The Scotts Miracle-Gro Company
NYSE: SMG
FQ3 2021 Earnings Call Transcripts
Wednesday, August 04, 2021 1:00 PM GMT

S&P Global Market Intelligence Estimates

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Call Participants

EXECUTIVES

Cory T. Miller
Senior VP & Interim CFO

James D. King
Chief Communications Officer,
Executive VP and Senior VP of
Investor Relations & Corporate
Affairs

James S. Hagedorn
CEO & Chairman of the Board

Michael C. Lukemire
President & COO

ANALYSTS

Eric Bosshard
Cleveland Research Company

Jeffrey John Zekauskas
JPMorgan Chase & Co, Research
Division

Jon Robert Andersen
William Blair & Company L.L.C.,
Research Division

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

Peter K. Grom
UBS Investment Bank, Research
Division

William Andrew Carter
Stifel, Nicolaus & Company,
Incorporated, Research Division

William Michael Reuter
BofA Securities, Research Division
Presentation

Operator

Good day, and welcome to The Scotts Miracle-Gro Company's third quarter earnings conference call. As a reminder, today's call is being recorded. At this time, I would like to turn the conference over to Jim King. Please go ahead, sir.

James D. King
Chief Communications Officer, Executive VP and Senior VP of Investor Relations & Corporate Affairs

Good morning, everyone, and welcome to The Scotts Miracle-Gro third quarter conference call. Joining me this morning is our Chairman and CEO, Jim Hagedorn; our interim Chief Financial Officer, Cory Miller; as well as our President and Chief Operating Officer, Mike Lukemire; and Chris Hagedorn, Group President of Hawthorne.

In a moment, Jim and Cory will share some prepared remarks, and then we'll open the call to your questions. [Operator Instructions] I've already scheduled time with many of you after this call to fill in the gaps. Anyone else who wants to set up some Q&A time can call me directly at (937) 578-5622, and we'll set up some time as quickly as we can. One quick bit of housekeeping. Cory and I will be participating in the Raymond James Consumer Conference on September 14, which will be held virtually. We'll publish more details related to the time and date a couple of weeks in advance.

With that, let's move on to today's call. As always, I'll remind you that we expect to make forward-looking statements. So I want to caution you that our actual results could differ materially from what we say. Investors should familiarize themselves with the full range of risk factors that could impact our results. Those are filed with our Form 10-K, which is filed with the Securities and Exchange Commission. I also want to remind everyone that today's call is being recorded. An archived version of the call will be available on our website.

With that, let's get started. And so I'll turn the call over to Jim Hagedorn. Jim?

James S. Hagedorn
CEO & Chairman of the Board

Thanks, Jim, and good morning, everyone. This is an important call today, perhaps the most important call with the investment community over the past year. It has nothing to do with the fact that we posted another strong quarter and remain on pace for a record year. It's because we're finally at the inflection point, everyone knew was coming. Yes, we're starting the runup against tough comps in both businesses. Yes, we're starting to see consumers get back to their normal routines. And yes, like a lot of consumer companies, the cost pressures we're seeing from commodities are starting to feel unrelenting. But as I take a deeper look at our business, I can't help but feel positive. If you only look at a quarterly P&L, you can't possibly understand what's happening here. You have to dig, you have to analyze. You have to find the answers to questions you've never been thought about asking in the past.

For more than a year, I've been telling anyone who would listen that I believe Scotts Miracle-Gro would exit COVID as a fundamentally stronger company. And the deeper we dig, the more we analyze, the more I'm convinced that is exactly what's happened. Our consumer base today is vastly bigger and more engaged than prior to the pandemic. Our relationship with those consumers is stronger and more personal than ever, thanks to the overhaul of our marketing programs. Our ability to engage on their terms is better today due to the vast improvements in our direct-to-consumer initiatives. And our ability to provide them the best possible outcomes has been made even easier by an innovation team that continues to turn out important new innovation. Our growth engine, Hawthorne, continues to outperform the market and is positioning itself for long-term success. We've built competitive advantages that others in the industry can't match.
We brought science-based innovation to this industry, and we continue to embrace a vision that is driving us to explore new and creative opportunities for growth. In addition to the strength of our businesses, our balance sheet gives us more financial flexibility than we've had in a decade. We have opportunities to invest in immediate growth, and we'll pursue those. We have opportunities to invest in long-term growth, and we'll pursue that too. And we have the opportunity to return cash to shareholders, which we'll also pursue especially given the recent pullback in our share price. We're not doing everything perfectly here. But when I look for major weaknesses, I just don't see them right now. We've taken full advantage of the unique opportunity that presented itself over the past 18 months and have put ourselves in a great position. And so that's the context of how I want to frame up 5 distinct topics I want to cover this morning.

First, I want to discuss the continued strength of our U.S. consumer business. Consumer engagement remain strong; and by the time we navigate through the next year, we expect to have retained nearly all of the growth we captured in 2020. I'm not sure many other CPG companies can say that. Second, Hawthorne. Again, the trends are extremely strong. We were up 48% in the quarter, and we continue to expect growth of 40% to 45% on a full year basis. Third, M&A. This morning, we announced a small but strategic bolt-on acquisition for Hawthorne. We continue exploring opportunities that are bigger in scope, and we are increasingly committed to finding creative ways to invest in other areas of the cannabis industry. Fourth, I'll share some early thoughts about our view of next year. We're not providing fiscal '22 guidance today, but we do have a working thesis about next year, and I believe long-term shareholders will like what they hear. And fifth, I want to touch on our evolving thoughts about returning cash to shareholders.

Let's start with U.S. Consumer. Clearly, we've done a better job on the top line than we expected coming into the year. Consumer engagement exceeded our expectations and allowed us to call up our numbers twice this season. Of course, a lot of that benefit in excess of $1 a share has been offset by commodity pressures that every company in the consumer product space is trying to navigate. I'll let Cory dive deeper into those details. I want to focus my time on the strong underlying foundation of the business. The most critical takeaway is this: Consumer engagement remains extremely high. Entering the season, our research suggested about 85% of consumers who came into the category last year would return. We believe the actual number was probably closer to 75%; however, we're confident we benefited from a higher overall level of participation as 1/3 of all consumers said they increased their participation in our category this spring.

When we subtract consumers who did less gardening this year from those who did more, our data suggests participation was up 8%. And that aligns pretty well with consumer purchase of our products at our largest retail partners. Entering August, POS dollars at our largest 4 retail partners were up 4%. In units, the number is 8%. There's a story here and it's important to understand. In most years, the gap between units and dollars is negligible. In 2020, however, retailers did almost no promotional activity, so POS dollars far outpaced units. This year, retailers promoted more than in 2020. The change in their behavior meant the difference between POS dollars and units swung back in the other direction. In our soils business, where 4 for 10 and 5 for 10 promotions were reintroduced, POS dollars are up 5% year-to-date. But units, a more accurate reflection of our shipments as well as consumer activity, are up 8%.

In mulch, dollars were up 11% and units up 20%. And our other branded categories where the year-over-year impact of promotional activity is less pronounced, like lawn fertilizer, weed control and grass seed, POS dollars were up 3%, 8% and 14%, respectively. This is the third straight year we're seeing double-digit growth in grass seed. So across all categories, the numbers we're posting would be good in any year. So we're extremely pleased given the tough comps. Still, we've given up a lot of the POS gains we reported on the last call when the year-to-date number was plus 20%. Most of the reduction was expected because of the difficult comparisons. However, we believe the result would have been better if had not been for the weather challenges that undoubtedly drove the number lower in May and June.

On Mother's Day weekend, historically the largest weekend of the gardening season, it snowed in some key markets. Memorial Day brought record cold through most of the Midwest and Northeast. Father's Day was not much better. In fact, June as a whole was extremely wet in much of the Midwest. And of course, the record heat and drought conditions in the Western U.S. have not helped either. We believe the
impact from weather was magnified this year. Last year, when people were working from home, we saw a lot more POS happening on weekdays than we were accustomed to seeing. So if the weekend weather was lousy, it wasn't a big deal because more people were shopping on weekdays. But this year, because weekday foot traffic was closer to normal, the weekends have become much more important again. So lousy weather is more difficult to overcome this year and we've seen a lot of it. This is not an excuse. It's a reality.

Weather can impact the business and it was a significant headwind this year. By September 30, I suspect weather will have cost us at least 2 points of growth in fiscal '21. Nonetheless, consumer engagement remains encouraging. Our third quarter historically accounts for about 55% of full year POS. In the 13-week period from April through June, POS was down 1% this year compared to 2020, but it's up 24% in those same weeks compared to 2019. If we look only at the last 9 weeks of that period, that's when we started to hit tougher comps. POS was down 12% from 2020 levels. However, it's up 30% from 2019 during that same 9-week window. If we extrapolate the current trends for the balance of the year, we expect full year POS dollars to be up slightly from last year. POS units are likely to be up low to mid-single digits. Compared to 2019, we expect POS for 2021 to be up more than 25%.

The current consumer trends, combined with planned higher retail inventory levels, give us a high degree of confidence in our full year sales growth guidance for the U.S. consumer business, which we set at the range of 7% to 9%. Behind the numbers, there are a lot of great stories. I'd love to share details on all of them, but I'm going to turn the page and share some of the highlights from Hawthorne where we continue to see strength across the board. Through June, sales are 60% higher on a year-to-date basis as the business continues to build on its market-leading position. In Q3, our lighting business grew 77%. Within that number, our market-leading Gavita brand grew at more than twice that rate. We continue to see new growth facilities come online across the country and the retrofit market remained an important part of the story in legacy markets in the Western United States.

Our success in lighting continues to be led by innovation. In particular, we continue to see great success with our new LED lighting products that provide growers a one-for-one replacement for existing, high-pressure sodium lights. Outside of lighting, we continue to see strength in the consumable category as well, which is a more accurate reflection of growth in the actual cannabis market. Nutrient sales were up 54% in the quarter and growing media was up 32%. Our signature brands significantly outperformed the overall category. General Hydroponics grew roughly 30 points more than the total nutrient portfolio, and our Mother Earth and Botanicare brands grew 3x faster than the rest of our growing media business. The across-the-board strength led to the 48% growth we saw in the quarter, which ended with our largest sales month ever in June. The growth rate we expect for the full year is a little more than 2x higher than our initial guidance.

The upside this year allowed us to upgrade our talent, enhance our innovation efforts and improve our marketing. We expect those investments will help drive the business again next year and the years to follow. Obviously, another opportunity to drive growth is through M&A, so let me touch on the deal we announced this morning.

The acquisition of HydroLogic is pretty straightforward. This is an easily integrated bolt-on deal that is highly strategic. HydroLogic is a leading provider of products and systems related to water filtration and purification. That makes it a strong complement to our existing irrigation supply business in a high-margin category. We continue to have more M&A opportunities in the pipeline in both business segments than we can digest right now. The challenge for Hawthorne is that many of the targets are small- to medium-sized businesses.

You might think that small deals are easy to get done. In most cases, it's just the opposite. The lack of sophisticated IT systems and financial controls makes the due diligence process harder and more time-consuming. And we're not going to rush the deal just to get it done, but I will tell you we're making good progress. Separately, we remain committed to putting capital to work in areas of the cannabis industry that are closer to the end consumer and to the grower and within the balance of current federal law as well as the requirements of our lenders. After months of work by an internal task force, we've created a process that will allow us to make nonequity investments in other entities that invest in cannabis brands.
and operations. In fact, we’ve been in discussions with potential partners to bring this strategy to life and hope to see significant movement in the near future.

We’ve developed a highly successful business in Hawthorne based on the current state-authorized marketplace. Even though we’ve never been involved with plant-touching activities, we understand the space as well as anyone, perhaps better than anyone. Our evolving vision is to create the optionality to have an early mover advantage in the broader U.S. cannabis market when federal law allows. There is little doubt this industry is poised for significant growth. And given our track record, I believe we have an absolute right to win here. I look forward to sharing more details in the months ahead. Speaking of the months ahead, I realize everyone wants to know what's in store for fiscal '22, so let me change gears and share some high-level thoughts. The easy part of this equation is Hawthorne. The run rate of this business segment remains strong.

We just completed an acquisition and hopefully, there are more on the horizon. We continue to extend our leadership in the overall marketplace. We continue to face the same challenge we've had for several years. We entered fiscal '22 against pretty tough comps. But based on everything we're seeing, it's hard to imagine growth being below 10% to 20% next year. I know that feels like a conservative estimate to many, perhaps it is, and perhaps our guidance range will be different. But taking a conservative approach has worked for us over the past several years and we'll continue down that same path. I'm not going to overcommit to growth here. The more challenging questions for next year are related to the growth in the U.S. consumer business and the continued pressures from higher commodity costs. I'll cover the first part, Cory will cover the second.

First things first. We still have 2 months to go in the year, so Mike and I are working to keep the team focused all the way to the finish line. As it relates to next year, there are a lot of moving parts, so we're not going to be overly specific this morning. That said, I like where we are. I told you a year ago, I'd be happy if we could keep the growth we captured in 2020 in our U.S. Consumer segment. That remains my view. We're probably going to continue to feel some top line pressure through next April because of the difficult comps. So to some extent, fiscal '22 will be a mirror image of this year, a tough start that should get easier as the year goes on. Right now, I believe it's prudent to plan for the U.S. consumer business to decline slightly next year. Some of you have models suggesting a double-digit decline. We're hoping to do better than that given the expected benefits from pricing, but it's still too early to tell.

Obviously, we won't really know until this time next year. But our consumer business picked up nearly a decade worth of growth in the last year, and it feels pretty sticky so far. Coupled with the changing demographics of the lawn and garden market and a red hot real estate market, it leaves us in a far stronger position in a post-COVID world. That's why we've been investing so hard in our brands this season and why we'll do so again next year. That's a point of view right now, not guidance. We have a lot of work to do over the next 90 days and our thoughts could change. We are still finalizing listings and programs with some major retailers for next year. We also may take a second price increase in January, depending on what happens with commodities. And of course, we need to get through the fall season to understand what retail inventory picture looks like as we prepare for next season.

So we'd expect to give you a much clearer picture when we talk again in November. I said at the outset that it's tough to understand the business by just looking at the P&L. And I hope it's clear that we're feeling bullish and it's in that vein, I want to briefly cover one more subject: Returning cash to shareholders. As we look at the pullback in our equity price since early June, it's clear that the uncertainty about next year is creating a drag on our value. I've said repeatedly that I think about this business with a long-term perspective, and I don't worry about quarter-to-quarter fluctuations. I like our strategy. I like how we're set up to execute, and I believe in this team. And though I've hinted at the possibility of a special dividend multiple times this year, I'm a big fan of buying our shares at these prices. I told Cory, I'm comfortable allocating upwards of $250 million to share repurchase in the months ahead under our existing authorization, so look for us to do that.

Before I turn things over to Cory, I just want to add one last bit of perspective. I was walking around our campus in Ohio last week and came across a group of our R&D associates, plant scientists conducting field research. Their enthusiasm for their work and their belief in what it could mean for our future was
inspiring. It reminded me of why I love working here. There's an optimism here that I don't think you'll find at many other companies. It's what carried us through the early days of COVID and has helped us drive the record results we've been posting every quarter since. So we aren't worried about the difficult comps we continue to face, or the fact that we're likely to see a couple of negative quarters coming up. And we aren't worried that our consumers will disappear when the world goes back to normal. We believe in our vision here. We believe in the mission we're executing against. We believe our business does make the world a better place, and we believe the opportunities have never been more plentiful and that the future has never been brighter.

With that, let me turn things over to Cory for a brief overview of the numbers and to share some of his own early thoughts about next year.

Cory T. Miller
Senior VP & Interim CFO

Thanks, Jim, and good morning, everyone. I agree with Jim. Q3 was another strong quarter. From my new vantage point in the CFO seat, I've had the opportunity to watch our team navigate a pretty unusual marketplace. They're doing a great job, leveraging the opportunities in front of us while managing and overcoming the challenges. Their efforts have manifested themselves in the performance we've seen all year and the solid results we announced again this morning. Company-wide sales were up 8% in Q3 and we're now up 29% year-to-date. We remain on pace to deliver our guidance on both the top line and bottom line. Although we're likely to see even more gross margin rate pressure than we expected when we talked last, we're also seeing some unexpected pressure below the line from Bonnie. I'll get to those items in a few minutes.

But overall, I want to spend my time providing a clear understanding of 3 things: what we've seen in the recent months; what we expect to see for the balance of the year; and how we expect some of the current trends to spill over into next year. Let's start with the U.S. consumer business, where sales declined 4% in the quarter but are 19% higher year-to-date. That leaves us right on track with the guidance I provided back in June when we said we expect a sales growth of 7% to 9%. As Jim already said, consumer engagement has remained extremely solid throughout the season. Retailer inventory levels have also increased over the past several months. This is getting inventory levels back to where they needed to be. You've already heard the details of what we've been seeing at Hawthorne, so there's no need to elaborate on Q3. We remain confident in our growth outlook for the year on that business, too.

So in both major reporting segments, in order to maintain our sales guidance, you have to see a pretty dramatic change in the trajectory in Q4. To get to our guidance means shipments in the U.S. consumer would decline by 40% to 50% year-over-year in Q4, and for our Hawthorne guidance to hold means a range of flat growth to plus 15%, which is obviously lower than what we've been seeing over the past year. But those lower growth rates have nothing to do with the underlying strength of either business, so let me break that down for you. Remember that in 2020, the U.S. consumer business grew 92% in Q4 and Hawthorne grew by 64%, so the comps are extremely high. That's the first headwind. The second is the shift in our fiscal calendar in 2021 that we talked about in Q1.

On a year-to-date basis, through Q3, we've had more days than a year ago. While the shift had a negative impact of approximately $115 million on company-wide sales in Q3, it has added approximately $50 million on a year-to-date basis, which is pretty evenly divided between U.S. consumer and Hawthorne. Of course, that means we'll have fewer days in Q4, so that $50 million would come out of Q4 in order for the shift to be neutral on a full year basis. In U.S. consumer, we're in the midst of shipping fall products and continue replenishing in other categories to keep the stores at the right level of inventory. We've got good line of sight here, which gives us a high degree of confidence in our guidance, barring any unforeseen event. In Hawthorne, the other major year-over-year headwind in Q4 is the 82% comp we're up against in California, which accounts for about 45% of our annual sales in the U.S.

We would expect the growth rate in California to be significantly lower this Q4 for a few reasons: First, obviously, is the difficult comp that we're up against. Second is the fact that weather has had a strange impact on the outdoor growing season out West this year, which is an important part of that business. Good weather early in the year allowed outdoor growers to get off to a good start, and many of them have
already turned their crops for a second time. For those who haven’t, the heat and drought over the past handful of weeks have negatively impacted their business and the need for some of our products. Third is simply a timing issue and the fact that we believe we saw a pull-forward of some sales into June.

When we reset guidance at the beginning of June, we said we plan to reinvest some of the upside in both U.S. Consumer and Hawthorne to continue driving growth. In Hawthorne, that meant some previously unplanned promotions in June, which contributed to a record performance for the month that Jim referenced. So we expect to give up some of that year-to-date growth over the balance of the year. But net-net, we still expect Hawthorne to finish the year with 40% to 50% growth on top of last year’s 60% growth. In fact, our sales after 9 months this year are already 7% higher than all of 2020. This business continues to thrive.

Let’s move down the P&L and focus on gross margins, where we continue to feel the impact from inflation. Clearly, this is an issue that all of you have been hearing about from other companies that you cover. For Scotts Miracle-Gro, we’ve seen a steady increase in the commodities like urea, diesel and resin that are easy for all of you to track yourselves. Typically, we expect to see some relief in urea prices over the summer, but that’s not happening as global demand has kept prices stubbornly elevated. We’re also now seeing pressure from inputs you can’t track as easily such as grass seed and sphagnum peat moss. Grass seed has probably moved further than any of our commodities over the past year due to a supply and demand imbalance. Most of that seed is harvested in the Pacific Northwest. So the harsh weather conditions out there this summer will likely impact plant yields and certainly aren’t going to do anything to moderate the cost pressure.

In the third quarter, these issues led to an adjusted gross margin rate of 30.8%, a decline of 530 basis points from a year ago. I expect another significant decline in the fourth quarter, which would likely result in a full year decline of approximately 275 basis points. Through 9 months, the adjusted gross margin rate is 280 points lower than last year. Year-to-date, higher distribution costs impacted the gross margin rate by 260 basis points and higher material costs put another 130 points of pressure on that rate. Those pressures were partially offset by more than 100 basis points of fixed cost leverage. However, of the 390 points of downward rate pressure, about 235 basis points were unplanned. And while a significant price increase has gone live this week and will help for the final 8 weeks of the year, there really have been a few other offsets to those higher costs all year long.

As we look ahead to next year, only about 25% of our costs are locked right now. That’s lower than normal for 2 reasons: First, it’s been harder to lock in rates on some commodities, especially resin; and second, we’ve paused our hedging efforts for a few weeks with the hope of seeing some relief. I’ll reinforce Jim’s point that our goal is to take enough pricing for fiscal ’22 to offset the commodity pressure. The pricing that just took effect in the U.S. consumer was a little more than 5%. But if costs don’t begin to moderate by the end of the calendar year, our plan is to take another round of pricing in January, and we’ve already communicated that intent to our retail partners. Setting those issues aside, we still expect to make additional supply chain investments, and we will continue to see negative segment mix as Hawthorne will grow at a much higher rate than U.S. consumer.

So we’re likely to see the overall rate decline again next year, though I can’t give you a good range right now. The team has done a great job over the past several months, offsetting the margin pressure by staying focused on reductions in SG&A. In June, I said we expected full year SG&A to be flat to slightly higher than 2020. We’ve made some adjustments in the recent weeks, and I now expect the number to be flat to slightly down. There are a couple of items below the operating line I want to explain as well, both of which are putting some downward pressure on EPS. The first is the impact of Bonnie Plants. If you recall, we originally said Bonnie would add $0.12 to $0.15 to earnings this year. By the time we got to June, they had begun seeing lower profits than we expected because they had built too much inventory.

So when we reset the guidance in early June, our assumption was that Bonnie would have a neutral year-over-year impact on our adjusted EPS. Since then, we saw further erosion of their results, which is now leading to about a $0.20 headwind for the full year. While participation rates in edible gardening remain strong, Bonnie planned for a higher level of growth. May and June came in light, in part because of multiple challenging weekends due to weather, which Jim explained earlier. That meant they wound up
growing more plants than they needed. A critical difference between that business and our other 2 major segments is the inability to carry finished goods inventory. If we build too much fertilizer inventory, we carry it into the next year, no big deal. If Bonnie inventory doesn't sell and get stuck in a greenhouse, it gets destroyed, and there's no way to offset that cost.

So the gross margin hit will flow straight to their bottom line, and that obviously means the benefit we expected from equity income will be lower. As you think about your models for next year, it's important to remember that we've always expected Bonnie to be a year-over-year headwind in fiscal '22. It has nothing to do with the state of the business. Remember, our results this year exclude Bonnie's first quarter due to the timing of when we struck our 50-50 JV with them. Fiscal '22 will include Bonnie's first quarter, which is a lost quarter. While the result of this year from Bonnie is frustrating, we remain absolutely committed to live goods, especially edible plants. It remains critical to our strategy, and we are working with the Bonnie team on improving the planning process to better navigate the in-season volatility that naturally comes with this business.

There could be another pressure point on EPS from higher interest expense. We currently are contemplating another bond offering to lock in longer-term bonds, probably with a 10- to 12-year maturity at roughly 4%. If we decide to execute on that plan over the next few weeks, it could add a few more cents of headwind by the end of the year. This will allow for flexibility and liquidity and lock in strong borrowing rates for the next decade. Bringing things down to the bottom line, GAAP earnings were $4 per share in the quarter and $9.90 year-to-date, an increase of 12% and 47%, respectively. On a non-GAAP adjusted basis, which is how we provide guidance, EPS in the quarter improved 5% to $3.98 per share and 39% to $10.04 per share year-to-date. Before we open the call to your questions, I want to build on the theme you heard from Jim. We believed a year ago that we could come out of COVID a better and stronger company and I share his conviction that this is exactly what happened.

In the U.S. consumer business, we've made investments in traditional marketing, direct-to-consumer, sales, supply chain and R&D that leave us exceptionally well positioned for the future. And in Hawthorne, where I spent the previous 6 years, we have built competitive advantages that continue to propel that business forward too. In addition, our low debt leverage, which was less than 2.2x at the end of the quarter, gives us an enormous amount of financial flexibility to continue funding acquisitions and infrastructure improvement while also returning cash to shareholders. I'll admit to perhaps not being the most objective person on this call, but I'm convinced we've put our business in a tremendous place as we look to the future. And if we've taken the right steps for the business, that means we've taken the right steps for our shareholders.

With that, let me conclude my remarks and open the call for your questions.
Question and Answer

Operator

[Operator Instructions]

We will now take our first question from Jeff Zekauskas from JP Morgan.

Jeffrey John Zekauskas
JPMorgan Chase & Co, Research Division

I think you said you were raising your prices in your consumer business by 5%. That doesn't sound like it's enough to offset raw material price inflation, is that true? And when you try to raise them 5%, do you get 5%?

Michael C. Lukemire
President & COO

This is Mike Lukemire. We actually go in with a higher number. This is a net across -- and so in some categories, we actually are higher than 5%. So you got to look at the mix. So it will be a variety. And yes, early on, it's enough if it goes down. But as we said, we're monitoring this with our retail partners. And if it continues to stay high, we're going to make another adjustment.

James S. Hagedorn
CEO & Chairman of the Board

Look, Jim Hagedorn here. I think it's one of those things where I think we got to a really good place and not under pressure from our retailers. I think we got to a place of saying this seems right. If you look at the headlines, like in the Journal, just this last week, investors, I think, was the headline on the front page. I think commodities are coming down. I don't think anybody knows I think the retailers are trying to understand it's not -- we're not unique. I do think our response to them was fairly unique and saying, "Look, we'll do this now? And if it eases, we're good. If it doesn't ease, we're taking more in January." And that was one that I thought I think across the board, the retailers thought was a very fair and reasonable position to take. So it depends on what happens with commodity pressure. If it goes -- if it comes down, then the 5% should be enough. If it doesn't come down, then we'll take more and the retailers are aware of that and agreeable to it. So I think we ended up in a really good place, actually.

Jeffrey John Zekauskas
JPMorgan Chase & Co, Research Division

So how much urea -- in terms of your urea, like how much do you want to have bought by the end of the calendar year? So in other words, you've got to buy it all in the fourth quarter, of the fourth calendar quarter to catch up?

Michael C. Lukemire
President & COO

We don't generally have it all in the fourth quarter. So we'll be -- we'd like to be around 50% hedged. We've chosen not to do that. We expect that the price is generally soft and we get -- we're monitoring that right now.

Operator

We will now take our next question from Peter Grom from UBS.

Peter K. Grom
UBS Investment Bank, Research Division

So thank you so much for the commentary on fiscal '22. But I guess historically, when I go through what you've said initially versus kind of what has ultimately played out, your comments have proven to be
prudent. So I just want to understand if that is how investors should kind of look at your initial fiscal '22 commentary today? And then maybe building on that, like within the U.S. consumer, does that assume some sort of catch-up from normal weather? Or is that just kind of the underlying trajectory?

**James S. Hagedorn**  
*CEO & Chairman of the Board*

Well, Peter, welcome aboard, first of all. The -- so Jim Hagedorn here. I think prudent is the equivalent of sandbagging. I think on Hawthorne, we were prudent, although I think -- if I look back and see what was the biggest mistake sort of I've made in recent history with expectations, is saying, I didn't think Hawthorne would ever have a year less than 15% growth at least in the near future, and then I got hammered in '18. So I would say prudent is a good answer for Hawthorne. On the consumer side, I go back to a little bit, which is this idea, and I've sort of set the expectations here on the management team, that if we can hang on sort of the, call it, the 25% growth we had last year, I'd be happy as hell with that and then basically try to hang on to our margins. That's been more challenging this year.

So I feel actually pretty good about where we are with the consumer, where we actually sold more units this year than even last year. The margins have been a challenge. I -- we weren't -- pricing wasn't optional. It was one of those things we sort of had to take. So I don't really know what a normal year for the consumer is. I do personally think, and this is where maybe I'm being optimistic -- if you take a look at sort of 2 things that I think drive the business, it's what's the current inventory level, which is higher at retail, that is true. The thing is, we're not actually having discussions with retailers about margins being higher than last year. I think everybody is so paranoid about having inventory that I actually don't think there's going to be a lot of pressure to sort of correct inventory. I think people really want their shelves full again going into next year. And I think that, that should be helpful for us in Q4 and call it the beginning of Q1 for us.

The weather, it just sucked. I mean, it's like -- I think it's something that you look and say really good about the business as we went through like, I don't know how many iterations we did in the script, but something like 10, I think that's where we were on this. It's just -- you -- I think it's a really good story for Scotts and something about the stability of our business and the stickiness that the consumer has that, if you look and say Mother's Day, Father's Day, Memorial Day, it's just -- the 4th of July, they were all really challenging, at least if you live sort of in Ohio and East, which is probably, I don't know, 40%-plus of our business.

So I think the fact that we said probably it cost us 200 basis points of growth. I think that says something about the strength of the business that -- because I normally say just look out the window. So I actually feel like normalized weather next year is a positive for us, and I'm less concerned about inventory correction coming into next year. So I'm pretty optimistic on the consumer side for next year. And I think probably prudent is the right answer for Hawthorne. Does any of that make sense?

**Peter K. Grom**  
*UBS Investment Bank, Research Division*

No, no, it totally does. That's incredibly helpful. I guess maybe just building on some of that commentary. I guess, the Q4 guidance for the U.S. consumer is a pretty wide range, but it does kind of imply a step-up on a 2-year stack. So -- and maybe this is more for Cory, but I think, Cory, you mentioned back in June when you kind of raised this guidance that you were pleased with the results, but you didn't see much upside to that 7% to 9% figure. So I guess does that comment still hold true? Or do you feel like there could be upside given what has been, at least versus our expectations, a stronger Q3?

**Cory T. Miller**  
*Senior VP & Interim CFO*

It's Cory. Yes, as I looked at the last time we gave guidance, the 7% to 9% that we had talked about at that point was a pretty realistic view of where we thought the year was going to come in. As we sit here today, our Q4 numbers look like they're going to, kind of, be flattish to get to a full year back in that 7% to 9% range. I don't see a ton of upside above that. I don't see a ton of risk to those numbers. I think that's probably still a good range.
Operator

We will now take our next question from Jon Andersen from William Blair.

Jon Robert Andersen
William Blair & Company L.L.C., Research Division

Jim, you mentioned your preliminary commentary at least around 2022 for the U.S. consumer business to be slightly down. Is -- are you contemplating a second price increase in that view based on kind of where commodities sit today? What might be the, kind of, the magnitude of that price increase? And then if you can just talk a little bit more about some of the assumptions that the team is working with around retention of new consumers and some of the specific efforts that you're going to be making, whether it be new products, whether it be more direct marketing that you referred to in the transcript that will assist with that effort.

James S. Hagedorn
CEO & Chairman of the Board

There's a lot in that question. I'm going to start by, sort of, expressing a little bit of a lack of commitment. The part of what I got to do is carry the water for the operating team in finance. I got to say -- and I doubt Mike is much different than me. We make a real effort here not to sort of overcommit. I think that's important to kind of how we manage, I'm going to say the investment community is -- do not overpromise. I will say that looking at POS has been pretty good, I would say. Recently, weather has definitely eased. I think it's the biggest single factor for us is weather. And I think we've proven that we can hang on to those customers. I mean we've done that. So I'm probably more optimistic in my heart than the numbers that we're talking at you. I -- as we look at the year and manage our budgeting, which is not complete yet.

I've been very clear with Mike that -- and Mike and I are very much aligned on this, and he can speak for himself, which is that we looked at all the years, and I think we've said this repeatedly on these calls recently that, given the chance of sort of more promotional dollars or more media/marketing dollars, in the past, Mike might have said I can cut deals with retailers and build promotion that way, and that's where I'd like to go. Randy back in his days said, "Dude if we're a branded company, why are we like continue to be tight on marketing dollars? Why is that occurring?" And we used what happens in COVID as an opportunity to very much put money behind sort of our direct efforts using a lot of social media with a whole new approach that we're doing with Vayner, and I think we felt really good about that last year.

Mike is now a believer and I think came out of last year saying, I was wrong. And -- so what I'm saying to you in this sort of roundabout way is, our commitment to our marketing efforts and our brand-building efforts is high and is not like a voluntary thing. It is what makes us different. We sell branded products. So Mike, do you want to...?

Michael C. Lukemire
President & COO

Yes, I would say, I'm always more bullish, but I still -- we're holding on to customers. I think we're going to be more targeted on localization and partnering with our retailers and using our marketing and the balance between promotional activity and marketing, we will be even stronger next year. We're seeing it even here in August. August right now looks like we're starting off up like 7% or 8% over a 35 comp. The consumer is still there. And I think balancing that with weather and targeted marketing, I'm bullish on POS and activity for next year. I think shipments is a matter of timing of catch-up and from -- we were so far behind that we're in a better position in balancing the shipment activity. So I'd almost disconnect shipments from POS, but the consumer is still there. And they're still buying, and there is some upside to that. And so -- and I think you'll hear that from some of our retailers in the categories.

Jon Robert Andersen
William Blair & Company L.L.C., Research Division
Okay. Mike, how would you handicap the need for another round of pricing in January? Are you willing to handicap that at this point?

**Michael C. Lukemire**  
*President & COO*

Well...

**James S. Hagedorn**  
*CEO & Chairman of the Board*

Yes he is.

**Michael C. Lukemire**  
*President & COO*

Yes, I've seen -- I think every day is a new -- I'm worried about resin supply and I'm not seeing the cost relief. So I'd say it's probably...

**James S. Hagedorn**  
*CEO & Chairman of the Board*

Grass seed.

**Michael C. Lukemire**  
*President & COO*

Grass seed, the harvest has been bad and there's actually a shortage -- going to be a shortage on grass seed. So...

**James S. Hagedorn**  
*CEO & Chairman of the Board*

I think, Jon, we asked that question ourselves before the call. And I don't -- I think the way it's looking now, it feels like it's near certain, but there's months between here and there. And I think we've been surprised by the pressure. And the good news is retailers are aware. And it wasn't a compromise. This was a sensitive plan that was developed with the retailers where we said, can we two-step it? And can we sort of build some time in to see relief on commodities, which I continue to believe in the long term are temporary, but I don't know. I think probably the Fed believes that too, but we'll see. But I would say if Mike had to sort of -- if you were in the room before this call, I think we would have said it's near certain based on what we know now.

**Operator**

We will now take our next question from Joe Altobello from Raymond James.

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

I guess I'll follow up on Jon's question. If you guys do end up doing another, let's say, 5% price increase in January, on top of the 5% you just took, what do your internal models tell you in terms of the potential impact on volumes? Because I think historically, the risk has been that consumers don't necessarily trade down, they trade out of the category if pricing gets too high. So how much of a risk is that if pricing next year ends up being double digits?

**James S. Hagedorn**  
*CEO & Chairman of the Board*

Look, I've been outspoken, I think. I think this inflationary pressure is bad for the American economy, period. And I think that if you look at, sort of, when things get crappy out there, I think we are hurt less in that kind of environment. That if you look at during the housing crisis, and I'm not predicting a housing crisis here, what I'm saying is, during that period, which we all remember, I -- some people are calling like
If you looked at the projects people did at home, they were doing kind of lawn-and-garden projects and kind of painting projects. And I think that it's a very sticky category. We have a lot more customers than we had before. I think the housing market is great. But do I think if everything that people buy every day is going up like our stuff? And from my point of view, it's like what do you look at that's not seeing it?

I am sensitive to the fact that I don't understand why some people are pricing the way they are, meaning commodities where they're doing it because they can. And I think it's, to some extent, irresponsible. We're trying to be responsible in how we price. I don't know if it's going to change anything. But what do I think? I think it's bad for America. And I think we're probably not completely immune from that. Meaning if prices go up double digits, do I think demand could be impacted? I think less than other people, but I think the answer is probably yes. And I think that's an honest answer. I'm not sure what else you can say. I mean, I ask you, what do you think?

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

It depends on a lot of things, obviously. In some categories, we're seeing some pretty strong price increases and the consumer is handling it pretty well and others not so much. So I think historically, in your category and you would know a lot better than I would, it seems like your demand is pretty inelastic. So I would think the impact on volumes would be fairly negligible.

James S. Hagedorn
CEO & Chairman of the Board

Yes. I mean the only thing I would say is that we sort of talked about it this year. I don't -- we really got into it, which is what is happening with retail promotion? Mike and I spent a lot of time on this, in our -- you got to remember that pricing last year was up to the consumer double digit because it was zero promotion, okay? Today, I think you see probably promotion level is kind of 50% of what you saw. I think that's kind of Mike and my best guess, which is, it didn't stay the way it was during COVID. We talk about particularly in sort of soils and mulch that it's very promotional. We think it went back to about half of that. So I think that basically, pricing is probably down to the consumer, like 5-ish points this year so that some of that is going to get muted. But you can look at what happened last year.

Now I know there's a lot of complicating factors because people are home and they have nothing else to do. But they were very tolerant of -- I don't know, I think the math we did looks like a line of 11% or something like that was actually what a consumer has paid more than they had the year before at across the entire line.

Operator

We will now take our next question from Andrew Carter from Stifel.

William Andrew Carter
Stifel, Nicolaus & Company, Incorporated, Research Division

I wanted to ask about Hawthorne business and kind of the margin profile. Trailing 12 months, it's 12%, 100 basis points over last year. At the same time, you're 2x the sales of your original expectations, given all the investments you highlighted. So I guess the question is, you talked about the sales growth, but could you lean on that business in the subsequent years for grading earnings power, perhaps go beyond your 100 basis points of margin expansion, kind of expectations you've laid out?

James S. Hagedorn
CEO & Chairman of the Board

Cory, you'll take this?

Cory T. Miller
Senior VP & Interim CFO
Yes, I'll take that. I think as you look at the earnings rate that the Hawthorne business makes, we made a conscious effort to kind of increase that by 100 basis points a year, so we could balance the growth we wanted to have in that business with the investment we wanted to put into the category. And -- so we've stated that 100 basis points. I think you can look at that business as going higher from a margin rate perspective. It would be a trade-off in growth. We have a lot of competitors in the space, a lot of different competitors with different pricing models, so we are up against that on a regular basis. Certainly, the long-term view on Hawthorne is to get us to an earnings rate that we're comfortable with, that we continue to increase.

But for the short term, we continue to want to look at the growth we're putting on that business. We've had multiple quarters at over 50%. We want to continue that pace. We're investing in our distribution centers to allow that pace of growth to continue. But there is a thought that we want to continue ramping up the earnings rate, and we'll weigh those 2 things out as we go into next year.

William Andrew Carter  
*Stifel, Nicolaus & Company, Incorporated, Research Division*

And then switching gears a little bit, just kind of confused on the guidance about Bonnie's. You're now expecting a $0.20 headwind for the year, 10 to 15 originally. If I heard correctly, you'd expect a headwind for FY '22. There's a lot of moving parts here. But could we expect any kind of relief for Bonnie's year-over-year in FY '22? Or is that just going to be kind of neutral as you're thinking about next year?

Cory T. Miller  
*Senior VP & Interim CFO*

If you go into '22, the one call out for '22 will be that because of the timing of when we entered into the JV, our Q1 is going to be a headwind to us. That doesn't have anything to do with the underlying business. It's just a headwind to us due to the timing of when we entered that JV. But the underlying business, as we look at the sales growth that we're expecting that business to have, it's a balancing act between what we think is we want the business to grow and what we want to push that business to grow. The difference in the Bonnie business, as I said in my script, is that if you build the inventory and it doesn't sell, it is a bad guy that drop to the bottom line as you write that inventory off.

So we need to have measured growth in Bonnie. We need to build the inventory to achieve that measured growth and be willing to give up a little bit of volume to make sure that we end the year in the right spot from an inventory perspective, and we don't have issues that we have to eliminate. So if we plan appropriately on Bonnie, we can see some increase in the earnings. We just want to make sure that we're planning appropriately and executing.

James S. Hagedorn  
*CEO & Chairman of the Board*

Yes. I want to give them a little bit of cover. I think coming out of COVID and the sort of need to build product, including live product, I think we pushed pretty hard to be prepared for the year. And I think you have to go back, sort of, into last year and sort of that sort of full year of COVID and say, who knew what was going to happen. Retailers were super optimistic. We were super optimistic. We've been investing a lot of money behind building capacity for the Scotts business. If you say -- and it's an important point is that we picked up 25% of volume in COVID. And I think we're calling that like a decade's worth of growth. We were pretty tight on capacity before COVID hit. Well that was -- I really want to put it. And we were where we want to be.

And we've taken a look and said, we need to build some flex capacity in, even if growth rates come back to sort of more normal and we hang on to most, if not all, of the customers we picked up. That's kind of what we are doing. When we look at Bonnie, we did encourage production. And I think they're more sensitive to sort of the weather, I think, really than we are. But I think if you look at the cost of inventory, and this will probably make people uncomfortable here is, what do we think the earnings would have been if they hadn't had to eat that inventory, Mike? So -- and do we if the business does not sort of make that error going into next year, what's the benefit of that?
Michael C. Lukemire  
*President & COO*

There’s 2 things there. One, we bet on a 10% growth, so we made $11 million of investments on top of what we made in the previous year. And then, strength wise, you look at it historically is around 40%. Last year, we probably were around 30% because we sold just about every unit we made. So you got a little bit start to the business at a 40% shrink and not hitting the volume and the investments, the business probably could have made another $12 million or $13 million. And so -- and that’s what we’re going to be a little bit smarter on. So I don't apologize for being aggressive on the -- the lean in and bet on it, and I think it’s a great business.

But I think we’re a little bit smarter on how hard we push. So it'll be a little bit like the bread business, for some of us that have had experience in food, I think we were a little bullish on our activity. So we'll make that adjustment. And I think that business -- and we'll continue to work on shrink and we're learning a lot about that business as far as what the consumer needs in retail. So...

James S. Hagedorn  
*CEO & Chairman of the Board*

I think what we’re saying is, it should be a net positive just because, to some extent, we built numbers based on a view of what we have inventory on hand. And I think in retrospect, what Mike is saying is when you have something that dates out, we probably need to be a little more careful. But I think coming out of -- there was a bit of aggression coming out of COVID, and I don't think that was wrong. I think -- like Mike said, I’m not going to apologize for sort of running the business. And -- but I would say that, call it, $10 million to $15 million of benefit from -- we'll not do that. We won't do that again.

Michael C. Lukemire  
*President & COO*

No, we won't do that again. I mean I would tell you, in March, we were actually beating the 10% per plan. So this is how -- this one is you really get to stay on it week by week, much more so than even our U.S. consumer business.

Operator

We will now take our next question from William Reuter from Bank of America.

William Michael Reuter  
*BofA Securities, Research Division*

I've just got a quick one on capital allocation. You mentioned the potential bond deal. I guess what type of scale or size are you thinking there? And then in terms of use of proceeds, you mentioned returning cash to shareholders versus M&A, I guess maybe anything about the size of that M&A? And if the 3.5% total leverage target kind of still remains in the context of all this. I know there's a bunch of questions there, sorry.

James S. Hagedorn  
*CEO & Chairman of the Board*

Yes. I don't think it's a choice of M&A. I think it was a special dividend that I think we have always led with shareholder-friendly. I think our bias for a lot of the times we've been talking about that, which is probably the last 5-plus years, has been reduce the share count. I think at the prices that we saw over the last year, we basically said, we'll just special it out. It seems like a reasonable approach. I think at these prices, the decision we've made as far as shareholder friendly is we would do that through share repurchase. And that's that choice. On the M&A side, we -- it's a very rich environment. I think the -- look, notionally, I would say that 3.5% target is still a good range for us. We do believe, at least I believe, and I think Cory does and our advisers and Board, that if you could lock rates in, call it, at 4% for the next decade, that would be a reasonable bet.
So we've made a decision to do that. I think that's pretty much it. I think that we're very busy on evaluating opportunities at the moment. It's -- I don't -- I wouldn't call it a scary time. I would say it's an extremely exciting time in sort of Hawthorne, in sort of other initiatives related to sort of adjacent to these 2 Hawthorne that I think we spoke about, sort of more words to follow on that. And even on the core business, there's opportunities. But I think the bottom line is, yes, we're comfortable with sort of the leverage we've talked about in the past. We think that interest rates are an opportunity right now if you compare it to what, I think, a lot of people think the future holds. I think that's pretty much it. And then the choice of -- and regarding shareholder-friendly, our view is that we'd rather buy shares back at this price than we would just send money out the door. That's kind of where we're at.

**Cory T. Miller**  
*Senior VP & Interim CFO*

Yes, I'd say, the only one we didn't cover was the size, looking at about $400 million.

**Operator**

We will now take our last question from Eric Bosshard from Cleveland Research.

**Eric Bosshard**  
*Cleveland Research Company*

Two things. First of all, you commented a little bit. I'd love to expand on your thoughts on inventory at retail and also your own inventories are notably high coming out of this quarter. I characterize them notably high. But how do you think about retail inventories and your own inventories on your own balance sheet at this point?

**Michael C. Lukemire**  
*President & COO*

Well, I think about them as people want to have supply, number one. And so I would say there is a shortage on resin. I think retailers don't want to be out. We don't want to be out. So there's a little bit of that. I also would say that we are holding on to those consumers that naturally retail inventory is going to be higher to support that business. So -- and then the third thing is, we were way behind last year. So part of that is also catching up. So -- and I wouldn't even say that we are fully caught up in certain categories. And I was at a retailer event just on Monday. And they basically said, you're one of the few that kept up. So they actually gave us a compliment, and I would probably be harder on us than they were. So when I look at that, I think they're in sync to the continual global supply issue that's out there, that there's not enough inventory in the stores across the board when you look at it holistically. And the concern about getting and keeping supply.

**James S. Hagedorn**  
*CEO & Chairman of the Board*

And so I'm not really -- I'm not sure exactly what Mike's build plan is through the fall and winter, we're probably slightly high. I think Mike's operating plan was higher than the business is turning out. I don't view that as a bad thing if you say unit volume of what we said, 7% to 9%. So nothing to be ashamed there. I think Mike was building to a higher plan. So I don't know what his build is going to look like. And I think retail inventories embedded in kind of our numbers here, I think was a concern, particularly in kind of the planners and finance that retail inventory levels are higher than -- I'm not saying we wanted them to see them. But the thing is the more we talk to retailers, the more we look at the environment out there, the more -- Eric, the more paranoia, I think there is of not being able to stock.

So we're just not under any pressure on the inventory side from retailers. Even though their retail inventories are higher, they are more concerned with being ready to go for next season and not have outages. Because the year of COVID was -- it's burned into people's brains. And not -- and there's just -- there's a lot of shortages. I mean when part of the ability to sort of not hedge is when you have suppliers call up and say, "Look, I'm doing this as a courtesy to you. This is what the price is, tell me how much you
want and I'm just going down the list. If you don't want to pay this price, then I'm just moving down the
list and there will be no product for you." That's what the environment looks like. It's pretty crappy.

So the ability to hedge in a market where people are saying, "This is how much I got, do you want it? Yes
or no?" We're sort of buying in that environment. You're not hearing a lot of people, including us, kind of
winging about inventory levels. I think everybody just wants to get through this period.

Michael C. Lukemire
President & COO

And there's people who actually talk to you about prebuying your capacity.

James S. Hagedorn
CEO & Chairman of the Board

Retailers.

Michael C. Lukemire
President & COO

Retailers. So that's the environment that they're in. And so -- And right now, I would tell you really a little
bit with commodities. And so until the global supply chains get fixed, it's kind of an unknown world out
there for retailers and for us. And so we're trying to balance that to stay in stock and supply and keep
their stores.

James S. Hagedorn
CEO & Chairman of the Board

But are you feeling too fat right now, your inventory?

Michael C. Lukemire
President & COO

No. I'm actually a little bit nervous after the conversation I had with retailers this week as like -- I was
with them on Monday. So...

Eric Bosshard
Cleveland Research Company

So related to this, you talked in June about stepping up CapEx, adding capacity. And obviously, there's a
lot going on in the business right now and a lot of it is quite good, but your appetite and plans for adding
capacity in the consumer side of the business. With where you are in inventory, where you are for growth
expectations next year, just remind us of what the plan is in terms of adding consumer capacity?

Michael C. Lukemire
President & COO

Well, we're adding more growing media capacity. And then we're looking at our capacity on liquids and
fertilizers, so that we don't have -- we can be more spontaneous. But I would tell you, our inventories are
leaning more on the raw material side of making sure that I have models of capsid, sphagnum peat to
convert. So I had more outages from -- on the manufacturing side from not having components than I did
from our actual capacity. So that's a balance that we're going through, but...

James S. Hagedorn
CEO & Chairman of the Board

Eric, I think that, look, are lessons learned coming out of COVID? And I'd say, they're not disproved, which
is that we were, I would say, pretty optimal for kind of 0% to 2% growth for our manufacturing footprint.
You pick up 25%, and then you add to it this year. I think you look at it and you say that dogs don't hunt.
And this is not because we're saying, "Oh, we're crazy. We have to like build all kinds of capacity," and
then normal consumer behavior. Let's just say you don't lose any of it, but you go back to a more normal,
kind of, mid-single to low single-digit growth rates, we just can't operate in a world where everything is
beyond capacity. This is -- let's just go back to a people issue. I would say our employee base is pretty PTSD'd out. It is not helpful.

And to be honest, I'll make a pitch for people should be vaccinated. But a lot of our Midwestern facilities have below national average vaccination rates. And so we're basically back to protective gear and pretty reasonable infection rates again. And so it's like nothing ends. It's just -- it's a really -- and so we can't operate our plants that hard, and we can't operate our people that hard. And so we do have to, I think, responsibly add some capacity. And I would say I put a lot of pressure on Mike, and I'm going to say the people that deal with capital allocation to say, we don't have to go crazy here. Where do we really have to put the money? And it's not a huge amount. I think we're -- I don't know, notionally what CapEx has gone from before. So now it's about 2x, but I think it's like 75 to 150 or something like that. It's not gigantic money but it's absolutely critical to where the business is today.

Eric Bosshard
Cleveland Research Company

Okay. And then if I could ask just one more. The promotional spend, you characterized that the retailers went halfway back to normal, and the retailers and you would both say it's an easier category if there's not these promotions. I do think the consumer probably has a different opinion. I think consumers like promotions. They like a deal. Where do you think it goes in '22? And how does that impact you in terms of your participation in that?

James S. Hagedorn
CEO & Chairman of the Board

Well, it's up to the retailer to partner it up. So I think you can't -- everybody's got a budget for that, and we did. I think Mike pretty much said it. One of -- I am a believer, and I think every one of our large retailers is. Some of our general merchandise people are just everyday low-priced people and so that it's not as big an issue there as the home center crowd. But this is a major source of debate on everybody. I think this 50-50 world is right. I think if you look at -- this is my view, it continues to be my view. It's more informed rather than less informed, sir, on -- is that the majority of Black Friday events are inefficient, too expensive and too early in the season and too likely to have weather misses when it's sort of April. And my view of the miss rate on that's like 80%. Okay? Call it more than 50%.

And that's expensive and wasteful. And I think the retailers absolutely, based on the experience we've had in the last 2 years, agree with that number. Nobody wants to go back to the way it was before. On the other hand, some of those retailers were more promotional than others this year and, I think, gained share. So this idea that you say the consumers like it, I think that's proven true. This idea of targeted and weather dependent, it's not an issue of whether you're going to promote mulch or soil through the year. You're going to. The question is, do you have to do it on a certain day that you design 6, 8 months in advance early in the season where you're just likely to end up with weather issues. I think the answer is that's a terrible idea. And -- but I think if you say I'm not going to do it at all, I think you're going to lose share.

And I think because consumers do want that, and it is an exciting category to shop. That's once a year and a lot of energy is created in part by us and in part by the retailer. So what do I think? I think this 50-50 is a righteous number. I think that on the highly promotional categories that tend to be early season, there's 100% certainty that consumers do respond to this. And that it tends to bring consumers into the store. And once the consumer comes into the store, they buy other things and they tend to be more loyal throughout the year. And therefore, I think that there is risk to say it's unnecessary, or that everyday low pricing is -- I like sort of the bizarre nature of it. And I think [ Pet Fair ] probably was the best, I don't know, merchandiser -- instinctual merchandiser in history, and I think believes that promotion matter. And so we agree with you. But I think 50-50 but much more targeted, and it doesn't matter. Mike, anything you'd add?

Michael C. Lukemire
President & COO
No, I would say, it's probably similar to this year with a little more targeting in certain areas where there were some weaknesses in the promotion. So -- but I wouldn't say go -- went back to pre-COVID days. I'm not seeing that from any retailer. So -- but if you got 10 discounts on Black Friday, you may only have 3. That's the type of thing. It's more specific to bring the consumers in and then convert using the marketing and being localized. That's what we're seeing.

Operator

That concludes today's question-and-answer session. I would now like to turn the conference back to Mr. King for any additional or closing remarks.

James D. King
Chief Communications Officer, Executive VP and Senior VP of Investor Relations & Corporate Affairs

Thank you, Tracey. Thanks, everybody, for joining today. Again, as a reminder, Cory and I will be at the Raymond James event on September 14, provide an update on just kind of general business, trends and strategy. Then in the meantime, any questions or follow-ups from this call, feel free to call me directly. I'll be at (937) 578-5622. Thanks for joining us, everybody. We'll talk to you again in early November.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.