S&P Global
Market Intelligence

The Scotts Miracle-Gro Company

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Company Conference Presentation

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Senior VP & Interim CFO

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Presentation

Joseph Nicholas Altobello
Raymond James & Associates, Inc., Research Division

Okay. Great. Great. Thanks. Good morning, everyone. Thank you for joining us for the 42nd Annual Raymond James Institutional Investors Conference. I'm Joe Altobello, Equity Research Analyst here at Raymond James, covering the household, personal care and leisure sectors.

We are very pleased to have with us this morning members of senior management from Scotts Miracle-Gro, including interim CFO, Cory Miller; as well as the Executive Vice President and Chief Communications Officer, Jim King. Welcome to you both.

As many of you know, Scotts is the unquestioned leader in the U.S. consumer lawn and garden space, which is now being augmented by its very fast-growing Hawthorne hydroponics business. And we should have some time at the end of our chat for audience questions as well, which you can submit electronically via open exchange.

Now before we begin, I did want to quickly hand things over to Cory, who want to make a few introductory remarks about the state of the business. Cory?

Cory T. Miller
Senior VP & Interim CFO

Good Morning, Joe. Thanks for having us join today. While this is the first time I've attended the event, I know Jim and the team believe it's one of the best conferences of the year to share our message. So even though we're doing this virtually, we appreciate the opportunity to speak with you and the hundreds of institutional investors who are attending.

I just want to start with a few comments to reiterate that we are extremely confident about our business right now. We continue to see strong momentum in the Hawthorne business and are extremely optimistic about the outlook in the U.S. consumer business as well.

As most of you know, we recently increased our guidance for sales growth in the Hawthorne segment to a range of plus 20% to plus 30% versus the original guidance of plus 15% to plus 20%. Our original guidance for the U.S. consumer business was to be flat to minus 5% compared to last year. However, we just finished fiscal February last Saturday. And with 5 months behind us, we now have enough visibility to say that we expect to exceed that range as well. We are looking to report positive sales growth on a year-over-year basis.

Shipments remain well ahead of last year's pace as retailers prepare for the peak of the lawn and garden season. And consumer purchases of our product at our largest retailers are up 25% year-to-date entering March. That performance includes 2 weeks of pretty brutal numbers in Texas, which is one of our most important markets this early in the season. To be clear, the over-delivery in the U.S. consumer business means that we also expect to exceed our current earnings guidance of $8 to $8.40 per share on an adjusted basis.

We have some big shipment weeks ahead of us. So we're going to wait a little longer before providing specifics on an updated range. However, we felt it was important to share this update since you've heard some of our retail partners begin to talk a little more conservatively over the past week or so on their own expectations.

Like our retailers, we agree growth will get tougher later in the year given the record comparisons we're up against beginning in May. We've been saying this all along. However, our fiscal year ends in September, and we now feel we have enough visibility to say that U.S. consumer business will be positive for our fiscal '21.

So Joe, that probably raises some additional questions. I'll turn it back over to you. Jim and I will do our best to provide you the answers.

Joseph Nicholas Altobello
Raymond James & Associates, Inc., Research Division
It certainly does, Cory. Thank you.

Question and Answer

Joseph Nicholas Altobello
Raymond James & Associates, Inc., Research Division

So with that as a backdrop, I did want to start with the U.S. consumer segment. 2020 was a banner year for the business, which historically has been sort of a low single-digit grower. Sales increased 25% last year. Much of that came from households that were new to the category. Now the sales set up last year was extremely favorable for you last spring, with Americans mostly sheltering in place, stimulus checks in hand, key retailers like Home Depot, Lowes and Walmart were open for business. So obviously, you're thinking, given what you just said, pretty constructively about 2021.

But maybe kind of give us an idea of what gives you that confidence. Obviously, sales numbers through February are pretty strong. But what gives you that confidence you can hold on to those customers that were new to the category last year?

Cory T. Miller
Senior VP & Interim CFO

Yes, Joe. I think there's a couple of things. If you look at the trends we have, you're right, you go back to last May, and we're going up against big comps once we get to that period of time, which is the peak in the lawn and garden season.

We think that we were able to capture about 21 million new consumers last year. And over that period of time, we've changed our marketing efforts to reach out to those consumers in a way that we haven't before. We've tried to be on from a marketing perspective 12 months of the year versus 12 weeks of the year. And we're hoping that giving those new consumers a chance to get into the category, speaking to them in a way we haven't reached out to them before allows us to capture them as we get into the beginning of the lawn and garden season. Because a lot of people spent a lot of time last year in effort building their garden out, improving their lawn. And we think that they're going to continue coming back to make those things look as great as they did last year, whether it be the lawn or the garden itself with flowers or vegetables, reaching out -- going back to what they established last year and keeping that momentum going that will come into our category.

And I'll say another thing is, our retail partners are more engaged than they were a year ago, for sure. And inventory levels, their engagement in the category is higher than we've ever seen it. And we're hoping that when the consumer is ready, they come into a store and they see a set that has the product they need, and we'll be there to service that need with products.

James D. King
Chief Communications Officer & Executive VP

Joe, if I can elaborate or just build off of Cory's comments.

The other thing about this category and one of the things that gives us a lot of confidence going into the year is that these consumers gardeners tend to be sticky, much stickier than you might see in other categories. If you build a garden, you're going to garden. It's a category that people come back to every year.

Typically, what we would see or what our marketing team would see in their research is that around 80% of people would come back every year who participated in the season before this year. The data is telling them that number is more like 86% or 87%. More importantly than that though, of the people who were new to the category last year, about 65% of those people are telling us that they intend to do more in this year. Okay? So that gives us a great deal of confidence.

The other thing about the season that shapes up really nicely for us is that while we had really good performance from May on last year, we had negative performance and a pretty steep decline in POS in April, which is our biggest month of the year. Okay? Essentially, April and May are about the same. But --

and the home centers last April, really, were not in the category at all. If you recall, stores were -- some of them were closed. You had to -- have monitor your traffic going in and out the door.

It made really -- it made it really difficult for our biggest retail partners to use the kind of advertising and promotional activity that they normally use to drive foot traffic into the store in the biggest month of the year. That will be different this year. So I think you're going to see them really step-up and engage, try to recapture some of the market share that they lost last year. And in the meantime, some of the smaller retailers who gained market share last year are fighting like crazy to keep it. So the retail dynamic for us this year as well. We're seeing real high level of engagement in all channels of trade.

Joseph Nicholas Altobello
Raymond James & Associates, Inc., Research Division

And could you remind us -- last year, you did over $4.1 billion in sales. Can you remind us how much sales you feel like you left on the table across U.S. consumer and Hawthorne?

Cory T. Miller
Senior VP & Interim CFO

Across both the businesses, I know we've talked publicly about this, and the numbers have varied a little bit. I think we said roughly $250 million is the amount between the 2 businesses that we've left out there.

And if you're breaking that down, it's about half and half between the 2 businesses. And a lot of it -- we just couldn't keep up on our production side. Our supply chain is something that we kind of pride ourselves in. And it was the supply chain challenge last year to say the least on both sides of the business. So that's about the number that we think we left.

Joseph Nicholas Altobello
Raymond James & Associates, Inc., Research Division

Okay. Great. You guys both touched on this a little bit earlier, but I wanted to kind of drill down a little bit more.

As we sit here in early March, snow is still on the ground in many parts of the country. POS or sell-through has been very strong. I think it was at 35% or so fiscal year-to-date entering February. However, shipments have been far stronger, as you mentioned.

So clearly, your retail partners appear to be gearing up for another solid season. Can you give us a little more insight into how they're thinking about the category after what they saw last year? Are you concerned that, that last year was an anomaly? Or was it a permanent step-up? It sounds like it's more the latter. There was a permanent step-up in activity in your categories. If it is the latter, are you seeing anything right now other than sort of that survey work that kind of gives you that confidence?

Cory T. Miller
Senior VP & Interim CFO

I agree. I think it's a step-up. And what we've seen the retail partners do is and acknowledging this is to be able to load their store in a way that they haven't in the past. When they -- when you look back at the spring last year, they were caught a little flat-footed. And we were, in turn, caught a little flat-footed with the amount of demand that came once the stores were open and consumer started going out and purchasing for the season. So they don't want to miss that opportunity this year.

So they're loading their stores in a way that we've never seen before just to make sure that the shelf is ready for the consumer. And that's put a lot of challenge on us in the first half of our year, making sure we have that product in place, and our manufacturing facilities are working harder than ever to make sure that we have a little more timely than we normally would, because as their demand happens, we want to make sure that we have that product ready to ship out.

And loading the shelf in this way allows us to have a little more guidance on the year. It allows the retailer to be, like I said, ready for the consumer. And we think that that's going to have the product just in front of the consumer as they walk in the door and know that, that consumer is going to continue taking away that product to go back home and use in their garden.

Joseph Nicholas Altobello
Raymond James & Associates, Inc., Research Division

Now if I recall, last year, your shipments actually outpaced itself. Do you see that reversing this year? Or do you see another -- or do you see those to sort of in lockstep in 2021?

Cory T. Miller
Senior VP & Interim CFO

Right now, our shipments are certainly outpacing our POS takeaway just because of the time of the season. We expect that to even out. Our ending inventories at the retailers were pretty low last year. So we might have a little more shipment in than we see with sell-out just to get their inventory levels back to where they think they need them at the end of the year. We don't think that will be drastic. We think it will kind of even out as we get through the year. But we might have a little more sell-in than sell-out due to that low inventory level that we had at the end of last year.

James D. King
Chief Communications Officer & Executive VP

Joe, the other thing to remember about the disparity last year between POS and shipments, because, obviously, those numbers tend to come pretty close together by the end of the year, is that retailers, especially in categories like growing media, which has historically been highly promotional, retailers were far less promotional last year and did very, very little discounting. So the POS number that we report is a dollar number. Okay? So the dollar value of POS was much higher last year because there was less discounting involved. So that also was part of the reason that we saw that happen.

Joseph Nicholas Altobello
Raymond James & Associates, Inc., Research Division

Okay. That's helpful. If you look at commodity transportation costs, they started to increase recently. And you touched on this a bit, I think, on your last earnings call. How much of an impact is that having on your margins this year? And can you price to offset some of that? Or is it too late in the season at this point?

Cory T. Miller
Senior VP & Interim CFO

We continue to look at commodity costs on a regular basis, daily basis. At the last earnings release, we said it's about 50 basis points of margin decline because of commodities. And it's our main commodity inputs that go into our products along with distribution rates that are driving our commodities higher.

For this season, we've kind of sold in pricing that's later in the year. We continue to talk with our partners on the cost increases that we're seeing. We're hoping to not do anything further from a pricing action for this year because: one, we want to make sure the consumer is still engaged; two, we're working with our retail partners to kind of steady what their expectations are and what our expectations are around pricing; and three, a lot of our commodities are kind of fixed, either through hedging activities or forward buying, at this point.

And the difference that we have on our margin rate going forward is really the amount of product that we're making that would be above and beyond our original plans, if you go back to the beginning of our fiscal year. And as we look to build our inventory up a little bit more, our production levels went a little higher. And that caused our percentage of fixed or hedged commodities to be a little lower than we normally would have this time of year.

So as your percentage decreases, your exposure increases a little bit because of that. But we think we have it all baked in, although commodities are changing on a daily basis. And as we come out with new guidance around earnings, that's something that we're definitely going to update as well. But most of the impact on our business around commodities should be for our next fiscal year and -- the tail end of this year and then going into our fiscal '21.

Joseph Nicholas Altobello
Raymond James & Associates, Inc., Research Division

Got it.

James D. King
Chief Communications Officer & Executive VP

Joe, I think it's important for you and for your clients to understand the pricing dynamic this year too because it's different than what we've seen in the past. So typically, what we do working with our retail partners is, late summer, early fall, established -- once we understand what our cost structure looks like and what the shelf is going to look like, agree on a pricing structure for the following year. Those price increases generally take effect in January and run through the calendar year.

So in our Q1, we had a little bit of pricing benefit still built in from the prior year. However, the pricing for this year doesn't take effect in January like it normally would. It takes effect in August. So in Q2 and Q3, we're not going to see any pricing benefit. We will see it in Q4. And then that pricing carries into '22 as well. So part of that pricing for '22 has already been discussed with retailers, but there won't be a pricing benefit in the second and third quarter this year like there normally would be.

Joseph Nicholas Altobello
Raymond James & Associates, Inc., Research Division

Okay. That's helpful. And so if we look longer term, during the pandemic, we've seen a migration of homeowners leaving cities for the suburbs, which in theory would expand your addressable market. So 2 questions here.

First, would you agree with that? And second, have you started to see any impact from that migration towards the suburbs?

James D. King
Chief Communications Officer & Executive VP

Joe, so part of understanding the migration is also just understanding who's driving the migration, okay? And that's largely the cohort of millennials. If you go back and look at how we were talking about this business a handful of years ago, there was a concern that millennials were not going to leave cities and that they were going to stay there. And that we were going to have a smaller base of consumers going forward. And you saw us talk about being a relatively mature, 0% to 2% category as a result of that.

What we've seen is just the opposite of that. Huge migration of millennials out of the city and into the suburbs. That is a really nice tailwind for us not just in '21 and '22, but we think longer term. It's a group of consumers who are more interested in the category than their parents were. They're more engaged. They're primarily focused on activities like gardening and edible gardening, in particular.

If you look at the increased investment that we made in Bonnie Plants, for example, the 50% equity stake that we now have, a lot of that is driven by understanding that there's a big group of people who are coming into the space who love the idea of growing their own food and produce in the backyard. So we do think it's an important change for us and one that hopefully is a nice tailwind for us for years to come.

Joseph Nicholas Altobello
Raymond James & Associates, Inc., Research Division

But given all of that, how should we think about the long-term growth algorithm for U.S. Consumer?

James D. King
Chief Communications Officer & Executive VP

We're still trying to work through what that looks like. I mean we were 0 to 2 for a number of years. And then in 2019, we were plus 8. But there was a lot of pricing in there and there was a lot of retailer resetting going on. Behind the scenes, there was also -- we were beginning to see POS grow nicely. Then last year, we obviously saw what we saw. And this year, we're trying to figure out exactly where the growth is going to wind up, though it will be positive, and I think nicely positive.

But I think trying to figure out exactly where that long-term growth algorithm winds up is -- requires us at least right now to understand what's the base that we're growing off of.

Joseph Nicholas Altobello
Raymond James & Associates, Inc., Research Division

Okay. That's a fair point. So at this point, I did want to shift gears a little bit over to Hawthorne.

Can you start, Cory or Jim, like kind of give us a thumbnail sketch of that business? I'm thinking specifically about the key product categories that you compete in. How much is consumable versus durable? How much is owned versus distributed brand? Just kind of a high-level overview of that business would be helpful.

Cory T. Miller
Senior VP & Interim CFO

Sure. As you and most of the investors know, Hawthorne is, what, 5 or 6 years in now. And we've acquired different businesses along the way, with the last acquisition being almost 3 years ago of Sunlight Supply, our distribution arm.

If you look at the product base today, it is about 2/3 durables, 1/3 consumables in our first quarter. So that's probably a little bit more skewed towards durables because of the success of our lighting products. But within the durable categories, you have lighting, hardware, controllers in indoor growing settings. And then within our consumables segment, we have nutrients, growing media and other growing environment of products that we're using in a little bit of controls as well just to make sure there's not disease or pest within the growth.

And the growth that we're seeing across all those categories, the growth in the whole business has been very strong. But the growth across all the categories is very strong at this point, too. The mix of products is about 1/3 of it's lighting, about 1/4 nutrients, and then the rest is kind of evenly broken down among the other categories.

And within -- I would say, within the different product groups, we also split our business between the signature products, which are the products of branded items that we own. And then we have distributed products which is a brand that we do not own, that we distribute on behalf of others. And we are about 2/3 signature products and 1/3 distributed products as a breakdown as well.

So the Hawthorne business today, Jim -- what it was? Is it 18 months of growth over 50% to 60% versus a year ago? So it's on a rocket ship over the last 1.5 years. And really, if you go back to 2018, where there were some state legalization changes within the state of California that slowed the market, it was a down year for Hawthorne. We've been steadily growing out of that down year and are well above where we were prior to that down year of '18.

So sales continue to track on a very favorable trend for Hawthorne and the category, to be honest. The category is growing very strongly. But we're certainly taking our share of that growth and likely increasing our share of growth within that fast-moving category.

Joseph Nicholas Altobello
Raymond James & Associates, Inc., Research Division

So I definitely want to focus on that 50% to 60% growth that you've seen over the last few quarters, and it sounds like you're calling that number up today as well to some degree.

How much of that is being driven by the industry? How much of that is share gains? Because I can't imagine that cannabis use is up 50% to 60%. So help us understand how you get that much growth in an industry that's growing somewhat slower than that.

Cory T. Miller
Senior VP & Interim CFO

There's been -- when we put Hawthorne together, we said we want to be the one-stop shop that consumers go to. And we want our brands to be the brands they go after across every category within growing. So that's why we built the portfolio that we built. And in our last acquisition with Sunlight Supply almost 3 years ago, was to kind of pull all that together and lean on the supply chain that Sunlight had built to allow us to ship all those products together out to our customers.

And I think that that's paying off. The -- we've put tremendous amount of time, effort and resources into improving that network, improving our systems, improving the linkage of how all those brands come together and get shipped out to customers together, communicating more with customers and trying to meet an ever-increasing demand that customers have on the service levels. And we've put a lot of effort into that, and we think that we're winning in the marketplace because of that focus on service levels.

And if you think about where these products are being sold, the states that were big as we've gone through this process are still big. They're continuing to grow. There's been a lot of talk about the East. And as legalization happens in the East, it will open up those new markets. And we think that it will. But to date, we haven't seen a lot of shipments of our products feed into that yet. There's always a lag time between movements to legalization of about a year to 1.5 years.

And so most of the sales that we're seeing today are going to the West Coast states where this has been legal for a while or states like Michigan and Oklahoma that became legal at least a year ago. And the growth in those states have been -- has been really ramped. And we expect that to happen in the East as legalization happens in states further East. But to date, we haven't seen that. So it's been a lot of the heritage states that we've been selling into.

James D. King
Chief Communications Officer & Executive VP

So Joe, part of that too gets to innovation and the importance of innovation in the space. So if you look at some of those, call it, more mature markets, those older markets, like California, Oregon, Colorado, that have been established for a number of years, and of course, Colorado -- or I'm sorry, California was kind of this weird quasi-legal state for some 20 years or so.

What you're also -- what we're also benefiting from is a lot of those more established growers have been investing in new technology, lighting, in particular, retrofitting their operations with a lot of our LED lighting, because one of the most -- one of their highest costs of operation are energy costs. And of course, while the price point on an LED light is a lot higher, it brings down the energy cost of the operation significantly. So a lot of those established growers have been retrofitting with our technology as well. So that's part of what's growing -- what's leading -- driving the growth in some of the older markets, too.

Joseph Nicholas Altobello
Raymond James & Associates, Inc., Research Division

Got it. That's helpful. And just to be clear, I want to clarify something. You are not calling up Hawthorne revenue today?

James D. King
Chief Communications Officer & Executive VP

I was going to clarify it with you. We're not. We did a couple of weeks ago, but we're not doing it again today.

Joseph Nicholas Altobello
Raymond James & Associates, Inc., Research Division

Got you. I just want to make sure we're clear. So there's currently some legislation that's been knocking around Congress, specifically the MORE Act and the SAFE Banking Act. Could you talk about the impacts from both of those potentially being passed on your business and on the industry?

James D. King
Chief Communications Officer & Executive VP

The SAFE Banking Act really would immediately have no real big direct impact on us. It would -- because we're a well-capitalized company. We are operating just fine, obviously. But some of the other players in the industry do have challenges with access to capital. They do have banking challenges. And so it just, I think, really help the industry which should have some downstream benefit to us.

Now longer term, it could also change how our -- what our go to model -- or go-to-market model looks like, because today, we do not in the United States transact business directly with cultivators. There's a third-party intermediary, either a retailer or a qualified reseller, who actually makes that transaction happen. So it's possible that depending on how the law would be written, it would allow us to transact business more directly over time. So that's really the banking component.

The MORE Act, I'd say, a good start in the House of Representatives. It was a relatively easy vote in the House because it was not going to go anywhere in the Senate. That said, it was -- it has some bipartisan support at the time, and I think speaks to how far the discussion has come in Washington more than anything else. Okay? I don't think anybody ever really believes that the MORE Act was going to go anywhere. But the fact that it was discussed, debated, voted on and got a bipartisan vote, super good sign.

I think the issue of federal legalization still is moving pretty slowly, but the discussion continues. I think you're going to see new legislation introduced on the Senate side in the coming months that, I think, gives us a lot of encouragement. The House probably reintroduces some version of the MORE Act as well. Will it happen this year? I would suspect not. But I do believe that you're going to have some sort of reform occur in the next couple of years. The social justice component of this, Joe, is really what is starting to move people along and understand that there's got to be a fix to that.

Now there's also a recognition, increasingly, I think by members of Congress that you can't just decriminalize and take on the social justice issues. You have to take on the fact that there will be an industry that comes out of that, probably a regulated industry that comes out of that. So the legislation and the regulation that comes off or whatever they do, it's probably going to take quite a long time to implement. If you look at the farm Act -- or the farm bill rather and its impact on hemp a few years ago, that was 3 years ago, and there are still not FDA guidelines as it relates to hemp.

So it's going to take a long time, I think, to build a regulatory framework, which for us, in the short term, I think it really benefits our business because of the regulatory framework that exists at the state level and the fact that we've been able to navigate those states really effectively and grow our business nicely.

Joseph Nicholas Altobello
Raymond James & Associates, Inc., Research Division

So just to be clear, on the MORE Act, if cannabis was legalized or decriminalized federally, it's probably a good thing near term for Hawthorne. What does that look like over the medium or longer term?

James D. King
Chief Communications Officer & Executive VP

I think it's a good thing. I think the devil's in the details. It will be a regulated industry. There's probably going to be some degree of interstate commerce that have -- you eventually see in the market. There's probably some degree of consolidation that exists -- eventually exists in the market. But I think it will happen slowly. But no, I think federal legalization and wider acceptance of the product is a good thing for the business, pure and simple.

Joseph Nicholas Altobello
Raymond James & Associates, Inc., Research Division

I'm just thinking more from a competitive standpoint. Does it invite bigger competitors into the space?

James D. King
Chief Communications Officer & Executive VP

I'd say in the space where we are playing today with Hawthorne, probably not. I mean, listen, I think we've done a really good job in building a portfolio of the best products and brands, investing the right way behind the business. I mentioned R&D a little while ago in terms of the impact that it's had on kind of legacy markets. Our investment in R&D, our investment in building a more technically proficient sales force, our investment in SAP, I can go on and on. I mean, I think we've done a good job of building a pretty big moat around that business. And I think we've established ourselves pretty quickly as the leader in that side of the industry.

Joseph Nicholas Altobello
Raymond James & Associates, Inc., Research Division

Great. So just taking a step back. If we evaluate Scotts Miracle-Gro on a sum of the parts basis, which we typically do, it's questionable in our minds whether the stock is reflecting the full value of Hawthorne. I'm sure you've at least thought about spinning that business. And since we know the argument for it, which is the potential to unlock value potentially for SMG shareholders, what are the arguments against a spin-off of Hawthorne?

Cory T. Miller
Senior VP & Interim CFO

There'll be a few. And this is something that we continue to look at and weigh the benefits of any kind of action against where we are today and the value that we feel we're getting within the stock today. It's discussed a lot.

I'd say the argument against it would be, we've built a business that's pretty integrated at this point. Through any type of spin-off, you'd have some sort of a true spin-off of activities as well. It wouldn't just be a financial action. So you'd have to have businesses that are operating separately. We have agreements going back and forth between the 2 entities, making sure that we can lean on each other in the way that we have, the way we've built.

The original thought was that this could be a completely separate entity. And we would have separate systems, separate supply chains, separate management teams. And this was 5 or 6 years ago. We've done a lot of work because we've seen the benefit of integrating those things together. And we've been able to lean on the power of the Scotts business with our Hawthorne business and vice versa in some aspects to allow the single business to operate a little more effectively than maybe the 2 individual businesses.

So that would be the case against it. It's something that we just have to continue to look at and understand if there's benefit to do it -- to doing it, and see what else that unlocks by doing it.

Chris -- or excuse me, Jim, any thoughts?

James D. King
Chief Communications Officer & Executive VP

Yes. The only other thing I would add, Joe, is that if there is a business benefit to doing it, then I think we'll look really hard at that.

I think one of the things that we want to be really careful about is chasing multiples on competitive businesses that are smaller than ours, not as strong as ours and have really small floats and very limited availability. There's all kind of other dynamics that can explain some of the multiples that are out there.

And while we've been watching them with a great deal of interest, as you would expect, we also want to be careful that we're not mesmerized by those. Because by the time we -- if we started the process today to unwind these businesses and to spin it off, it probably is a several quarters in order to do that. Who knows whether somebody's a 70 multiple today is a 30 multiple tomorrow, and do you still make that decision if you're chasing a multiple. So that's not going to be the driving factor for us. What's going to be the driving factor for us is, does it make strategic sense? Can we drive the business harder, faster, better by doing it? And if we can, we will.

Joseph Nicholas Altobello
Raymond James & Associates, Inc., Research Division

Okay. Lastly, on margins on Hawthorne. You're now in the low teens. You've said that you have line of sight to, call it, 15% or so segment margins. Is that, call it, 200 basis point move largely from sales leverage? And how quickly can you get to that 15% number?

Cory T. Miller
Senior VP & Interim CFO

On our last earnings call, we talked about this a little bit. And we said if we had to get there today, we probably could by reducing the investment into the business. And we could probably take some additional pricing and drive our margins that high.

What we're weighing against on the other side of that equation is how big do we want our business to be, how much growth do we want to continue driving from a top line standpoint and how deep do we want the moat to be around our business that we're trying to build right now?

We don't want to give any customer reason not to buy us. We want to continue having a nice march towards those 15% margins, while generating continued demand of our products and not giving anybody a reason to go to a competitor.

So we continue to invest behind the business. When you're growing as fast as we are right now within Hawthorne, you could go a couple of quarters without investing. You put a lot of that growth at risk though if you can't deliver on it. And we are continuing to invest in the distribution centers to make sure we're getting enough product in and out to service the needs of the customers. We're continuing to invest in the manufacturing facilities to make sure that we can spit out enough product to flow through our distribution network and get out to the customers. And we continue to invest in marketing and sales to make sure that our messaging is getting out to customers in a way that continues to bring them into our fold and make them a stronger customer and a deeper partner with us. And we want to continue to invest in the business the way we have, while driving growth of the top line and growth on margin rates on the bottom line.

So it's a balancing act to make sure that we're getting enough earnings and doing enough to invest for future growth. But the future growth is something we really have to invest for now or we could face the problem of not being able to meet that demand going forward. And that's something that we don't want to have, is a day where we can't meet all the demand that's out there.

Joseph Nicholas Altobello
Raymond James & Associates, Inc., Research Division

So could you do all of that investment and still expand margins, call it, 100 basis points a year? Is that a fair number?

Cory T. Miller
Senior VP & Interim CFO

I think that's a fair number. It's just, like I said, a balancing act between how much do you want to go after? Do we -- could we do it today? Yes, we could do it today. Do we see that there is enough room for investment in the business to keep margins flat and further situate ourselves in a positive way for future business? Yes, there's an argument to that as well.

So I think we're trying to walk the line in between those 2 aspects and get enough margin growth to continue driving our earnings up, while allowing to -- allowing ourselves to invest in the business, the business that we want to be in tomorrow and not just look at today.

Joseph Nicholas Altobello

Raymond James & Associates, Inc., Research Division

Got it. Okay. Let me check real quick. I've been checking as you've been speaking. It doesn't like there's any questions in the chat room at this point, and we're just about out of time.

So with that, I want to thank Cory and Jim for your participation today, and everybody else who's listening. Appreciate it. And enjoy the rest of the day.

James D. King
Chief Communications Officer & Executive VP

Thanks for having us, Joe. Appreciate it.

Joseph Nicholas Altobello
Raymond James & Associates, Inc., Research Division

Thank you, guys.

Cory T. Miller
Senior VP & Interim CFO

Thank you.

Joseph Nicholas Altobello
Raymond James & Associates, Inc., Research Division
Thank you.