments remained at or above our plans in both segments. Year-to-date POS in our US Consumer segment was plus 20% versus prior year, and our retail inventory at our largest retailers is also at plus 20% versus this time period last year as well. So, hope that covers kind of where we're at today, and as questions come up, we'll expand if needed.
- Jim King: Mike, anything you want to add before we jump into the Q&A?
- Mike Lukemire: Had to unmute, but no, I think all retailers are engaged, and actually today they're starting their Spring Fest or Spring Black Friday. So, I just saw a video of a line of 50 or 60 people, actually there was a fight in New York at the store over

the last pallet of garden soil. So, it's being discounted. So, the season is sprung. So good news on that front.

Jim Hagedorn: Mike, you might just add the month we're in is not a particularly challenging month for us because it was kind of when COVID was the most screwed up for us and nobody knew what to do. So, April should be a number where we build on our sort of performance. Don't you think?

Mike Lukemire: Yeah. Well, there was no promotion at all. Retailers were shutting stores down. They weren't sure what they could sell. And so, it was a bit of a struggle in April, so I think we came out of April last year, plus 2% for the year. So, things then really took off. We're expecting with that low comp that April and all indications are it's already started. It's going to be [inaudible 00:03:31]. So doesn't tell you what the whole year looks like. I'm trying to control myself of how excited I am, so I always have to be conditioned here, but I think it's going to be really good.

Jim King: All right, Jim. Let's go ahead and get started.

Jim Hagedorn: All right. Jim, you're frozen, dude.

Jim King: Do you want me to start?

Jim Hagedorn: Do it, dude.

Chris Hagedorn: You guys don't want to wait for Jim to [inaudible 00:04:09]?

Mike Lukemire: I think he's frozen.

Jim Hagedorn: Yeah. So who's up first?

Chris Hagedorn: John.

Jon Andersen: I'll go first. This is Jon Andersen. First, just say, thanks for hosting this event. I thought the content breadth and depth was excellent. And I, for one felt like I traveled the country this morning from the comfort of my home office. So you took advantage of all the ... You made the most of the virtual format. I think so kudos to you. My first question is on Hawthorne. How do you see the future of the hydroponics market evolving? I'm thinking here as more as it relates to the size and concentration of your customers, you know, more large commercial growers, probably more prominent as we move forward. And then again, how are you positioned to serve those large commercial growers today? What needs to change, you know, to kind of take yourself to the next level? And why do you think you have an advantage over some of your competitors in doing so?

Chris Hagedorn: All right, John.

Jon Andersen: [crosstalk 00:05:22].

Chris Hagedorn: Yeah, so obviously -

Jim Hagedorn: We're not muted.

Chris Hagedorn: No, I don't think we are. So yeah, clearly, we see I think consolidation taking place both at the cultivator and the retail side. So I think there'll be more larger customers, both in terms of end cultivators and we'll see retail consolidation, like we've seen for the past couple of years with a few notable, publicly traded examples that I'm sure you guys are aware of, but I think many of you cover. As far as our ability or desire to sell direct to large cultivators and once we have sort of the banking and treasury support to do so, look at something we intend to do in a lot of cases.

That being said, you know, we haven't really designed our supply chain at this point to do kind of last mile to all cultivators. So there's always going to be a role for the retailer I see in serving our end consumers. But you know, Dan talked a lot about this. I spoke about it. We're putting a lot of money into our supply chain right now. We're putting in another million square feet of distribution space into the country this coming year. So we are going to have a much better ability than anyone in the sort of manufacturing and distribution side to get to those end consumers. But like I said, we still think a lot of our business will go through retail, sort of for the foreseeable future.

Jim Hagedorn: That's been a big question for us. That's been sort of, we've struggled with answering it. I think for the last couple of years, we've got a great relationship with some of our larger retail partners and our small ones. And we want to keep it that way. So I think, you know, it's a little bit like on the consumer side, you know, everybody would get nervous as hell when you talk about direct sales to consumers. I think there's less struggle over that and everybody's sort of come to their place. And I think that within your business, Chris, I don't know if you look at California, I think it's still a very diverse market with a lot of smaller growers. You know, what I think you'd call it legacy. You were using the illicit word.

Chris Hagedorn: Yeah, legacy, duty-free.

Jim Hagedorn: But I think that, you know, people listen carefully to this call and I don't want them to view it as fighting words. You know, I think, you know, Sunlight was an important part of our ability to sort of service the market and we'll just sort of see how it goes, but I think we've been doing well on both sides.

Jon Andersen: One follow up on the US Consumer business, you know, 2020 obviously was quite the unique year having acquired so many new and previously lapsed consumers. Can you discuss, you know, what you see as the, you know, top two or three, you know, actions that you're taking to try and manage the retention of those customers? I'm thinking, is it higher absolute marketing spending? Is it different types of media, better data analytics? But a little bit of discussion

around that in some concrete actions to retain those consumers and then a follow up, or kind of a part B. There wasn't as much trade promotion in 2020 for obvious reasons, and I'm curious to know if you think the relative importance of traditional, you know, consumer advertising versus trade promotion, you know, has changed as a result of what happened last year and the results that, frankly, the industry got without the same degree of trade promotion. So there's a lot there, but I appreciate it.

Jim Hagedorn:

There is. I'll probably hand it over to Mike and Josh to sort of handle this, but this is a lot of what we're about right now, you know, in addition to Hawthorne. So yesterday I sort of threw my group for a loop and I said, "I want to do more, you know, but we've been thinking about this since as the sort of lawn and garden season started to down trend. I mean, naturally as a result of weather last year about what do we do to keep these people in? And Josh and I were talking, and he used an example of that I used a lot or have used a lot in the past, which is, you know, we were throwing so much ammo through the gun right now that the barrel is, you know, red hot right now. And we're, you know, Mike uses the word unconstrained, you know. I think some people looked at the Super Bowl where we began that and said, you know, you guys just getting too big for your britches.

You know, that's always the bad sign when people go in the Super Bowl. No, you know, for what we're trying to do right now, get people early. The Super Bowl is an extremely efficient way for us to sort of get people and keep them. But, you know, so I'll let Josh talk about that. I think in regard to sort of promotion at a street level, you know, I think there's going to be a lot more activities, especially this month with retailers who were doing nothing last year. It was not a joke, and it was kind of the environment I really like a lot where there's like no rules. Last year, everybody just was afraid. Nobody knew what essential was. You know, we had a couple states, Michigan and Vermont come out pretty early and say, "Gardening is not essential." That lasted a couple of weeks until consumers said, "No, it is essential, and we want to do it."

Jim Hagedorn:

And they backtracked on that pretty quick, but you didn't see any sort of Black Friday events right there. You know, that resulted in a pretty significant increase of margin at the retail side because they contribute a lot toward that as did we. We took that money and we also talked to our retailers and said, "We want like a lot of the money we jointly were going to spend. We want that back and we'll invest it ourselves since you guys haven't," you know, they weren't that comfortable yet with sort of stimulating the market. And I think we really liked what we could do. And Josh said it in his prepared remarks was that it probably accelerated us. And, you know, I'm going to say, I don't know what Mike's view is, but I'd say three to five years on what we would have done with sort of alternative marketing.

Jim Hagedorn:

And as we've gone through the year, you know, I think we've talked a lot about these last few days as we're trying to figure out, you know, what percent of sort



of heavy promotion that, you know, I'm not the hugest fan of at least in a lot of categories. I think mulch, it probably works pretty well and it's a good way to lead into the season. But I think we're looking, John, at probably 50% of kind of the level of retail promotion, at least Black Friday type like last leading promotion that happened.

Jim Hagedorn: And I think that's a pretty reasonable answer for us is, you know, these retailers, a lot of the retailers that gained a lot of share particularly early last year, you know, was, you know, hardware co-ops, wholesale clubs, Farm and Fleet. These are, you know, folks that like did fantastic and got real entrepreneurial. It took a while for the bigger high-profile footprints, you know, to feel comfortable that they could do that. I think they're going to make up for it in April. But I think the number we're looking at is about 50%. Mike, you want on to sort of pick up just on kind of what you're feeling at the retail promotion level?

Mike Lukemire: Yeah. We had great learning last year that advertising really worked. So we were building off of that. And Josh can talk about how that continues, but the balance this year is it is not as, you know, when Jim said pile more on in the old days, I would say, I'm going to go promote something and drop the price and offer promotional dollars today. That's more about taking advertising and using advertising to say, move it off the shelf, call to action. It leads territories and drive what specific products need to be there versus discounting it.

And I think that's more what's happening with the retailers is the balance that, so you're still going to have promotion, more promotion than last year, but I think you're going to see a balance with the marketing, and we have joint marketing efforts with the retailers that we've never before. So I'll let Josh talk about that because he's meeting with them or we're doing partnerships on ... We're actually meeting with the marketing people of these retailers, like never before. So it used to be just merchant driven. So Josh.

Josh Peoples: Yeah. I think just to build on what these guys are saying. What we learned last year was we can motivate and activate beyond just promotions and discounting. And I think that's where you're going to see just a lot more of a balance this year. So not only are we leaning in, I would say year to date, we're probably about 2XR spin than where we have been previously. These guys just alluded to the engagement we have on the retailer side is incredible across the board. It's just not, you know, a Home Depot, Lowe's thing either. You can go down through call it our top eight to 10 customers where lawn and garden is a meaningful category and a way into all other projects that everybody has taken advantage of. And that's just not a matter of giving away product. That's again, being very relevant and meeting the consumer where they're at.

And I think that's a lot, John, to go into like what we're doing, of how we talk to them, the mediums that we're on and being very targeted and specific is something that we've untapped here over the last call at 18 to 24 months that we're continuing to do right now. And it's also, you know, the last thing is like

not just being a spring business, talking to them throughout the winter, being relevant around projects they can do. And then obviously I view the Superbowl, not as a frivolous spin, but as a super-efficient and effective way to not just reach the 21 million people that joined our movement this past year, but it's a way to kind of reach and get others to feel what gardening is all about and to touch on all the reasons that they joined. And I think we did it in a really kind of fun, inviting way to keep the things moving here into the spring as well.

Jim Hagedorn: Josh, I just want to throw in a pitch for Gary Vaynerchuk and VaynerMedia and how important they were to sort of helping us. And this started before COVID, but really helping us for the first time, really understand the use of social media and very custom and targeted sort of communications with almost, you know, individual consumers. You want to just touch a little bit on sort of how they helped us change?

Josh Peoples: For sure. They were definitely a catalyst. And, you know, I rattle off like my three principles here of being creative led, data-driven, and always on. And I think the piece that they bring to that as also being very culturally relevant as well and understanding specific audiences and then the way that you reach them and in different ways. And again, I view between them and now what happened with COVID did advance us multiple years and where we were headed, but they definitely play, you know, a very key role, obviously with everything that we're doing. And they were a huge catalyst with our marketing approach and everything that we're doing right now.

Jon Andersen: Great. Thank you.

Jim King: All right. I'm back. Hopefully I don't freeze up again. Yeah. When the moderator loses his technology connection, it's bad. I'm going to move on Bill Chappell. Bill from Truist Securities, if you want to ask a question, go ahead.

Bill Chappell: Sure. Thanks, thanks again for the presentation. I thought it would be extremely helpful. I guess first question would be on M&A, just surprised a little bit on both sides, but particularly on the consumer. Can you maybe give us, you haven't talked about M&A for the US Consumer business in a long period of time. You've probably looked at every possible deal out there over the past 10 years and past with the exception of Bonnie and in the presentation, Bonnie already covers 42 states. So I'm just trying to understand where on the consumer side there would be a whole lot of M&A opportunity, which sounds fairly near term. And then on the Hawthorne side, same question. I mean, it seems like you built a pretty broad solution. You're filling up the holes with some of the, you know, the R&D center and the other areas. So why is there a need to reengage in the M&A market there as well?

Jim Hagedorn: Thanks, Bill. I'll start with live goods. That's pretty much the focus on the consumer side. So it's just building out the live goods footprint. We like it a lot. Mike has been a gigantic advocate and our partners at Alabama Farmers co-op

who co-own Bonnie with us are also enthusiastic in the live space value. I call it value-added live goods space. So we think there's opportunity there. Hawthorne, it's a bit of tale of two cities. I'd say, which is, I think there are Chris mentioned that I think project or product apps. You know, the modern Hawthorne as it is today really started with what we would call warlord meeting that. And most of them were not our warlords. They were just industry warlords where Chris and a couple of folks on his side got together with a lot of industry leading people and talked about what does it take to build kind of the perfect Hawthorne?

A lot of those businesses ended up being part of the Hawthorne portfolio, but it started with defining what were the sort of core business pillars we wanted to participate in. And there were a few that we were not participants in. So I call and sort of the words that we have used with you guys a lot, I would call within the Hawthorne business adjacencies, you know, there's a couple of adjacencies. I don't think ... They're not eye watering, so they're not frightening. And then I think we've talked about looking farther ahead, Bill, at how we could participate in more sort of consumable side of that industry over time. And I think looking a little bit like other people have, you know, maybe Constellation of how we can sort of start putting markers down in that space so that if the laws do change, we're in a position that allows us to sort of execute on options. That's kind of, I don't know. I don't know if I want to go much farther than that.

Chris Hagedorn: Yeah. Yeah, Bill, just building on what Jim said really as it relates to sort of core Hawthorne, M&A, we built a broad solution. It's not 100% complete. There are still some key product categories that we can fill in. And some really strong brands that exist in those categories that we don't control, and we'd like to. And these are brands that have been kind of on our list for the past five or six years. And just, you know, we went through a long M&A process. We integrated all those businesses and Sunlight into each other and then subsequently into Scott's, fall through 18. And we're kind of back feeling pretty good about where the business is at. And I think it's also worth noting that there is much more money to competitors, moneyed competitors out there who are potentially chasing these brands. And we kind of feel like if we want to go and get these brands, now it's kind of, we better do it before, you know, it becomes too competitive a situation.

Jim Hagedorn: And I want to put everything in sort of the context of, we, I think at the moment are not in a position where we have to sacrifice any things that we've said are important, which is support of the business, continued shareholder friendly actions and an M&A pipe. I think the larger size of the company, even if we're conservative, Bill, allows us to operate within the targeted leverage that we've said there. And I think, Cory, you're pretty comfortable with that. Yes? I mean, we definitely have opportunities that far exceed our capacity, but I think our view on most of these deals is that even a deal you have a handshake on, at best, has as a 50% chance of closure. So I think we have a long list that we're

sorting through that I'd think are opportunistic and exciting, but we are very cognizant of a conservative approach to our leverage. Cory-

Bill Chappell: And just to [inaudible 00:24:06] on that, it sounds like something you're looking at this fiscal year. You plan to be doing some M&A in the coming months. Is that fair?

Jim Hagedorn: If you run our numbers of how we ended last year, where we think we'll be this year conservatively, I think we have opportunities that can be completed in this fiscal year. And probably additional shareholder friendly actions that we would be completing at least within the calendar year anyway. Cory, anything you want to add?

Bill Chappell: Got it.

Cory Miller: No, I'd agree. As you look at the acquisitions that are out there, each acquisition is unique and the timeline around that acquisition can vary. But some we'd like to wrap up quickly, others might bleed into next fiscal year. And any action that we have returning cash to shareholders will be right at the end of the year, so give or take a month either way.

Bill Chappell: That's great. And then second one for me, Chris, can you talk a little bit about the retail landscape? I think it's very tough. I get a lot of questions from investors trying to understand goods. It's an unusual retail landscape of 1500 to 2000 commercial retailers around there that's being consolidated, that some of them have their own brands or favorite brands and what have you. Is the consolidation a risk to your business or an increased competition to your business? I know in the presentation you went to great lengths to say you were willing to partner with anyone and everyone, not trying to step on other's toes, but how about them stepping on your toes?

Jim Hagedorn: Well, I'll just take the beginning of it because it feels a little bit... I was having lunch with Bernie Marcus back in the day and Pat Farrah, and Bernie is like, "Who's your biggest competitor anyway?" And I said, "You are, dude." I think we've operated pretty well in that environment. So, I'm not sure this is probably much different than who's your biggest competitor.

Chris Hagedorn: Yeah. Obviously, there's GrowGen out there. There's some other people that are, I think, pursuing similar plays in terms of retail consolidation that are probably a year or two behind GrowGen. They got Bob Nardelli on their board of special advisors, so it's no shock that they're running the Depot play that involves private label. And they've been upfront with us, and I think the street about their intentions to go do a private label.

Jim Hagedorn: How's your business with them?

Chris Hagedorn: Our business with them is excellent. Their purchases with us are up. I know we see them as a strategic partner, and I believe and hope that they see us the same way. And I think our business with them reflects that. Ultimately, I think as they continue to consolidate and as barriers between us and the retailer come down, I think we're going to have continued conversations with our retailers about what role you should play in that environment.

Jim Hagedorn: Look, I guess I feel somewhat more benign about it and that is that I think as this industry matures, there'll be a maturity amongst the entire supply chain and retail environment. And I think there's a lot of room for everybody there. We can be a hostile company, especially when we feel threatened. I think we struggle with this one, but I do think if you look at it at as a point of view of has Depot been bad for us, I think the answer is definitely not. They have been a key partner in developing the lawn and garden business in this country. I think if everybody can maintain their cool and not go to guns immediately or the mattresses immediately, I think there's an opportunity to everybody find their niche in a way that's very constructive.

Jim Hagedorn: You like that [crosstalk 00:28:39]? That's as pretty close as I get dude.

Chris Hagedorn: That was excellent.

Jim King: All right. Thanks, Bill. We're going to go to Joe Altobello now actually, from Raymond James.

Joe Altobello: Great, thanks. Good afternoon, everybody. Appreciate it. So I guess my first question is all of you as consumer algorithm, you called it up today, I guess it was [inaudible 00:28:59] up two, now you're looking at two to 4% growth over the medium to longer term. You did mention the greater engagement in terms of millennials as a key driver of that. Are there other drivers that's causing you to bring up that number this [inaudible 00:29:13]?

Jim Hagedorn: Yes. I think, again, Mike and Josh can take it, Joe, but we started low. So to be fair, we tried to build on... And I think we've been clear about this for as long as we've known each other, so it's great seeing you. We generally have three sets of numbers we're operating with internally. One is setting street expectations. One is setting board expectations, which effectively means incentive targets. And third is Mike's numbers, which I think he calls them OPs or something, operating plans. I think Mike has his own OPs that he operates from.

Jim Hagedorn: I think that the call up here, we kind of had no choice on. In that the numbers were looking increasingly ridiculous if we didn't take some action on it. So we did what we had to. I wouldn't say we're trying to trick anybody, but we couldn't defend the numbers and that caused us to have to act on them. But we still have quite a bit of room between Mike's OP and what we're talking about here. And again, this is one of those things, remember the business we're in. We're not selling toothpaste here. We're selling lawn and garden products.

Jim Hagedorn: And look, POS has been fantastic so far this year, so that's a really good sign in those southern markets. April is not a particularly challenging month from a comparative point of view just because COVID really put a blanket on any retail last year in April. It's going to be May and beyond where the real... How are consumers reacting to some more freedom? That's the part we don't know. We're increasingly comfortable that the numbers at year-end can be good, and the POS numbers so far are making us feel pretty good about it. But we are very sensitive to what's happening at the street level with the consumer right now as COVID hopefully begins to wind down and people have the ability to get outside, away from just their homes.

Jim Hagedorn: Mike, anything you want to add on... Mike is a... He's a tough guy, but he's pretty positive about the business. I don't know, Mike, how-

Mike Lukemire: No, I think we'll know more in May and June. I mean, sitting here in April last year, only up 2%, and then the way it took off, it has continued. We did not have enough inventory, so part of what you were able to know about drivers is when you left a couple of hundred million dollars on the table as we said in state but catching that up and the consumer continues to buy. Early indications in March we thought that's when panic buying with plants really took place. We thought they'd be beat out in March. They were actually a little flat or a little bit up. I think they were up 5% in March. Now they're blowing April away, but it's the indicator that it's the stickiness of what we're seeing. And I think the advertising and all that's playing into that, but we are trying to make it a 365-day a year event. And that's where our advertising was going. That's the benefit of live goods, indoor and outdoor. Those are the types of activities we're looking at.

Jim Hagedorn: But we are seeing, Joe, a lot more retail inventory. Retailers don't want to be out of stock again. Much more promotion. Again, not probably at the level of '19 and before, but very much effective, I think, promotional plans to keep consumers engaged. Because remember, that's like 20 million consumers. It's not just new consumers to us. It was new consumers to retail that... Our people are homeowners and so it's a very valuable group to a lot of our retailers. So there's a lot of work to keep them in. And I think what Josh said, which is I can't predict the end but we're pretty much full bore right now.

Jim Hagedorn: Did you read about the Tiger Woods thing, about his crash?

Chris Hagedorn: I saw he was [inaudible 00:34:24].

Jim Hagedorn: They said that he had a 98% accelerator level. That's the level of the accelerator as he crashed, so he was floored. We're pretty much floored right now. And I to thank Mike and his operating team for not ending up in the woods.

Joe Altobello: Gotcha. I appreciate that.

Mike: Not yet.

Jim King: [inaudible 00:34:51] about what we're seeing with millennials or the longer-term growth algorithm?

Josh Peoples: Yeah. I was just going to say, I think this whole... Not just right now, Joe, and everybody's talking to this season, but just the stickiness of the category that we're seeing. I mean, we do a bi-weekly survey not just with millennials, but across the board and just the gateway that you see, even with succulents and other live goods, with even the earlier generations as well, it's really, really powerful. And I think the other piece too, the retailer engagement has been alluded to a few times, it's not just your typical home centers. I mean, if you've been into a Costco or a Tractor Supply or any mass retailers, they're using lawn and garden and live goods and plants and thus our categories as a gateway into all retail categories. And I think that's a piece that will not go away here in the short-term and consumers continue to respond super positively to the category. So I think that's where, at least in my seat, I continue to be bullish beyond just this season as well.

Joe Altobello: Got it. Thanks for that. Appreciate it. My second question is on pricing broadly. When you talk about getting some pricing in the fourth quarter this year, obviously commodity and transportation costs are moving higher. My bigger concern though is '22, because obviously you're not hedged to a great extent for next year. How do you see pricing playing out next year? And do you think you'll have that lever to pull enough to offset what might be a significant increase in commodities and transportation costs next year?

Jim Hagedorn: Yes. I don't want to be real specific, but we're talking at least mid-single digit pricing later in this year. A lot of those retail partners, we are either have had that discussion or are in the discussion. But this is one where we're not being greedy, this is a matter of covering costs. And as an American, I understand that people don't have stuff. One way to deal with excessive demand is to price for it. But I do think that at least if our business is a barometer, there's a lot of pricing pressure out there on our raw materials.

Jim Hagedorn: Bill was asking a question on M&A. One of the things we're looking at is our own raw materials. So some of the raw materials we have, Joe, we're the biggest user in the world at some of our ROS, coco coir, coconut husks, Pete, things like that. There's a lot of pricing pressure out there. We are not going to be on the wrong side of it, that I can guarantee you. But I'm not sure it's great for America. And we are deeply in discussions or have concluded discussions on that with our retailers. But I don't think it's a matter if retailers are watching this, I'm sure they are. This is not a matter of be unhappy with us. This is just a matter of freight, plastics, urea, some of the basics in nutrients are just off the charts and we're going to have to price for that.

Jim Hagedorn: Mike, anything you want to add on it?

Mike Lukemire: One of the biggest obstacles now is capacity, and so you're fighting for capacity. And so getting out ahead of that and buying any part of our inventory plans and stuff is to ensure that you have the supply. But we're sharing that data with our retail partners and so we're trying to do the right thing to drive the business. So, yeah. But Jim's right, the target... We've already had conversations. I think we're going to work through that very well.

Joe Altobello: Okay. Thank you, guys.

Jim King: All right. Eric Bosshard, Cleveland Research. You are up next, sir.

Eric Bosshard: Thanks. First of all, a question for Chris on market share. I'm interested in two things. And I know that you don't have real market share numbers, but you have salespeople in the field, they have a sense of what's going on. The first thing is, your share in California relative to other states, is it similar? Is it notably better or different between those two buckets?

Chris Hagedorn: I would say our share in what I would consider the large legacy states, which is Colorado and the entire West coast, is probably higher than it is on average. Dan went through, and Jeff [inaudible 00:39:54], you went through our key states and the business that we do in them. And you know our business is pretty concentrated in a top 10 list of states. We've got extremely strong share in those states. There are parts of East coast that we have a little bit less share in. Some of our competitors like Hydro Farm, I think, were earlier to those states and this is really prior to [inaudible 00:40:15] acquisition for us. So again, like you said, we don't have a real fine gauge of what those share numbers are, but if you look at our growth and you look at the growth of some of our competitors and retailers who now public and reporting their numbers as well, and I think we feel pretty good about the share we have and share gains that we've gotten over the past couple of years.

Jim Hagedorn: Well, maybe put it differently because I thought it was a good answer by the way.

Chris Hagedorn: Thanks.

Jim Hagedorn: But we've actually talked about this quite a bit. How important is your East coast business? But when I say East, meaning let's just say East of the Rockies, East of the Mississippi, I don't know what you want to use.

Chris Hagedorn: Look, when I think East coast or East of the known world as it relates to this business, with the exception really of Michigan, the Tri-state area is going to be unbelievable for us. We talked about this during the presentation as well and Brian talked about it during the government relations stuff. And this is something we've talked about for years, this New Jersey will be a tripwire for the entire East coast. We're already seeing it. I mean, how long was it after New Jersey announced their recreational before New York followed suit? Obviously,



Cuomo has got other things that he's trying to play sleight of hand with, but I think the movement there was no coincidence.

Chris Hagedorn: And you combine the Tri-state New York, Pennsylvania, and New Jersey, you're talking more consumers. And the research we've seen says higher per capita consumers of cannabis than they are in California. And that'll cause some of the businesses to shift out of California. The legacy business that we see in California that is not going through the current legal markets there. Our belief, and we feel pretty confident in this, is that a lot of that is to supply the illicit markets in the Northeast that will soon have their own legal domestic supply. So I think we'll see some rebalancing geographically.

Eric Bosshard: So the second piece of this. What I guess I'm trying to figure out is there are jump balls, states open up and licenses happen and guys open facilities. Your share position within that. And what I'm trying to figure out is, is there a reason why you have a competitive advantage or disadvantage in the legacy states relative to these jump ball states? Or if there's anything different you're doing to strengthen your position in winning these jump balls, as these states come online and people are investing to put in place their capacity?

Chris Hagedorn: Yeah, absolutely. We're doing a lot of work in these new markets, your jump ball states, to give ourselves that advantage and win those states, win those customers over. And that's deploying our technical sales team. Now these are guys who can work with growers from before they break ground all the way through construction of their facility to hand hold that whole process. And then just having material and supply on the ground in these states, which is getting a distribution network. The size that we have is a challenging, expensive thing to do and it takes a lot of money and time and expertise.

Chris Hagedorn: And Dan talked about building out a new DC in Jersey and that is all with the intent of saying we typically see, and we've told you guys this before on calls, 12, 18-month lag from when a state will pass the law 'till we start seeing a significant increase in business. So we got a facility that's standing up in Jersey right now, as we speak, because we anticipate that business is probably 12 months out and we want to be ready with a bunch of inventory and a bunch of salespeople on the ground. We're hiring people in New York as well.

Jim Hagedorn: A question that I would throw at you, which a little bit of a... I'm not sure what the answer is going to be.

Chris Hagedorn: Okay.

Jim Hagedorn: I think what you're saying is a lot of very successful legacy growers in the United States are looking themselves at the East coast. So I think how the permits are, the call it freedom to operate for a lot of the... I think if you look at Florida as a pretty good example, I think you're seeing a bunch of those permits being

purchased by a lot of left coast legacy people who have a lot of experience using our products. And I think you're likely to see that continue. I don't know where.

Chris Hagedorn: Yeah. For these guys who are coming out of pretty established markets, have been doing their thing for a long time and who've come to trust our brands there, you really got to kind of upset people for them to switch in this industry. Or present them with really exceptional innovation, which is something obviously we endeavor to do. But we do expect as some of our longer-term growers, consumers of our products and brands do move into new states, which is something we're seeing every day as guys raise capital and pursue permits in new markets, that that customership comes along with them to those new areas.

Eric Bosshard: Okay. And then-

Jim Hagedorn: Wait, let me just ask it a bit more directly. Are you concerned about it?

Chris Hagedorn: About our ability to win in new markets?

Jim Hagedorn: Yeah.

Chris Hagedorn: No, I'm not. I'm confident in our ability to win new markets.

Eric Bosshard: Okay. Second question, Jim, for you. On the consumer business, for years, probably a decade, you've tried to gain share with the half of people who don't care about their lawn or their garden. The performance has shown it to be a mature business. And today it sounds like you're saying, I guess, based on the experience of the last year, that's no longer the case. This is now a business that can grow two to 4% going forward. I either would ask you like, really? Or why do you think it now would be something different?

Jim Hagedorn: I could be an asshole, dude. Look, fair enough. It's a reasonable question. There was a period, call it five years ago where we would have looked and said, "People are going to want condos and they're going to live on the beltways." There's a lot of shit in the press about that. There was. I had this conversation with Craig Menear at Depot and he basically schooled me. This was a while ago. This is three years ago maybe, where he said, "Dude, I don't think anybody has better data on home ownership than we do. When kids get married and have kids, they want houses and that's what our data is showing." I would tell you now I shrugged at that initially. We don't view that as a joke anymore. I think we are actually believers that we brought a lot of demographers in, highly people would be considered expert and they're like, "Dude, we want to be in your business. You just have a huge group of young people like him and his younger brother who when they grow up and they both have kids and are married, they want homes."

Jim Hagedorn: That's what we're seeing. Mike, I'm not sure ever believed in zero to two to begin with, to be fair to Mike. Mike always believed we had more opportunity. It was just that every time we forecasted more, we'd end up at zero to two and we'd get beat up by the street. I think, fair enough, but Mike's always view was if we do this business better and the demographics are better for us, we can do better than that. So I think Mike would have said two to four was the number to begin with, and there's no magic to two to four. I just added 200 basis points to what we were saying before, which was, call it 1%. We're now saying three, but there is no magic to that. I just think that it's a number we actually really believe in that and so do our retail partners, so do our... If you talk to Patty on the direct side, we believe in these numbers. I think Mike would still say I think the numbers are bigger than that.

Jim Hagedorn: We're just trying to say if we can add 200 basis points to where we... So the answer is really, and I'd say we're big believers in it. It starts with the demographics of as people age in this country and their desire to actually garden at a rate that our data shows higher than their parents. Mike, you want to add anything? Because again, I'm making him out to be the nice guy who always has some big numbers.

Mike Lukemire: No, no, no. I think our innovation, I think COVID has been a catalyst. I think we begin to see it as we started more solution selling. The tie with live goods is about that solution and that passion. Talking about year around, we really were under indexing and indoor. The purchase of AeroGarden and that activity and how we build off of that what we're trying to do with Greendigs, we left a lot on the table. So we were a season and done, and I think the different channels we're selling through now, I think that's all. We were the leading in the category and we weren't innovating enough, and we weren't reaching all our consumers and the possibility to get there. I think we're in a much better position now to take advantage of that. But the data was there with a demographer saying people are going to eventually buy homes, like Jim talked about. I'm even bigger believer now that that was right, and it probably moved us ahead three or four years where we thought we'd be.

Jim Hagedorn: Well, Eric, just a couple of points on this. Number one, Luke was, and I think he said this on calls. If he had a dollar for activation or a dollar for discount and promotion on a Black Friday, he would have taken that dollar on promotion, not in activation. That has really changed. So that, I think says a lot because you've known Mike a long time. The other thing is I don't want to predict every single year. We clearly have outrun our capacity to make stuff, and that really... We talked about that CapEx budget of where we think we need to be at least in the short term, which is we need to build some capacity. But as we've budgeted that out, we have not tried to get real crazy about what happens next year, call it 2022. Is there a correction there? What we built out I think for our... So we believe in that growth rate. If you take the next five years, I would say that zero to two plus 200 basis points is what we believe in.

Jim Hagedorn: For our capacity purposes, we're throwing flat in there to say maybe... I don't listen. I don't even... Actually, I have no idea if there's going to be any decline when people get out. It's one of those things where it doesn't hurt to build that into our math. It doesn't screw us up. So I think if you saying really you're just going to keep adding on, I think we're trying to build financials for the future, particularly around our capacity that assumes some modest correction and then growing back again. We just haven't really... We're not formal enough in that to have that conversation with you guys yet, but on the capacity size, with plant capacity, we're building that in. So I think that helps with a little bit that really is... I don't think we're being unrealistic.

Eric Bosshard: Okay. That makes sense. Thank you.

Jim King: All right. Thanks Eric. Jim, we've got a handful of questions from folks online. So let me address one of them which is really more focused on the Hawthorne business and the go-to market strategy in the future assuming that there's some change in federal law. Do we see a scenario in which we would be doing, or we don't do direct selling to cultivators today where we might be doing direct selling to cultivators in the future?

Chris Hagedorn: Yeah. We talked about this a little bit on one of the prior questions and I think the answer is you anticipate that there would be some portion of our sales would go directly to the cultivator in a federally legal landscape. Again, it's not going to be all of our sales. We haven't designed our supply chain to handle last mile distribution to every cultivator out there. There are a few key accounts that we have close relationships with who are large, pretty sophisticated operations that I would anticipate taking direct, but it's hard for me to put a number on what that portion of commercial business would be at this point. It's something as we continue to work with our retailers, I think we'll understand what the future looks like.

Jim Hagedorn: But we do have more direct relationships with some of our commercial cultivators. We operate through these qualified resellers. So it's a little bit of a weird dance we do to sell. So we're already doing that. We do it through a third party just to be respectful of our compliance requirements.

Jim King: Let's jump back to analysts. Jeff Zekauskas at JP Morgan.

Jeffrey Zekauskas: Thanks very much. But not to be crazy about fiscal 2022, but can you talk about the puts and takes to either volume, growth or volume contraction? How do you philosophically think about 2022 relative to fiscal 2021 in the consumer business?

Jim Hagedorn: This will sound the most unprofessional, probably everything we've talked about it. I think this is... You'll see other consumer peoples for talking the numbers down pretty hard, I think probably in 2021. We're not seeing that. I'm not sure we expect that. I think we're probably big believers at the higher end of our

range on POS, more toward Mike's operating plan. So I think that drives us to say, "Well, maybe that means 2022 is going to be a year of contraction as people have more freedom." Jeff, I just don't know that we know that. I think that what I just said to Eric is how we're factoring it. I think we're using a lower growth number, so call it instead of 1%, we're using 3% and we're calling that over a long term. When I say long-term, meaning call it five years out. We're saying that, which is two to four on the consumer side unit volume growth. That I think we wouldn't be surprised if there was some modest contraction. But beyond that, Mike, I don't know if you have any your own ideas on that.

Jim Hagedorn: I'm not sure we actually really believe that... We'll have a much more coherent conversation about that once we get past Memorial Day. Because if you look at our business last year, we just had a tremendous business beyond April. So I think that once Memorial Day happens, we'll have a real view of how the consumer is doing, but it's not catastrophic for us. We're very confident in the demographics of the space or attractiveness of the category, but I would say if you know the answer, I would say tell me, but we're trying to be reasonable and not overcook things, because I would say to you right now, we are operating our guns full out and they're white hot. I will throw credit to our manufacturing and supply chain people because, Jeff, they're tired. I mean, we've been operating... I thought if you look at our inventory levels, you'll see, I think when the quarter is over our...

Jim Hagedorn: I don't know if we break it out best way Cory can say, but the consumer business, we really haven't built up any inventory at all. It's all gone out to the field. POS is good, retailers are ordering, and I think that's Memorial Day beyond this one, everybody's going to really start to figure it out. But I would say this, it's a big question mark and we're not assuming anything. Mike, anything you'd add on that?

Mike Lukemire: Now, I think we're tracking the stickiness. So the example I used on Bonnie for March, we're seeing that was positive and I think we're going to track what happens in May. All indicators on April, April looks really strong, but what happens in May and June, that'll actually determine where we're at. We argued all last year on how the forecast and the forecast right now to tell you what 2022 looks like, we're looking for the stickiness. Early indicator is good, but I've been in this business long enough to know that you got to get through end of May and early June [crosstalk 00:58:50].

Jim Hagedorn: Jeff, a lot of what we're doing right now, I mean, we are definitely dealing with capacity problems right now and this goes back to we built our manufacturing base for effectively zero to two. If you look over the last three years, the businesses, I don't know, the consumer business plus 35, something like that. Mike has just been working like crazy. He's reorganized a lot of his most talented people to get in there and start working on it. I know we're making a lot of progress. We're not looking at crazy numbers going forward. I think that again, we're trying to use shorthand and I think it's the bigger issue for us right

now, is not so much the volume side, because I'm actually very confident in 3%. That, I don't think is actually challenging for us. I think the more challenging part is that we got to catch up to where we were.

Jim Hagedorn: When I made the comments that we're probably at a customer supply place that was as bad as we were 20 years ago, we could get away with it because everybody's stopped last year, but even for us to be where we are and go forward with build in zero growth, which again, view that as shorthand for goes down and then comes back up. There's no magic to that. We just made that up too, but it sounded reasonable to us. We're running the business for right now. We think our biggest constraint right now is capacity and we're just trying to be able to build the business we have right now. If a lot of people put pressure on me to say, "What do you think about next year and beyond?" I would say, "We're just trying to run the business right now, get through this year. It's a little bit like last year." It's probably not the greatest answer for you, but it's honest. I can tell you that.

Jeffrey Zekauskas: Okay. So if I could try to follow up maybe for Chris. When you think about yield changes in cannabis, and you think about price changes in the sell price of cannabis products, do any of those dynamics present either an opportunity or a threat to your long-term growth rate?

Chris Hagedorn: Yeah. I think maybe it presents a threat to our margin rate, if we see significant commoditization of the price of cannabis to consumers. We have seen just as an aside, we've seen that the price of cannabis to consumers has been a pretty good leading-edge barometer of how our industry's performance will be in new states. Back in 2018, we did see a dramatic over supply of cannabis in States like Washington and Oregon that drove down the consumer prices and we saw our business fall off in line with that. So we do see that. Look, I would say it's incumbent upon the industry and us, as members of it and I hope leaders within the industry to make sure that that commoditization doesn't happen, at least not in a runaway way.

Chris Hagedorn: When you think of this industry, we had a lot of board members before we got into the hydroponics industry before we did the GHD and all the subsequent ones saying, "Why should we get into this? It's going to be let us in the future." I think shame on us and the entire cannabis industry to allow that to happen. I think it is and should be a lot more like wine and wine grapes. We're able to maintain a pretty elevated price of that product or that crop. But yes, if there were significant disruptions to the price of cannabis or erosion of the price of cannabis, I do think it would have an effect on our business, and it's something we watch pretty closely.

Jim Hagedorn: But I think if you look at Florida, over the next years, do you think there's a move toward commoditization or toward more quality?

Chris Hagedorn: I would say in a state like Florida-

Jim Hagedorn: It's a lot of outdoor grown, right?

Chris Hagedorn: It's a lot of outdoor grown. It's a relatively captive markets on a very limited number of licenses in that state. So consumers haven't had a great deal of choice or variety in the legal cannabis that's been available to them. That's something's going to change over the next year. I think you'll see the introduction of higher price, significantly higher quality brands entering that space in terms of their inequality.

Jim Hagedorn: Indoor.

Chris Hagedorn: Yes. All indoor and that I think will drive those prices back up. The prices in Florida aren't bad, but it is an important robber for us, for sure.

Jim Hagedorn: Colorado is probably the longest legal market.

Chris Hagedorn: Colorado is I think the most mature legal market.

Jim Hagedorn: But it hasn't gone commodity, has it?

Chris Hagedorn: No, no. They've done a good job maintaining it retailers. I'm talking about cannabis retailers, dispensaries understand that they have a role to play in maintaining that price as well. I think that we've reached a good mature state in certain states, and we're just going to have to encourage to dissent that we can through government relations and other work to make sure that new states roll out in rational ways.

Jim Hagedorn: I'd also say that of all what I would view as highly professional growers we've talked to, that I've participated in, they're growing as much as they can grow right now. So that the demand is exceeding. Even in very long legacy states, people are growing to capacity right now.

Chris Hagedorn: Yeah, and we're seeing significant new build outs in those markets as well. Jeff, I don't know if that answers your question.

Jeffrey Zekauskas: It does. Thank you very much.

Jim King: Thanks, Jeff. Alex Maroccia from Berenberg Capital Markets, you're up.

Alex Maroccia: I'm here. Great. Thanks. I want to start with one related to the wholesale and retail relationship for Hawthorne. Given the current method of selling these products to the end-user, I assume there's some larger growers that have a couple of different durable and consumable brands that they're working with versus just using Hawthorne's exclusive or distributed brands. So do you guys have any visibility into the proportion of growers that do not solely purchase Hawthorne's brands? Then how do you work with retailers to improve that usage rate among the growers?

Chris Hagedorn: There's a lot of opaqueness in this industry. It's part and parcel of the type of guys that we're working with on the grower side. I think it's relatively rare and I hope this doesn't make us sound bad because I think we're a great business with a lot of great brands. This goes back to the M&A question we had earlier in terms of how many product gaps we're filling. We still have gaps. There are things that we don't sell, things with brands we don't own, product lines we're not in the growers need. So I think it's the rare grower that is running 100% Hawthorne gear. Frankly, I'm not sure that's a super realistic goal for us to set is that people will only use our products from top to bottom. The reality is there's certain product lines and categories that we don't want to be in or certain things that just are too specialized and we know will never be better than the competition.

Jim Hagedorn: But one thing we do know, if somebody is operating with a lot of lights, whether they're ours or not, especially if they're not ours, are we in their pitch pitching our shit?

Chris Hagedorn: We're definitely in there. Look, that's one thing that we do work with our retailers and certainly with cultivators' owners. We have the ability to leverage a pretty broad product line to sell our stuff in. So if we need to promote one skew, if we need to promote our lights to sell in our nutrients or promote our nutrients to sell in quest dehumidifiers or something that we have the ability to do that I think much, much better than anyone that we compete with. We put a lot of thought into that internally and in working work with our retail partners to make sure that we've got the most attractive [crosstalk 01:07:16].

Jim Hagedorn: Well, if you ask a different question, which is where do you think you are in the journey of essentiality? Because you weren't there when we started out. We were just a bunch of businesses. The question is if you built your credibility and how far along that path are you to being the partner, the vendor you want to be?

Chris Hagedorn: We're well down the path. I'd say we're more than 50% there. I don't know if we're 75% there. We've got brands and products we need to bring into the fold. We've talked about this. Our service levels were not acceptable at least to our internal standards for the past year, and that was running supply chain a lot more complicated under COVID and demand went up pretty dramatically and we've done our best to juggle. I think we've done as well as anybody in the space or better than anybody, but it's still, again, it's not the standards we hold ourselves to. So we need to get better there. We need to offer some more stuff. We still have capabilities we're developing. SAP has been online for a couple of years now, Salesforce, a much shorter period of time. We're learning more out our business, more about our customers. We have better visibility to the nuts and bolts, the real details of our business than we used to have. But it'll take us some time to really put that information together and crunch it in a way that we can apply to our customers.



Alex Maroccia: Got it. That's helpful. Then my second one pertains to buying and the expansion in live goods. What do you view as the most important factor for winning market share in the live goods category? Then how are you assessing transaction synergies within live goods deal? The current pipeline you've got?

Jim Hagedorn: Well, I'm not quite sure I understand the synergy part. I think the Bonnie business is a really unique business, and a lot of this credit goes to the folks at Alabama Farmers Co-op who built that business. It's a unique selling model. They go in there with a truck, they service on the spot. Your driver is effectively a CEO of that location. And they're dealing with how things look and how it's set up. And you got the brand of Bonnie. I think I've taken you guys through the revelation I had when I was... I do shopping trips before we had COVID, where I'll go out with associates. When you go out with a bunch of women associates to a home center, and you've got just stuff everywhere. They get out to the live goods, herbs and veggies, and they shop it like they're shopping something they care about.

Jim Hagedorn: And I think the brand matters. I think the experience of buying something that is this tomato or that pepper, and they're thinking about their family and their garden. And you don't see other lawn and garden products when you shop like that. And I think Bonnie deserves credit for... So I'd start with, that's probably the most important thing is consumer engagement with herbs and veggies, what you can call a non-commodity branded, that have a pretty unique selling model. We've had retailers try to see if competitors could do it, and I think they've all come back big time. Because I think the model is really powerful. We think we can expand that in other value-added live goods. And that's primarily where we're at. I use the word, why do people go to a place where they can buy lawn and garden products on a weekend?

Jim Hagedorn: It's not because they want to buy a bug spray, because they're gardeners. And that gardening, we think... Look, this was a challenge with Randy, to be fair. The margins are a lot better than they were, but they're below the corporate standard. And that, I think, made Randy scratch his head. Mike and I, and I'm going to say the entire management team and the board of directors, felt differently. Which is that if we're going to really be a gardening company, live goods, where you can make money on it and you don't overpay, is important. We definitely see cross-selling opportunities, and that is productive for us.

Jim Hagedorn: So there's no issue there, we could take you through anytime you want. When we cross-promote, it's good for both the live goods and sundry products that go along with it. But Mike is probably the biggest seller of this. We were out looking at a M&A opportunity a couple years ago, and Randy and I were scratching our head. And Mike was just super pissed off that we were not as enthusiastic as he was on the opportunity. And Mike, why is live goods important to you?

Mike Lukemire: Well, from my field experience, we could have the best set store, and the store doesn't come alive until there's color in the store, or the plants is the reason to do things. So now how do you take advantage of that with the genetics? How do you cross-sell it? Just take a raised bed garden, for example. Imagine you're going in, you're looking for your various plants. But if you could plan it and say it's the right size, so it doesn't overgrow, you don't have things falling over. Can you be more successful? Can you put in complimentary plants to reduce insects? I think Josh talked about that in his presentation. All of that is about that gardener solution. And we love that gardener, and we want to own that relationship with that gardener and sell products and that experience. And that's where the growth will come in. Versus just selling a product and advertising at one-off, that's the tie-in. And so...

Jim Hagedorn: I don't know if that answered your question.

Alex Maroccia: Yeah, no, that does. It's just the synergies part was more, when you look at a deal, what are typically the synergies for live goods deals?

Jim Hagedorn: Well, I'd start with, you just have to look at Bonnie. It is a very violent business. And it's scientifically a lot more complicated, because if it's a little cold for a couple weeks and you got to hold plants over in the greenhouse because the retailers don't want them yet. And you've got to keep everything alive, and you got to shrink... So Sutterer going in there has done a lot of good things with shrink, which was probably the single biggest weakness, I think, of Bonnie was pretty excessive shrink. That if you could reduce it, it's really beneficial. I think that Mike and the team that are working closest with Bonnie are very much in favor of working with Bonnie on the operations of the plant growing side.

Jim Hagedorn: On our side, the sales and marketing... So start with immediately having Sutterer there, who was one of our guys who was hired independently of us, but Mike and I supported his move. It was a good move for him, and he's been good for the business. But the idea of, it's a little bit like what Chris was talking about. Which is, what are the benefits of being part of Scotts? There's just so much stuff he doesn't have to do. So to rely on Scotts marketing and Scotts sales, with their ability to operate. And I'm going to say, what they view that is very much shared with the Alabama Farmers Co-op and us, of let's do more. Meaning, to some extent, a little bit capital freer in regard to building out capacity.

Jim Hagedorn: I think it's a very beneficial relationship between Scotts and Alabama Farmers Co-op and Sutterer and the team there are very much energized. So there's a ton of synergy there. Hopefully I'm saying it right, but it fits together. I don't know, what was it that Forrest Gump says? Like...

Chris Hagedorn: Peas and carrots [crosstalk 01:16:15]-

Jim Hagedorn: Peas, yeah whatever. Really good.

Jim Hagedorn: Peas and carrots.

Jim Hagedorn: [crosstalk 01:16:21] Perfect, thank you.

Jim King: Jim, two quick questions that came in online, and then we'll wrap up here. First one came in from one of our analysts just a few minutes ago, related to... Chris this is probably more directed for you and your team. Just the competitive landscape in the lighting industry. There was some thought at one point that some of the bigger lighting brands would come in and compete directly in the space, and of what's actually transpired there. And where do our brands sit right now from a competitive perspective as really specifically to the lighting category?

Chris Hagedorn: Yeah. I'll tell a little bit of a story here. I don't know if we've gotten into this on earnings calls before, but I'm lucky enough to be able to work with Mike Porter up at Harvard Business School as a strategic advisor to the business, and a board member to Hawthorne. And we're up at HBS talking with Mike, this was probably four years ago at this point. And the lighting business was challenged, as was the rest of the business. And he said, "Are you guys going to be innovators here, or are you going to be fast following Phillips and Osram and the like?" And at the time we didn't have the same line of sight to the innovation that we've been able to create for the past few years and been successful doing. We said, "Yeah, we might be kind of following those guys, but we got a good brand in the space and we have a good relationship with the growers. And we think that'll be enough."

Chris Hagedorn: And he was like, "Look, sell that business to one of the big guys before it loses value." Now, Mike Lukemire happened to be in the laboratory at the time, he came back in and it was like, "Mike, Porter suggested we sell the lighting business." Obviously, we didn't do. I came back and was talking to Jim. He said, "Well, how was it?" And I was like, "Oh, Porter thinks we should sell the lighting business." And Jim disagreed. You guys, who've covered the business for a while, know that Jim has a particular way with words, can be pretty colorful. And he told me very, very forcefully he disagreed with that. Now we didn't sell the business and we tripled down on-

Jim Hagedorn: What did we say we had to do?

Chris Hagedorn: Become leaders, become innovators in the space. And what we've done since then, I mean, Paula mentioned it was Gavita 1700 is the single biggest new product launch. Not in Hawthorne history, but the entire Scotts Miracle [inaudible 01:18:37] history. And then we've innovated on that fixture and other fixtures in the LED line. As far as large scale, the big dogs, Signify, Osram and the like, they haven't entered the way that we thought they would. Osram did dip their toes in the water, they acquired a nice LED lighting brand called Fluence. But I think anyone who's tracked that investment has seen that... And it's not

like Fluence is what did it, but Osram is a business that was pretty challenged. They did that deal, I don't think it went super great for them.

Chris Hagedorn: They subsequently were acquired by a European private equity shop who is in the process of, I think, divesting certain piece of that business. Signify is someone we buy almost \$100 million worth of components from every year. [crosstalk 01:19:23]-

Jim Hagedorn: Look, actually just get to the point on this.

Chris Hagedorn: Okay.

Jim Hagedorn: So the answer was, we've got to be a serious player in high-value, indoor grown lighting, particularly on LEDs. I am really proud of what Hawthorne has done. We do these R&D field days where we have a major committee on our board called innovation. And it's a very well-run and challenging committee, as far as being involved in what we're up to. And we've started making trips out to some of the research stations that are part of Chris's business. And it is so impressive when you have these field days. We tend to sit in our business, it's a little bit like... I think this venue we use today, somebody said it's like going on a trip with you guys. That was how we designed it. And Jim and his team did a fantastic job, I think, actually putting it together. But when you get out in the realm and you actually see the basic research, and I mean it, basic research that's happening on horticultural lighting, particular LEDs at Hawthorne, it is incredibly impressive.

Jim Hagedorn: And I would say Hawthorne is not a little kid anymore that's dependent on somebody else's parts. They have deep relationships with partners on the technology side. And the market share, I think, reflects the innovation in the space. And they are just getting going.

Chris Hagedorn: Yeah. And one thing that I want to talk about, and I know we talked about it a bit in the video, or videos I should say. But the new light that we just launched the Gavita 1930 compact LED top light, that is a really incredible accomplishment. I'm not saying this to pound my chest, I'm really saying it to pound the chest of the R&D teams. Those are the guys, Carl [inaudible 01:21:51] and [crosstalk 01:21:51]-

Jim Hagedorn: And your manufacturing partners.

Chris Hagedorn: Yeah. And we've got some fantastic third parties that help us. That are what we would call force multipliers for our business. So that's a piece of technology that is completely unique in the marketplace, in the world. It's protected. We got a number of patents on various elements of that design. It's the only thing like it in the world. And we are starting to see really incredible traction. When you look at the sales curve on launch of that product, it's mirroring the 1700. I mean, spooky closely. And if that fixture performs like a 1700 will, we are going to have

ourselves a lighting business that's well in excess of half a billion... Just an LED lighting business that's North of a half a billion dollars. So we're feeling good about where we're at in our ability to compete with, frankly, any business out there.

Jim King: All right, one more. This is more of a US consumer question to wrap up, and it ties back to the issue of millennials and marketing to millennials. What are we saying in terms of their mindset around "eco-friendliness" and our portfolio? And then, how do we square their mindset around those issues with the controls portfolio, and specifically products like Roundup that have been obviously in the news over the last couple of years?

Jim Hagedorn: Well that's a hell of a way to end. First of all, we sell to the consumers and we design products for consumers. Our performance organics, Miracle-Gro soil products and fertilizer products... My father, well he probably would have hit me if I had said I could design an organic product that works as well as Miracle-Gro or better. We've done that, at a reasonable price. And so I think the R&D we're doing where we want to innovate, we can innovate in natural and organic products where we have the quality and the pricing is fair. And consumers want that stuff. There's always been a lag between people saying, I have a cockroach and I want a nuclear product, or I want a soft product to use around my kids. I think a lot of people, when it comes to fire ant and cockroaches, default to out of my house, please. Now.

Jim Hagedorn: So I think there is a lag there. As the whole Roundup catastrophe unfolded, I'm sure I'm making my lawyers uncomfortable, maybe Bayer. But we, and my family, so my management team, the family, the board has asked for a lot of independence looking at how comfortable we sell in that product. And I would say, and remember I don't have a board that's devoid of technical people. I have past administrator of USEPA, who is not a political person, he was a career scientist promoted to head the EPA. And so we're getting good advice internally and externally, toxicology, the whole thing. We continue to be comfortable selling that product.

Jim Hagedorn: We also launched an entire line of our own that had alternative chemistry, a lot of that natural product. And that product does well, is doing well also. But I think that the people to be... First, we will not sell a product that we don't think is safe. Start with that. Second, we sell products to consumers. And if they want something, we're going to make it for them and not make them leave our company for that. But we have not seen bad sales data from Roundup throughout the travails that Bayer and Monsanto have dealt with, with that product line. So it continues to perform. And our alternative chemistry products under the Ortho brand name continue to perform very well. I don't know, Jim, do you think that answers the question?

Jim King: Yeah, I think it does Jim. And I think we've seen really good results with consumers from both brands, and we'll continue to. I think it's really been an

issue of consumer choice, and I think we've got all fronts covered. Jim, I think just in the interest of everybody's time, I think we can wrap up. We've taken all the Q&A that was from our analyst community here. Any finishing comments you want to have before I [crosstalk 01:27:08] communications?

Jim Hagedorn: When Jim came to me and said, "What do you think about a virtual investor event?" This is a few months ago. And we decided to do it. Mike, I think, was freaking out because he's got a heck of a business he's running right now. So he just wasn't quite sure he wanted to support the work that would go into this. It became clear a little bit like a R&D field day that we could take you guys on a trip that we could never do if we were just sitting in some hotel room talking about the business. As I said, I want to be very complimentary of Jim and the team, because taking the concept of let's take them around. Let's take them on a trip, which is what I told Jim, that would take two weeks to do. And give them a real feel for why we feel the way we do about the business.

Jim Hagedorn: Jim, I think you achieved it. And I think your technology partners were also helpful getting this thing out over the air, but a lot of work went into it. Listen, I hope nobody feels worse about the company than when we started. But we really feel super lucky to have an opportunity to run a business like we're running. And it's really exciting. We're hiring a lot of people right now. And let me tell you something about that. Lots of incredibly qualified people want to work for us. So it's a tight labor market. People think Scotts is a pretty cool company, and so do we. I think that's all, Jim.

Jim King: I appreciate the kind words, Jim. And since I have the opportunity, let me just quickly shout out to folks on my team, Tom Rees, Tom Matthews, Dianna Caspary, Paxton Hood, Jonathan Wade. Those guys have been locked down in a conference room for the last two weeks working 15, 16-hour days putting this together, so the congratulations goes to them. I'm proud of their work. In terms of reaching back out to the investment community guys, we will be announcing our Q2 results on May 3rd... On May 5th, rather. And as we have historically done, and you could probably expect us to give you more of a real-time update on the business, especially the US Consumer business from a POS perspective at that time.

Jim King: In the meantime, if anybody has any follow-up questions from today, feel free to reach out directly to me, my direct number here is (937) 578-5622. If you don't get me, you'll get Heather, and I'll get back to you as soon as I can. Otherwise, I hope you guys have found this to be a useful day and that you've learned something more about the company. And I appreciate your support and look forward to talking to you again in the future. So we'll disconnect at this point. Thanks.