ScottsMiracle-Gro Reduces Outlook for Sales and Non-GAAP Adjusted EPS Despite Strong Recovery in Consumer Lawn & Garden Participation

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MARYSVILLE, Ohio, June 08, 2022 (GLOBE NEWSWIRE) -- The Scotts Miracle-Gro Company (NYSE: SMG), the world's leading marketer of branded consumer lawn and garden as well as indoor and hydroponic growing products, said consumer purchases of its core lawn and garden brands surged in May with unit volume now trending towards the Company's original assumptions for the season. However, a variety of factors prompted the Company to lower its outlook for both sales and adjusted earnings for fiscal 2022.

Consumer purchases at the Company's largest retail partners were at near-record levels in May, resulting in year-to-date POS that is approximately 6 percent lower in dollars and 9 percent lower in units than a year ago. The year-over-year decline at the end of May was half of what it had been entering the month due to strong results in all major markets in the Midwest and Northeast.

"The recent improvement in consumer engagement has POS units trending toward our initial expectations and we expect further gains as the year continues," said Jim Hagedorn, chairman and chief executive officer. "POS dollars, however, will likely fall short of our initial assumption of flat from 2021 levels due primarily to above average declines in lawn fertilizer and grass seed, which command higher prices and margins but also tend to be more susceptible to poor spring weather. While there remains enough time in the year to see continued improvement in our controls and gardening categories, that is not likely to be the case with most of the products in our lawn care portfolio.

"Also, while it is encouraging that consumers have demonstrated lawn and garden activity remains an important part of their lifestyle, we did not see the replenishment orders we expected from our retailer partners since mid-May. In fact, retailer orders were more than $300 million below our plans for the month in the U.S. Consumer segment alone. This surprising trend has put significantly greater pressure on our fixed cost structure that, when coupled with the commodity cost increases we have experienced since the start of the war in Ukraine, will cause us to fall well short of the revised financial targets we established in March."

Adjusted earnings per share are now expected in a range of $4.50 to $5.00. U.S. Consumer sales are expected to decline 4 to 6 percent. Hawthorne sales are now expected to decline 40 to 45 percent for the year ending September 30, 2022. Entering May, Hawthorne sales had begun to show signs of strengthening but momentum in the business slowed again during the month as expected improvement in outdoor cultivation has been slow to materialize.

"The changes we have seen since our last public comments in early May are clearly not what we would have expected," Hagedorn said. "The revised guidance we are providing is our best estimate of where things currently stand in a fluid and rapidly evolving market. While we are striving to deliver the best outcome for fiscal 2022, our focus is shifting toward the future. We are committed to taking decisive steps to improve our margins and cash flow in fiscal 2023 and get the business back to a level of performance that our shareholders rightfully expect."

The Company also said it is engaged in highly productive discussions with its lenders to obtain a temporary increase in the leverage ratio allowed under a revised credit facility.

"We have stated for years that our comfort zone for leverage is 3.5 times debt-to-EBITDA and current facility allows for leverage up to 4.5 times," said Cory Miller, executive vice president and chief financial officer. "Given the external factors currently impacting the business, we are seeking to adjust our debt covenants to allow for up to two additional turns of leverage in the near-term to maintain the appropriate level of flexibility in navigating the current market conditions. Obviously, we are focused on implementing aggressive plans to improve cash flow, reduce debt, and return leverage to our target levels as quickly as possible."

Over the past month, the Company also has moved aggressively to reduce full-year SG&A through a series of organizational changes that created operational and management-level efficiencies.

"The decisive steps we have taken to reduce expenses will result in a year-over-year decline of 12 to 13 percent in SG&A for fiscal 2022," Miller said. "We would expect to incur restructuring charges in both the third and fourth fiscal quarters as a result of these actions which we would remove from our adjusted earnings for the year, consistent with our long-held practices related to these non-recurring costs."

The Company will provide more commentary tomorrow, June 9, when it participates in the William Blair 42nd Annual Growth Conference in Chicago. A webcast will be available at http://investor.scotts.com beginning at 1:40 p.m. EDT.

About ScottsMiracle-Gro
With approximately $4.9 billion in sales, the Company is one of the world's largest marketers of branded consumer products for lawn and garden care. The Company's brands are among the most recognized in the industry. The Company's Scotts ®, Miracle-Gro® and Ortho® brands are market-leading in their categories. The Company's wholly-owned subsidiary, The Hawthorne Gardening Company, is a leading provider of nutrients, lighting and other materials used in the indoor and hydroponic growing segment. Another wholly-owned subsidiary, The Hawthorne Collective, has been established to invest in emerging areas of the cannabis industry. For additional information, visit us at www.scottsmiraclegro.com.

Cautionary Note Regarding Forward-Looking Statements
Statements contained in this press release, other than statements of historical fact, which address activities, events and developments that the Company expects or anticipates will or may occur in the future, including, but not limited to, information regarding the future economic performance and financial condition of the Company, the plans and objectives of the Company's management, and the Company's assumptions regarding such performance and plans are "forward-looking statements" within the meaning of the U.S. federal securities laws that are subject to risks and uncertainties. These forward-looking statements generally can be identified as statements that include phrases such as "guidance," "outlook," "projected," "believe," "target," "predict," "estimate," "forecast," "strategy," "may," "goal," "expect," "anticipate," "intend," "plan," "foresee," "likely," "will,"

“should” or other similar words or phrases. Actual results could differ materially from the forward-looking information in this release due to a variety of factors, including, but not limited to:

- The ongoing COVID-19 pandemic could have a material adverse effect on the Company’s business, results of operation, financial condition and/or cash flows;
- Compliance with environmental and other public health regulations or changes in such regulations or regulatory enforcement priorities could increase the Company’s costs of doing business or limit the Company’s ability to market all of its products;
- Damage to the Company’s reputation or the reputation of its products or products it markets on behalf of third parties could have an adverse effect on its business;
- If the Company underestimates or overestimates demand for its products and does not maintain appropriate inventory levels, its net sales and/or working capital could be negatively impacted;
- If the Company is unable to effectively execute its e-commerce business, its reputation and operating results may be harmed;
- Because of the concentration of the Company’s sales to a small number of retail customers, the loss of one or more of, or significant reduction in orders from, its top customers could adversely affect the Company’s financial results;
- Climate change and unfavorable weather conditions could adversely impact financial results;
- Certain of the Company’s products may be purchased for use in new or emerging industries or segments and/or be subject to varying, inconsistent, and rapidly changing laws, regulations, administrative practices, enforcement approaches, judicial interpretations and consumer perceptions;
- The Company’s operations may be impaired if its information technology systems fail to perform adequately or if it is the subject of a data breach or cyber-attack;
- The Company may not be able to adequately protect its intellectual property and other proprietary rights that are material to the Company’s business;
- In the event the Third Restated Marketing Agreement for consumer Roundup products terminates, or Monsanto’s consumer Roundup business materially declines the Company would lose a substantial source of future earnings and overhead expense absorption;
- Hagedorn Partnership, L.P. beneficially owns approximately 26% of the Company’s common shares and can significantly influence decisions that require the approval of shareholders;
- Acquisitions, other strategic alliances and investments could result in operating difficulties, dilution and other harmful consequences that may adversely impact the Company’s business and results of operations.

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

Contact:

Kelly Berry
Vice President, Investor Relations
937-578-1598