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PRESENTATION

Operator
Good morning, and welcome to the fourth-quarter 2011 earnings conference call. All lines have been placed on mute to prevent any background noise. After the speakers’ remarks, there will be a question-and-answer session. (Operator Instructions). Thank you. Mr. Jim King, you may begin your conference.

Jim King - The Scotts Company LLC - VP of IR and Corporate Communications

Thanks. Good morning, everyone, and thanks for joining us. With me here in Marysville this morning are Jim Hagedorn, our Chairman and CEO; Barry Sanders, our President; Dave Evans, our CFO, as well as other members of the management team.

Jim will get started shortly with some prepared remarks related to our key learnings from 2011 and our early thoughts about 2012. Dave will then walk through the financials. When we are done, we will take your questions and Barry will also join us for the Q&A.

In advance of that and in the interest of time, we're requesting that you ask a single question and a single follow-up. If we don't address all your questions, I'm glad to follow up with you after the call, and in fact I believe we already have some calls scheduled with many of you.

I have one more important item of housekeeping before I turn things over to Jim. We're going to be holding our analyst day meeting this year on February 14 in New York. I've told many of you in recent months that we would once again be holding the meeting in Florida at the end of February, but we've changed those plans in recent weeks. We're still working out all the details but will have more to share with you in the next three to four weeks.

With that, let's move on with the call. I want to remind everyone that our comments this morning will contain forward-looking statements. As such, actual results may differ materially. And due to that risk, we encourage investors to review the risk factors outlined in our Form 10-K, which is filed with the Securities and Exchange Commission. If you haven't received a copy of today's press release, you can find one on the Investor Relations portion of our website, Scotts.com. And as a reminder, this call is being recorded and an archived version of the call will be available on the website as well.

If we make any comments related to non-GAAP financial measures not covered in the press release, we will provide a bridge to those items on the website as well.

With that, let me turn the call over to Jim Hagedorn to discuss our performance.

Jim Hagedorn - The Scotts Company LLC - CEO, Chairman

Thanks, Jim. Good morning, everybody. I'm sure I speak for all of us here in saying we're glad to have fiscal 2011 behind us. From our previous calls, press releases, and interactions with our IR team, most of you are well aware of the challenges we faced throughout the year. I've been in and around this industry for my entire life and I don't remember a season quite like this.

Remember though the challenges were confined to the US consumer business. We were pleased with the performance of our international business, which benefited from innovation, a good marketing plan, and improved cost structure. I'm also pleased that Scotts LawnService pulled off another solid year on both the top and bottom line.

Before going further, let me set your expectations for the call. As we said back in August, we think our top-line growth in 2012 will be at least 6%. I'll explain the drivers behind that in a few minutes. And then between Dave and I, we will share an update on our commodity outlook, discuss some investments we're making behind brands, and discuss a few items below the operating line.
As has been the case in the past years, we won't provide specific EPS guidance until our analyst day meeting in February. With so many pieces of the puzzle still moving, there's no upside to getting ahead of ourselves.

Dave will provide more details around the 2011 numbers. As for me, most of my comments this morning will be focused on the continued progress we're making against our long-term strategy and lessons from 2011 that apply to that strategy.

I will start by saying that our long-term strategy has not changed. We continue to be focused on transforming the business from being retail-centric to consumer-centric, and that we have made good progress over the past year in getting to that goal.

While I would like the changes needed to succeed against this plan to occur in a single season, they can't. It's an evolution. And fiscal 2011 was an important step in that process.

Given the way the season played out, it would have been easy to blame the weather, commodities and other factors and then just moved on. But that's not the approach we took.

Most of you know I'm probably the last guy in the world who is going to go around quoting Democrats, but Rahm Emanuel's comment a few years back about never letting a good crisis go to waste really rung true with me all summer long. As we went through the season, we wanted to make sure there weren't broader structural issues with the business, so we took a deep dive in looking at the health of the business and our category. And our conclusion was that the fundamentals haven't changed. But that doesn't mean that everything was working perfectly either. It wasn't. There were lessons from this past season that will allow us to make course corrections. The changes we are making and that I will explain over the next few minutes will likely put pressure in our earnings in 2012. But they will also help us take a big step forward in driving category growth and long-term value creation.

As we enter fiscal 2012 – we enter fiscal 2012 as a smarter company. And we remain confident in our strategy, our category, and our brands. I've personally been spending time with some of our key retailers in recent weeks and I can tell you they feel the same. As we prepare for next season, I feel good about our allocation of space, both on shelf and off shelf. I felt good about our retail programs for 2012, and I feel good about some of the bold steps we're planning for next year to keep gardeners engaged in the category.

Let me outline some of the reasons we believe at least 6% top-line growth in our consumer business is achievable next year. While our estimates aren't precise, we think whether accounted for about half of our top-line miss in 2011. And since it's hard to imagine a more difficult weather year than 2011, anything that approaches normal weather should be a nice tailwind. We also have a strong innovation pipeline coming next year with Snap and Expand’n Gro, so these should be a tailwind as well.

In addition to the benefits we will see next from innovation, we will see some modest benefit from the combination of price increases and changes to our trade programs.

As it relates to pricing, I want to be clear. We're taking a much more conservative approach than in the past. In other words, pricing will not fully offset our commodity cost increases next year. In fact, in some categories, including lawn fertilizer where cost pressures are the greatest, we have decided to entirely forego a price increase.

Let me explain. We have seen some elasticity in lawn fertilizer over the last few years, a fact that we have shared with you in the past. And as we started signaling as far back as last February that we were nearing a point where category growth was taking a precedent over near-term gross margin pressure.

I want to be clear in saying that our ability to take pricing with our retailers and have it stick is not the issue. I am confident we could have taken pricing to cover 100% of our cost increases and our retail partners would have accepted it. In fact, during this earnings season, I have noted several other consumer companies continue to take price. But whether it's fuel, food, or health
care, the consumer is getting squeezed. And we didn't want to provide consumers with another excuse to get disengage from this category.

We've always tried to manage our business with a balance on near-term results and long-term health of the company. Some of you listening this morning have been shareholders for as long as I've been CEO, so you know what I mean.

The truth is we think the top line will be fine next year without pricing. Will that put some pressure on margins in the near term? Yes. But in the long-term, keeping consumers engaged and growing the category has to be our number one priority. So frankly, I'm not really concerned about whether we are an outlier on the pricing issue next year.

The other long-term decision we've made for 2012 is to stick to our commitment to invest in our brands, both in the US and internationally. As part of our efforts to become more consumer focused, we made major changes to our marketing team in 2011, including the addition of Jim Lyski as a proven and seasoned Chief Marketing Officer. That brings me to the lessons that we learned in 2011.

Over the last few months, we have re-examined the effectiveness of our marketing messages. We've looked at the efficiency of our media spend, and we have analyzed nearly 10 years worth of data related to investments we've put behind our brands. But when Jim and his team were working on their original plans for next year, I asked that we examine all the investments aimed at driving our consumer business, not just advertising and marketing, but also sales support and trade spending with our retail partners.

As we looked at the business one category at a time, both in the context of our performance in 2011 as well as previous years, it showed that we are not making progress as quickly as I would like.

In order to succeed against our Consumer First strategy, which is ultimately focused on growing the lawn and garden category, we have to invest more heavily in consumer-focused programs. That means putting a higher percentage of investment dollars toward marketing and advertising and a lower percentage in trade programs.

As we analyzed the long-term performance of our business, it was clear we still haven't made this change. Our trade spending continues to increase, but our investment in our own advertising is not moving at the pace that I think is necessary. In categories where we had a better balance of advertising investment against trade programs, we have seen better growth and higher margins. But in categories where the balance is tipped toward trade spending, the growth has not been as strong.

One thing I believe with certainty is that advertising matters in this category, and we cannot succeed in creating a more consumer-centric model without staying true to that philosophy.

Our analysis this summer put a light on another issue. While we knew our shift to more local and regional ad spending would be less efficient, we underestimated just how much that was true. I'm okay with a less efficient media buy in exchange for more targeted impressions. However, in looking at the data, I believe our media buy wasn't as strong as it needed to be and we sacrificed too many impressions. Additionally, the increased money we have invested in recent years was spread across more campaigns and probably diluted the impact of each one of those campaigns. The conclusion is that if we want to get back on the trajectory we enjoyed from 2008 through the first half of 2011, we need a course correction. So what does all this mean?

In 2012, you should expect a sizable increase in our media spending, upwards of $40 million, depending on how the season takes shape. We will invest more heavily in key categories like lawn food and growing media in the United States. And we will also continue to invest more heavily in Canada and Europe, where we have seen strong results, as well as China, where we are just getting off the ground.
There are a lot of moving parts right now -- a new creative approach, a more aggressive media buy, and increased focus on social media. And this call isn’t the place for those details, but a significant amount of our February meeting will focus on the steps we are taking to strengthen our consumer relationship.

Another issue many of you are interested in is the state of our business in the mass merchant channel. The trends we saw early in the season played out all the way through the fall, and that wasn’t unexpected. But our overall performance in this channel has been under intense scrutiny around here. There were clear lessons from 2011 and steps we have taken to improve that.

Clearly, there is a subset of more economically stressed consumers who shop at mass merchants more frequently. It will be easy to blame the economy and just move on. But the fact is, we deserve part of the blame. Changes to the store shelf in this channel were made by our retail partners this time a year ago and we didn’t react quick enough. Frankly, this was due in part to a high level of transition within our BDT team at a critical time of the year. This has been fixed.

We put new leadership in place that has been focused on strengthening our relationship with key retailers in this channel and we have improved our own internal dialogue as well.

So going into next year, we expect the environment to be more stable. Our line reviews were productive and we are confident that merchants in this channel know that brands matter. We’re cautiously optimistic that we will see more support in 2012. The question not just for us but for all CPG companies is more about the consumer in this channel.

While we continue to believe that our brands and our category of risk are resilient in a down market, the continued pressure on this segment of consumers is something that requires continuous improvement -- continuous attention.

That said, we are optimistic that more frequent and relevant messages will help get some of these consumers reengaged. And we must continue to work on innovation that allows us to meet the lawn and garden needs of all consumers with products and price points that meet their economic needs. I want to switch gears briefly and talk about our international lawn service business.

I want to give credit to both teams for overcoming significant hurdles this year. In the international business, we saw double-digit growth in Canada, even though it had the same weather problems as the US. Why? Innovation. They made the most out of EZ Seed as well as new natural lawn food and pest products that resonated with consumers in a highly regulated environment.

The impact from EZ Seed also benefited Europe. For the year, sales of EZ Seed, which is marketed as Patch Magic throughout Europe, accounted for 6% of the entire business. In the UK, our market share in grass seed has gone from 15% two years ago to 44% this year.

I also want to point out that the European team and the UK in particular hit their plan this year even though one of the largest retail partners there unexpectedly filed for bankruptcy at the peak of the season.

For lawn service, they were able to manage record rain, record drought, service delays from Hurricane Irene and still deliver top-line growth of 5%. This is on the low end of the range we expected, but that fact is only due to the impact from hurricanes. Lawn service actually operates on a December 31 fiscal year, and we are confident they will be on plan by the time they hit the end of the calendar year.

Before I turn things over to Dave, let me pull it all together. I don’t and didn’t want to spend a lot of time talking about our results from 2011 because we have put that behind us. But it was an important year for Scotts Miracle-Gro. We had multiple years running where everything worked right. Sales, market share, margin and EPS were all going in the right direction. We were generating significant levels of cash that allowed us to give money back to the shareholders and our equity price reflected that performance. There’s no doubt we were disappointed to have taken a step backwards in 2011. And while there is a significant temptation to make short-term decisions that would result in a dramatic bounce back in earnings in 2012, doing so, in my opinion, would come at the expense of our long-term goals for the business. We recognize that some of the decisions we have
made, especially around pricing, have resulted in us taking a different path that means we will see some near-term pressure on our margins. And we also know that we could have overcome that pressure by maintaining the status quo as it relates to marketing and advertising. But it would be the wrong answer for our company, our category, our consumers, our retail partners, and our shareholders.

With that, let me turn things over to Dave.

Dave Evans - The Scotts Company LLC - CFO and EVP of Strategy and Business Development

Thanks, Jim, and good morning, everyone. I have three objectives with my prepared comments this morning. First, provide you with some color around our fourth-quarter and full-year results. Second, provide some additional clarity around the adjustments to GAAP earnings. And finally, fill in a few more details around 2012. I will start by focusing on adjusted results from continuing operations.

Net sales for the fourth quarter were $417 million, down at 1% from last year. As outlined in our press release last month, the effects of Hurricane Irene and other inclement weather were simply too much to overcome, as two key weeks of our fall lawn and garden season were essentially eliminated. This impacted not only the US consumer business, but Scotts LawnService as well.

When combined with the first three quarters, consolidated net sales for the full year were down $62 million to prior year or 2%. We believe weather was the largest contributor in the miss to plan with the balance coming from weakness in the mass merchant channel, as well as the impact of a more pronounced price promotional environment that occurred during the spring and summer seasons.

It is worth pointing out that consumer purchases in the home center channel within the US were essentially flat year over year, which we view as a positive result given the severe weather challenges all season.

Now, on the surface, it may be difficult to understand how a 2% decline in sales could result in a 13% decline in adjusted operating income, especially with a decrease in SG&A. As you saw in our press release, the explanation starts with gross margin rate.

As you may recall from our last discussion, subsequent to the sale of our Global Pro business, corporate and other was modified to include sales of grass seed in the US professional market, a business we have previously stated we are in the process of winding down and sales to ICL under several multiyear supply agreements.

For the year, sales in corporate and other totaled almost $68 million. This represented an increase of $43 million over the prior year, all of which occurred in the second half of our fiscal year. For 2011, sales of Pro Seed in the US were at a negative margin rate, reflecting the continued softness in this market.

Sales under the supply agreements with ICL were at manufacturer cost, the same arrangement we have for products ICL supplies to us. The growth of corporate and other sales in the second half of the year contributed to one-third of the full-year decline in gross margin rate. The remaining two-thirds of the decline in gross margin rate was driven by our global consumer segment, where sales were down $117 million or 4%. This included a $27 million lift from foreign exchange rates, so excluding FX, segment sales declined $144 million or 5% from last year. As Jim stated, we had a solid year in our international business, so this miss was entirely driven by what happened in the US.
Within the US consumer business, several factors negatively impacted gross margin rate -- unfavorable mix, higher than planned consumer promotion costs, increased commodity costs, and reduced leverage of our fixed manufacturing and warehousing costs. Unfavorable mix within the US consumer business was the single largest causal factor of the rate decline. Put simply, POS on our highest margin products which were more impacted by unfavorable weather, that is lawn fertilizers under the Scots brand and weed control products under both the Ortho and Roundup brands, declined 8% collectively for the year. Meanwhile, our lower-margin product categories like mulch and wild bird food had POS growth of 2% for the year. This imbalance created a large and unfavorable mix.

We have discussed other factors driving the balance of gross margin rate decline -- volume, promotions and commodities in past conversations, so I won't further belabor the point.

Let me move on to SG&A, which declined $6.4 million or 1% for the year. In the quarter, SG&A was down $14.3 million or 9%. For both the year and quarter, the decrease was significantly influenced by reductions in year-over-year variable compensation, which we had budgeted at roughly $35 million for the full year. The net impact of margin rate and SG&A drove a 13% reduction in operating income with our operating margin rate just below 12% for the full year, a 160 basis point decline from last year.

Interest expense, including refinancing costs, ended the year at $52 million, in line with our estimates, as were effective tax rate and share count. Our year-end tax rate was 36% while diluted shares were 66.2 million.

Speaking of share count, we have now repurchased about 7.7 million shares from program inception to date totaling $392 million. This represents 56% of our $700 million four-year plan. And our leverage ratio at September 30 of 2 times is consistent with our targeted range of 2 to 2.5 times.

While we will report operating cash flow of $115 million, when adjusted to exclude the impact of Global Pro, the business generated $180 million in pro forma cash flow from operations.

All combined, adjusted earnings per share from continuing operations were $2.76. This excludes product recall and registration matters and impairment restructuring and other charges, which reduced GAAP earnings by $0.92 per share.

With that, let me move to my second focus, an explanation of the key components of the adjustments between adjusted and GAAP earnings. First, product recall and registration matters totaled $14.6 million for the full year or $0.18 per share. A portion of this relates to reserves established for potential fines or penalties associated with what we hope will be the ultimate resolution of this matter.

Second, restructuring charges totaled $26.5 million, including $23 million in Q4. This is higher than our original estimate of $15 million to $20 million for management positions as the program was subsequently extended to include certain manufacturing positions. Through the restructuring programs, we eliminated about 120 management positions. The full value of the annualized benefit is about $24 million. The benefit to fiscal 2012 will be closer to $17 million.

The final adjustment to earnings related to impairment charges on our wild bird food and professional seed businesses as well as reserves established for settlement of various other contractual issues associated with the exit of the Pro Seed business.

Moving to the final topic now, I want to add to Jim’s comments on 2012. As Jim mentioned, we are not planning to provide specific direction on an EPS guidance range until our February analyst day. And while Jim King and I will be attending several conferences in New York over the next few weeks, we will likely maintain an otherwise low profile until after we report our first-quarter results. But here's what I can tell you now.

We continue to expect at least 6% top-line growth in our global consumer and lawn service businesses for all the reasons that Jim outlined in his prepared remarks.
We still expect commodity inflation of around $80 million in 2012. While we have seen and continue to see some movement in our primary commodities since we first disclosed this estimate last May, to date, we have not seen a material change in the aggregate. We continue to lock costs each week and have about 60% of our commodity materials left to purchase as of the end of October. This, combined with the fact that we only expect to recover a portion of commodity cost increases through pricing means that we expect to see additional gross margin rate pressure in 2012, though it’s too early to provide a precise range.

Regarding SG&A, as Jim mentioned, we are significantly stepping up our media and marketing initiatives, but plans are still being finalized. We will be reinstating in some form variable comp for over 1800 associates who participate in incentive programs globally, many of whom received no pay out in 2011. We typically budget $30 million to $35 million in SG&A for this, though it’s unclear what the impact would be against any guidance that we ultimately provide.

Partially offsetting these increases in SG&A will be the benefits accruing from the restructuring programs I just described as well as other smaller long-term indirect purchasing initiatives.

Moving on, we expect interest expense to increase about $10 million based on the combined full-year effect of our new credit facility and the bonds issued last December, as well as projected increase in average debt as we work to navigate within our 2 to 2.5 times leverage objective for 2012.

On share count, we will see a healthy benefit from shares repurchased in 2011. While we repurchased shares through the fourth quarter, we have begun to moderate the pace of our efforts in the context of a broader capital deployment strategy. As we’ve said all along, over a longer term, we target one-third of our operating cash flow for return to shareholders, including our dividend, with the remaining two-thirds targeted to fund growth, both capital expenditures for organic growth and capital for acquisitive growth. Absent appropriate acquisition opportunities, we will return excess cash to shareholders, though we will balance this with our desire to maintain debt leverage in our desired range of 2 to 2.5 times.

For your planning purposes, if we did not repurchase another share from this date forward, our fully diluted share count next year would be approximately 62.5 million.

One final thought about 2012 -- we do expect our first-quarter loss to increase versus last year. Sales volume will be lower as retailers strive to end their fiscal years leaner on inventory. Gross margin rate will be lower for reasons already articulated, and SG&A will be lower, though not nearly enough to offset the first two.

In addition, we will see a disproportionate amount of the full-year increase in interest expense in our first quarter, primarily as a function of the timing of our bond issuance and execution of our new credit facility in 2011. While I don’t want to be any more specific right now, I would anticipate providing a clearer outlook on our first quarter in early December when we will present at the RBC conference in New York.

With that, let me turn the call back to the operator for your questions.
Just a couple questions here. You went into some good detail there on the commodities, but just to be clear, I think on the last call you said that you would offset about half of that with price. It sounds like it's going to be a little bit less than that now. Is that the right way to think about that?

**Jim Hagedorn** - The Scotts Company LLC - CEO, Chairman

No, that's about right.

**Leah Villalobos** - Longbow Research - Analyst

Okay. So still kind of looking at that low single digit range for pricing?

**Dave Evans** - The Scotts Company LLC - CFO and EVP of Strategy and Business Development

Yes, globally across all of our businesses, yes. That's what you would infer from that.

**Leah Villalobos** - Longbow Research - Analyst

Okay. Great. And then in terms of the increase in the media and the marketing spend for next year, is that over and above the cost savings that you will be realizing with some of the SG&A changes from this year, or will that offset there?

**Jim Hagedorn** - The Scotts Company LLC - CEO, Chairman

Well, in an absolute -- compared to what we spent last year, it's an incremental increase.

**Leah Villalobos** - Longbow Research - Analyst

Okay. It will be incremental.

**Jim Hagedorn** - The Scotts Company LLC - CEO, Chairman

(multiple speakers) still -- I mean -- but ROE, look I mean -- on the other hand, I'm thinking it's good to sort of do these calls because I can sort of listen not only to what I say but to what everybody else is saying and then preparation that goes into it. We are on a journey, and that journey is we took out effectively an entire layer of management. We are I think getting back to an approach to sort of our supply chain, which is have to be the lowest cost of goods kind of on everything we make. And we are making a lot of progress in that, so our purchasing savings continue to increase. And we have also been taking kind of small bites at the trade programs.

Now, effectively at the end of the day, how does all the money get used as we save money and we increase other investments we're making? I guess you could say they're all connected, but sort of the increase in advertising is kind of absolute. Could you sort of infer that as we do that, that some of that balance is coming out of programs and cost reductions within SG&A? I guess you could say that. I'm not sure we're looking at it that way, but I think you could.
Leah Villalobos - Longbow Research - Analyst

Okay. So I guess I'm just trying to understand looking at 2012 with kind of all the puts and takes at that operating expense line, should we expect more leverage, I guess? Should we expect those expenses to be relatively flat year over year?

Dave Evans - The Scotts Company LLC - CFO and EVP of Strategy and Business Development

I think what you should take away from this is three things with regard to SG&A. First, as Jim has articulated, we are making a substantial investment in media and marketing. Second, there will be some form of reinstatement of variable comp, so that remains to be defined. And third, we will see a partial offset in those two increases as an outcome of the restructuring program that we completed in our fourth quarter and some other efficiencies we are driving through indirect purchasing. There's a myriad of other details, but I think those are the key movers that you ought to think about when you think about SG&A for 2012.

Leah Villalobos - Longbow Research - Analyst

Okay, that's very helpful. Thank you very much. Best of luck to you.

Operator

Olivia Tong, Bank of America.

Olivia Tong - BofA Merrill Lynch - Analyst

Thanks. Good morning. Just sort of following up on that, if I think about $30 million to $35 million reinstatement of variable comp and then another $40 million in advertising and then less $17 million in the savings that you're planning, is it right to assume that that's probably going to drag about let's ballpark about $0.50, $0.55 on your EPS for next year? And what am I leaving out that is going to help offset that? Obviously pricing to some extent and some other things. Thanks.

Dave Evans - The Scotts Company LLC - CFO and EVP of Strategy and Business Development

So I think what you just stated on SG&A is a correct statement. We are -- so there will be a share effect of the incremental media, reinstatement of variable comp, which will not be entirely offset by other cost efficiencies. And correct in assuming that the equation between commodities and pricing will present a further challenge on our EPS. We're expecting growth of at least 6%, so that will be helpful, but I think those are the headlines as we think about 2012.

Olivia Tong - BofA Merrill Lynch - Analyst

Got it. And as you sort of look forward, after that, actually, on advertising, have you ever spent at those levels that are implied now?

Jim Hagedorn - The Scotts Company LLC - CEO, Chairman

I think it depends by brand, okay? So I think that the answer is yes. And when we talk about kind of some of the things that are virtuous when we have sort of trade programs and advertising in balance, I think what we see is higher margin.

I think you can sort of look at certain businesses like our grass seed business right now like Roundup and say a sort of long-term high level of spend -- we are spending. I think Miracle-Gro -- I'm going to say early -- earlier in this company, but for sure as a
private business, we spent at much higher rates as a percent of sales than what we're talking about here. So I think that there's not one easy answer here.

I think within certain of our brands, we do spend at this level. And what we're doing is we're going to continue to do that and then spend on our other sort of strategic brand initiatives at that level as well.

Olivia Tong - BofA Merrill Lynch - Analyst
Okay, thank you.

Jim Hagedorn - The Scotts Company LLC - CEO, Chairman
Does that make sense?

Olivia Tong - BofA Merrill Lynch - Analyst
Yes, it does. Thanks a bunch.

Operator
Bill Chappell, SunTrust.

Bill Chappell - SunTrust Robinson Humphrey - Analyst
Good morning. I just wanted -- I guess more of a question on the regionalization focus and kind of your changes on marketing now. Should we look at this as kind of reversal? Did you go to regional with some of your advertising and marketing and what have you so that you may have to kind of reverse back to do a little more national and get more bang for your buck? And then also on that same, I thought there had been a fair amount of cost savings and incremental revenue coming from regionalization. Has that not materialized? Or is that baked into your numbers as well? Thanks.

Jim Hagedorn - The Scotts Company LLC - CEO, Chairman
Wow, that's a lot of stuff there. In regard to like regional marketing and advertising, I don't think we expected the kind of disefficiencies that it turns out we achieved, call it in the last two years. I think we were figuring improved targeting and about kind of 10%-ish disefficiencies. The disefficiencies, if that's a word, are probably greater than that, maybe like twice, is what we saw coming out of 2011. And we don't find that is acceptable. And Bill, if it required us to go back to a more national buy and then sort of plug regional products in, I think we would probably do that. I also think we could execute the buy better. And we're going to be making changes in how we purchase next year because I don't think we have to suffer these kind of disefficiencies.

And so I think that -- no, we continue to believe that precision targeting, call it regional targeting -- is a good idea. We just cannot give up the kind of disefficiencies that we gave up and have that work.

I think we continue to be committed to sort of our regional approach. And our presidents are on the line, and I only say that because my view is we continue to make progress in sort of our regional management structure, which was never really designed around saving money. It was designed around selling more and being much more local in our product offerings. And so we continue to make progress in all kinds of ways on that, but most importantly in their ability to stand up and kind of be heard.
within this organization. So I think we are continuing to see benefits to that. And in regard to the first part of the question, I will hand that to Barry.

Barry Sanders - The Scotts Company LLC - President

Yes. Hi, Bill. This is Barry. I would say we are happy with our progress. Remember two years ago, we stood [up to] southern regions. Last year was the first year for the Midwest and the Northeast. So we are learning as we go, and we're making some adjustments, but we are happy with their progress.

Relative to share, I would say there were two things that hurt us this year that the regions couldn't overcome. One was -- what we talked about quite a bit was some changes that happened at merchandising programs at mass, so those hurt us. And then some specific private-label fertilizer that was brought back at one of our customers. But you pull that away on our efforts and so forth, the best example what we saw last year was the Southwest, and particularly Texas, which had some significant drought issues there -- we gained share there and it was specific marketing programs that we put in place.

And going into this year, we are as confident in that from both a learning curve that we have, experience behind us and then the specific programs that we put in place. So I think what Jim has said, we're learning how to buy the regional media better. We are committed to that. And we continue to have the same expectations for the regions going forward that we have previously stated.

Bill Chappell - SunTrust Robinson Humphrey - Analyst

Okay. And then just switching to the gross margin side, just trying to understand -- I think as you said you’re 40% locked whereas typically you are more like 60%, 70% locked this time of year. Is the thought by the RBC conference in December, you will be at that 70%? And I guess what gives you confidence or what do you see on the horizon where you have not hedged as much in keeping yourself more kind of open to other fluctuations in the near term?

Dave Evans - The Scotts Company LLC - CFO and EVP of Strategy and Business Development

Bill, this is Dave. So, I'm not sure the number you stated -- we're typically 60% locked this time of year. If I go back and look at last year, I think we were probably more like in the low 40%is in terms of what we were locked. So we are a little bit behind where we were a year ago, but not to the magnitude that maybe you might perceive.

By the time we get to the investor conferences -- or I'm sorry -- yes, the investor conferences in December, we will be closer to 50% locked.

I think what we are doing this year though in terms of the mix of what we're locking on, there is a little bit more of a story there. We're getting out more aggressively on fuel, so diesel and gasoline, and we are being a bit more tepid on the urea. So we are managing each element of that portfolio in light of the marketplace that we are seeing. We're not dramatically behind where we were a year ago. And I suspect by the time we get to our analyst day in February, we will be two-thirds locked, not inconsistent with where we were at that point a year ago.

Bill Chappell - SunTrust Robinson Humphrey - Analyst

Great. And then so, just to make sure you are going to give EPS guidance in December or that will come in February?
Dave Evans - The Scotts Company LLC - CFO and EVP of Strategy and Business Development

No. In December, we can shape the quarter a little bit more precisely, but we really want to wait until our analyst day when we can give a complete review of the business and the marketing programs to give more precision on the EPS.

Bill Chappell - SunTrust Robinson Humphreys - Analyst

Perfect. Thanks so much.

Operator

Eric Bosshard, Cleveland Research.

Eric Bosshard - Cleveland Research Company - Analyst

Two sort of straightforward questions and then a bigger one or all one question, however you want to look at it. In terms of the media spend increase in 2012 of $40 million, what did that number do in 2011?

Dave Evans - The Scotts Company LLC - CFO and EVP of Strategy and Business Development

Eric, it was flat in 2011.

Eric Bosshard - Cleveland Research Company - Analyst

Is there -- in the last couple years, has that number gone down or how has it trended?

Dave Evans - The Scotts Company LLC - CFO and EVP of Strategy and Business Development

No. If you go back to, when we first started talking about this more consumer-oriented strategy with the regions, from 2009 to 2010, we had a fairly substantial increase in our advertising. As I recall, it was in the neighborhood of 15%. Don't hold me to that but it was in that order of magnitude. In 2011 though, we did not sustain that momentum we had (multiple speakers) 2010.

Jim Hagedorn - The Scotts Company LLC - CEO, Chairman

Yes, but Eric, I think that I'm not sure 2011 tells much of a story to be honest. We started off the year normally. The year went to crap. We started betting on the season. I think we've talked about that, to the tune of sort of $20 million. A lot of that went into sort of display and promotional work that we did. And then, as that didn't pay off and we looked at the season, then we said geez, Louise. We basically said we're not going to bet harder going into this, and then we sort of backed off a little bit. I think that it was largely a response to a blown season and I wouldn't try to read too much into what happened in 2011.

I think the longer-term trend has been positive, but I think has been offset by sort of more campaigns with sort of a modestly rising number in a period of to some extent some inflation within the media market, which I am still sort of stunned by. And, this move toward much more regional and targeted spend which has not been a suspicion as we would've hoped. And so I think it's kind of muted it so that the sort of effective advertising I would say would be sort of after the adjustments -- and this is a lot of the work we've done at the end of the summer -- has been sort of flat to down, effectively, even though the dollar amount has been up. But again, I wouldn't use 2011 as much of an indicator except it was just a kind of [foobard] year and we were trying to make things work and it just wasn't happening.
Eric Bosshard - Cleveland Research Company - Analyst

The second thing you talked about is reducing trade spending. And I'm just wondering if you can talk about how that -- how your experience has been with that and how that works in what appears to be a more competitive market share environment.

Jim Hagedorn - The Scotts Company LLC - CEO, Chairman

Well, you know, I spend time with senior people, particularly in home improvement, and basically saying look, we -- if there's anybody better in service in the stores, tell me who it is. Because my view is between Behr paints and Scots, we are the sort of best service people in-store. We are shipping I don't know, 98%, 99% on time in full, so excellent service provider; supply chain is right. We have these big brands. We do all this advertising. We have a good team here, which we pay okay.

And so the bottom line is that we also -- we started really looking at this back in the Chris Nagel days. It's not a super high margin business. And so the end result of all that is we can't give a lot of money away to retail in spite of the fact that it's not purely giving away. And if our retail partners are listening to the call, there's stuff that we get for it.

But that being said, we cannot do everything, and especially not at our -- at the price of being in a relationship with our consumers.

So what do I think? I think we're talking about a very difficult subject. And that is -- and maybe the first step of a 12-step program is saying -- acknowledging you have an issue. And what I am saying is I can draw you charts that show you where we spent properly behind our brands, good things tend to happen. Where you don't, I think you tend to be in a margin slide, and the competitive situation doesn't get better. And if -- we would see this big unit increase if we saw a commensurate increase of unit volume when it comes along with trade spending, which the world of consumer goods -- nobody is seeing that. So I think that this is a completely righteous discussion. It's something we have to do. And in discussions with retailers, I think we have to explain who we are, what we do, what we add to the department. And I think it improves our competitive position. It does not [improve] it. I mean we're not talking about walking away from trade programs. We're saying they cannot be growing at a multiple of sales.

Eric Bosshard - Cleveland Research Company - Analyst

Okay. And then last, I guess strategic, is you have said you are rethinking what you are trying to do to grow the long term. The last couple of years you have raised price. The media spend and the regional strategy hasn't translated apparently into what you wanted it to in terms of growth, and so we should rethink this of now spending more money on media.

Can you just talk about what you are trying to -- why you think this strategy will accomplish? If it's category growth I'm assuming what you are aiming at -- why you think this strategy over the next couple of years as it's evolved from what the last couple years have been, like why this strategy will prove effective?

Jim Hagedorn - The Scotts Company LLC - CEO, Chairman

Well, look, I think that the really deep look at this has come if you look at our lawn business. I think over, I don't know, you can call it from 2007, 2008, I don't know, depending on about how far back you want to look, I can go back farther. I think what you'll see is we have not lost share. We have gained share of a smaller unit universe. And we've got very significant shares in our most important categories. We've got to show we can grow these categories.

At the end of the day, Eric, that's what it's all about, is we are going to show we can grow the categories. And it goes back to the previous part, so part A of the question, which is, do I think that retail programs are driving unit volume. And the answer is they ain't, okay, not like even a little bit. They're not.
And where we go back and look at our business -- and this has been a lot of peeling the onion back, brand by brand and sort of advertising campaign by advertising campaign, we can effectively like drive consumer behavior. Now part of this is innovation and this is another part of where we're at. I think the world has changed. I seriously do, particularly within mass.

The ability to innovate and get units and margin out of that for true innovation, I think it's still there. You just have to look at EZ Seed and it's a perfect example of really good innovation where the consumer is happy as heck with it and it drives the business. I'm using like good language here.

So I think true innovation you can, but I think today, what we see is -- and this is what our research tells us, is that people want to garden, but they are strapped, and particularly people who are shopping in mass. If you look and say what happened at home centers this year, effectively that business was flat in the worst weather I've seen since I've been a Hagedorn and able to remember.

That is not what we saw in mass. What we saw is a very significant decline in mass. And I think part of that is driven by the fact that the health of the consumer in that category is -- demographically is different. And we need to innovate so that we have products for them to buy, and we are going to do that.

And so what do I think? I think where we can look back sort of very specifically at ad spend and trade programs and the growth of those and keeping those in balance, we see pretty good things happening. And again, I will show you seed; I will show you Roundup; I'll show you some of our dirt businesses where everything is kind of in balance.

We've got to grow the category. At the end of the day, it's about category growth. And it is a -- it is modestly complicated in that the health of consumers in various parts of the business, we want to keep the healthy consumer and the less healthy consumer who continues to want to buy lawn and garden products, we've got to make it easy for them. And we're going to do that.

And I think if you say what's the big question and how confident do I feel? I feel very confident about it because I can go back and look at data. This is not me just pulling something out of my ass and telling you. This is the result of just probably thousands of hours of work in this company trying to really dig down below something that we looked at and felt pretty good about, top line growth, gross margin, net income, cash flow, market share, all things that we felt really good about.

As we started digging back down and looking at long-term trends, this is the story of my presentation to you guys today, which I didn't like some of what I saw, and we're going to change it. And this is the beginning of that change. And it's just tough to be doing it now where the consumer is weak, commodity prices are up, and we like not to take pricing. It's just -- it kind of sucks to be doing this, but I think it's the right thing for the business and I'm very confident in it.
And also, if that is so, could you clarify or could you quantify somehow the loss of market share? In other words, if your domestic sales were down 7%, how much was the industry down for the year? Like 4% I think you just said home centers were flat and mass, a big drop?

Jim Hagedorn - The Scotts Company LLC - CEO, Chairman
All right, as typical, I've got to take notes, Alice, from -- I think what we said is the profit miss was about half sales, and I think that's what we said. And so I think that's true. What we're saying is other things were driving the P&L besides just a sales shortfall.

Alice Longley - Buckingham Research Group - Analyst
Well can you comment on your share? How much was the industry down this year?

Dave Evans - The Scotts Company LLC - CFO and EVP of Strategy and Business Development
Let me answer your first question, Alice. So share, we were down about a point in share this year.

Alice Longley - Buckingham Research Group - Analyst
What do you sort of at this point estimate your share is?

Dave Evans - The Scotts Company LLC - CFO and EVP of Strategy and Business Development
We are -- this is total category -- around 53%, 54%.

Alice Longley - Buckingham Research Group - Analyst
Okay. And how about within your own mix? Did you lose share in fertilizer from Scotts Miracle-Gro -- Scotts Turf Builder to Vigoro in Home Depot?

Dave Evans - The Scotts Company LLC - CFO and EVP of Strategy and Business Development
No, we did not.

Alice Longley - Buckingham Research Group - Analyst
So there wasn't a downward shift in mix and fertilizer within Home Depot?

Dave Evans - The Scotts Company LLC - CFO and EVP of Strategy and Business Development
Correct.
Alice Longley - Buckingham Research Group - Analyst

Well, that's interesting. Okay. And as far as your innovations are concerned, you seem to be talking about kind of a bifurcated strategy for innovation, which actually sounds like some of the other is consumer nondurables companies. So you’re going to have super-premium innovations, but also you’re going to have some more value innovations for Wal-Marts. And could you comment if that's an accurate reading? And also, what does that do to margins if you are pushing more value innovations for Wal-Mart?

Jim Hagedorn - The Scotts Company LLC - CEO, Chairman

I think the answer is yes. And on the margin front, I think this is where I am pushing very hard on both marketing and R&D that this innovation should not be margin dilutive.

Alice Longley - Buckingham Research Group - Analyst

Even the Wal-Mart innovation?

Jim Hagedorn - The Scotts Company LLC - CEO, Chairman

Yes, ma'am.

Alice Longley - Buckingham Research Group - Analyst

Okay. And then my final question is, LawnService has been doing well. Do you know if maybe you’re not doing so well at retail because you are losing consumers to LawnService?

Barry Sanders - The Scotts Company LLC - President

Alice, this is Barry again. The actual consumer count overall we believe in LawnService is actually flat, so we're not losing share there.

I think as Jim said, we peeled the onion and looked back. You look at the LawnService business, these customers are signed up as a long-term relationship with us, and they tend to stick with us over time. So I think there's less in and out in that category and the consumer tends to be more dedicated as long as you are doing good service, which I think our service is at an all-time high.

Versus if you look at the category this year for the consumer do-it-yourself with as much rain as there was, all the consumer had to do was look out the window and the grass was green. Their biggest issue was keeping up with mowing this year. And so I think some consumers may have opted out this year just based on the pure agronomics, but we did not lose with the Scotts LawnService.

Alice Longley - Buckingham Research Group - Analyst

But LawnService is growing if the count -- consumer count is flat, how is LawnService growing?
Barry Sanders - The Scotts Company LLC - President

Our productivity levels in LawnService relative to the way we are running the business is both -- from a productivity of our associates were up significantly. And the effectiveness of our marketing spend is far more effective than it's ever been. So they positioned themselves that says we make much more money on a flat consumer count the way we have been.

The other thing is we think that we're also picking up share in LawnService. And so you put that model together as there was lots of productivity gains that drove the economic performance of the business unit.

Jim Hagedorn - The Scotts Company LLC - CEO, Chairman

I think Alice, without sort of getting stuck in quicksand here because I don't want to do that, I do think -- as you said awe, that is interesting, that is really the debate, which is not losing share, category either flat or declining. And so -- and the reversal of that and are we doing the things necessary to grow the category? And this is really where we are at as a company. Is it's not that we are confused and don't know what to do. I think we know what to do and we're making the choices. And that's kind of the -- if there's a message to this call, that's what it is.

Alice Longley - Buckingham Research Group - Analyst

Thank you.

Operator

Sam Darkatsh, Raymond James.

Sam Darkatsh - Raymond James & Associates - Analyst

Most of my questions have been asked and answered. There's a couple of clarifications. First off, Dave, what was the specific negative impact on 2011 gross margin from mix in basis points if you have it?

Dave Evans - The Scotts Company LLC - CFO and EVP of Strategy and Business Development

No, we have not provided that level of precision. What I have said is if we're down 110 basis points, or roughly a third of that relates specifically to this whole phenomenon of the sales growth really into corporate and other. And then of the remaining two-thirds of the margin rate decline, Sam, the biggest single reason was mix within US consumer.

Sam Darkatsh - Raymond James & Associates - Analyst

Okay. And then from an SG&A standpoint, excluding the ad spending and excluding the incentive comp next year, are you still looking at SG&A growing half the rate of sales as your prior goal indicated? Or would there be perhaps grow as less than that, that core amount because of the other initiatives that you are taking?

Dave Evans - The Scotts Company LLC - CFO and EVP of Strategy and Business Development

Yes. So Sam, when we talked about that half the rate of sales growth, it wasn't necessarily every individual year. It was kind of -- it could be lumpy. And what I will tell you is that that's actually a good news story for 2012. We're going to see more lumpiness. We took more aggressive steps to do better than that excluding the effects of variable comp and media. And those aggressive
steps came through our restructuring program as well as -- they're more modest, but a longer-term sustained effort in driving increased productivity through indirect purchasing. So, as you articulated, excluding the two items, we will do better than half the rate of sales growth.

Sam Darkatsh - Raymond James & Associates, Inc. - Analyst

And then the last question, Jim, I guess this would be thematic and you’ve already touched on some of this, but I’m just trying to reconcile the two or three statements that you guys have made which is the importance of keeping the consumers engaged; keeping prices down; heavy ad spending; and then kind of contrasting that with what we have historically been conditioned to think about the business, which is this is less economically sensitive. There’s a lot of brand equity here. Consumers as they age increasingly gravitate towards the category.

Has there been a ground shift in consumer appeal or interest in the category? Or are there just certain products or product lines that you are selling that you’re finding as a heck of a lot more elastic than others?

Jim Hagedorn - The Scotts Company LLC - CEO, Chairman

Look, Sam, I think a lot of the ground shift is occurring intellectually here, okay? And so to some extent, as I have taken the board through this, is trying to view fiscal year 2011, which the weather sucked, man. It’s like if the weather hadn’t sucked, I could throw a bunch of things at you. If the weather hadn’t sucked, if commodities hadn’t gone up, if there hadn’t been sort of difficulty at an account in mass, we wouldn’t be having this discussion. I’m not sure we would have peeled the onion back this far.

I do think that the big ground shift in attitudes has come as a result of really peeling -- a difficult year causing us to really dig deep and like look at what fundamentally has happened over a multi-year period.

And so I don’t think, fundamentally, that -- and our research doesn’t show this, that the consumer is less engaged or less wanting to participate. In fact, the numbers look better, not worse, as far as willingness to participate. I want to make sure we are getting everything we can. And that means people who -- you know, look, and I think this goes back to -- I hate to keep going back to lawn fertilizer, but you want to buy a four-step program, 5M? Eighth of an acre? You know, you are talking like $100. 15M, a third of an acre, $200. I think that there are people who want to participate and we’re to some extent pricing them out.

This does not mean that the long-term answer is accept crap margins. It doesn’t. It does mean, though, right now, I am basically creating a breather for us by saying we’re not going to make it worse and we really have -- and we’re going to support our brands properly. We’re not going to basically say we’re going to increase advertising and have trade programs growing at some multiple of sales. It just doesn’t work for us.

So we’re going to have to basically realign how we spend money. And the brand support his going to have to be more important than sort of partnership money that has not been effective for us at least in the last couple years.

And so it’s a pretty seismic change here in how we’re feeling and how we’re going to run our business, which is much more aggressively. And I think more thoughtfully, and I’ve got to say I thank kind of 2011 for causing us to do this.

That being said, it’s an anxious time because we’re making I think fundamental change to our business, but it is not that the consumer doesn’t want to participate. We just got to make sure that as the army would say, we’re being all that we can be. And that means not only for consumers who can afford like really innovative products that cost more, but also people who want to get in on the low end.

And this is not like we’re different from any other consumer goods company. As I have visited with other CEOs, everybody’s going through the same thing. I think to some extent, as a result of us being to some extent I think very desensitized to the
economy, it took kind of a bad weather year to get us to say, you know what, we ought to open our minds up a little bit here. And it is a little unfortunate as I said that as a result of that I’m saying you know what, I don’t want it to get any worse, so let’s hold pricing for this year, and let’s re-examine our sort of approach to the consumer. And I think we are well along on that path in a really good way.

Sam Darkatsh - Raymond James & Associates - Analyst

Thank you.

Jim Hagedorn - The Scotts Company LLC - CEO, Chairman

You bet.

Operator

Joe Altobello, Oppenheimer.

Joe Altobello - Oppenheimer & Co. - Analyst

Thanks. Good morning, guys. How are you? Just a couple quick questions. First, in terms of promotion, how should we think about that this year? Obviously with the media spending going up, is it your intention to keep promotions flat or is some of the spending on media coming from promotion?

Jim Hagedorn - The Scotts Company LLC - CEO, Chairman

Kind of all of the above.

Dave Evans - The Scotts Company LLC - CFO and EVP of Strategy and Business Development

Yes --

Jim Hagedorn - The Scotts Company LLC - CEO, Chairman

I would like to see trade not be growing as a percent of sales over our rate of sales. Okay? Meaning -- and I think we have made some adjustments already to programs that we did in 2011 that were not intended to be repeated and won’t be repeated that have allowed us to redeploy some of that money into this increase in advertising. So I think that it’s kind of both, Joe.

Joe Altobello - Oppenheimer & Co. - Analyst

Okay. So it’s up modestly, it sounds like?

Barry Sanders - The Scotts Company LLC - President

Joe, I would think about consumer promotions as those will be -- and you have to look at it by category -- will be flat to down. All of the incremental money will be going on consumer-facing media, whether it’s television, Internet, radio, social media, 100% of the incremental investment will be on the media-focused type activities.

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Dave Evans - The Scotts Company LLC - CFO and EVP of Strategy and Business Development

Yes, so Joe, it is a question as Jim said, where do you want to -- how do you want to match these or offset these different variables we're talking about. When we talk about pricing and I think there's an earlier question about how much of our cost have we offset with the pricing. When we think about pricing, it's fairly holistically. It's not just a list price change, but it's as well of the elimination of unproductive trade spend, is essentially equal to a price increase. So all that kind of increased efficiency we're driving towards in the trade is part of our dialogue around pricing this year.

Joe Altobello - Oppenheimer & Co. - Analyst

Got it, okay. That's helpful. And then just to follow up on that, you've obviously had discussions with your retailers about this strategy. What's been the response? Is there a different response from the home center to this strategy versus the independent?

Jim Hagedorn - The Scotts Company LLC - CEO, Chairman

It's a tough one. I'm trying to have the conversation with the number one of two guys in the business where I think at the merchant level, it's a different discussion. But I do think at the sort of CEO level, this is a discussion which is -- lawn and garden plays an extremely important part of kind of I'm going to call it the hardware business in general, particularly as sort of significant investment in the home has kind of been more difficult at the high end. And so some of the more expensive projects -- so lawn and garden is a hugely important category for them. And if Scott's is going to be the company that drives consumers into their stores, and they use our brands to bring customers to the stores and then they buy other things within those stores, we can't have a difficult conversation over something as simple as we need to support our brands properly and we've gotten out of balance.

I'm sort of reluctant personally to have that conversation with the merchants. The team needs to have it, but I need to enable those conversations at the senior level first. And I think there's broad agreement that how important Scotts as a vendor -- and I said that carefully to these accounts in regard to these critically important categories in times like this. And so, my view is the understanding of what we are trying to do is understood and people accept it.

How that translates down at the lower levels is kind of up to Barry and Brian Kura and the folks in the BDTs that are managing the relationships on a day-to-day basis. But long-term, the strength of this company and the strength of our brand and the ability for us to grow these categories is hugely important to these retailers. And that's the context that this conversation needs to happen in.

Joe Altobello - Oppenheimer & Co. - Analyst

Okay. That's very helpful. And there's one last one in terms of modeling. How should we think about the corporate and other line for 2012 versus the $68 million in sales you did this year -- or in 2011?

Dave Evans - The Scotts Company LLC - CFO and EVP of Strategy and Business Development

So I would say when you think about the sales growth in corporate and other, as we have said, we have two businesses in there, US Pro Seed, the first one. The Pro Seed business, we are winding down, but my expectation is that sales for Pro Seed will be nearly flat year over year in that process of winding it down.

The second element of this is the supply agreements with ICL. We will see growth in that. I think order of magnitude, it might be like $15 million, $20 million, $25 million. That's kind of the order of magnitude you ought to think about it in.
And I think with that, what your math will tell you is that it will drive some incremental though modest incremental pressure on margin rate in '12.

Now, what we will see in 2013 and I'm going way out, but in 2013, we should be complete with the wind down of the Pro Seed business, so we will then get somewhat of a modest tailwind in 2013 as we exit that no margin business.

Joe Altobello - Oppenheimer & Co. - Analyst
Got it. Okay. Thank you.

Carla Casella, JPMorgan.

Carla Casella - JPMorgan Chase & Co. - Analyst
Hi. I guess just one quick question on the SG&A, the increasing marketing media spend, is the timing of marketing or media going to change next year? Or should it follow the normal seasonal pattern of sales?

Dave Evans - The Scotts Company LLC - CFO and EVP of Strategy and Business Development
Carla, there's probably two different questions in there. One is, the timing of actual airing of the media. The other is from an accounting practice, how do we -- what is our accounting policy?

What we do in looking at a more granular level of detail in total consumer, we do spread our media expense over the season with our sales curve. The actual timing of media is a bit different from that, so I'm not sure which question you were really driving towards.

Carla Casella - JPMorgan Chase & Co. - Analyst
I guess I was wondering more how it runs through the P&L, but I guess given what you said, I'd be curious as to how much the cash timing of it will differ from the P&L timing.

Jim Hagedorn - The Scotts Company LLC - CEO, Chairman
Well let me just modify it so it's a little bit less of a financial and it's more of a media deployment questions. We very much had a weather triggered, we call it, approach to our advertising last year, except like the weather never got better. And so we sort of -- I think you're likely to see sort of a change in bias to saying we are going to be advertising within the constraints of what is traditionally the lawn and garden season, to some extent, and this is just a bias issue, not 100%, but maybe 50% raise on when people are starting to think about lawn and garden and then move into where we can pull advertising if we know the weather is bad, to still do that, just not 100% so that we are not sort of owning people's heads when they think about lawn and garden. Which I think we to some extent, since the weather was so bad this year, we did that.

As we spend more, I'm sort of looking over to Jim Lyski wondering what he's going to say because part of it is we're looking at the long-term weather charts and saying how are the forecasters looking out into the spring? When is it going to happen? And so I think this work is not 100% complete yet. And I'm not sure we could answer it except to say maybe a little bit more forward-looking than we did in 2011. I don't know, Jim, you might as well speak for yourself.
Jim Lyski - The Scotts Company LLC - EVP, Chief Marketing Officer

I would say you would expect us to start a little bit earlier than we did last year -- weather permitting of course. And then also, extend the season a bit into some specific regions. So we’re going to take advantage of our regional structure and where we can better match the POS curves for each region we are and we’re going to do that by each product category also.

Dave Evans - The Scotts Company LLC - CFO and EVP of Strategy and Business Development

Yes, so Carla, just to put a precise point to wrap this up, on your question, the sales, our shipments in precede the consumer take away. Our advertising is more matched to the consumer take away. So therefore from a cash perspective, which was your question, the cash, I think that answers your question. The accounting recognition precedes the cash flow recognition.

Carla Casella - JPMorgan Chase & Co. - Analyst

Right, right. Great. It just sounds like from moving -- one of the big differences from moving from trade spend into consumer marketing is you have to get out there a little bit sooner in front of the spend. But it does sound like you can still pull back on 50% of it or so if you are not seeing the weather cooperate or any other changes in the consumer. Does that sound about right?

Dave Evans - The Scotts Company LLC - CFO and EVP of Strategy and Business Development

Yes.

Carla Casella - JPMorgan Chase & Co. - Analyst

Okay. Great. That’s all I had. Thanks.

Operator

Connie Maneaty, BMO Capital.

Connie Maneaty - BMO Capital Markets - Analyst

I have a couple of questions. A few years ago, when you were taking big price increases, part of the reason was to recapture gross margin pressure over the prior four years. And now, you are willing to forego some of that pricing, so inflation has been rising in your categories for I don’t know, five or six or seven years at this point. Should we assume that you are willing to take a structurally lower gross margin going forward?

Jim Hagedorn - The Scotts Company LLC - CEO, Chairman

Definitely not.

Connie Maneaty - BMO Capital Markets - Analyst

So how would pricing -- I mean do you expect lower trade promotion or other savings or how is it all going to work?
Jim Hagedorn - The Scotts Company LLC - CEO, Chairman

Well, you know, I think it’s complicated, and I’m not saying that to be sort of stupid. I think innovation matters. I think the delay of MAT 28 as sort of DuPont deals with issues with that, that active was a very important tool for us in what I think is very massive innovation in the category for sort of effective weed control, particularly in the Southeast. And the delay of that product, which I think I will put in the delay category, I think was a pretty big disappointment to us as far as bringing innovation. And I think innovation and margin do go together.

I do think that the ad spend within the lawn category is more diffused. It’s less efficient. And the sort of effective rate of advertising has not been increasing, even though the dollars might look at it and say well, it kind of is. And so I think there’s some very important work that Jim and his team have to do to sort of get that spend, so it’s a lot more productive.

And I think trade programs growing at the rate that they are growing have got to be pulled back. And so, the net of all that is consumers will pay for innovation. We have really important innovation available and it’s not the only thing. MAT by itself is not sort of the key to innovation within the sort of lawn fertilizer category. It’s clearly a historic active ingredient. It does have some teasing issues which need to be resolved, but there are other innovations we are working on that will also add -- and people will need to pay for it. Snap is an innovation that is important to us. And we’re going to be launching that on a national basis this coming year.

But you know the bottom line is, do I think structurally margins need to be lower on lawn fertilizer? No, I don’t. Do I think margins are important in this business? You’ve heard me talk about it before. It is the jet fuel for everything we do here, so margins are important, but this time out, particularly in lawn ferts, it is important as we reorient our strategy for this business, which is really just getting back to what’s the business that I’m going to say my father, Chuck Berger, and to some extent myself, have developed. And I think we can’t do everything. And I think to some extent, there is a trade between trade programs and advertising that is going to have to be better balanced.

Connie Maneaty - BMO Capital Markets - Analyst

Okay. How should we or what are you looking at to measure success for all of these changes? Not in fiscal 2012 but in the years beyond? Is it sales growth, category growth, margin expansion, operating profit? I mean it can’t be everything. So --

Jim Hagedorn - The Scotts Company LLC - CEO, Chairman

But, I spend quite a bit of time here trying to sort of translate sort of things that I find intuitive to the rest of the management team. And so I do know what you mean. And what you have heard me talk about is category growth. I think significant category growth and loss of share would be a big problem for me, meaning we are growing the category and we are letting other people take that from us. So, I do think that if we can grow the category, very important. Taking share and continuing -- taking a little bit of share at the same time we’re growing category will deal with sales, but indirectly. And gross margin I think and mix matter within the business. And then I would say basically, if I were talking to a stranger, I would say balance between trade and consumer-based brand support would also be something I would be looking at. So I think that’s what I would be looking at.

Connie Maneaty - BMO Capital Markets - Analyst

And just one final question. Does the increase in trade promotion or the acceleration of it have anything to do with changes that may have been made when Mark Baker was with the company given his such close ties with retail?
Jim Hagedorn - The Scotts Company LLC - CEO, Chairman

I would love to blame Baker, but it wouldn't be fair. No, I think it's an easy thing to get into. And it is not because it wasn't to some extent -- as I said, if you looked at sort of top-line growth, gross margin, market share, share price, I don't know, whatever you want to -- sort of all the big dog metrics, we were feeling pretty good about it. I think the problem is that when you peel it back and look really carefully at it, I don't like what I was seeing. And that is that there is a certain level of advertising support that's required sort of per campaign and per brand. And I think we were drifting really close to being insufficient. And if you look and say then where is the money going, I think it's in trade programs. And if you look at the trade programs and you say basically are we really growing unit volume like we expect to see, based on that kind of investment, the answer is no. And it's not really a Mark Baker thing.

I think if you looked and said when did it really sort of take off, I would say 2007, 2008, but I wouldn't blame it on Mark. I would say we just -- I wish I could say it was Mark, but it's not. And it's a drift issue that we all are responsible for.

Operator

Jason Gere, RBC Capital.

Jason Gere - RBC Capital Markets - Analyst

Okay, thanks. Good morning. So I guess just two questions. The first one as we think about your decision not to price in some of your categories, I was just wondering if you could talk about the competitive landscape and what you are hearing at least from the trade what some of those players are doing right now, and maybe the magnitude of their innovation. Obviously the goal is to increase category growth, but you obviously -- you are the leader, so I'm just wondering how they are responding to that.

Barry Sanders - The Scotts Company LLC - President

Jason, this is Barry Sanders. What we are seeing is relatively little pricing coming next year, and so I think it's pretty consistent with where we are at. And we're certainly -- I would agree with you, we are the leader and we are doing appropriate things relative to some of the innovations, but we are not taking pricing. What Jim has said, where the value doesn't warrant it, and I think that's pretty consistent within the industry.

Jason Gere - RBC Capital Markets - Analyst

Okay. Even though your peers obviously don't have as much critical mass as you do, they're just kind of adhering to the same type of policy I guess at this point?

Barry Sanders - The Scotts Company LLC - President

Yes, Jason, you have to look at it by category. Some categories, you are going to have to take pricing relative to the increase -- maybe things like bird food. But when you look at the core lawn and garden categories, I think it's pretty consistent with where we're at.

Jason Gere - RBC Capital Markets - Analyst

Okay. And then just I guess the last question, trying to tie everything together here and I know you guys didn't give official EPS guidance, but it sounds like sales better; interest expense a little lower; shares outstanding should help; SG&A as a percentage...
of sales flat. So it leaves kind of gross margin as the wild card. So are we anticipating that there will be EPS growth year over year? Is this going to be below the 10% threshold? I mean I know it’s a few months away for people to kind of rattle their brains and try and figure it out, but I’m just trying to get the message here that it is an investment year for you; you guys are making the right decisions for the long-term. But should we anticipate growth, just trying to manage expectations out there?

**Dave Evans - The Scotts Company LLC - CFO and EVP of Strategy and Business Development**

Yes, Jason, I’d ask that you go back and listen to the script carefully. And I think we gave what we felt comfortable with in terms of guidance on a line by line level. So -- and we’re trying to avoid providing for all of the reasons we discussed due to the uncertainty we have in the top line and frankly in commodity at this point, really trying to avoid boxing us into a narrow range at this early date. We haven’t done it in prior years.

And frankly, consistent with the theme that Jim has been articulating the entire morning, the concern is that forces us into a real short-term focus on the business, which is not what we want to have happen this season. So, I would just encourage you to go back again and go through the script. I won’t repeat it all in answering your question, but I think those are the answers you’re looking for.

**Jason Gere - RBC Capital Markets - Analyst**

Okay, thanks.

**Operator**

Jim Barrett, CL King & Associates.

**Jim Barrett - CL King & Associates - Analyst**

Good morning, everyone. Jim, could you -- I think Barry, you mentioned your market share was roughly down about 100 basis points. Is there any way to provide us some color on that by channel, i.e. big boxes versus mass merch versus independent?

**Barry Sanders - The Scotts Company LLC - President**

Yes, Jim, I'll open my chart here. Yes, Jim, I'll give you I think some general guidance rather than specifically by retailer.

Home center is -- call it flat to slightly down depending on the category, and there’s some specifics there relative to some fertilizer. At mass, we're down a little bit more than that based on all the things that we talked about before, which nets it down to about the 100 basis points.

**Jim Barrett - CL King & Associates - Analyst**

Okay. And do you do any tracking studies, on a related note, to determine whether the home centers are simply taking customers out of mass? Or is the customer within mass simply shifting to other products but staying there?

**Jim Hagedorn - The Scotts Company LLC - CEO, Chairman**

Well, I mean, listen, what we know and what our data tells us is that there’s been a significant share decline in lawn and garden at mass, and a significant share increase at big-box home centers for lawn and garden. So I think that answers your question.
Jim Barrett - CL King & Associates - Analyst  
It does. Thank you, Jim. Thanks, Barry.

Jim King - The Scotts Company LLC - VP of IR and Corporate Communications  
Operator, in the interest of time, we’re going to take two more calls and then we will wrap it up after that.

Operator  
Sam Yake, BGB Securities.

Sam Yake - BGB Securities, Inc - Analyst  
Good morning. I just have one question. I’m wondering if you can comment if there’s been any progress on the SC Johnson negotiations. I remember you had said at the analyst day that you had some hope that ultimately that deal may end up somewhere along the lines of a Monsanto Roundup situation, which was very encouraging, and I’m just wondering what the update would be on that.

Jim Hagedorn - The Scotts Company LLC - CEO, Chairman  
I’ll ask Barry, who’s been dealing with this kind of on a day-to-day basis, but let me just start that saying we currently have a relationship with SCJ, where we represent within our major categories, their products and they’re representing ours. I think -- so this is the beginning of what we hope is a bigger relationship. And I’m going to say where we are today, everybody feels really good about, so it’s been a really good kind of first year. I think that they are happy in Racine; we’re happy in Marysville. And maybe Barry, if you want to add some color.

Barry Sanders - The Scotts Company LLC - President  
Sure. I think the initial intent of the relationship was, we are very good in our home center channels and they are very good in their grocery (inaudible) drug channels and to leverage our respective capabilities within those channels. And so to Jim’s point is I think for the first year, which is the startup year of the relationship, both of our expectations have been exceeded for our respective businesses within those channels. The teams are working very well together, and we’re already out planning the future years. So it’s a great startup, better than expectations, and we look forward to that going forward.

And to Jim’s point on the Roundup, it took a long time to build that relationship, but I think we’re off to a great start with SCJ.

Jim Hagedorn - The Scotts Company LLC - CEO, Chairman  
So I think were not trying to like use weasel words. I know how Fisk and I feel about it, which is that we would like to move to a bigger, more substantial relationship.

The good news is that the first year of the relationship -- and for us to be representing in our class of the trade Off and Raid, that is a big first step. And we feel really good about it. So this -- we have not talked a lot about it, but I’m going to say so far, so good.
Okay. Thanks so much. That's very encouraging.

Jon Anderson, William Blair.

Jim, you've mentioned that you're going to do the right things for the business here. And one of the indications is that marketing spending will be up next year. I was just wondering if you could talk a little bit more about how your key retailers plan to position the category next year. Are they going to be spending more, less? Are they going to be spending differently? And what are your expectations for your space on the shelf, off shelf this year versus next year?

There's a couple of questions in there and I'm just trying to think before I respond so I don't like hang myself. I've got a what I consider to be a sort of good friendship with Frank Blake at Home Depot. And it's just -- he got hired -- I knew him before and he got hired right when my daughter died and we spent a lot of time talking about sort of personal things, and we've become pretty good friends over time.

And when I took him through this sort of presentation about a week and a half ago, two weeks ago, he told me how important lawn and garden was to The Home Depot. So I can sort of -- I can just relate a conversation I had with Frank that is not particularly private but that how important lawn and garden is to The Depot especially in these times where consumers are hurting. And major home improvement projects are tough for them. So the commitment that I heard from Frank was very significant for lawn and garden. And I think -- I have not heard anything different from Craig Menear or Scott Manning on how they feel about lawn and garden and its importance at this time for The Home Depot. And I haven't heard anything different from other accounts that I've talked to, nor have I heard other accounts I haven't talked to but others that Scotts have anything else than it's a very important category.

So I actually came away from the meeting with Frank actually feeling really good. And when I related it back to the team here that how important as a singular source of consumers lawn and garden is to our largest account, it all made us feel a little bit better that they are seeing things in a way that we think is positive for our business. And I think that's really the nature of your question. And I hope Frank is not mad at me for mentioning the conversation, but I think he's a really great guy and a good CEO.

Jon Anderson, William Blair.

Oh, Barry, were you going to add something to it?
Barry Sanders - The Scotts Company LLC - President

Jon, I would say, you know Jim is talking to our big accounts. What I would add, given how difficult this year was, when you talk about the small independent businessman, it’s a lot tougher times. And so we have started off our distributor shows, the hardware co-op shows. And the sign that I think is really positive for lawn and garden is that the morale and attitude of the small independent businessman relative to lawn and garden, we are seeing very good orders and volumes and attitudes coming from those retailers. So I would say from the biggest accounts all the way down to the smallest accounts, I think there’s positive momentum going into this year.

And I think the attitude is that a lot of what drove it was weather to Jim’s point on half of it, and they think next year is going to be a better year than it was this year. So I think overall on our account basis, pretty good attitudes relative to lawn and garden.

Operator

I would now like to turn call back to Jim King for closing remarks.

Jim King - The Scotts Company LLC - VP of IR and Corporate Communications

Okay, thank you. I know there might be some people who got caught in the queue that we didn’t get to, so if you want to give me a call directly, you can do that -- 937-578-5622.

Other than that, as Dave mentioned, he and I are going to be out at various conference over the next several weeks. I think we have three conferences between now and mid-December, and we will be providing an update on Q1 during the last of those I think on December 8.

So other than that, we appreciate your time today and look forward to talking to you after our Q1 results. Thanks and have a great day.

Operator

Thank you for participating. You may disconnect at this time.