UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended January 1, 2022

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to
Commission File Number: 001-11593

The Scotts Miracle-Gro Company

(Exact name of registrant as specified in its charter)

Ohio	**31-1414921**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

14111 Scottslawn Road, Marysville, Ohio 43041
(Address of principal executive offices) (Zip Code)

(937) 644-0011
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Shares, $0.01 stated value	SMG	NYSE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of February 4, 2022, there were 55,583,886 Common Shares outstanding.

THE SCOTTS MIRACLE-GRO COMPANY

INDEX

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidated Statements of Operations
(In millions, except per share data)
(Unaudited)

	Three Months Ended	
	January 1, 2022	January 2, 2021
Net sales	$ 566.0	$ 748.6
Cost of sales	447.3	548.8
Cost of sales—impairment, restructuring and other	—	9.0
Gross profit	118.7	190.8
Operating expenses:		
Selling, general and administrative	154.1	156.7
Impairment, restructuring and other	1.8	0.7
Other income, net	(1.8)	(0.6)
Income (loss) from operations	(35.4)	34.0
Equity in loss of unconsolidated affiliates	7.3	—
Interest expense	23.8	16.1
Other non-operating income, net	(1.8)	(15.2)
Income (loss) from continuing operations before income taxes	(64.7)	33.1
Income tax expense (benefit) from continuing operations	(14.7)	7.9
Income (loss) from continuing operations	(50.0)	25.2
Income (loss) from discontinued operations, net of tax	—	—
Net income (loss)	$ (50.0)	$ 25.2
Net income attributable to noncontrolling interest	—	(0.8)
Net income (loss) attributable to controlling interest	$ (50.0)	$ 24.4
Basic income (loss) per common share:		
Income (loss) from continuing operations	$ (0.90)	$ 0.44
Income (loss) from discontinued operations	—	—
Basic net income (loss) per common share	$ (0.90)	$ 0.44
Weighted-average common shares outstanding during the period	55.4	55.7
Diluted income (loss) per common share:		
Income (loss) from continuing operations	$ (0.90)	$ 0.43
Income (loss) from discontinued operations	—	—
Diluted net income (loss) per common share	$ (0.90)	$ 0.43
Weighted-average common shares outstanding during the period plus dilutive potential common shares	55.4	57.1

See Notes to Condensed Consolidated Financial Statements.

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidated Statements of Comprehensive Income (Loss)
(In millions)
(Unaudited)

	Three Months Ended	
	January 1, 2022	January 2, 2021
Net income (loss)	$ (50.0)	$ 25.2
Other comprehensive income (loss):		
Net foreign currency translation adjustment	(4.3)	12.4
Net unrealized gains on derivative instruments, net of tax	9.6	2.5
Reclassification of net unrealized (gains) losses on derivative instruments to net income (loss), net of tax	(0.2)	1.9
Net unrealized gains on securities, net of tax	0.1	—
Pension and other post-retirement benefit adjustments, net of tax	0.5	(1.2)
Total other comprehensive income	5.7	15.6
Comprehensive income (loss)	(44.3)	40.8
Comprehensive income attributable to noncontrolling interest	—	(0.8)
Comprehensive income (loss) attributable to controlling interest	$ (44.3)	$ 40.0

See Notes to Condensed Consolidated Financial Statements.

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidated Statements of Cash Flows
(In millions)
(Unaudited)

	Three Months Ended	
	January 1, 2022	January 2, 2021
OPERATING ACTIVITIES		
Net income (loss)	$ (50.0)	$ 25.2
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Share-based compensation expense	7.3	8.2
Depreciation	16.0	15.7
Amortization	8.9	7.4
Equity in loss of unconsolidated affiliates	7.3	—
Other, net	6.7	(14.3)
Changes in assets and liabilities, net of acquired businesses:		
Accounts receivable	71.6	1.1
Inventories	(503.1)	(442.8)
Prepaid and other assets	(34.4)	(10.2)
Accounts payable	(145.2)	126.8
Other current liabilities	(149.0)	(125.7)
Other non-current items	(1.3)	(11.3)
Other, net	0.1	(0.8)
Net cash used in operating activities	(765.1)	(420.7)
INVESTING ACTIVITIES		
Investments in property, plant and equipment	(46.1)	(34.6)
Investments in unconsolidated affiliates	—	(100.7)
Payment for acquisitions, net of cash acquired	(202.5)	(10.0)
Other investing, net	3.4	(2.9)
Net cash used in investing activities	(245.2)	(148.2)
FINANCING ACTIVITIES		
Borrowings under revolving and bank lines of credit and term loans	989.1	712.9
Repayments under revolving and bank lines of credit and term loans	(40.8)	(67.5)
Dividends paid	(37.1)	(34.6)
Purchase of Common Shares	(129.5)	(38.4)
Cash received from exercise of stock options	0.9	1.1
Net cash provided by financing activities	782.6	573.5
Effect of exchange rate changes on cash	—	0.3
Net (decrease) increase in cash and cash equivalents	(227.7)	4.9
Cash and cash equivalents at beginning of period	244.1	16.6
Cash and cash equivalents at end of period	$ 16.4	$ 21.5

See Notes to Condensed Consolidated Financial Statements.

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidated Balance Sheets
(In millions, except per share data)
(Unaudited)

	January 1, 2022	January 2, 2021	September 30, 2021
ASSETS			
Current assets:			
Cash and cash equivalents	$ 16.4	$ 21.5	$ 244.1
Accounts receivable, less allowances of $9.8, $6.8 and $16.8, respectively	310.8	346.6	483.4
Accounts receivable pledged	104.4	151.1	—
Inventories	1,657.2	1,068.3	1,126.6
Prepaid and other current assets	203.8	92.0	169.9
Total current assets	2,292.6	1,679.5	2,024.0
Investment in unconsolidated affiliates	199.7	202.9	207.0
Property, plant and equipment, net of accumulated depreciation of $753.0, $698.8 and $737.4, respectively	615.8	560.9	622.2
Goodwill	681.5	548.9	605.2
Intangible assets, net	811.7	685.4	709.6
Other assets	640.9	323.1	632.0
Total assets	$ 5,242.2	$ 4,000.7	$ 4,800.0
LIABILITIES AND EQUITY			
Current liabilities:			
Current portion of debt	$ 160.7	$ 188.0	$ 57.8
Accounts payable	427.7	498.9	609.4
Other current liabilities	326.8	367.6	473.2
Total current liabilities	915.2	1,054.5	1,140.4
Long-term debt	3,082.2	1,979.8	2,236.7
Other liabilities	413.2	287.4	409.6
Total liabilities	4,410.6	3,321.7	3,786.7
Commitments and contingencies (Note 11)			
Equity:			
Common shares and capital in excess of $0.01 stated value per share; shares outstanding of 55.0, 55.6 and 55.6, respectively	486.9	490.5	477.0
Retained earnings	1,517.8	1,224.4	1,605.1
Treasury shares, at cost; 13.2, 12.6 and 12.6 shares, respectively	(1,112.4)	(958.8)	(1,002.4)
Accumulated other comprehensive loss	(60.7)	(83.5)	(66.4)
Total equity—controlling interest	831.6	672.6	1,013.3
Noncontrolling interest	—	6.4	—
Total equity	831.6	679.0	1,013.3
Total liabilities and equity	$ 5,242.2	$ 4,000.7	$ 4,800.0

See Notes to Condensed Consolidated Financial Statements.

(Dollars in millions, except per share data)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Scotts Miracle-Gro Company (“Scotts Miracle-Gro” or “Parent”) and its subsidiaries (collectively, together with Scotts Miracle-Gro, the “Company”) are engaged in the manufacturing, marketing and sale of products for lawn and garden care and indoor and hydroponic gardening. The Company’s products are sold in North America, Europe and Asia.

The Company’s North America consumer lawn and garden business is highly seasonal, with more than 75% of its annual net sales occurring in the second and third fiscal quarters.

Organization and Basis of Presentation

The Company’s unaudited condensed consolidated financial statements for the three months ended January 1, 2022 and January 2, 2021 are presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The condensed consolidated financial statements include the accounts of Scotts Miracle-Gro and its subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation. The Company’s consolidation criteria are based on majority ownership (as evidenced by a majority voting interest in the entity) and an objective evaluation and determination of effective management control. On February 26, 2021, the Company acquired the remaining outstanding shares of AeroGrow International, Inc. (“AeroGrow”). Prior to this date, the equity owned by other shareholders was shown as noncontrolling interest in the Condensed Consolidated Balance Sheets, and the other shareholders’ portion of net earnings and other comprehensive income was shown as net (income) loss or comprehensive (income) loss attributable to noncontrolling interest in the Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Comprehensive Income (Loss), respectively. The results of businesses acquired or disposed of are included in the condensed consolidated financial statements from the date of each acquisition or up to the date of disposal, respectively. In the opinion of management, interim results reflect all normal and recurring adjustments and are not necessarily indicative of results for a full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted or condensed pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, this Quarterly Report on Form 10-Q should be read in conjunction with Scotts Miracle-Gro’s Annual Report on Form 10-K for the fiscal year ended September 30, 2021 (the “2021 Annual Report”), which includes a complete set of footnote disclosures, including the Company’s significant accounting policies.

The Company’s Condensed Consolidated Balance Sheet at September 30, 2021 has been derived from the Company’s audited Consolidated Balance Sheet at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

Long-Lived Assets

The Company had non-cash investing activities of $5.5 and $6.3 during the three months ended January 1, 2022 and January 2, 2021, respectively, representing unpaid liabilities to acquire property, plant and equipment.

Statements of Cash Flows

Supplemental cash flow information was as follows:

	Three Months Ended	
	January 1, 2022	January 2, 2021
Interest paid	$ 32.1	$ 23.0
Income tax payments	0.6	0.2

Recently Adopted Accounting Pronouncements

In December 2019, the Financial Accounting Standards Board issued Accounting Standards Update No. 2019-12, “Income taxes (Topic 740): Simplifying the Accounting for Income Taxes,” which simplifies the accounting for income taxes by removing certain exceptions to the general principles in Accounting Standards Codification 740 and also clarifies and amends existing guidance to improve consistent application. The Company adopted this guidance on October 1, 2021. The adoption of this guidance did not have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

NOTE 2. ACQUISITIONS AND INVESTMENTS

Luxx Lighting

On December 30, 2021, the Company's Hawthorne segment completed the acquisition of substantially all of the assets of Luxx Lighting, Inc., a leading provider of lighting products for indoor growing. The purchase price was $213.5, a portion of which was paid by the issuance of 0.1 million of the common shares of Scotts Miracle-Gro ("Common Shares"), a non-cash investing and financing activity, with a fair value of $21.0 based on the share price at the time of payment. The valuation of the acquired assets included (i) $31.5 of inventory and accounts receivable, (ii) $3.8 of current assets, (iii) $0.6 of noncurrent assets, (iv) $4.3 of current liabilities, (v) $106.9 of finite-lived identifiable intangible assets and (vi) $75.0 of tax-deductible goodwill. Identifiable intangible assets included tradenames, customer relationships and non-compete agreements with useful lives ranging between 5 and 25 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate discount rate.

True Liberty Bags

On December 23, 2021, the Company's Hawthorne segment completed the acquisition of substantially all of the assets of True Liberty Bags, a leading provider of liners and storage solutions to dry and cure plant products, for $10.0. The valuation of the acquired assets included (i) $1.2 of inventory and accounts receivable, (ii) $0.1 of noncurrent assets, (iii) $1.7 of current liabilities, (iv) $5.8 of finite-lived identifiable intangible assets and (v) $4.6 of tax-deductible goodwill. Identifiable intangible assets included tradenames and customer relationships with useful lives ranging between 15 and 20 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate discount rate.

Hydro-Logic

On August 27, 2021, the Company's Hawthorne segment completed the acquisition of substantially all of the assets of Hydro-Logic Purification Systems, Inc., a leading provider of products, accessories and systems for water filtration and purification, for $65.3. The purchase price is subject to a post-closing net working capital adjustment for which the Company has accrued its expected obligation of $0.4 as of January 1, 2022 in the "Other current liabilities" line in the Condensed Consolidated Balance Sheets. The valuation of the acquired assets included (i) $5.3 of inventory and accounts receivable, (ii) $1.7 of noncurrent assets, (iii) $2.1 of other liabilities, (iv) $23.1 of finite-lived identifiable intangible assets and (v) $37.3 of tax-deductible goodwill. Identifiable intangible assets included tradenames, customer relationships and non-complete agreements with useful lives ranging between 5 and 25 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate discount rate.

The Hawthorne Collective

On August 24, 2021, the Company's newly formed subsidiary, The Hawthorne Collective, Inc. ("THC"), made its initial investment under the Company's strategic minority non-equity investment initiative in the form of a $150.0 six-year convertible note issued to the Company by Toronto-based RIV Capital Inc. ("RIV Capital") (CSE: RIV) (OTC: CNPOF), a cannabis investment and acquisition firm listed on the Canadian Securities Exchange. The note accrues interest at 2 percent annually for the first two years and provides additional follow-on investment rights. Accrued interest will be payable to THC at maturity or will be included in the conversion value of the note at the time of conversion. The conversion feature, which is based upon the RIV Capital closing stock price on August 9, 2021, would provide the Company with approximately 42 percent ownership of RIV Capital if it exercises the conversion feature. In connection with the Company's investment, RIV Capital increased the size of its board of directors from four to seven members, and added three nominees of the Company to the board of directors. The Company will not have control of or an active day-to-day role in RIV Capital nor any of the companies in which RIV Capital invests. RIV Capital has agreed to use the funds for general corporate and other lawful purposes, which could include acquisitions, and has agreed that the funds will not be used in connection with or for any cannabis or cannabis-related operations in the U.S. unless and until such operations comply with all applicable U.S. federal laws.

During the fourth quarter of fiscal 2021, THC made additional minority non-equity investments of $43.1 in other entities focused on branded cannabis and high quality genetics. These additional investments also include conversion features that would provide the Company with minority ownership interests if it exercises the conversion features, as well as restrictions that the funds will not be used in connection with or for any cannabis or cannabis-related operations in the U.S. unless and until such operations comply with all applicable U.S. federal laws.

Rhizoflora

On August 13, 2021, the Company's Hawthorne segment completed the acquisition of substantially all of the assets of Rhizoflora, Inc., the manufacturer of terpene enhancing nutrient products Terpinator® and Purpinator®, for $33.7. The valuation of the acquired assets included (i) $0.5 of inventory, (ii) $10.9 of finite-lived identifiable intangible assets and (iii) $22.2 of tax-deductible goodwill. Identifiable intangible assets included tradenames, customer relationships and non-compete agreements with useful lives ranging between 5 and 25 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate discount rate.

AeroGrow

On November 11, 2020, the Company entered into an agreement and plan of merger to acquire the remaining outstanding shares of AeroGrow for cash consideration of $3.00 per share, or approximately $20.1. The merger closed on February 26, 2021. Prior to closing, SMG Growing Media, Inc., a wholly-owned subsidiary of Scotts Miracle-Gro, was the holder of 80.5% of the outstanding shares of AeroGrow and now holds 100% of the outstanding shares of AeroGrow. The closing date carrying value of the noncontrolling interest was $6.7 and the $13.4 difference between the purchase price and carrying value was recognized in the “Common shares and capital in excess of $0.01 stated value per share” line within “Total equity—controlling interest” in the Condensed Consolidated Balance Sheets.

NOTE 3. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

On December 31, 2020, pursuant to the terms of the Contribution and Unit Purchase Agreement between the Company and Alabama Farmers Cooperative, Inc. (“AFC”), the Company acquired a 50% equity interest in the Bonnie Plants business of planting, growing, developing, distributing, marketing and selling live plants through a newly formed joint venture with AFC (“Bonnie Plants, LLC”) in exchange for a cash payment of $100.7, as well as non-cash investing activities that included forgiveness of the Company's outstanding loan receivable with AFC and surrender of the Company's options to increase its economic interest in the Bonnie Plants business. The Company's loan receivable with AFC, which was previously recognized in the “Other assets” line in the Condensed Consolidated Balance Sheets, had a carrying value of $66.4 on December 31, 2020 and the Company recognized a gain of $12.5 during the three months ended January 2, 2021 to write-up the value of the loan to its closing date fair value of $78.9 in the “Other non-operating income, net” line in the Condensed Consolidated Statements of Operations. The Company's options to increase its economic interest in the Bonnie Plants business were previously recognized in the “Other assets” line in the Condensed Consolidated Balance Sheets and had an estimated fair value of $23.3 on December 31, 2020. The Company's interest in Bonnie Plants, LLC had an initial fair value of $202.9 and is recorded in the “Investment in unconsolidated affiliates” line in the Condensed Consolidated Balance Sheets. The Company's interest is accounted for using the equity method of accounting, with the Company's proportionate share of Bonnie Plants, LLC earnings subsequent to December 31, 2020 reflected in the Condensed Consolidated Statements of Operations. During the three months ended January 1, 2022, the Company recorded equity in loss of unconsolidated affiliates of $7.3 associated with Bonnie Plants, LLC. The estimated fair value of the loan receivable with AFC was determined using an income-based approach, which includes market participant expectations of cash flows over the remaining useful life discounted to present value using an appropriate discount rate. The fair value estimate utilized significant unobservable inputs and thus represents a Level 3 nonrecurring fair value measurement.

(Dollars in millions, except per share data)

NOTE 4. IMPAIRMENT, RESTRUCTURING AND OTHER

Activity described herein is classified within the “Cost of sales—impairment, restructuring and other” and “Impairment, restructuring and other” lines in the Condensed Consolidated Statements of Operations. The following table details impairment, restructuring and other charges for each of the periods presented:

	Three Months Ended	
	January 1, 2022	January 2, 2021
Cost of sales—impairment, restructuring and other:		
COVID-19 related costs	$ —	$ 8.7
Restructuring and other charges, net	—	0.3
Operating expenses:		
COVID-19 related costs	—	0.6
Restructuring and other charges, net	1.8	0.1
Impairment, restructuring and other charges from continuing operations	$ 1.8	$ 9.7

The following table summarizes the activity related to liabilities associated with restructuring and other during the three months ended January 1, 2022:

Amounts accrued for restructuring and other at September 30, 2021	$ 1.9
Payments and other	(0.2)
Amounts accrued for restructuring and other at January 1, 2022	$ 1.7

Included in restructuring accruals, as of January 1, 2022, is $0.6 that is classified as long-term. Payments against the long-term accruals will be incurred as the employees covered by the restructuring plan retire or through the passage of time. The remaining amounts accrued will continue to be paid out over the course of the next twelve months.

COVID-19

The COVID-19 pandemic has had, and continues to have, an impact on financial markets, economic conditions, and portions of the Company’s business and industry. The Company has actively addressed the pandemic’s ongoing impact on its employees, operations, customers, consumers, and communities, by, among other things, implementing contingency plans, making operational adjustments where necessary, and providing assistance to organizations that support front-line workers. Many of the Company’s employees continue to work from home. In those instances where the Company’s employees cannot perform their work at home, the Company has implemented additional health and safety measures and social distancing protocols, consistent with government recommendations and/or requirements, to help to ensure their safety. In addition, the Company implemented an interim premium pay allowance for certain associates in its field sales force and its manufacturing or distribution centers during fiscal 2020 and 2021. Costs incurred during the three months ended January 1, 2022 related to COVID-19 were immaterial. During the three months ended January 2, 2021, the Company incurred costs of $9.3 associated with the COVID-19 pandemic primarily related to premium pay. The Company incurred costs of $8.3 in its U.S. Consumer segment and $0.4 in its Hawthorne segment in the “Cost of sales—impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations during the three months ended January 2, 2021. The Company incurred costs of $0.6 in its U.S. Consumer segment in the “Impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations during the three months ended January 2, 2021.

(Dollars in millions, except per share data)

NOTE 5. INVENTORIES

Inventories consisted of the following for each of the periods presented:

	January 1, 2022	January 2, 2021	September 30, 2021
Finished goods	$ 1,208.5	$ 768.4	$ 793.7
Raw materials	338.8	215.9	242.8
Work-in-process	109.9	84.0	90.1
Total inventories	$ 1,657.2	$ 1,068.3	$ 1,126.6

Adjustments to reflect inventories at net realizable values were $19.4 at January 1, 2022, $23.9 at January 2, 2021 and $22.5 at September 30, 2021.

NOTE 6. MARKETING AGREEMENT

The Scotts Company LLC ("Scotts LLC") is the exclusive agent of Monsanto Company, a subsidiary of Bayer AG ("Monsanto"), for the marketing and distribution of certain of Monsanto's consumer Roundup® branded products in the United States and certain other specified countries. Effective August 1, 2019, the Company entered into the Third Amended and Restated Exclusive Agency and Marketing Agreement (the "Third Restated Agreement") which amended, among other things, the provisions of the Second Amended and Restated Agency and Marketing Agreement (the "Restated Marketing Agreement") relating to commissions, contributions, noncompetition, and termination. The annual commission payable under the Third Restated Agreement is equal to 50% of the actual earnings before interest and income taxes of Monsanto's consumer Roundup® business for each program year in the markets covered by the Third Restated Agreement ("Program EBIT"). The Third Restated Agreement also requires the Company to make annual payments of $18.0 to Monsanto as a contribution against the overall expenses of its consumer Roundup® business, subject to reduction pursuant to the Third Restated Agreement for any program year in which the Program EBIT does not equal or exceed $36.0.

Unless Monsanto terminates the Third Restated Agreement due to an event of default by the Company, termination rights under the Third Restated Agreement include the following:

- The Company may terminate the Third Restated Agreement upon the insolvency or bankruptcy of Monsanto;
- Monsanto may terminate the Third Restated Agreement in the event that Monsanto decides to decommission the permits, licenses and registrations needed for, and the trademarks, trade names, packages, copyrights and designs used in, the sale of the Roundup® products in the lawn and garden market (a "Brand Decommissioning Termination"); and
- Each party may terminate the Third Restated Agreement if Program EBIT falls below $50.0 and, in such case, no termination fee would be payable to either party.

The termination fee structure requires Monsanto to pay a termination fee to the Company in an amount equal to (i) $375.0 upon a Brand Decommissioning Termination, and (ii) the greater of $175.0 or four times an amount equal to the average of the Program EBIT for the three program years before the year of termination, minus $186.4, if Monsanto or its successor terminates the Third Restated Agreement as a result of a Roundup Sale or Change of Control of Monsanto (each, as defined in the Third Restated Agreement).

The elements of the net commission and reimbursements earned under the Third Restated Agreement and included in the "Net sales" line in the Condensed Consolidated Statements of Operations are as follows:

	Three Months Ended	
	January 1, 2022	January 2, 2021
Gross commission	$ 5.7	$ 7.7
Contribution expenses	(4.5)	(4.5)
Net commission	1.2	3.2
Reimbursements associated with Roundup® marketing agreement	19.6	14.0
Total net sales associated with Roundup® marketing agreement	$ 20.8	$ 17.2

(Dollars in millions, except per share data)

NOTE 7. DEBT

The components of debt are as follows:

	January 1, 2022	January 2, 2021	September 30, 2021
Credit Facilities:			
Revolving loans	$ 856.5	$ 599.6	$ —
Term loans	660.0	700.0	670.0
Senior Notes due 2031 – 4.000%	500.0	—	500.0
Senior Notes due 2032 – 4.375%	400.0	—	400.0
Senior Notes due 2029 – 4.500%	450.0	450.0	450.0
Senior Notes due 2026 – 5.250%	250.0	250.0	250.0
Receivables facility	94.0	136.0	—
Finance lease obligations	31.9	34.8	33.4
Other	20.6	6.8	11.9
Total debt	3,263.0	2,177.2	2,315.3
Less current portions	160.7	188.0	57.8
Less unamortized debt issuance costs	20.1	9.4	20.8
Long-term debt	$ 3,082.2	$ 1,979.8	$ 2,236.7

Credit Facilities

On July 5, 2018, the Company entered into a fifth amended and restated credit agreement (the “Fifth A&R Credit Agreement”), providing the Company and certain of its subsidiaries with five-year senior secured loan facilities in the aggregate principal amount of $2,300.0, comprised of a revolving credit facility of $1,500.0 and a term loan in the original principal amount of $800.0 (the “Fifth A&R Credit Facilities”).

At January 1, 2022, the Company had letters of credit outstanding in the aggregate principal amount of $19.9 and had $623.5 of borrowing availability under the Fifth A&R Credit Agreement. The weighted average interest rates on average borrowings under the Fifth A&R Credit Agreement were 1.8% and 2.1% for the three months ended January 1, 2022 and January 2, 2021, respectively.

The Fifth A&R Credit Agreement contains, among other obligations, an affirmative covenant regarding the Company’s leverage ratio on the last day of each quarter calculated as average total indebtedness, divided by the Company’s earnings before interest, taxes, depreciation and amortization (“EBITDA”), as adjusted pursuant to the terms of the Fifth A&R Credit Agreement (“Adjusted EBITDA”). The maximum leverage ratio is 4.50. The Company’s leverage ratio was 3.32 at January 1, 2022. The Fifth A&R Credit Agreement also contains an affirmative covenant regarding the Company’s interest coverage ratio determined as of the end of each of its fiscal quarters. The interest coverage ratio is calculated as Adjusted EBITDA divided by interest expense, as described in the Fifth A&R Credit Agreement, and excludes costs related to refinancings. The minimum interest coverage ratio was 3.00 for the twelve months ended January 1, 2022. The Company’s interest coverage ratio was 8.73 for the twelve months ended January 1, 2022.

The Fifth A&R Credit Agreement allows the Company to make unlimited restricted payments (as defined in the Fifth A&R Credit Agreement), including dividend payments on, and repurchases of, Common Shares, as long as the leverage ratio resulting from the making of such restricted payments is 4.00 or less. Otherwise, the Company may make further restricted payments in an aggregate amount for each fiscal year not to exceed $225.0.

Senior Notes

On December 15, 2016, Scotts Miracle-Gro issued $250.0 aggregate principal amount of 5.250% Senior Notes due 2026 (the “5.250% Senior Notes”). The 5.250% Senior Notes represent general unsecured senior obligations and rank equal in right of payment with the Company’s existing and future unsecured senior debt. The 5.250% Senior Notes have interest payment dates of June 15 and December 15 of each year. Substantially all of Scotts Miracle-Gro’s directly and indirectly owned domestic subsidiaries serve as guarantors of the 5.250% Senior Notes.

On October 22, 2019, Scotts Miracle-Gro issued $450.0 aggregate principal amount of 4.500% Senior Notes due 2029 (the “4.500% Senior Notes”). The 4.500% Senior Notes represent general unsecured senior obligations and rank equal in right of payment with the Company’s existing and future unsecured senior debt. The 4.500% Senior Notes have interest payment dates of April 15 and October 15 of each year. All of Scotts Miracle-Gro’s domestic subsidiaries that serve as guarantors of the 5.250% Senior Notes also serve as guarantors of the 4.500% Senior Notes.

(Dollars in millions, except per share data)

On March 17, 2021, Scotts Miracle-Gro issued $500.0 aggregate principal amount of 4.000% Senior Notes due 2031 (the “4.000% Senior Notes”). The 4.000% Senior Notes represent general unsecured senior obligations and rank equal in right of payment with the Company’s existing and future unsecured senior debt. The 4.000% Senior Notes have interest payment dates of April 1 and October 1 of each year. All of Scotts Miracle-Gro’s domestic subsidiaries that serve as guarantors of the 5.250% Senior Notes also serve as guarantors of the 4.000% Senior Notes.

On August 13, 2021, Scotts Miracle-Gro issued $400.0 aggregate principal amount of 4.375% Senior Notes due 2032 (the “4.375% Senior Notes”). The 4.375% Senior Notes represent general unsecured senior obligations and rank equal in right of payment with the Company’s existing and future unsecured senior debt. The 4.375% Senior Notes have interest payment dates of February 1 and August 1 of each year. All of Scotts Miracle-Gro’s domestic subsidiaries that serve as guarantors of the 5.250% Senior Notes also serve as guarantors of the 4.375% Senior Notes.

Receivables Facility

On April 7, 2017, the Company entered into a Master Repurchase Agreement (including the annexes thereto, the “Repurchase Agreement”) and a Master Framework Agreement, as amended (the “Framework Agreement” and, together with the Repurchase Agreement, the “Receivables Facility”). Under the Receivables Facility, the Company may sell a portfolio of available and eligible outstanding customer accounts receivable to the purchasers and simultaneously agree to repurchase the receivables on a weekly basis. The eligible accounts receivable consist of accounts receivable generated by sales to three specified customers. The eligible amount of customer accounts receivables which may be sold under the Receivables Facility is $400.0 and the commitment amount during the seasonal commitment period beginning on February 25, 2022 and ending on June 17, 2022 is $160.0. The Receivables Facility expires on August 19, 2022.

The Company accounts for the sale of receivables under the Receivables Facility as short-term debt and continues to carry the receivables on its Condensed Consolidated Balance Sheets, primarily as a result of the Company’s requirement to repurchase receivables sold. As of January 1, 2022 and January 2, 2021, there were $94.0 and $136.0, respectively, in borrowings on receivables pledged as collateral under the Receivables Facility, and the carrying value of the receivables pledged as collateral was $104.4 and $151.1, respectively.

Interest Rate Swap Agreements

The Company has outstanding interest rate swap agreements with major financial institutions that effectively convert a portion of the Company’s variable-rate debt to a fixed rate. Interest payments made between the effective date and expiration date are hedged by the swap agreements. Swap agreements that were hedging interest payments as of January 1, 2022, January 2, 2021 and September 30, 2021 had a maximum total U.S. dollar equivalent notional amount of $600.0. The notional amount, effective date, expiration date and rate of each of the swap agreements outstanding at January 1, 2022 are shown in the table below:

Notional Amount	Effective Date (a)	Expiration Date	Fixed Rate
100	12/21/2020	6/20/2023	1.36 %
300 (b)	1/7/2021	6/7/2023	1.34 %
200	10/7/2021	6/7/2023	1.37 %
200 (b)	1/20/2022	6/20/2024	0.58 %
200	6/7/2023	6/8/2026	0.85 %

(a) The effective date refers to the date on which interest payments are first hedged by the applicable swap agreement.
(b) Notional amount adjusts in accordance with a specified seasonal schedule. This represents the maximum notional amount at any point in time.

Weighted Average Interest Rate

The weighted average interest rates on the Company’s debt were 3.6% and 3.8% for the three months ended January 1, 2022 and January 2, 2021, respectively.

(Dollars in millions, except per share data)

NOTE 8. EQUITY

The following tables provide a summary of the changes in total equity, equity attributable to controlling interest, and equity attributable to noncontrolling interests for each of the periods indicated:

	Common Shares and Capital in Excess of Stated Value	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Loss	Total Equity - Controlling Interest	Noncontrolling Interest	Total Equity
Balance at September 30, 2021	$ 477.0	$ 1,605.1	$ (1,002.4)	$ (66.4)	$ 1,013.3	$ —	$ 1,013.3
Net income (loss)	—	(50.0)	—	—	(50.0)	—	(50.0)
Other comprehensive income (loss)	—	—	—	5.7	5.7	—	5.7
Share-based compensation	7.3	—	—	—	7.3	—	7.3
Dividends declared ($0.66 per share)	—	(37.3)	—	—	(37.3)	—	(37.3)
Treasury share purchases	—	—	(129.5)	—	(129.5)	—	(129.5)
Treasury share issuances	2.6	—	19.5	—	22.1	—	22.1
Balance at January 1, 2022	$ 486.9	$ 1,517.8	$ (1,112.4)	$ (60.7)	$ 831.6	$ —	$ 831.6

The sum of the components may not equal due to rounding.

	Common Shares and Capital in Excess of Stated Value	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Loss	Total Equity - Controlling Interest	Noncontrolling Interest	Total Equity
Balance at September 30, 2020	$ 482.5	$ 1,235.6	$ (921.8)	$ (99.1)	$ 697.2	$ 5.7	$ 702.9
Net income (loss)	—	24.4	—	—	24.4	0.8	25.2
Other comprehensive income (loss)	—	—	—	15.6	15.6	—	15.6
Share-based compensation	8.2	—	—	—	8.2	—	8.2
Dividends declared ($0.62 per share)	—	(35.7)	—	—	(35.7)	—	(35.7)
Treasury share purchases	—	—	(38.4)	—	(38.4)	—	(38.4)
Treasury share issuances	(0.1)	—	1.3	—	1.2	—	1.2
Balance at January 2, 2021	$ 490.5	$ 1,224.4	$ (958.8)	$ (83.5)	$ 672.6	$ 6.4	$ 679.0

The sum of the components may not equal due to rounding.

(Dollars in millions, except per share data)

Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss ("AOCL") by component were as follows for each of the periods indicated:

	Three Months Ended				
	Foreign Currency Translation Adjustments	Net Unrealized Gains (Losses) On Derivative Instruments	Net Unrealized Gains (Losses) On Securities	Pension and Other Post-Retirement Benefit Adjustments	Accumulated Other Comprehensive Income (Loss)
Balance at September 30, 2021	$ (1.7)	$ 10.2	$ (2.3)	$ (72.5)	$ (66.4)
Other comprehensive income (loss) before reclassifications	(4.3)	13.0	0.1	—	8.8
Amounts reclassified from accumulated other comprehensive net income (loss)	—	(0.3)	—	0.7	0.4
Income tax benefit (expense)	—	(3.3)	—	(0.2)	(3.5)
Net current period other comprehensive income (loss)	(4.3)	9.4	0.1	0.5	5.7
Balance at January 1, 2022	$ (6.0)	$ 19.5	$ (2.2)	$ (72.1)	$ (60.7)
Balance at September 30, 2020	$ (6.2)	$ (15.1)	$ —	$ (77.8)	$ (99.1)
Other comprehensive income (loss) before reclassifications	12.4	3.4	—	—	15.8
Amounts reclassified from accumulated other comprehensive net income (loss)	—	2.6	—	(1.6)	1.0
Income tax benefit (expense)	—	(1.6)	—	0.4	(1.2)
Net current period other comprehensive income (loss)	12.4	4.4	—	(1.2)	15.6
Balance at January 2, 2021	$ 6.2	$ (10.7)	$ —	$ (79.0)	$ (83.5)

The sum of the components may not equal due to rounding.

Dividends

On July 27, 2020, the Scotts Miracle-Gro Board of Directors approved an increase in the Company's quarterly cash dividend from $0.58 to $0.62 per Common Share, which was first paid in the fourth quarter of fiscal 2020. On July 30, 2021, the Scotts Miracle-Gro Board of Directors approved an increase in the Company's quarterly cash dividend from $0.62 to $0.66 per Common Share, which was first paid in the fourth quarter of fiscal 2021.

Share Repurchases

On February 6, 2020, Scotts Miracle-Gro announced that its Board of Directors authorized the repurchase of up to $750.0 of Common Shares from April 30, 2020 through March 25, 2023. The authorization provides the Company with flexibility to purchase Common Shares from time to time in open market purchases or through privately negotiated transactions. All or part of the repurchases may be made under Rule 10b5-1 plans, which the Company may enter into from time to time and which enable the repurchases to occur on a more regular basis, or pursuant to accelerated share repurchases. The share repurchase authorization may be suspended or discontinued by the Board of Directors at any time, and there can be no guarantee as to the timing or amount of any repurchases. During the three months ended January 1, 2022 and January 2, 2021, Scotts Miracle-Gro repurchased approximately 0.8 million and 0.2 million Common Shares under this share repurchase authorization for $125.0 and $38.0, respectively. The "Treasury share purchases" lines in the tables above include cash paid to tax authorities to satisfy statutory income tax withholding obligations related to share-based compensation of $4.5 and $0.3 for the three months ended January 1, 2022 and January 2, 2021, respectively.

(Dollars in millions, except per share data)

Share-Based Awards

The following is a summary of the share-based awards granted during each of the periods indicated:

	Three Months Ended	
	January 1, 2022	January 2, 2021
Employees		
Restricted stock units	4,818	1,687
Non-Employee Directors		
Restricted and deferred stock units	434	595
Total share-based awards	5,252	2,282
Aggregate fair value at grant dates	$ 0.8	$ 0.3

Total share-based compensation was as follows for each of the periods indicated:

	Three Months Ended	
	January 1, 2022	January 2, 2021
Share-based compensation	$ 7.3	$ 8.2
Related tax benefit recognized	1.8	2.0

Performance-based awards

On January 30, 2017, the Company issued 0.5 million upfront performance-based award units, covering a five-year performance period, with an estimated fair value of $43.3 on the date of grant to certain senior executives as part of its Project Focus initiative. These awards provided for a five-year vesting period based on achievement of specific performance goals aligned with the strategic objectives of the Company's Project Focus initiatives. Based on the extent to which the targets were achieved, vested shares may range from 50 to 250 percent of the target award amount. The Company's actual performance far exceeded the pre-defined performance goals of this award. As a result, the participants earned the maximum payout equal to 250% of the target shares granted (for a total payout of 1.1 million shares). As of December 1, 2021, the award payout was both fully earned and fully vested and the vested shares were delivered to the recipients on January 30, 2022. As such, these units are included in the computation of weighted-average common shares used for the Company's basic income per Common Share calculation for the three months ended January 1, 2022.

(Dollars in millions, except per share data)

NOTE 9. EARNINGS PER COMMON SHARE

The following table presents information necessary to calculate basic and diluted income per Common Share.

	Three Months Ended	
	January 1, 2022	January 2, 2021
Income (loss) from continuing operations	$ (50.0)	$ 25.2
Net income attributable to noncontrolling interest	—	(0.8)
Income (loss) attributable to controlling interest from continuing operations	(50.0)	24.4
Income (loss) from discontinued operations, net of tax	—	—
Net income (loss) attributable to controlling interest	$ (50.0)	$ 24.4
Basic income (loss) per common share:		
Weighted-average common shares outstanding during the period	55.4	55.7
Income (loss) from continuing operations	$ (0.90)	$ 0.44
Income (loss) from discontinued operations	—	—
Basic net income (loss) per common share	$ (0.90)	$ 0.44
Diluted income (loss) per common share:		
Weighted-average common shares outstanding during the period	55.4	55.7
Dilutive potential common shares	—	1.4
Weighted-average common shares outstanding during the period plus dilutive potential common shares	55.4	57.1
Income (loss) from continuing operations	$ (0.90)	$ 0.43
Income (loss) from discontinued operations	—	—
Diluted net income (loss) per common share	$ (0.90)	$ 0.43

Diluted average common shares used in the diluted loss per common share calculation for the three months ended January 1, 2022 were 55.4 million, which excluded 1.3 million dilutive potential Common Shares because the effect of their inclusion would be anti-dilutive as the Company incurred a net loss for the three months ended January 1, 2022. Diluted average common shares used in the diluted income per common share calculation for the three months ended January 2, 2021 were 57.1 million, which included 1.4 million dilutive potential Common Shares.

Stock options with exercise prices greater than the average market price of the underlying Common Shares are excluded from the computation of diluted income per Common Share because they are out-of-the-money and the effect of their inclusion would be anti-dilutive. For the three months ended January 1, 2022, the average number of out-of-the-money options was 0.2 million. There were no out-of-the-money options for the three months ended January 2, 2021.

NOTE 10. INCOME TAXES

The effective tax rates related to continuing operations for the three months ended January 1, 2022 and January 2, 2021 were 22.7% and 23.9%, respectively. The effective tax rate used for interim reporting purposes is based on management’s best estimate of factors impacting the effective tax rate for the full fiscal year and includes the impact of discrete items recognized in the quarter. There can be no assurance that the effective tax rate estimated for interim financial reporting purposes will approximate the effective tax rate determined at fiscal year end.

Scotts Miracle-Gro or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. Subject to the following exceptions, the Company is no longer subject to examination by these tax authorities for fiscal years prior to 2018. There are currently no ongoing audits with respect to the U.S. federal jurisdiction. With respect to the foreign jurisdictions, a German audit covering fiscal years 2014 through 2017 is in process with no known material impact to the financial statements. The Company is currently under examination by certain U.S. state and local tax authorities covering various periods from fiscal years 2012 through 2020. In addition to the aforementioned audits, certain other tax deficiency notices and refund claims for previous years remain unresolved.

The Company currently anticipates that few of its open and active audits will be resolved within the next twelve months. The Company is unable to make a reasonably reliable estimate as to when or if cash settlements with taxing authorities may occur. Although the outcomes of such examinations and the timing of any payments required upon the conclusion of such examinations are subject to significant uncertainty, the Company does not anticipate that the resolution of these tax matters or any events related thereto will result in a material change to its consolidated financial position, results of operations or cash flows.

NOTE 11. CONTINGENCIES

Management regularly evaluates the Company’s contingencies, including various judicial and administrative proceedings and claims arising in the ordinary course of business, including product and general liabilities, workers’ compensation, property losses and other liabilities for which the Company is self-insured or retains a high exposure limit. Self-insurance accruals are established based on actuarial loss estimates for specific individual claims plus actuarially estimated amounts for incurred but not reported claims and adverse development factors applied to existing claims. Legal costs incurred in connection with the resolution of claims, lawsuits and other contingencies generally are expensed as incurred. In the opinion of management, the assessment of contingencies is reasonable and related accruals, in the aggregate, are adequate; however, there can be no assurance that final resolution of these matters will not have a material effect on the Company’s financial condition, results of operations or cash flows.

Regulatory Matters

At January 1, 2022, $3.0 was accrued in the “Other liabilities” line in the Condensed Consolidated Balance Sheets for environmental actions, the majority of which are for site remediation. The Company believes that the amounts accrued are adequate to cover such known environmental exposures based on current facts and estimates of likely outcomes. Although it is reasonably possible that the costs to resolve such known environmental exposures will exceed the amounts accrued, any variation from accrued amounts is not expected to be material.

Other

The Company has been named as a defendant in a number of cases alleging injuries that the lawsuits claim resulted from exposure to asbestos-containing products, apparently based on the Company’s historic use of vermiculite in certain of its products. In many of these cases, the complaints are not specific about the plaintiffs’ contacts with the Company or its products. The cases vary, but complaints in these cases generally seek unspecified monetary damages (actual, compensatory, consequential and punitive) from multiple defendants. The Company believes that the claims against it are without merit and is vigorously defending against them. No accruals have been recorded in the Company’s consolidated financial statements as the likelihood of a loss is not probable at this time; and the Company does not believe a reasonably possible loss would be material to, nor the ultimate resolution of these cases will have a material adverse effect on, the Company’s financial condition, results of operations or cash flows. There can be no assurance that future developments related to pending claims or claims filed in the future, whether as a result of adverse outcomes or as a result of significant defense costs, will not have a material effect on the Company’s financial condition, results of operations or cash flows.

The Company is involved in other lawsuits and claims which arise in the normal course of business. These claims individually and in the aggregate are not expected to result in a material effect on the Company’s financial condition, results of operations or cash flows.

NOTE 12. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to market risks, such as changes in interest rates, currency exchange rates and commodity prices. To manage a portion of the volatility related to these exposures, the Company enters into various financial transactions. The utilization of these financial transactions is governed by policies covering acceptable counterparty exposure, instrument types and other hedging practices. The Company does not hold or issue derivative financial instruments for speculative trading purposes.

Exchange Rate Risk Management

The Company uses currency forward contracts to manage the exchange rate risk associated with intercompany loans and certain other balances denominated in foreign currencies. Currency forward contracts are valued using observable forward rates in commonly quoted intervals for the full term of the contracts. The notional amount of outstanding currency forward contracts was $164.2, $161.5 and $180.3 at January 1, 2022, January 2, 2021 and September 30, 2021, respectively. Contracts outstanding at January 1, 2022 will mature over the next fiscal quarter.

(Dollars in millions, except per share data)

Interest Rate Risk Management

The Company enters into interest rate swap agreements as a means to hedge its variable interest rate risk on debt instruments. Net amounts to be received or paid under the swap agreements are reflected as adjustments to interest expense. The Company has outstanding interest rate swap agreements with major financial institutions that effectively convert a portion of the Company's variable-rate debt to a fixed rate. Interest rate swap agreements are valued based on the present value of the estimated future net cash flows using implied rates in the applicable yield curve as of the valuation date. The swap agreements had a maximum total U.S. dollar equivalent notional amount of $600.0 at January 1, 2022, January 2, 2021 and September 30, 2021. Refer to "NOTE 7. DEBT" for the terms of the swap agreements outstanding at January 1, 2022. Included in the AOCL balance at January 1, 2022 was a loss of $3.0 related to interest rate swap agreements that is expected to be reclassified to earnings during the next twelve months, consistent with the timing of the underlying hedged transactions.

Commodity Price Risk Management

The Company enters into hedging arrangements designed to fix the price of a portion of its projected future urea, diesel and resin requirements. Commodity contracts are valued using observable commodity exchange prices in active markets. Included in the AOCL balance at January 1, 2022 was a gain of $13.3 related to commodity hedges that is expected to be reclassified to earnings during the next twelve months, consistent with the timing of the underlying hedged transactions.

The Company had the following outstanding commodity contracts that were entered into to hedge forecasted purchases:

Commodity	January 1, 2022	January 2, 2021	September 30, 2021
Urea	58,500 tons	40,500 tons	94,500 tons
Resin	— pounds	4,000,000 pounds	— pounds
Diesel	4,662,000 gallons	4,704,000 gallons	5,880,000 gallons
Heating Oil	2,184,000 gallons	2,100,000 gallons	2,268,000 gallons

Fair Values of Derivative Instruments

The fair values of the Company's derivative instruments, which represent Level 2 fair value measurements, were as follows:

		Assets / (Liabilities)		
Derivatives Designated as Hedging Instruments	**Balance Sheet Location**	**January 1, 2022**	**January 2, 2021**	**September 30, 2021**
Interest rate swap agreements	Other assets	$ 5.2	$ —	$ 3.3
	Other current liabilities	(4.3)	(9.4)	(5.7)
	Other liabilities	(0.6)	(7.9)	(2.5)
Commodity hedging instruments	Prepaid and other current assets	9.6	2.1	13.9
Total derivatives designated as hedging instruments		$ 9.9	$ (15.2)	$ 9.0
Derivatives Not Designated as Hedging Instruments	**Balance Sheet Location**			
Currency forward contracts	Prepaid and other current assets	$ 1.1	$ —	$ 3.4
	Other current liabilities	(0.2)	(6.6)	(0.2)
Commodity hedging instruments	Prepaid and other current assets	1.2	0.4	1.3
Total derivatives not designated as hedging instruments		2.1	(6.2)	4.5
Total derivatives		$ 12.0	$ (21.4)	$ 13.5

(Dollars in millions, except per share data)

The effect of derivative instruments on AOCL, net of tax, and the Condensed Consolidated Statements of Operations for each of the periods presented was as follows:

	Amount of Gain / (Loss) Recognized in AOCL	
	Three Months Ended	
Derivatives in Cash Flow Hedging Relationships	**January 1, 2022**	**January 2, 2021**
Interest rate swap agreements	$ 2.8	$ 0.3
Commodity hedging instruments	6.8	2.2
Total	$ 9.6	$ 2.5

		Amount of Gain / (Loss)	
		Three Months Ended	
Derivatives in Cash Flow Hedging Relationships	**Reclassified from AOCL into Statement of Operations**	**January 1, 2022**	**January 2, 2021**
Interest rate swap agreements	Interest expense	$ (0.8)	$ (1.8)
Commodity hedging instruments	Cost of sales	1.0	(0.1)
Total		$ 0.2	$ (1.9)

		Amount of Gain / (Loss)	
		Three Months Ended	
Derivatives Not Designated as Hedging Instruments	**Recognized in Statement of Operations**	**January 1, 2022**	**January 2, 2021**
Currency forward contracts	Other income / expense, net	$ 1.0	$ (8.0)
Commodity hedging instruments	Cost of sales	0.6	0.7
Total		$ 1.6	$ (7.3)

(Dollars in millions, except per share data)

NOTE 13. FAIR VALUE MEASUREMENTS

The following table summarizes the fair value of the Company's assets and liabilities for which disclosure of fair value is required:

	Fair Value Hierarchy Level	January 1, 2022 Carrying Amount	January 1, 2022 Estimated Fair Value	January 2, 2021 Carrying Amount	January 2, 2021 Estimated Fair Value	September 30, 2021 Carrying Amount	September 30, 2021 Estimated Fair Value
Assets							
Cash equivalents	Level 1	$ 1.6	$ 1.6	$ 3.3	$ 3.3	$ 222.5	$ 222.5
Other							
Investment securities in non-qualified retirement plan assets	Level 1	50.1	50.1	38.7	38.7	45.0	45.0
Convertible debt investments	Level 3	191.3	191.3	—	—	190.3	190.3
Liabilities							
Debt instruments							
Credit facilities – revolving loans	Level 2	856.5	856.5	599.6	599.6	—	—
Credit facilities – term loans	Level 2	660.0	660.0	700.0	700.0	670.0	670.0
Senior Notes due 2031 – 4.000%	Level 2	500.0	495.0	—	—	500.0	498.8
Senior Notes due 2032 – 4.375%	Level 2	400.0	399.0	—	—	400.0	402.0
Senior Notes due 2029 – 4.500%	Level 2	450.0	468.6	450.0	484.9	450.0	466.9
Senior Notes due 2026 – 5.250%	Level 2	250.0	256.6	250.0	263.4	250.0	258.1
Receivables facility	Level 2	94.0	94.0	136.0	136.0	—	—
Other debt	Level 2	20.6	20.6	6.8	6.8	11.9	11.9

The cost basis of convertible debt investments was $193.1 at January 1, 2022 and September 30, 2021. There were no purchases of convertible debt investments during the three months ended January 1, 2022. During the three months ended January 1, 2022, the Company recorded an unrealized gain of $0.2 in AOCL and recorded investment income of $0.8 associated with its Level 3 convertible debt investments. The amortized cost basis of convertible debt investments was $194.2 and $193.4 at January 1, 2022 and September 30, 2021, respectively.

NOTE 14. LEASES

The Company leases certain property and equipment from third parties under various non-cancelable lease agreements, including industrial, commercial and office properties and equipment that support the management, manufacturing, distribution and research and development of products marketed and sold by the Company. The lease agreements generally require that the Company pay taxes, insurance and maintenance expenses related to the leased assets. At January 1, 2022, there were no material operating leases that the Company had entered into that were yet to commence. From time to time, the Company will sublease portions of its facilities, resulting in sublease income. Sublease income and the related cash flows were not material to the condensed consolidated financial statements for the three months ended January 1, 2022 and January 2, 2021.

The Company leases certain vehicles (primarily cars and light trucks) under agreements that are cancellable after the first year, but typically continue on a month-to-month basis until canceled by the Company. The vehicle leases and certain other non-cancelable operating leases contain residual value guarantees that create a contingent obligation on the part of the Company to compensate the lessor if the leased asset cannot be sold for an amount in excess of a specified minimum value at the conclusion of the lease term. If all such vehicle leases had been canceled as of January 1, 2022, the Company's residual value guarantee would have approximated $5.0.

(Dollars in millions, except per share data)

Supplemental balance sheet information related to the Company’s leases was as follows:

	Balance Sheet Location	January 1, 2022	January 2, 2021	September 30, 2021
Operating leases:				
Right-of-use assets	Other assets	$ 294.4	$ 169.6	$ 293.0
Current lease liabilities	Other current liabilities	70.2	52.9	66.4
Non-current lease liabilities	Other liabilities	232.8	122.9	234.4
Total operating lease liabilities		$ 303.0	$ 175.8	$ 300.8
Finance leases:				
Right-of-use assets	Property, plant and equipment, net	$ 29.8	$ 33.3	$ 31.3
Current lease liabilities	Current portion of debt	5.9	5.2	5.9
Non-current lease liabilities	Long-term debt	26.0	29.6	27.5
Total finance lease liabilities		$ 31.9	$ 34.8	$ 33.4

Components of lease cost were as follows:

	Three Months Ended	
	January 1, 2022	January 2, 2021
Operating lease cost [(a)]	$ 20.9	$ 15.4
Variable lease cost	9.7	3.1
Finance lease cost		
Amortization of right-of-use assets	1.6	1.5
Interest on lease liabilities	0.3	0.4
Total finance lease cost	$ 1.9	$ 1.9

(a) Operating lease cost includes amortization of ROU assets of $17.6 and $13.3 for the three months ended January 1, 2022 and January 2, 2021, respectively. Short-term lease expense is excluded from operating lease cost and is not material.

Supplemental cash flow information and non-cash activity related to the Company’s leases were as follows:

	Three Months Ended	
	January 1, 2022	January 2, 2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases, net	$ 20.2	$ 13.9
Operating cash flows from finance leases	0.3	0.4
Financing cash flows from finance leases	1.4	1.3
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 20.6	$ 25.6

(Dollars in millions, except per share data)

Weighted-average remaining lease term and discount rate for the Company’s leases were as follows:

	January 1, 2022
Weighted-average remaining lease term (in years):	
Operating leases	5.4
Finance leases	7.7
Weighted-average discount rate:	
Operating leases	3.2 %
Finance leases	4.2 %

Maturities of lease liabilities by fiscal year for the Company’s leases as of January 1, 2022 were as follows:

Year	Operating Leases	Finance Leases
2022 (remainder of the year)	$ 59.7	$ 5.3
2023	71.9	7.1
2024	62.8	7.1
2025	48.6	2.9
2026	32.6	1.9
Thereafter	54.8	13.6
Total lease payments	330.4	37.9
Less: Imputed interest	(27.4)	(6.0)
Total lease liabilities	$ 303.0	$ 31.9

NOTE 15. SEGMENT INFORMATION

The Company divides its operations into three reportable segments: U.S. Consumer, Hawthorne and Other. U.S. Consumer consists of the Company’s consumer lawn and garden business in the United States. Hawthorne consists of the Company’s indoor and hydroponic gardening business. Other primarily consists of the Company’s consumer lawn and garden business outside the United States. This identification of reportable segments is consistent with how the segments report to and are managed by the chief operating decision maker of the Company. In addition, Corporate consists of general and administrative expenses and certain other income and expense items not allocated to the business segments.

The performance of each reportable segment is evaluated based on several factors, including income (loss) from continuing operations before income taxes, amortization, impairment, restructuring and other charges (“Segment Profit (Loss)”). Senior management uses Segment Profit (Loss) to evaluate segment performance because the Company believes this measure is indicative of performance trends and the overall earnings potential of each segment.

(Dollars in millions, except per share data)

The following tables present financial information for the Company's reportable segments for the periods indicated:

	Three Months Ended	
	January 1, 2022	January 2, 2021
Net Sales:		
U.S. Consumer	$ 342.4	$ 408.2
Hawthorne	190.6	309.4
Other	33.0	31.0
Consolidated	$ 566.0	$ 748.6
Segment Profit (Loss):		
U.S. Consumer	$ 10.7	$ 45.3
Hawthorne	(5.3)	40.4
Other	1.3	—
Total Segment Profit (Loss)	6.7	85.7
Corporate	(31.4)	(34.6)
Intangible asset amortization	(8.9)	(7.4)
Impairment, restructuring and other	(1.8)	(9.7)
Equity in loss of unconsolidated affiliates	(7.3)	—
Interest expense	(23.8)	(16.1)
Other non-operating income, net	1.8	15.2
Income (loss) from continuing operations before income taxes	$ (64.7)	$ 33.1

The following table presents net sales by product category for the periods indicated:

	Three Months Ended	
	January 1, 2022	January 2, 2021
U.S. Consumer:		
Lawn care	$ 123.8	$ 166.0
Growing media and mulch	80.0	90.0
Controls	54.8	62.5
Roundup® marketing agreement	20.8	17.3
Other	63.0	72.4
Hawthorne:		
Lighting	48.8	115.3
Growing environments	46.0	55.8
Nutrients	35.9	61.1
Growing media	29.9	35.6
Other, primarily hardware	30.0	41.6
Other:		
Growing media	15.0	16.8
Lawn care	2.6	4.8
Other, primarily gardening and controls	15.4	9.4
Total net sales	$ 566.0	$ 748.6

The following table presents net sales by geographic area for the periods indicated:

	Three Months Ended	
	January 1, 2022	January 2, 2021
Net sales:		
United States	$ 506.7	$ 680.5
International	59.3	68.1
	$ 566.0	$ 748.6

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The purpose of this Management's Discussion and Analysis ("MD&A") is to provide an understanding of our financial condition and results of operations by focusing on changes in certain key measures from year-to-year. This MD&A is divided into the following sections:

- Executive summary
- Results of operations
- Segment results
- Liquidity and capital resources
- Regulatory matters
- Critical accounting policies and estimates

This MD&A should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Scotts Miracle-Gro's Annual Report on Form 10-K for the fiscal year ended September 30, 2021 (the "2021 Annual Report") and our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

EXECUTIVE SUMMARY

Through our U.S. Consumer and Other segments, we are the leading manufacturer and marketer of branded consumer lawn and garden products in North America. Our products are marketed under some of the most recognized brand names in the industry. Our key consumer lawn and garden brands include Scotts® and Turf Builder® lawn and grass seed products; Miracle-Gro® soil, plant food and insecticide, LiquaFeed® plant food and Osmocote® gardening and landscape products; and Ortho®, Home Defense® and Tomcat® branded insect control, weed control and rodent control products. We are the exclusive agent of Monsanto for the marketing and distribution of certain of Monsanto's consumer Roundup® branded products within the United States and certain other specified countries. We also have a presence in similar branded consumer products in China. In addition, we own a 50% equity interest in Bonnie Plants, LLC, a joint venture with AFC, focused on planting, growing, developing, distributing, marketing and selling live plants.

Through our Hawthorne segment, we are the leading manufacturer, marketer and distributor of lighting, nutrients, growing media, growing environments and hardware products for indoor and hydroponic gardening in North America. Our key brands include General Hydroponics®, Gavita®, Botanicare®, Agrolux®, Can-Filters®, Sun System®, Gro Pro®, Mother Earth®, Hurricane®, Grower's Edge® and Hydro-Logic®.

On December 30, 2021, our Hawthorne segment completed the acquisition of substantially all of the assets of Luxx Lighting, Inc., a leading provider of lighting products for indoor growing that significantly strengthens our industry-leading lighting portfolio, for a purchase price of $213.5.

During fiscal 2021, we announced the creation of a newly formed subsidiary, THC, which will focus on strategic minority non-equity investments in areas of the cannabis industry not currently pursued by our Hawthorne segment. This initiative is designed to allow us, in the future, to participate directly in a larger marketplace as the legal environment changes over time. On August 24, 2021, we made our initial investment under this initiative in the form of a $150.0 six-year convertible note issued to us by Toronto-based RIV Capital (CSE: RIV) (OTC: CNPOF), a cannabis investment and acquisition firm listed on the Canadian Securities Exchange. During the fourth quarter of fiscal 2021, we made additional minority non-equity investments of $43.1 in other entities focused on branded cannabis and high quality genetics. These investments include conversion features that would provide us with minority ownership interests in these entities if we exercise the conversion features. Refer to "NOTE 2. ACQUISITIONS AND INVESTMENTS" for more information regarding these investments.

Our operations are divided into three reportable segments: U.S. Consumer, Hawthorne and Other. U.S. Consumer consists of our consumer lawn and garden business in the United States. Hawthorne consists of our indoor and hydroponic gardening business. Other primarily consists of our consumer lawn and garden business outside the United States. This division of reportable segments is consistent with how the segments report to and are managed by our chief operating decision maker. In addition, Corporate consists of general and administrative expenses and certain other income and expense items not allocated to the business segments. See "SEGMENT RESULTS" below for additional information regarding our evaluation of segment performance.

(Dollars in millions, except per share data)

Due to the seasonal nature of the consumer lawn and garden business, for our U.S. Consumer and Other segments, significant portions of our products ship to our retail customers during our second and third fiscal quarters, as noted in the table below. Our annual net sales are further concentrated in the second and third fiscal quarters by retailers who rely on our ability to deliver products closer to when consumers buy our products, thereby reducing retailers' pre-season inventories. For our Hawthorne segment, sales are also impacted by seasonal patterns for certain product categories due to the timing of outdoor growing in North America during our second and third fiscal quarters, and the timing of certain controlled agricultural lighting project sales during our third and fourth fiscal quarters.

	Percent of Net Sales from Continuing Operations by Quarter		
	2021	2020	2019
First Quarter	15.2 %	8.9 %	9.4 %
Second Quarter	37.1 %	33.5 %	37.7 %
Third Quarter	32.7 %	36.1 %	37.1 %
Fourth Quarter	15.0 %	21.5 %	15.8 %

On February 6, 2020, Scotts Miracle-Gro announced that its Board of Directors authorized the repurchase of up to $750.0 of Common Shares from April 30, 2020 through March 25, 2023. During the three months ended January 1, 2022 and January 2, 2021, Scotts Miracle-Gro repurchased approximately 0.8 million and 0.2 million Common Shares under this share repurchase authorization for $125.0 and $38.0, respectively.

On July 27, 2020, the Scotts Miracle-Gro Board of Directors approved an increase in our quarterly cash dividend from $0.58 to $0.62 per Common Share, which was first paid in the fourth quarter of fiscal 2020. On July 30, 2021, the Scotts Miracle-Gro Board of Directors approved an increase in our quarterly cash dividend from $0.62 to $0.66 per Common Share, which was first paid in the fourth quarter of fiscal 2021.

COVID-19 Response and Impacts

The COVID-19 pandemic has had, and continues to have, an impact on financial markets, economic conditions, and portions of our business and industry. We have actively addressed the pandemic's ongoing impact on our employees, operations, customers, consumers, and communities, by, among other things, implementing contingency plans, making operational adjustments where necessary, and providing assistance to organizations that support front-line workers. The first priority of our pandemic response has been and remains the health, safety and well-being of our employees. Many of our employees continue to work from home. In those instances where our employees cannot perform their work at home, we have implemented additional health and safety measures and social distancing protocols, consistent with government recommendations and/or requirements, to help to ensure their safety. In addition, we implemented an interim premium pay allowance for certain associates in our field sales force and our manufacturing or distribution centers, which paid out nearly $50.0 in aggregate during fiscal 2020 and 2021.

The extent to which the COVID-19 pandemic will impact our business, results of operations, financial condition and cash flows in the future will depend on future developments, including the duration, spread and intensity of the pandemic, our continued ability to manufacture and distribute our products, as well as any future government actions affecting consumers and the economy generally, all of which are uncertain and difficult to predict considering the rapidly evolving landscape. We are not able to predict the impact, if any, that the COVID-19 pandemic may have on the seasonality of our business.

Although we currently expect to be able to continue operating our business as described above and we intend to continue to work with government authorities and to follow the necessary protocols to maintain the health and safety of our employees, the COVID-19 pandemic could result in additional disruptions to our business, including our global supply chain and retailer network, and/or require us to incur additional operational costs. For additional information on the impacts of, and our response to, the COVID-19 pandemic, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of the 2021 Annual Report.

(Dollars in millions, except per share data)

RESULTS OF OPERATIONS

The following table sets forth the components of earnings as a percentage of net sales for the three months ended January 1, 2022 and January 2, 2021:

	January 1, 2022	% Of Net Sales	January 2, 2021	% Of Net Sales
Net sales	$ 566.0	100.0 %	$ 748.6	100.0 %
Cost of sales	447.3	79.0	548.8	73.3
Cost of sales—impairment, restructuring and other	—	—	9.0	1.2
Gross profit	118.7	21.0	190.8	25.5
Operating expenses:				
Selling, general and administrative	154.1	27.2	156.7	20.9
Impairment, restructuring and other	1.8	0.3	0.7	0.1
Other income, net	(1.8)	(0.3)	(0.6)	(0.1)
Income (loss) from operations	(35.4)	(6.3)	34.0	4.5
Equity in loss of unconsolidated affiliates	7.3	1.3	—	—
Interest expense	23.8	4.2	16.1	2.2
Other non-operating income, net	(1.8)	(0.3)	(15.2)	(2.0)
Income (loss) from continuing operations before income taxes	(64.7)	(11.4)	33.1	4.4
Income tax expense (benefit) from continuing operations	(14.7)	(2.6)	7.9	1.1
Income (loss) from continuing operations	(50.0)	(8.8)	25.2	3.4
Income (loss) from discontinued operations, net of tax	—	—	—	—
Net income (loss)	$ (50.0)	(8.8)%	$ 25.2	3.4 %

The sum of the components may not equal due to rounding.

Net Sales

Net sales for the three months ended January 1, 2022 were $566.0, a decrease of 24.4% from net sales of $748.6 for the three months ended January 2, 2021. These changes in net sales were attributable to the following:

	Three Months Ended January 1, 2022
Volume	(28.6)%
Pricing	3.9
Acquisitions	0.3
Change in net sales	(24.4)%

The decrease in net sales for the three months ended January 1, 2022 as compared to the three months ended January 2, 2021 was primarily driven by:

- decreased sales volume driven by lighting, nutrients, growing media, hardware and growing environments products in our Hawthorne segment; and fertilizer, soils and controls products in our U.S. Consumer segment;
- partially offset by increased pricing in our U.S. Consumer, Hawthorne and Other segments; and
- the addition of net sales from acquisitions.

(Dollars in millions, except per share data)

Cost of Sales

The following table shows the major components of cost of sales for the periods indicated:

	Three Months Ended	
	January 1, 2022	January 2, 2021
Materials	$ 235.9	$ 312.1
Distribution and warehousing	115.1	108.1
Manufacturing labor and overhead	76.7	114.6
Costs associated with Roundup® marketing agreement	19.6	14.0
Cost of sales	447.3	548.8
Cost of sales—impairment, restructuring and other	—	9.0
	$ 447.3	$ 557.8

Factors contributing to the change in cost of sales are outlined in the following table:

	Three Months Ended January 1, 2022
Volume, product mix and other	$ (112.8)
Material cost changes	5.7
Costs associated with Roundup® marketing agreement	5.6
	(101.5)
Impairment, restructuring and other	(9.0)
Change in cost of sales	$ (110.5)

The decrease in cost of sales for the three months ended January 1, 2022 as compared to the three months ended January 2, 2021 was primarily driven by:

- lower sales volume in our U.S. Consumer and Hawthorne segments; and
- a decrease in impairment, restructuring and other charges as a result of lower costs associated with the COVID-19 pandemic;
- partially offset by higher material costs in our U.S. Consumer segment;
- higher transportation, warehousing and labor costs included within “volume, product mix and other” in our U.S. Consumer and Hawthorne segments; and
- an increase in costs associated with the Roundup® marketing agreement.

(Dollars in millions, except per share data)

Gross Profit

As a percentage of net sales, our gross profit rate was 21.0% and 25.5% for the three months ended January 1, 2022 and January 2, 2021, respectively. Factors contributing to the change in gross profit rate are outlined in the following table:

	Three Months Ended January 1, 2022
Volume, product mix and other	(8.2)%
Material costs	(1.0)
Roundup® commissions and reimbursements	(0.5)
Acquisitions	(0.1)
Pricing	4.1
	(5.7)%
Impairment, restructuring and other	1.2
Change in gross profit rate	(4.5)%

The decrease in gross profit rate for the three months ended January 1, 2022 as compared to the three months ended January 2, 2021 was primarily driven by:

- unfavorable leverage of fixed costs driven by lower sales volume in our U.S. Consumer and Hawthorne segments;
- decreased net sales associated with the Roundup® marketing agreement;
- higher transportation, warehousing and labor costs included within “volume, product mix and other” in our U.S. Consumer and Hawthorne segments; and
- higher material costs in our U.S. Consumer segment;
- partially offset by increased pricing in our U.S. Consumer, Hawthorne and Other segments; and
- a decrease in impairment, restructuring and other charges.

Selling, General and Administrative Expenses

The following table sets forth the components of selling, general and administrative expenses (“SG&A”) for the periods indicated:

	Three Months Ended	
	January 1, 2022	January 2, 2021
Advertising	$ 18.3	$ 26.7
Research and development	12.5	10.3
Amortization of intangibles	7.4	7.3
Share-based compensation	7.3	8.2
Other selling, general and administrative	108.6	104.2
	$ 154.1	$ 156.7

SG&A decreased $2.6, or 1.7%, during the three months ended January 1, 2022 compared to the three months ended January 2, 2021. Advertising expense decreased $8.4, or 31.5%, during the three months ended January 1, 2022 driven by the timing of media spending in our U.S. Consumer segment. Other SG&A increased $4.4, or 4.2%, during the three months ended January 1, 2022 driven by increases in various categories supporting the continued growth of the business as well as higher people costs, partially offset by a decrease in short-term variable cash incentive compensation expense.

(Dollars in millions, except per share data)

Impairment, Restructuring and Other

Activity described herein is classified within the "Cost of sales—impairment, restructuring and other" and "Impairment, restructuring and other" lines in the Condensed Consolidated Statements of Operations. The following table details impairment, restructuring and other charges for each of the periods presented:

	Three Months Ended	
	January 1, 2022	January 2, 2021
Cost of sales—impairment, restructuring and other:		
COVID-19 related costs	$ —	$ 8.7
Restructuring and other charges, net	—	0.3
Operating expenses:		
COVID-19 related costs	—	0.6
Restructuring and other charges, net	1.8	0.1
Impairment, restructuring and other charges from continuing operations	$ 1.8	$ 9.7

<u>COVID-19</u>

In response to the COVID-19 pandemic, we implemented measures intended to protect the health and safety of our employees and maintain our ability to provide products to our customers as described in additional detail above under "COVID-19 Response and Impacts." Costs incurred during the three months ended January 1, 2022 were immaterial. During the three months ended January 2, 2021, we incurred costs of $9.3 associated with the COVID-19 pandemic primarily related to premium pay. We incurred costs of $8.3 in our U.S. Consumer segment and $0.4 in our Hawthorne segment in the "Cost of sales—impairment, restructuring and other" line in the Condensed Consolidated Statements of Operations during the three months ended January 2, 2021. We incurred costs of $0.6 in our U.S. Consumer segment in the "Impairment, restructuring and other" line in the Condensed Consolidated Statements of Operations during the three months ended January 2, 2021.

Other Income, net

Other income is comprised of activities such as royalty income from the licensing of certain of our brand names, foreign exchange transaction gains and losses and gains and losses from the disposition of non-inventory assets. Other income was $1.8 and $0.6 for the three months ended January 1, 2022 and January 2, 2021, respectively.

Income (Loss) from Operations

Loss from operations was $35.4 for the three months ended January 1, 2022, a decrease of 204.1% compared to income from operations of $34.0 for the three months ended January 2, 2021. For the three months ended January 1, 2022, the decrease was driven by lower net sales and a decrease in gross profit rate, partially offset by lower impairment, restructuring and other charges, lower SG&A and higher other income.

Equity in Loss of Unconsolidated Affiliates

We acquired a 50% equity interest in Bonnie Plants, LLC on December 31, 2020. Our interest is accounted for using the equity method of accounting, with our proportionate share of Bonnie Plants, LLC earnings subsequent to December 31, 2020 reflected in the Condensed Consolidated Statements of Operations. During the three months ended January 1, 2022, we recorded equity in loss of unconsolidated affiliates of $7.3 associated with Bonnie Plants, LLC. We anticipated a net loss for Bonnie Plants, LLC in the first quarter of fiscal 2022 due to the seasonal nature of its business, in which sales are heavily weighted to the spring and summer selling periods during our second and third fiscal quarters.

Interest Expense

Interest expense was $23.8 for the three months ended January 1, 2022, an increase of 47.8% compared to $16.1 for the three months ended January 2, 2021. The increase was driven by an increase in average borrowings of $927.7, partially offset by a decrease in our weighted average interest rate of 16 basis points. The increase in average borrowings was primarily driven by higher inventory production, capital expenditures and acquisition activity. The decrease in our weighted average interest rate was primarily driven by lower borrowing rates on the Fifth A&R Credit Agreement, partially offset by the issuance of the 4.000% and 4.375% Senior Notes.

(Dollars in millions, except per share data)

Other Non-Operating Income, Net

Other non-operating income was $1.8 and $15.2 for the three months ended January 1, 2022 and January 2, 2021, respectively. On December 31, 2020, we acquired a 50% equity interest in Bonnie Plants, LLC in exchange for a cash payment of $100.7, forgiveness of our outstanding loan receivable with AFC and surrender of our options to increase our economic interest in the Bonnie Plants business. Our loan receivable with AFC, which was previously recognized in the “Other assets” line in the Condensed Consolidated Balance Sheets, had a carrying value of $66.4 on December 31, 2020 and we recognized a gain of $12.5 during the three months ended January 2, 2021 to write-up the value of the loan to its closing date fair value of $78.9.

Income Tax Expense (Benefit) from Continuing Operations

The effective tax rates related to continuing operations for the three months ended January 1, 2022 and January 2, 2021 were 22.7% and 23.9%, respectively. The effective tax rate used for interim purposes is based on our best estimate of factors impacting the effective tax rate for the full fiscal year. Factors affecting the estimated effective tax rate include assumptions as to income by jurisdiction (domestic and foreign), the availability and utilization of tax credits and the existence of elements of income and expense that may not be taxable or deductible. The estimated effective tax rate is subject to revision in later interim periods and at fiscal year-end as facts and circumstances change during the course of the fiscal year. There can be no assurance that the effective tax rate estimated for interim financial reporting purposes will approximate the effective tax rate determined at fiscal year-end.

Income (Loss) from Continuing Operations

Loss from continuing operations was $50.0, or $0.90 per diluted share, for the three months ended January 1, 2022 compared to income from continuing operations of $25.2, or $0.43 per diluted share, for the three months ended January 2, 2021. The decrease was driven by lower net sales, a decrease in gross profit rate, higher interest expense, higher equity in loss of unconsolidated affiliates and lower other non-operating income, partially offset by lower impairment, restructuring and other charges, lower SG&A and higher other income.

Diluted average common shares used in the diluted loss per common share calculation for the three months ended January 1, 2022 were 55.4 million, which excluded 1.3 million dilutive potential Common Shares because the effect of their inclusion would be anti-dilutive as the Company incurred a net loss for the three months ended January 1, 2022. Diluted average common shares used in the diluted income per common share calculation for the three months ended January 2, 2021 were 57.1 million, which included 1.4 million dilutive potential Common Shares.

SEGMENT RESULTS

The performance of each reportable segment is evaluated based on several factors, including income (loss) from continuing operations before income taxes, amortization, impairment, restructuring and other charges (“Segment Profit (Loss)”), which is a non-GAAP financial measure. Senior management uses Segment Profit (Loss) to evaluate segment performance because they believe this measure is indicative of performance trends and the overall earnings potential of each segment.

The following table sets forth net sales by segment:

	Three Months Ended	
	January 1, 2022	January 2, 2021
U.S. Consumer	$ 342.4	$ 408.2
Hawthorne	190.6	309.4
Other	33.0	31.0
Consolidated	$ 566.0	$ 748.6

(Dollars in millions, except per share data)

The following table sets forth Segment Profit (Loss) as well as a reconciliation to income from continuing operations before income taxes, the most directly comparable GAAP measure:

	Three Months Ended	
	January 1, 2022	January 2, 2021
U.S. Consumer	$ 10.7	$ 45.3
Hawthorne	(5.3)	40.4
Other	1.3	—
Total Segment Profit (Loss) (Non-GAAP)	6.7	85.7
Corporate	(31.4)	(34.6)
Intangible asset amortization	(8.9)	(7.4)
Impairment, restructuring and other	(1.8)	(9.7)
Equity in loss of unconsolidated affiliates	(7.3)	—
Interest expense	(23.8)	(16.1)
Other non-operating income, net	1.8	15.2
Income (loss) from continuing operations before income taxes (GAAP)	$ (64.7)	$ 33.1

U.S. Consumer

U.S. Consumer segment net sales were $342.4 in the first quarter of fiscal 2022, a decrease of 16.1% from first quarter of fiscal 2021 net sales of $408.2. The decrease was driven by the unfavorable impact of volume of 20.1%, partially offset by the favorable impact of increased pricing of 4.0%. The decrease in sales volume was driven by fertilizer, soils and controls products.

U.S. Consumer Segment Profit was $10.7 in the first quarter of fiscal 2022, a decrease of 76.4% from the first quarter of fiscal 2021 Segment Profit of $45.3. The decrease was due to lower net sales and a lower gross profit rate, partially offset by lower SG&A.

Hawthorne

Hawthorne segment net sales were $190.6 in the first quarter of fiscal 2022, a decrease of 38.4% from first quarter of fiscal 2021 net sales of $309.4. The decrease was driven by the unfavorable impacts of volume and foreign exchange rates of 42.5% and 0.2%, respectively, partially offset by the favorable impacts of increased pricing and acquisitions of 3.5% and 0.8%, respectively. The decrease in sales volume was driven by lighting, nutrients, growing media, hardware and growing environments products.

Hawthorne Segment Loss was $5.3 in the first quarter of fiscal 2022, a decrease of 113.1% from the first quarter of fiscal 2021 Segment Profit of $40.4. The decrease was driven by lower net sales, a lower gross profit rate and higher SG&A.

Other

Other segment net sales were $33.0 in the first quarter of fiscal 2022, an increase of 6.5% from the first quarter of fiscal 2021 net sales of $31.0. The increase was driven by the favorable impacts of pricing and foreign exchange rates of 6.7% and 2.8%, respectively, partially offset by the unfavorable impact of volume of 3.4%.

Other Segment Profit was $1.3 in the first quarter of fiscal 2022, an increase of 100.0% from the first quarter of fiscal 2021 Segment Profit of $0.0. The increase was driven by higher net sales and a higher gross profit rate, partially offset by higher SG&A.

Corporate

Corporate expenses were $31.4 in the first quarter of fiscal 2022, a decrease of 9.2% from first quarter of fiscal 2021 expenses of $34.6. The decrease was driven by lower short-term variable cash incentive compensation expense.

(Dollars in millions, except per share data)

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes cash activities:

	Three Months Ended	
	January 1, 2022	January 2, 2021
Net cash used in operating activities	$ (765.1)	$ (420.7)
Net cash used in investing activities	(245.2)	(148.2)
Net cash provided by financing activities	782.6	573.5

Operating Activities

Cash used in operating activities totaled $765.1 for the three months ended January 1, 2022, an increase of $344.4 as compared to $420.7 for the three months ended January 2, 2021. This increase was driven by higher inventory production, lower net income and higher interest payments, partially offset by lower short-term variable cash incentive compensation payouts. Higher inventory production was driven by our effort to build inventory levels to meet expected future demand and higher input costs. The three months ended January 1, 2022 was also impacted by extended payment terms with several of our major vendors across the U.S. Consumer and Hawthorne segments, as well as Monsanto, for payments originally due in the final weeks of fiscal 2021 that were paid in the first quarter of fiscal 2022.

Investing Activities

Cash used in investing activities totaled $245.2 for the three months ended January 1, 2022, an increase of $97.0 as compared to $148.2 for the three months ended January 2, 2021. Cash used for investments in property, plant and equipment during the first three months of fiscal 2022 and 2021 was $46.1 and $34.6, respectively. We also completed the acquisitions of Luxx Lighting, Inc. and True Liberty Bags during the three months ended January 1, 2022 in exchange for cash payments of $202.5, as well as the issuance of 0.1 million Common Shares, a non-cash investing and financing activity, with a fair value of $21.0 based on the share price at the time of payment. In addition, we received cash of $3.4 associated with currency forward contracts during the three months ended January 1, 2022. During the three months ended January 2, 2021, we acquired a 50% equity interest in Bonnie Plants, LLC in exchange for a cash payment of $100.7, as well as non-cash investing activities that included forgiveness of our outstanding loan receivable with AFC and surrender of our options to increase our economic interest in the Bonnie Plants business. In addition, during the three months ended January 2, 2021, we acquired contract rights within our U.S. Consumer segment for a cash payment of $10.0 and we paid cash of $2.9 associated with currency forward contracts.

Financing Activities

Cash provided by financing activities totaled $782.6 for the three months ended January 1, 2022 as compared $573.5 for the three months ended January 2, 2021. This change was driven by an increase in net borrowings under our Fifth A&R Credit Facilities (as defined below) of $302.9 during the three months ended January 1, 2022, partially offset by an increase in repurchases of our Common Shares of $91.1 and an increase in dividends paid of $2.5 during the three months ended January 1, 2022.

Cash and Cash Equivalents

Our cash and cash equivalents were held in cash depository accounts with major financial institutions around the world or invested in high-quality, short-term liquid investments having original maturities of three months or less. The cash and cash equivalents balances of $16.4, $21.5 and $244.1 as of January 1, 2022, January 2, 2021 and September 30, 2021, respectively, included $8.7, $4.2 and $15.9, respectively, held by controlled foreign corporations. As of January 1, 2022, we maintain our assertion of indefinite reinvestment of the earnings of all material foreign subsidiaries.

Borrowing Agreements

Credit Facilities

Our primary sources of liquidity are cash generated by operations and borrowings under our credit facilities, which are guaranteed by substantially all of Scotts Miracle-Gro's domestic subsidiaries. We maintain the Fifth A&R Credit Agreement that provides senior secured loan facilities in the aggregate principal amount of $2,300.0, comprised of a revolving credit facility of $1,500.0 and a term loan in the original principal amount of $800.0 (the "Fifth A&R Credit Facilities"). The Fifth A&R Credit Agreement is available for issuance of letters of credit up to $75.0 and will terminate on July 5, 2023.

At January 1, 2022, we had letters of credit outstanding in the aggregate principal amount of $19.9 and had $623.5 of borrowing availability under the Fifth A&R Credit Agreement. The weighted average interest rates on average borrowings under the Fifth A&R Credit Agreement were 1.8% and 2.1% for the three months ended January 1, 2022 and January 2, 2021, respectively.

The Fifth A&R Credit Agreement contains, among other obligations, an affirmative covenant regarding our leverage ratio on the last day of each quarter calculated as average total indebtedness, divided by our earnings before interest, taxes, depreciation and amortization ("EBITDA"), as adjusted pursuant to the terms of the Fifth A&R Credit Agreement ("Adjusted EBITDA"). The maximum leverage ratio is 4.50. Our leverage ratio was 3.32 at January 1, 2022. The Fifth A&R Credit Agreement also contains an affirmative covenant regarding our interest coverage ratio determined as of the end of each of our fiscal quarters. The interest coverage ratio is calculated as Adjusted EBITDA divided by interest expense, as described in the Fifth A&R Credit Agreement, and excludes costs related to refinancings. The minimum interest coverage ratio was 3.00 for the twelve months ended January 1, 2022. Our interest coverage ratio was 8.73 for the twelve months ended January 1, 2022. As of January 1, 2022, we were in compliance with these financial covenants.

The Fifth A&R Credit Agreement allows us to make unlimited restricted payments (as defined in the Fifth A&R Credit Agreement), including dividend payments on, and repurchases of, our Common Shares, as long as the leverage ratio resulting from the making of such restricted payments is 4.00 or less. Otherwise, we may make further restricted payments in an aggregate amount for each fiscal year not to exceed $225.0. We continue to monitor our compliance with the leverage ratio, interest coverage ratio and other covenants contained in the Fifth A&R Credit Agreement and, based upon our current operating assumptions, we expect to remain in compliance with the permissible leverage ratio and interest coverage ratio throughout fiscal 2022. However, an unanticipated shortfall in earnings, an increase in net indebtedness or other factors could materially affect our ability to remain in compliance with the financial or other covenants of the Fifth A&R Credit Agreement, potentially causing us to have to seek an amendment or waiver from our lending group which could result in repricing of the Fifth A&R Credit Agreement. While we believe we have good relationships with our lending group, we can provide no assurance that such a request would result in a modified or replacement credit agreement on reasonable terms, if at all.

Senior Notes

On December 15, 2016, we issued $250.0 aggregate principal amount of 5.250% Senior Notes. The 5.250% Senior Notes represent general unsecured senior obligations and rank equal in right of payment with our existing and future unsecured senior debt. The 5.250% Senior Notes have interest payment dates of June 15 and December 15 of each year. Substantially all of our directly and indirectly owned domestic subsidiaries serve as guarantors of the 5.250% Senior Notes.

On October 22, 2019, we issued $450.0 aggregate principal amount of 4.500% Senior Notes. The 4.500% Senior Notes represent general unsecured senior obligations and rank equal in right of payment with our existing and future unsecured senior debt. The 4.500% Senior Notes have interest payment dates of April 15 and October 15 of each year. All of our domestic subsidiaries that serve as guarantors of the 5.250% Senior Notes also serve as guarantors of the 4.500% Senior Notes.

On March 17, 2021, we issued $500.0 aggregate principal amount of 4.000% Senior Notes. The 4.000% Senior Notes represent general unsecured senior obligations and rank equal in right of payment with our existing and future unsecured senior debt. The 4.000% Senior Notes have interest payment dates of April 1 and October 1 of each year. All of our domestic subsidiaries that serve as guarantors of the 5.250% Senior Notes also serve as guarantors of the 4.000% Senior Notes.

On August 13, 2021, we issued $400.0 aggregate principal amount of 4.375% Senior Notes. The 4.375% Senior Notes represent general unsecured senior obligations and rank equal in right of payment with our existing and future unsecured senior debt. The 4.375% Senior Notes have interest payment dates of February 1 and August 1 of each year. All of our domestic subsidiaries that serve as guarantors of the 5.250% Senior Notes also serve as guarantors of the 4.375% Senior Notes.

Receivables Facility

We also maintain a Receivables Facility, under which we may sell a portfolio of available and eligible outstanding customer accounts receivable to the purchasers and simultaneously agree to repurchase the receivables on a weekly basis. The eligible accounts receivable consist of accounts receivable generated by sales to three specified customers. The eligible amount of customer accounts receivables which may be sold under the Receivables Facility is $400.0 and the commitment amount during the seasonal commitment period beginning on February 25, 2022 and ending on June 17, 2022 is $160.0. The Receivables Facility expires on August 19, 2022.

We account for the sale of receivables under the Receivables Facility as short-term debt and continue to carry the receivables on our Condensed Consolidated Balance Sheets, primarily as a result of our requirement to repurchase receivables sold. As of January 1, 2022 and January 2, 2021, there were $94.0 and $136.0, respectively, in borrowings on receivables pledged as collateral under the Receivables Facility, and the carrying value of the receivables pledged as collateral was $104.4 and $151.1, respectively.

(Dollars in millions, except per share data)

Interest Rate Swap Agreements

We enter into interest rate swap agreements with major financial institutions that effectively convert a portion of our variable rate debt to a fixed rate. Interest payments made between the effective date and expiration date are hedged by the swap agreements. Swap agreements that were hedging interest payments as of January 1, 2022, January 2, 2021 and September 30, 2021 had a maximum total U.S. dollar equivalent notional amount of $600.0. The notional amount, effective date, expiration date and rate of each of the swap agreements outstanding at January 1, 2022 are shown in the table below:

Notional Amount	Effective Date (a)	Expiration Date	Fixed Rate
100	12/21/2020	6/20/2023	1.36 %
300 (b)	1/7/2021	6/7/2023	1.34 %
200	10/7/2021	6/7/2023	1.37 %
200 (b)	1/20/2022	6/20/2024	0.58 %
200	6/7/2023	6/8/2026	0.85 %

(a) The effective date refers to the date on which interest payments are first hedged by the applicable swap agreement.
(b) Notional amount adjusts in accordance with a specified seasonal schedule. This represents the maximum notional amount at any point in time.

Availability and Use of Cash

We believe that our cash flows from operations and borrowings under our agreements described herein will be sufficient to meet debt service, capital expenditures and working capital needs for the foreseeable future. However, we cannot ensure that our business will generate sufficient cash flow from operations or that future borrowings will be available under our borrowing agreements in amounts sufficient to pay indebtedness or fund other liquidity needs. Additionally, the extent to which the COVID-19 pandemic will ultimately impact our business, results of operations, financial condition and cash flows depends on future developments that are uncertain and difficult to predict. Actual results of operations will depend on numerous factors, many of which are beyond our control as further discussed in the 2021 Annual Report, under “ITEM 1A. RISK FACTORS — Risks Related to Our M&A, Lending and Financing Activities — Our indebtedness could limit our flexibility and adversely affect our financial condition” and “ITEM 1A. RISK FACTORS — Risks Related to Our Business — The effects of the ongoing coronavirus (COVID-19) pandemic and any possible recurrence of other similar types of pandemics, or any other widespread public health emergencies, could have a material adverse effect on our business, results of operations, financial condition and/or cash flows.”

Financial Disclosures About Guarantors and Issuers of Guaranteed Securities

The 5.250% Senior Notes, 4.500% Senior Notes, 4.000% Senior Notes and 4.375% Senior Notes (collectively, the “Senior Notes”) were issued by Scotts Miracle-Gro on December 15, 2016, October 22, 2019, March 17, 2021 and August 13, 2021, respectively. The Senior Notes are guaranteed by certain consolidated domestic subsidiaries of Scotts Miracle-Gro (collectively, the “Guarantors”) and, therefore, we report summarized financial information in accordance with SEC Regulation S-X, Rule 13-01, “Guarantors and Issuers of Guaranteed Securities Registered or Being Registered.”

The guarantees are “full and unconditional,” as those terms are used in Regulation S-X, Rule 3-10(b)(3), except that a Guarantor’s guarantee will be released in certain circumstances set forth in the indentures governing the Senior Notes, such as: (i) upon any sale or other disposition of all or substantially all of the assets of the Guarantor (including by way of merger or consolidation) to any person other than Scotts Miracle-Gro or any “restricted subsidiary” under the applicable indenture; (ii) if the Guarantor merges with and into Scotts Miracle-Gro, with Scotts Miracle-Gro surviving such merger; (iii) if the Guarantor is designated an “unrestricted subsidiary” in accordance with the applicable indenture or otherwise ceases to be a “restricted subsidiary” (including by way of liquidation or dissolution) in a transaction permitted by such indenture; (iv) upon legal or covenant defeasance; (v) at the election of Scotts Miracle-Gro following the Guarantor’s release as a guarantor under the Fifth A&R Credit Agreement, except a release by or as a result of the repayment of the Fifth A&R Credit Agreement; or (vi) if the Guarantor ceases to be a “restricted subsidiary” and the Guarantor is not otherwise required to provide a guarantee of the Senior Notes pursuant to the applicable indenture.

Our foreign subsidiaries and certain of our domestic subsidiaries are not guarantors (collectively, the “Non-Guarantors”) on the Senior Notes. Payments on the Senior Notes are only required to be made by Scotts Miracle-Gro and the Guarantors. As a result, no payments are required to be made from the assets of the Non-Guarantors, unless those assets are transferred by dividend or otherwise to Scotts Miracle-Gro or a Guarantor. In the event of a bankruptcy, insolvency, liquidation or reorganization of any of the Non-Guarantors, holders of their indebtedness, including their trade creditors and other obligations, will be entitled to payment of their claims from the assets of the Non-Guarantors before any assets are made available for distribution to Scotts Miracle-Gro or the Guarantors. As a result, the Senior Notes are effectively subordinated to all the liabilities of the Non-Guarantors.

(Dollars in millions, except per share data)

The guarantees may be subject to review under federal bankruptcy laws or relevant state fraudulent conveyance or fraudulent transfer laws. In certain circumstances, the court could void the guarantee, subordinate the amounts owing under the guarantee, or take other actions detrimental to the holders of the Senior Notes.

As a general matter, value is given for a transfer or an obligation if, in exchange for the transfer or obligation, property is transferred or a valid antecedent debt is satisfied. A court would likely find that a Guarantor did not receive reasonably equivalent value or fair consideration for its guarantee to the extent such Guarantor did not obtain a reasonably equivalent benefit from the issuance of the Senior Notes.

The measure of insolvency varies depending upon the law of the jurisdiction that is being applied. Regardless of the measure being applied, a court could determine that a Guarantor was insolvent on the date the guarantee was issued, so that payments to the holders of the Senior Notes would constitute a preference, fraudulent transfer or conveyances on other grounds. If a guarantee is voided as a fraudulent conveyance or is found to be unenforceable for any other reason, the holders of the Senior Notes will not have a claim against the Guarantor.

Each guarantee contains a provision intended to limit the Guarantor’s liability to the maximum amount that it could incur without causing the incurrence of obligations under its guarantee to be a fraudulent conveyance. However, there can be no assurance as to what standard a court will apply in making a determination of the maximum liability of each Guarantor. Moreover, this provision may not be effective to protect the guarantees from being voided under fraudulent conveyance laws. There is a possibility that the entire guarantee may be set aside, in which case the entire liability may be extinguished.

The following tables present summarized financial information on a combined basis for Scotts Miracle-Gro and the Guarantors. Transactions between Scotts Miracle-Gro and the Guarantors have been eliminated and the summarized financial information does not reflect investments of the Scotts Miracle-Gro and the Guarantors in the Non-Guarantor subsidiaries.

	January 1, 2022	September 30, 2021
Current assets	$ 2,098.8	$ 1,834.8
Noncurrent assets [(a)]	2,652.1	2,484.5
Current liabilities	830.5	1,038.1
Noncurrent liabilities	3,427.7	2,611.8

(a) Includes amounts due from Non-Guarantor subsidiaries of $28.5 and $39.8, respectively.

	Three Months Ended	Year Ended
	January 1, 2022	September 30, 2021
Net sales	$ 510.8	$ 4,507.6
Gross profit	111.1	1,380.6
Income (loss) from continuing operations [(a)]	(48.5)	510.9
Net income (loss)	(48.5)	510.8
Net income (loss) attributable to controlling interest	(48.5)	509.9

(a) Includes intercompany income from Non-Guarantor subsidiaries of $0.9 and $26.3, respectively.

Judicial and Administrative Proceedings

We are party to various pending judicial and administrative proceedings arising in the ordinary course of business, including, among others, proceedings based on accidents or product liability claims and alleged violations of environmental laws. We have reviewed these pending judicial and administrative proceedings, including the probable outcomes, reasonably anticipated costs and expenses, and the availability and limits of our insurance coverage, and have established what we believe to be appropriate accruals. We believe that our assessment of contingencies is reasonable and that the related accruals, in the aggregate, are adequate; however, there can be no assurance that future quarterly or annual operating results will not be materially affected by these proceedings, whether as a result of adverse outcomes or as a result of significant defense costs.

Contractual Obligations

Other than as disclosed in this Quarterly Report on Form 10-Q, there have been no material changes outside of the ordinary course of business in our outstanding contractual obligations since the end of fiscal 2021 and through January 1, 2022.

REGULATORY MATTERS

We are subject to local, state, federal and foreign environmental protection laws and regulations with respect to our business operations and believe we are operating in substantial compliance with, or taking actions aimed at ensuring compliance with, such laws and regulations. We are involved in several legal actions with various governmental agencies related to environmental matters. While it is difficult to quantify the potential financial impact of actions involving these environmental matters, particularly remediation costs at waste disposal sites and future capital expenditures for environmental control equipment, in the opinion of management, the ultimate liability arising from such environmental matters, taking into account established accruals, is not expected to have a material effect on our financial condition, results of operations or cash flows. However, there can be no assurance that the resolution of these matters will not materially affect our future quarterly or annual results of operations, financial condition or cash flows. Additional information on environmental matters affecting us is provided in the 2021 Annual Report, under “ITEM 1. BUSINESS — Regulatory Considerations” and “ITEM 3. LEGAL PROCEEDINGS.”

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements requires management to use judgment and make estimates that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. We evaluate our estimates on an ongoing basis. By their nature, these judgments are subject to uncertainty. We base our estimates on historical experience and on various other sources that we believe to be reasonable under the circumstances. Certain accounting policies are particularly significant, including those related to revenue recognition, income taxes and goodwill and intangible assets. Our critical accounting policies are reviewed periodically with the Audit Committee of the Board of Directors of Scotts Miracle-Gro. Our critical accounting policies and estimates have not changed materially from those disclosed in the 2021 Annual Report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks have not changed materially from those disclosed in the 2021 Annual Report.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Scotts Miracle-Gro Company (the “Registrant”) maintains “disclosure controls and procedures,” as such term is defined under Exchange Act Rule 13a-15(e), that are designed to ensure that information required to be disclosed in the Registrant’s Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the Registrant’s management, including its principal executive officer and its principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, the Registrant’s management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, the Registrant’s management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

With the participation of the principal executive officer and principal financial officer of the Registrant, the Registrant’s management has evaluated the effectiveness of the Registrant’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, the Registrant’s principal executive officer and principal financial officer have concluded that the Registrant’s disclosure controls and procedures were effective as of January 1, 2022.

Changes in Internal Control Over Financial Reporting

In addition, there were no changes in the Registrant’s internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the Registrant’s fiscal quarter ended January 1, 2022 that have materially affected, or are reasonably likely to materially affect, the Registrant’s internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Reference is made to the legal proceedings that have been previously disclosed in Part I, Item 3 of the 2021 Annual Report. There have been no material developments to the pending legal proceedings set forth therein.

We are involved in other lawsuits and claims which arise in the normal course of our business including the initiation and defense of proceedings to protect intellectual property rights, advertising claims and employment disputes. In our opinion, these claims individually and in the aggregate are not expected to have a material adverse effect on our financial condition, results of operations or cash flows.

ITEM 1A. RISK FACTORS

The Company's risk factors, as of January 1, 2022, have not materially changed from those described in Part I, Item 1A of the 2021 Annual Report.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, including the exhibits hereto and the information incorporated by reference herein, contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to risks and uncertainties. Information regarding activities, events and developments that we expect or anticipate will or may occur in the future, including, but not limited to, information relating to our future growth and profitability targets and strategies designed to increase total shareholder value, are forward-looking statements based on management's estimates, assumptions and projections. Forward-looking statements also include, but are not limited to, statements regarding our future economic and financial condition and results of operations, the plans and objectives of management and our assumptions regarding our performance and such plans and objectives, as well as the amount and timing of repurchases of our Common Shares or other uses of cash flows. Forward-looking statements generally can be identified through the use of words such as "guidance," "outlook," "projected," "believe," "target," "predict," "estimate," "forecast," "strategy," "may," "goal," "expect," "anticipate," "intend," "plan," "foresee," "likely," "will," "should" and other similar words and variations.

Forward-looking statements contained in this Quarterly Report on Form 10-Q are predictions only and actual results could differ materially from management's expectations due to a variety of factors, including those described in "ITEM 1A. RISK FACTORS" in the 2021 Annual Report. All forward-looking statements attributable to us or persons working on our behalf are expressly qualified in their entirety by such risk factors.

The forward-looking statements that we make in this Quarterly Report on Form 10-Q are based on management's current views and assumptions regarding future events and speak only as of their dates. We disclaim any obligation to update developments of these risk factors or to announce publicly any revisions to any of the forward-looking statements that we make, or to make corrections to reflect future events or developments, except as required by the federal securities laws.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The payment of future dividends, if any, on the Common Shares will be determined by the Board of Directors in light of conditions then existing, including the Company's earnings, financial condition and capital requirements, restrictions in financing agreements, business conditions and other factors. The Fifth A&R Credit Agreement allows the Company to make unlimited restricted payments (as defined in the Fifth A&R Credit Agreement), including dividend payments on, and repurchases of, the Company's Common Shares, as long as the leverage ratio resulting from the making of such restricted payments is 4.00 or less. Otherwise, the Company may make further restricted payments in an aggregate amount for each fiscal year not to exceed $225.0 million. The Company's leverage ratio was 3.32 at January 1, 2022.

On December 30, 2021, Scotts Miracle-Gro issued 132,076 Common Shares as part of the purchase price for assets purchased under the Purchase Agreement, dated December 29, 2021, by and among Luxx Lighting, Inc., Brandon Burkhart, Ivan Van Ortwick and Hawthorne Hydroponics LLC. The issuances of the Common Shares were exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), pursuant to Section 4(a)(2) of the Securities Act. Scotts Miracle-Gro issued the shares in a privately negotiated transaction, and such shares were acquired for the recipients' accounts for investment purposes. A legend was placed on Common Shares referencing the restricted nature of the Common Shares.

The following table shows the purchases of Common Shares made by or on behalf of Scotts Miracle-Gro or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) of Scotts Miracle-Gro for each of the three fiscal months in the quarter ended January 1, 2022:

Period	Total Number of Common Shares Purchased(1)	Average Price Paid per Common Share(2)	Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs(3)	Approximate Dollar Value of Common Shares That May Yet be Purchased Under the Plans or Programs(3)
October 1, 2021 through October 30, 2021	115,489	$ 148.22	114,724	$ 619,944,047
October 31, 2021 through November 27, 2021	521,406	$ 168.53	520,962	$ 532,144,622
November 28, 2021 through January 1, 2022	134,685	$ 152.64	132,556	$ 511,923,145
Total	771,580	$ 162.72	768,242	

(1) All of the Common Shares purchased during the first quarter of fiscal 2022 were purchased in open market transactions. The total number of Common Shares purchased during the quarter includes 3,338 Common Shares purchased by the trustee of the rabbi trust established by the Company as permitted pursuant to the terms of The Scotts Company LLC Executive Retirement Plan (the "ERP").

(2) The average price paid per Common Share is calculated on a settlement basis and includes commissions.

(3) On February 6, 2020, the Company announced a new repurchase program allowing for repurchases of up to $750.0 million of Common Shares from April 30, 2020 through March 25, 2023.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

Not Applicable.

ITEM 6. EXHIBITS

See Index to Exhibits at page 41 for a list of the exhibits included herewith.

THE SCOTTS MIRACLE-GRO COMPANY
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JANUARY 1, 2022

INDEX TO EXHIBITS

Exhibit No.	Description	Incorporated by Reference			Filed Herewith
		Form	Exhibit	Filing Date	
10.1	Form of Standard Performance Unit Award Agreement which may be made under The Scotts Miracle-Gro Company Long-Term Incentive Plan				X
10.2	Form of Standard Restricted Stock Unit Award Agreement which may be made under The Scotts Miracle-Gro Company Long-Term Incentive Plan				X
21	Subsidiaries of The Scotts Miracle-Gro Company				X
22	Guarantor Subsidiaries				X
31.1	Rule 13a-14(a)/15d-14(a) Certifications (Principal Executive Officer)				X
31.2	Rule 13a-14(a)/15d-14(a) Certifications (Principal Financial Officer)				X
32	Section 1350 Certifications (Principal Executive Officer and Principal Financial Officer)				X
101.SCH	XBRL Taxonomy Extension Schema				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase				X
101.DEF	XBRL Taxonomy Extension Definition Linkbase				X
101.LAB	XBRL Taxonomy Extension Label Linkbase				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase				X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				X

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE SCOTTS MIRACLE-GRO COMPANY

Date: February 9, 2022

/s/ CORY J. MILLER

Printed Name: Cory J. Miller

Title: Executive Vice President and Chief Financial Officer

Granted To:
Associate ID:
Award Type:
Grant Date:

THE SCOTTS MIRACLE-GRO COMPANY
LONG-TERM INCENTIVE PLAN

PERFORMANCE UNIT AWARD AGREEMENT FOR EMPLOYEES
(with related Dividend Equivalents)

This Award Agreement describes the type of Award that you have been granted and the terms and conditions of your Award.

1. DESCRIPTION OF YOUR PERFORMANCE UNITS. You have received a grant of [**Number**] Performance Units ("Performance Units"), based on a target level of performance, and an equal number of related Dividend Equivalents. The "Grant Date" of your Award is [**Grant Date**]. Each Performance Unit represents the right to receive one full Share at the time and in the manner described in this Award Agreement based upon the performance criteria described in the attached **Exhibit A**. Subject to Section 6 of this Award Agreement, each Dividend Equivalent represents the right to receive an amount equal to the dividends that are declared and paid during the period beginning on the Grant Date and ending on the Settlement Date (as described in Section 5(a) of this Award Agreement) with respect to the Share represented by the related Performance Unit. As described herein, the Performance Units and related Dividend Equivalents that will actually be awarded to you may be more or less than the number of Performance Units granted. See **Exhibit A** for more details.

To accept this Award Agreement, you must provide your acknowledgement and acceptance of the terms contained herein by completing the on-line grant agreement process facilitated by **Merrill Lynch** (the "Third Party Administrator") no later than [**Acceptance Date**].

2. INCORPORATION OF PLAN AND DEFINITIONS.

(a) This Award Agreement and your Performance Units are granted pursuant to the terms and conditions of The Scotts Miracle-Gro Company Long-Term Incentive Plan effective January 24, 2022 (the "Plan") and this Award Agreement. All provisions of the Plan are incorporated herein by reference, and your Performance Units and related Dividend Equivalents are subject to the terms of the Plan. To the extent there is a conflict between this Award Agreement and the Plan, the Plan will govern.

(b) Capitalized terms that are not defined in this Award Agreement have the same meanings as in the Plan.

3. PERFORMANCE UNIT ACHIEVEMENT. The number of "Performance Units Achieved" will be calculated as follows: *Performance Units Achieved = Performance Units * Payout Percentage.* The number of Performance Units Achieved, if any, is subject to satisfaction of the performance criteria set forth on **<u>Exhibit A</u>** over the period beginning on **October 1, 2021** and ending on **September 30, 2024** (the "Performance Period"), and will be determined at the end of the Performance Period. Each whole Performance Unit Achieved represents the right to receive one full Share at the time and in the manner described in this Award Agreement.

4. VESTING. Except as provided in Section 7 of this Award Agreement, the Performance Units Achieved are subject to the following vesting criteria:

(a) **General Vesting.** If your employment continues from the Grant Date until [the third anniversary of the Grant Date] that is **[Vesting Date]** the number of Performance Units Achieved shall become 100% vested on such date (subject to the performance criteria as described in Section 3 and **<u>Exhibit A</u>**); or

(b) **Accelerated Vesting.** Under the following circumstances, the Performance Units Achieved will be deemed to become 100% vested, even if you Terminate prior to the date listed in Section 3(a) above (subject to the performance criteria as described in Section 3 and **<u>Exhibit A</u>**):

(i) If you Terminate because of your death or due to a disability for which you qualify for benefits under the Scotts Miracle-Gro Company's Long-term Disability Plan or another long-term disability plan sponsored by the Company ("Disabled"), the number of Performance Units Achieved will deemed to become 100% vested as of the date of such event and will be settled in accordance with Section 5 of this Award Agreement;

(ii) If you Terminate for a reason other than Cause after reaching age 55 and completing at least 10 years of employment with the Company, its Affiliates and/or its Subsidiaries, the number of Performance Units Achieved will deemed to become 100% vested as of the date of such event and will be settled in accordance with Section 5 of this Award Agreement; or

(iii) If you Terminate due to an involuntary Termination by the Company without Cause no earlier than 180 days before the date listed in Section 3(a) of this Agreement, the number of Performance Units Achieved will be deemed become 100% vested as of the date of such event and will be settled in accordance with Section 5 of this Award Agreement.

5. SETTLEMENT.

(a) Subject to the terms of the Plan and this Award Agreement, the number of vested Performance Units Achieved, minus any Shares that are withheld for taxes as provided under Section 5(c), shall be settled in a lump sum as soon as administratively practicable following the date listed in Section 3(a) of this Agreement (the “Settlement Date”). Your whole Performance Units Achieved shall be settled in full Shares, and any fractional Performance Unit Achieved shall be settled in cash, determined based upon the Fair Market Value of a Share on the Settlement Date, which shall be equal to the closing price of a Share on the Settlement date if it is a trading day or, if such date is not a trading day, on the next preceding trading day.

(b) Except as provided in Section 6 of this Award Agreement, you will have none of the rights of a shareholder with respect to Shares underlying the Performance Units unless and until you become the record holder of such Shares.

(c) You may use one of the following methods to pay the required withholding taxes related to the settlement of your Performance Units Achieved. You will decide on the method at the time prescribed by the Company. If you do not elect one of these methods, the Company will apply the Net Settlement method described below:

(i) CASH PAYMENT: If you elect this alternative, you will be responsible for paying the Company, through the Third Party Administrator, cash equal to the required withholding Taxes applicable on your Performance Units.

(ii) NET SETTLEMENT: If you elect this alternative, the Company will retain the number of Shares with a Fair Market Value equal to the required withholding Taxes applicable on your Performance Units, provided that such withholding can be no more than the maximum withholding rate applicable to each jurisdiction for which the Company is required to withhold.

(d) The number of Performance Units Achieved will vest and be settled only under the circumstances described above, unless there is a Change in Control, in which case your Performance Units may vest earlier at Target in accordance with the Plan and pursuant to the discretion of the Committee. See the Plan for further details. Notwithstanding any other provisions of this Agreement to the contrary, in the event that it shall be determined that any payment or distribution in the nature of compensation (within the meaning of section 280G(b)(2) of the Code) to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (the “Payments”), would constitute an “excess parachute payment” within the meaning of section 280G of the Code, the Company shall reduce (but not below zero) the aggregate present value of the Payments under the Agreement to the Reduced Amount (as defined below), if reducing the Payments under this Agreement will provide the Executive with a greater net after-tax amount than would be the case if no reduction was made. The Payments shall be reduced as described in the preceding sentence only if (i) the net amount of the Payments, as so reduced (and after subtracting the net amount of federal, state and local income and payroll taxes on the reduced Payments), is greater than or equal to (ii) the net amount of the Payments without such reduction (but after subtracting the net amount of federal, state and local income and payroll taxes on the Payments and the amount of Excise Tax (as defined below) to which the Executive would be subject with respect to the unreduced Payments). Only amounts payable under this Agreement shall be reduced pursuant to this subsection (a). The "Reduced Amount" shall be an amount expressed in present value that maximizes the aggregate present value of Payments under this Agreement without causing any Payment under this Agreement to be subject to the Excise Tax, determined in accordance with section 280G(d)(4) of the Code. The term "Excise Tax" means the excise tax imposed under section 4999 of the Code, together with any interest or penalties imposed with respect to such excise tax.

(i) All determinations to be made under this Section 5(d) shall be made by an independent registered public accounting firm or consulting firm selected by the Company immediately prior to a change in control, which shall provide its determinations and any supporting calculations both to the Company and the Executive within ten (10) days of the change in control. Any such determination by such firm shall be binding upon the Company and the Executive. All of the fees and expenses of the accounting or consulting firm in performing the determinations referred to in this Section shall be borne solely by the Company.

6. DIVIDEND EQUIVALENTS. Each Dividend Equivalent represents the right to receive an amount equal to the dividends that are declared and paid during the period beginning on the Grant Date and ending on the Settlement Date with respect to the Shares represented by the related Performance Units Achieved, subject to the same terms and conditions. The Dividend Equivalents on Performance Units Achieved shall be payable only when and to the extent that the underlying Performance Unit vests and becomes payable. Any Dividend Equivalents will be distributed to you in accordance with Section 5 of this Award Agreement or forfeited, depending on whether or not you have met the conditions described in this Award Agreement and the Plan. Any such distributions will be made in (i) cash, for any Dividend Equivalents relating to cash dividends and/or (ii) Shares, for any Dividend Equivalents relating to Share dividends.

7. FORFEITURE.

(a) Except as otherwise provided in Section 4 or Section 5(d) of this Award Agreement, you will forfeit your unvested Performance Units if you Terminate prior to the Settlement Date, whether the performance criteria are achieved or not.

(b) If you engage in “Conduct That Is Harmful To The Company” (as described below), you will forfeit your Performance Units and related Dividend Equivalents and must return to the Company all Shares and other amounts you have received through the Plan or this Award Agreement if, without the Company’s written consent, you do any of the following within 180 days before and 730 days after you Terminate:

(i) You breach any confidentiality, nondisclosure, and/or noncompetition obligations under any agreement or plan with the Company or any Affiliate or Subsidiary;

(ii) You engage in conduct that the Committee reasonably concludes requires the forfeiture and recoupment of the Award under the terms of any Company recoupment or clawback policy, any other applicable policy of the Company, and any applicable laws and regulations;

(iii) You fail or refuse to consult with, supply information to or otherwise cooperate with the Company or any Affiliate or Subsidiary after having been requested to do so;

(iv) You deliberately engage in any action that the Company concludes has caused substantial harm to the interests of the Company or any Affiliate or Subsidiary;

(v) You fail to return all property (other than personal property), including vehicles, computer or other equipment or electronic devices, keys, notes, memoranda, writings, lists, files, reports, customer lists, correspondence, tapes, disks, cards, surveys, maps, logs, machines, technical data, formulae or any other tangible property or document and any and all copies, duplicates or reproductions that you have produced or received or have otherwise been provided to you in the course of your employment with the Company or any Affiliate or Subsidiary; or

(vi) You engaged in conduct that the Committee reasonably concludes would have given rise to a Termination for Cause had it been discovered before you Terminated.

8. AMENDMENT AND TERMINATION. Subject to the terms of the Plan, the Company may amend or terminate this Award Agreement or the Plan at any time.

9. BENEFICIARY DESIGNATION. You may name a beneficiary or beneficiaries to receive any vested Performance Units and related Dividend Equivalents that may be achieved under this Award Agreement but are settled after you die. This may be done only on the Beneficiary Designation Form and by following the rules described in that Form. The Beneficiary Designation Form does not need to be completed now and is not required as a condition of receiving your Award. However, if you die without completing a Beneficiary Designation Form or if you do not complete that Form correctly, your beneficiary will be your surviving spouse or, if you do not have a surviving spouse, your estate.

10. TRANSFERRING YOUR PERFORMANCE UNITS AND RELATED DIVIDEND EQUIVALENTS. Except as described in Section 9, your Performance Units and related Dividend Equivalents may not be transferred to another person. Also, the Committee may allow you to place your Performance Units and related Dividend Equivalents into a trust established for your benefit or the benefit of your family. Contact the Third Party Administrator for further details.

11. GOVERNING LAW. This Award Agreement shall be governed by the laws of the State of Ohio, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction. This Award Agreement and the delivery of any Shares hereunder shall be governed by applicable federal and state securities laws and exchanges.

12. OTHER AGREEMENTS AND POLICIES. Your Performance Units and related Dividend Equivalents, whether achieved or not, will be subject to the terms of any other written agreements between you and the Company or any Affiliate or Subsidiary to the extent that those other agreements do not directly conflict with the terms of the Plan or this Award Agreement. Your Performance Units and related Dividend Equivalents granted under the Plan shall be subject to any applicable Company clawback or recoupment policies, share trading policies and other policies that may be implemented by the Company from time to time.

13. ADJUSTMENTS TO YOUR PERFORMANCE UNITS. Subject to the terms of the Plan, your Performance Units and related Dividend Equivalents will be adjusted, if appropriate, to reflect any change to the Company’s capital structure (e.g., the number of Shares underlying your Performance Units will be adjusted to reflect a stock split).

14. YOUR ACKNOWLEDGMENT OF AND AGREEMENT TO AWARD CONDITIONS.

By signing below, you acknowledge and agree that:

(a) A copy of the Plan has been made available to you;

(b) You understand and accept the terms and conditions of your Award;

(c) By accepting this Award under the Plan, you agree to all Committee determinations as described in the Plan and this Award Agreement;

(d) You will consent (on your own behalf and on behalf of your beneficiaries and transferees and without any further consideration) to any necessary change to your Award or this Award Agreement to comply with any law and to avoid paying penalties under Section 409A of the Code, even if those changes affect the terms of your Award and reduce its value or potential value; and

(e) You must return a signed copy of this Award Agreement utilizing the on-line grant agreement process defined above before [**Date 30 Days After Grant Date**].

[**Grantee's Name**]	THE SCOTTS MIRACLE-GRO COMPANY
By: ______________________________	By: ___________________________________
Date signed: ________________________	[Name of Company Representative] [Title of Company Representative] Date signed: ____________________________

EXHIBIT A

PERFORMANCE CRITERIA

(2022 STANDARD PERFORMANCE UNIT AWARD)

The number of Performance Units Achieved under this Award Agreement is subject to the satisfaction of the following performance criteria and will be determined as of the end of the Performance Period, as follows:

Performance Period: October 1, 2021 to September 30, 2024

*Performance Units Achieved = Performance Units * Payout Percentage*

Payout Percentage = Portion of Performance Units achieved based on actual results against the following performance goals:

	Metric Weighting	**Minimum** *(50%)*	**Target** *(100%)*	**Plan** *(150%)*	**Stretch** *(200%)*	**Maximum** *(250%)*
Cumulative Operating Cash Flow	**[TBD%]**	**$TBDM**	**$TBDM**	**$TBDM**	**$TBDM**	**$TBDM**
Cumulative Net Sales	**[TBD%]**	**$TBDM**	**$TBDM**	**$TBDM**	**$TBDM**	**$TBDM**

Note 1: Performance goals may be adjusted as applicable over the performance period (subject to the Compensation and Organization Committee approval) to account for material acquisitions, new or expanded JVs, divestitures and certain other pre-defined events.

Note 2: If actual performance is below the Minimum performance level indicated for both metrics, no Performance Units will be achieved.

Cumulative Operating Cash Flow: Calculated as cumulative cash provided by operating activities during the FY22-FY24 performance period, adjusted to exclude discontinued operations, impairment, restructuring and other one-time charges, subject to further adjustments by the Compensation Committee based on individual facts and circumstances.

Cumulative Net Sales: Calculated as the cumulative Total Company Reported Net Sales for the FY22-FY24 performance period, aligned with external reporting (defined by GAAP as gross sales minus returns, allowances, and discounts).

Granted To:
Associate ID:
Award Type:
Grant Date:

THE SCOTTS MIRACLE-GRO COMPANY
LONG-TERM INCENTIVE PLAN

RESTRICTED STOCK UNIT AWARD AGREEMENT FOR EMPLOYEES
(with related Dividend Equivalents)

This Award Agreement describes the type of Award that you have been granted and the terms and conditions of your Award.

1. DESCRIPTION OF YOUR RESTRICTED STOCK UNITS. You have been granted [**Number**] Restricted Stock Units ("RSUs") and an equal number of related Dividend Equivalents. The "Grant Date" of your Award is [**Grant Date**]. Each whole RSU represents the right to receive one full Share at the time and in the manner described in this Award Agreement. Subject to Section 5 of this Award Agreement, each Dividend Equivalent represents the right to receive an amount equal to the dividends that are declared and paid during the period beginning on the Grant Date and ending on the Settlement Date (as described in Section 4(a) of this Award Agreement) with respect to the Share represented by the related RSU.

To accept this Award Agreement, you must provide your acknowledgement and acceptance of the terms contained herein by completing the on-line grant agreement process facilitated by **Merrill Lynch** (the "Third Party Administrator") no later than [**Acceptance Date**].

2. INCORPORATION OF PLAN AND DEFINITIONS.

(a) This Award Agreement and your RSUs are granted pursuant to and in accordance with The Scotts Miracle-Gro Company Long-Term Incentive Plan effective January 24, 2022 (the "Plan"). All provisions of the Plan are incorporated herein by reference, and your RSUs and related Dividend Equivalents are subject to the terms of the Plan and this Award Agreement. To the extent there is a conflict between this Award Agreement and the Plan, the Plan will govern.

(b) Capitalized terms that are not defined in this Award Agreement have the same meanings as in the Plan.

3. VESTING. Except as provided in Section 6 of this Award Agreement, the RSUs described in this Award Agreement will vest as follows:

(a) **General Vesting.** Your RSUs described in this Award Agreement will become 100% vested if your employment continues from the Grant Date until the third anniversary of the Grant Date, in this case **[Vesting Date]** (the "Vesting Date"), and will be settled in accordance with Section 4; or

(b) **Accelerated Vesting.** Under the following circumstances, your RSUs described in this Award Agreement will vest earlier than the third anniversary of the Grant Date:

(i) If you Terminate because of your death or due to a disability for which you qualify for benefits under Scotts Miracle-Gro Company's Long-term Disability Plan or another long-term disability plan sponsored by the Company ("Disabled"), your RSUs described in this Award Agreement will become 100% vested as of the date of such event and will be settled in accordance with Section 4 of this Award Agreement;

(ii) If you Terminate for a reason other than Cause after reaching age 55 and completing at least 10 years of employment with the Company, its Affiliates and/or its Subsidiaries, your RSUs described in this Award Agreement will be deemed to become 100% vested as of the date of such event and will be settled in accordance with Section 4 of this Award Agreement; or

(iii) If you Terminate due to an involuntary Termination by the Company without Cause no earlier than 180 days before the Vesting Date, your RSUs described in this Award Agreement will be deemed to become 100% vested as of the date of such event and will be settled in accordance with Section 4 of this Award Agreement.

4. SETTLEMENT.

(a) Subject to the terms of the Plan and this Award Agreement, your vested RSUs, minus any Shares that are withheld for taxes as provided under Section 4(c), shall be settled in a lump sum as soon as administratively practicable following the earliest date to occur of: (i) your Termination due to your death or Disability; or (ii) the third anniversary of the Grant Date (the "Settlement Date"). Your whole RSUs shall be settled in full Shares, and any fractional RSU shall be settled in cash, determined based upon the Fair Market Value of a Share on the Settlement Date, which shall be equal to the closing price of a Share on the Settlement date if it is a trading day or, if such date is not a trading day, on the next trading day.

(b) Except as provided in Section 5 of this Award Agreement, you will have none of the rights of a shareholder with respect to Shares underlying the RSUs unless and until you become the record holder of such Shares.

(c) You may use one of the following methods to pay the required withholding taxes related to the vesting and settlement of your RSUs. You will decide on the method at the time prescribed by the Company. If you do not elect one of these methods, the Company will apply the Net Settlement method described below:

(i) CASH PAYMENT: If you elect this alternative, you will be responsible for paying the Company, through the Third Party Administrator, cash equal to the required withholding Taxes applicable on your RSUs.

(ii) NET SETTLEMENT: If you elect this alternative, the Company will retain the number of Shares with a Fair Market Value equal to the required withholding Taxes applicable on your RSUs, provided that such withholding can be no more than the maximum withholding rate applicable to each jurisdiction for which the Company is required to withhold.

(d) If there is a Change in Control, your RSUs may vest earlier in accordance with the Plan and pursuant to the discretion of the Committee. See the Plan for further details. Notwithstanding any other provisions of this Agreement to the contrary, in the event that it shall be determined that any payment or distribution in the nature of compensation (within the meaning of section 280G(b)(2) of the Code) to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (the "Payments"), would constitute an "excess parachute payment" within the meaning of section 280G of the Code, the Company shall reduce (but not below zero) the aggregate present value of the Payments under the Agreement to the Reduced Amount (as defined below), if reducing the Payments under this Agreement will provide the Executive with a greater net after-tax amount than would be the case if no reduction was made. The Payments shall be reduced as described in the preceding sentence only if (i) the net amount of the Payments, as so reduced (and after subtracting the net amount of federal, state and local income and payroll taxes on the reduced Payments), is greater than or equal to (ii) the net amount of the Payments without such reduction (but after subtracting the net amount of federal, state and local income and payroll taxes on the Payments and the amount of Excise Tax (as defined below) to which the Executive would be subject with respect to the unreduced Payments). Only amounts payable under this Agreement shall be reduced pursuant to this subsection (a). The "Reduced Amount" shall be an amount expressed in present value that maximizes the aggregate present value of Payments under this Agreement without causing any Payment under this Agreement to be subject to the Excise Tax, determined in accordance with section 280G(d)(4) of the Code. The term "Excise Tax" means the excise tax imposed under section 4999 of the Code, together with any interest or penalties imposed with respect to such excise tax.

(i) All determinations to be made under this Section 4(d) shall be made by an independent registered public accounting firm or consulting firm selected by the Company immediately prior to a change in control, which shall provide its determinations and any supporting calculations both to the Company and the Executive within ten (10) days of the change in control. Any such determination by such firm shall be binding upon the Company and the Executive. All of the fees and expenses of the accounting or consulting firm in performing the determinations referred to in this Section shall be borne solely by the Company.

5. DIVIDEND EQUIVALENTS. You will be entitled to receive a Dividend Equivalent equal to any dividends declared and paid on each Share represented by a related RSU, subject to the same terms and conditions as the related RSU. Any Dividend Equivalents will be distributed to you in accordance with Section 4 of this Award Agreement or forfeited, depending on whether or not you have met the conditions described in this Award Agreement and the Plan. Any such distributions will be made in (i) cash, for any Dividend Equivalents relating to cash dividends and/or (ii) Shares, for any Dividend Equivalents relating to Share dividends.

6. FORFEITURE.

(a) Except as otherwise provided in Section 3 or Section 4(d) of this Award Agreement, you will forfeit your unvested RSUs if you Terminate prior to the Vesting Date.

(b) If you engage in "Conduct That Is Harmful To The Company" (as described below), you will forfeit your RSUs and related Dividend Equivalents and must return to the Company all Shares and other amounts you have received through the Plan or this Award Agreement if, without the Company's written consent, you do any of the following within 180 days before and 730 days after you Terminate:

(i) You breach any confidentiality, nondisclosure, and/or noncompetition obligations under any agreement or plan with the Company or any Affiliate or Subsidiary;

(ii) You engage in conduct that the Committee reasonably concludes requires the forfeiture and recoupment of the Award under the terms of any Company recoupment or clawback policy, any other applicable policy of the Company, and any applicable laws and regulations;

(iii) You fail or refuse to consult with, supply information to or otherwise cooperate with the Company or any Affiliate or Subsidiary after having been requested to do so;

(iv) You deliberately engage in any action that the Company concludes has caused substantial harm to the interests of the Company or any Affiliate or Subsidiary;

(v) You fail to return all property (other than personal property), including vehicles, computer or other equipment or electronic devices, keys, notes, memoranda, writings, lists, files, reports, customer lists, correspondence, tapes, disks, cards, surveys, maps, logs, machines, technical data, formulae or any other tangible property or document and any and all copies, duplicates or reproductions that you have produced or received or have otherwise been provided to you in the course of your employment with the Company or any Affiliate or Subsidiary; or

(vi) You engage in conduct that the Committee reasonably concludes would have given rise to a Termination for Cause had it been discovered before you Terminated.

7. AMENDMENT AND TERMINATION. Subject to the terms of the Plan, the Company may amend or terminate this Award Agreement or the Plan at any time.

8. BENEFICIARY DESIGNATION. You may name a beneficiary or beneficiaries to receive the any RSUs and related Dividend Equivalents that may vest per the terms of this Award Agreement but are settled after you die. This may be done only on the Beneficiary Designation Form prescribed by the Company or the Third Party Administrator. The Beneficiary Designation Form need not be completed now and is not required as a condition of receiving your Award. If you die without completing a Beneficiary Designation Form or if you do not complete that Form correctly, your beneficiary will be your surviving spouse or, if you do not have a surviving spouse, your estate.

9. TRANSFERRING YOUR RSUs AND RELATED DIVIDEND EQUIVALENTS. Except as described in Section 8, your RSUs and related Dividend Equivalents may not be transferred to another person. Also, the Committee may allow you to place your RSUs and related Dividend Equivalents into a trust established for your benefit or the benefit of your family. Contact the Third Party Administrator for further details.

10. GOVERNING LAW. This Award Agreement shall be governed by the laws of the State of Ohio, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction. This Award Agreement and the delivery of any Shares hereunder shall be governed by applicable federal and state securities laws and exchanges.

11. OTHER AGREEMENTS AND POLICIES. Your RSUs and related Dividend Equivalents will be subject to the terms of any other written agreements between you and the Company or any Affiliate or Subsidiary to the extent that those other agreements do not directly conflict with the terms of the Plan or this Award Agreement. Your RSUs and related Dividend Equivalents granted under the Plan shall be subject to any applicable Company clawback or recoupment policies, share trading policies and other policies that may be implemented by the Company from time to time.

12. ADJUSTMENTS TO YOUR RSUs. Subject to the terms of the Plan, your RSUs and related Dividend Equivalents will be adjusted, if appropriate, to reflect any change to the Company's capital structure (e.g., the number of Shares underlying your RSUs will be adjusted to reflect a stock split).

13. YOUR ACKNOWLEDGMENT OF AND AGREEMENT TO AWARD CONDITIONS.

By signing below, you acknowledge and agree that:

(a) A copy of the Plan has been made available to you;

(b) You understand and accept the terms and conditions of your Award;

(c) By accepting this Award under the Plan, you agree to all Committee determinations as described in the Plan and this Award Agreement;

(d) You will consent (on your own behalf and on behalf of your beneficiaries and transferees and without any further consideration) to any necessary change to your Award or this Award Agreement to comply with any law and to avoid paying penalties under Section 409A of the Code, even if those changes affect the terms of your Award and reduce its value or potential value; and

(e) You must return a signed copy of this Award Agreement utilizing the on-line grant agreement process defined above before [**Date 30 Days After Grant Date**].

[**Grantee's Name**]	THE SCOTTS MIRACLE-GRO COMPANY
By: _______________________________	By: ____________________________________
Date signed: _________________________	[Name of Company Representative] [Title of Company Representative] Date signed: _____________________________

Exhibit 21

DIRECT AND INDIRECT SUBSIDIARIES OF
THE SCOTTS MIRACLE-GRO COMPANY

Directly owned subsidiaries, as of January 1, 2022, are located at the left margin, each subsidiary tier thereunder is indented. Subsidiaries are listed under the names of their respective parent entities. Unless otherwise noted, the subsidiaries are wholly-owned.

NAME	**JURISDICTION OF FORMATION**
1868 Ventures LLC	Ohio
Swiss Farms Products, Inc.	Delaware
GenSource, Inc.	Ohio
OMS Investments, Inc.	Delaware
Scotts Temecula Operations, LLC	Delaware
Sanford Scientific, Inc.	New York
Scotts Global Services, Inc.	Ohio
Scotts Live Goods Holdings, Inc.	Ohio
Bonnie Plants, LLC[1]	Delaware
Scotts Manufacturing Company	Delaware
Miracle-Gro Lawn Products, Inc.	New York
Scotts Products Co.	Ohio
Scotts Servicios, S.A. de C.V.[2]	Mexico
Scotts Professional Products Co.	Ohio
Scotts Servicios, S.A. de C.V.2[2]	Mexico
SMG Growing Media, Inc.	Ohio
AeroGrow International, Inc.	Nevada
Hyponex Corporation	Delaware
Rod McLellan Company	California
The Hawthorne Gardening Company	Delaware
Hawthorne Hydroponics LLC	Delaware
Hawthorne Gardening B.V.	Netherlands
Gavita International B.V.	Netherlands
Hawthorne Lighting B.V.	Netherlands
Agrolux Canada Limited	Canada
Agrolux Nederland B.V.	Netherlands
Hawthorne Canada Limited	Canada
HGCI, Inc.	Nevada

[1] Scotts Live Goods Holdings, Inc.’s ownership is 50.0%.
[2] Scotts Professional Products Co. owns 50% and Scotts Products Co. owns 50.0%.

SMGM LLC	Ohio
Scotts-Sierra Investments LLC	Delaware
Scotts Sierra (China) Co., Ltd.	China
Scotts Canada Ltd.	Canada
Laketon Peat Moss Inc.[3]	Canada
Scotts de Mexico SA de CV[4]	Mexico
SMG Germany GmbH	Germany
SMG Gardening (UK) Limited	United Kingdom
The Hawthorne Collective, Inc.	Ohio
The Scotts Company LLC	Ohio
The Scotts Miracle-Gro Foundation[5]	Ohio

[3] Scotts Canada Ltd.'s ownership is 50.0%.
[4] The Scotts Company LLC owns 0.5% and Scotts-Sierra Investments LLC owns the remaining 99.5%.
[5] The Scotts Miracle-Gro Foundation is a 501(c)(3) corporation.

Exhibit 22

LIST OF GUARANTOR SUBSIDIARIES

The following subsidiaries of The Scotts Miracle-Gro Company (the "Company") were, as of January 1, 2022, guarantors of the Company's 5.250% Senior Notes due 2026, 4.500% Senior Notes due 2029, 4.000% Senior Notes due 2031 and 4.375% Senior Notes due 2032:

NAME OF GUARANTOR SUBSIDIARY	JURISDICTION OF FORMATION
1868 Ventures LLC	Ohio
AeroGrow International, Inc.	Nevada
GenSource, Inc.	Ohio
Hawthorne Hydroponics LLC	Delaware
HGCI, Inc.	Nevada
Hyponex Corporation	Delaware
Miracle-Gro Lawn Products, Inc.	New York
OMS Investments, Inc.	Delaware
Rod McLellan Company	California
Sanford Scientific, Inc.	New York
Scotts Live Goods Holdings, Inc.	Ohio
Scotts Manufacturing Company	Delaware
Scotts Products Co.	Ohio
Scotts Professional Products Co.	Ohio
Scotts-Sierra Investments LLC	Delaware
Scotts Temecula Operations, LLC	Delaware
SMG Growing Media, Inc.	Ohio
SMGM LLC	Ohio
Swiss Farms Products, Inc.	Delaware
The Hawthorne Collective, Inc.	Ohio
The Hawthorne Gardening Company	Delaware
The Scotts Company LLC	Ohio

Exhibit 31.1

Rule 13a-14(a)/15d-14(a) Certifications
(Principal Executive Officer)
CERTIFICATIONS

I, James Hagedorn, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Scotts Miracle-Gro Company for the fiscal quarter ended January 1, 2022;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2022

By: /s/ JAMES HAGEDORN
Printed Name: James Hagedorn
Title: Chief Executive Officer and Chairman of the Board

Exhibit 31.2

Rule 13a-14(a)/15d-14(a) Certifications
(Principal Financial Officer)
CERTIFICATIONS

I, Cory J. Miller, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Scotts Miracle-Gro Company for the fiscal quarter ended January 1, 2022;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2022	By:	/s/ CORY J. MILLER
		Printed Name: Cory J. Miller
		Title: Executive Vice President and Chief Financial Officer

Exhibit 32

SECTION 1350 CERTIFICATIONS*

In connection with the Quarterly Report on Form 10-Q of The Scotts Miracle-Gro Company (the "Company") for the fiscal quarter ended January 1, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned James Hagedorn, Chief Executive Officer and Chairman of the Board of the Company, and Cory J. Miller, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of their knowledge:

1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company and its subsidiaries.

JAMES HAGEDORN	/s/ CORY J. MILLER
nted Name: James Hagedorn	Printed Name: Cory J. Miller
le: Chief Executive Officer and Chairman of the Board	Title: Executive Vice President and Chief Financial Officer
ruary 9, 2022	February 9, 2022

* THESE CERTIFICATIONS ARE BEING FURNISHED AS REQUIRED BY RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT OF 1934 (THE "EXCHANGE ACT") AND SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE, AND SHALL NOT BE DEEMED "FILED" FOR PURPOSES OF SECTION 18 OF THE EXCHANGE ACT OR OTHERWISE SUBJECT TO THE LIABILITY OF THAT SECTION. THESE CERTIFICATIONS SHALL NOT BE DEEMED TO BE INCORPORATED BY REFERENCE INTO ANY FILING UNDER THE SECURITIES ACT OF 1933 OR THE EXCHANGE ACT, EXCEPT TO THE EXTENT THAT THE COMPANY SPECIFICALLY INCORPORATES THESE CERTIFICATIONS BY REFERENCE.