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

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 2, 2022

OR

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

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

The Scotts Miracle-Gro Company

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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

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

As of May 6, 2022, there were 55,392,409 Common Shares outstanding.

THE SCOTTS MIRACLE-GRO COMPANY

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended		Six Months Ended	
	April 2, 2022	April 3, 2021	April 2, 2022	April 3, 2021
Net sales	$ 1,678.4	$ 1,828.8	$ 2,244.3	$ 2,577.4
Cost of sales	1,084.7	1,158.9	1,532.0	1,707.7
Cost of sales—impairment, restructuring and other	5.3	12.4	5.3	21.4
Gross profit	588.4	657.5	707.0	848.3
Operating expenses:				
Selling, general and administrative	204.7	231.5	358.7	388.2
Impairment, restructuring and other	0.1	2.5	1.8	3.2
Other income, net	(4.3)	(0.6)	(6.0)	(1.2)
Income from operations	387.9	424.1	352.5	458.1
Equity in loss of unconsolidated affiliates	6.5	1.5	13.8	1.5
Interest expense	28.3	19.3	52.1	35.4
Other non-operating income, net	(1.9)	(0.9)	(3.7)	(16.1)
Income from continuing operations before income taxes	355.0	404.2	290.3	437.3
Income tax expense from continuing operations	78.5	93.1	63.9	101.1
Income from continuing operations	276.5	311.1	226.4	336.2
Loss from discontinued operations, net of tax	—	(0.9)	—	(0.9)
Net income	$ 276.5	$ 310.2	$ 226.4	$ 335.3
Net income attributable to noncontrolling interest	—	(0.2)	—	(0.9)
Net income attributable to controlling interest	$ 276.5	$ 310.0	$ 226.4	$ 334.4
Basic income (loss) per common share:				
Income from continuing operations	$ 4.98	$ 5.58	$ 4.08	$ 6.02
Loss from discontinued operations	—	(0.01)	—	(0.02)
Basic net income per common share	$ 4.98	$ 5.57	$ 4.08	$ 6.00
Weighted-average common shares outstanding during the period	55.5	55.7	55.5	55.7
Diluted income (loss) per common share:				
Income from continuing operations	$ 4.94	$ 5.44	$ 4.02	$ 5.88
Loss from discontinued operations	—	(0.01)	—	(0.01)
Diluted net income per common share	$ 4.94	$ 5.43	$ 4.02	$ 5.87
Weighted-average common shares outstanding during the period plus dilutive potential common shares	56.0	57.1	56.3	57.0

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Six Months Ended	
	April 2, 2022	April 3, 2021	April 2, 2022	April 3, 2021
Net income	$ 276.5	$ 310.2	$ 226.4	$ 335.3
Other comprehensive income (loss):				
Net foreign currency translation adjustment	(1.3)	(4.3)	(5.6)	8.1
Net unrealized gains on derivative instruments, net of tax	16.2	7.4	25.8	9.9
Reclassification of net unrealized (gains) losses on derivative instruments to net income, net of tax	(4.3)	2.0	(4.5)	3.9
Net unrealized gains on securities, net of tax	0.1	—	0.3	—
Pension and other post-retirement benefit adjustments, net of tax	1.6	0.4	2.1	(0.8)
Total other comprehensive income	12.3	5.5	18.1	21.1
Comprehensive income	288.8	315.7	244.5	356.4
Comprehensive income attributable to noncontrolling interest	—	(0.2)	—	(0.9)
Comprehensive income attributable to controlling interest	$ 288.8	$ 315.5	$ 244.5	$ 355.5

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended	
	April 2, 2022	April 3, 2021
OPERATING ACTIVITIES		
Net income	$ 226.4	$ 335.3
Adjustments to reconcile net income to net cash used in operating activities:		
Share-based compensation expense	23.2	25.8
Depreciation	32.4	31.3
Amortization	19.3	15.2
Equity in loss of unconsolidated affiliates	13.8	—
Other, net	0.2	(7.5)
Changes in assets and liabilities, net of acquired businesses:		
Accounts receivable	(945.6)	(908.1)
Inventories	(436.4)	(393.8)
Prepaid and other assets	(37.6)	(50.9)
Accounts payable	(73.7)	176.0
Other current liabilities	37.4	90.0
Other non-current items	(2.3)	(13.3)
Other, net	0.3	0.1
Net cash used in operating activities	(1,142.6)	(699.9)
INVESTING ACTIVITIES		
Proceeds from sale of long-lived assets	8.5	—
Investments in property, plant and equipment	(66.0)	(53.7)
Investments in unconsolidated affiliates	—	(100.7)
Payment for acquisitions, net of cash acquired	(202.8)	(10.5)
Other investing, net	4.5	(8.9)
Net cash used in investing activities	(255.8)	(173.8)
FINANCING ACTIVITIES		
Borrowings under revolving and bank lines of credit and term loans	1,609.7	1,113.7
Repayments under revolving and bank lines of credit and term loans	(96.2)	(594.5)
Proceeds from issuance of 4.000% Senior Notes	—	500.0
Financing and issuance fees	—	(7.0)
Dividends paid	(93.2)	(70.9)
Purchase of Common Shares	(256.4)	(62.2)
Cash received from exercise of stock options	1.8	7.5
Acquisition of noncontrolling interests	—	(15.5)
Other financing, net	5.6	—
Net cash provided by financing activities	1,171.3	871.1
Effect of exchange rate changes on cash	0.1	0.4
Net decrease in cash and cash equivalents	(227.0)	(2.2)
Cash and cash equivalents at beginning of period	244.1	16.6
Cash and cash equivalents at end of period	$ 17.1	$ 14.4

See Notes to Condensed Consolidated Financial Statements.

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

	April 2, 2022	April 3, 2021	September 30, 2021
ASSETS			
Current assets:			
Cash and cash equivalents	$ 17.1	$ 14.4	$ 244.1
Accounts receivable, less allowances of $16.5, $12.4 and $16.8, respectively	990.1	1,230.3	483.4
Accounts receivable pledged	444.5	177.8	—
Inventories	1,594.1	1,019.2	1,126.6
Prepaid and other current assets	208.6	132.0	169.9
Total current assets	3,254.4	2,573.7	2,024.0
Investment in unconsolidated affiliates	193.2	201.4	207.0
Property, plant and equipment, net of accumulated depreciation of $764.9, $713.3 and $737.4, respectively	621.0	565.3	622.2
Goodwill	688.1	546.1	605.2
Intangible assets, net	799.9	674.9	709.6
Other assets	650.9	372.7	632.0
Total assets	$ 6,207.5	$ 4,934.1	$ 4,800.0
LIABILITIES AND EQUITY			
Current liabilities:			
Current portion of debt	$ 459.7	$ 212.8	$ 57.8
Accounts payable	507.5	549.9	609.4
Other current liabilities	503.1	584.8	473.2
Total current liabilities	1,470.3	1,347.5	1,140.4
Long-term debt	3,350.0	2,322.5	2,236.7
Other liabilities	412.2	323.2	409.6
Total liabilities	5,232.5	3,993.2	3,786.7
Commitments and contingencies (Note 12)			
Equity:			
Common shares and capital in excess of $0.01 stated value per share; shares outstanding of 55.4, 55.7 and 55.6, respectively	361.8	473.0	477.0
Retained earnings	1,758.8	1,500.2	1,605.1
Treasury shares, at cost; 12.8, 12.4 and 12.6 shares, respectively	(1,097.2)	(954.3)	(1,002.4)
Accumulated other comprehensive loss	(48.4)	(78.0)	(66.4)
Total equity	975.0	940.9	1,013.3
Total liabilities and equity	$ 6,207.5	$ 4,934.1	$ 4,800.0

See Notes to Condensed Consolidated Financial Statements.

(Dollars in millions, except per share data)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

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

Organization and Basis of Presentation

The Company's unaudited condensed consolidated financial statements for the three and six months ended April 2, 2022 and April 3, 2021 are presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The condensed consolidated financial statements include the accounts of Scotts Miracle-Gro and its subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation. The Company's consolidation criteria are based on majority ownership (as evidenced by a majority voting interest in the entity) and an objective evaluation and determination of effective management control. On February 26, 2021, the Company acquired the remaining outstanding shares of AeroGrow International, Inc. ("AeroGrow"). Prior to this date, the equity owned by other shareholders was shown as noncontrolling interest in the Condensed Consolidated Balance Sheets, and the other shareholders' portion of net earnings and other comprehensive income was shown as net (income) loss or comprehensive (income) loss attributable to noncontrolling interest in the Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Comprehensive Income (Loss), respectively. The results of businesses acquired or disposed of are included in the condensed consolidated financial statements from the date of each acquisition or up to the date of disposal, respectively. In the opinion of management, interim results reflect all normal and recurring adjustments and are not necessarily indicative of results for a full year.

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

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

Long-Lived Assets

The Company had non-cash investing activities of $13.0 and $7.9 during the six months ended April 2, 2022 and April 3, 2021, respectively, representing unpaid liabilities to acquire property, plant and equipment.

Statements of Cash Flows

Supplemental cash flow information was as follows:

	Six Months Ended	
	April 2, 2022	April 3, 2021
Interest paid	$ 58.9	$ 32.1
Income tax (refunds) payments	(7.0)	25.1

Recently Adopted Accounting Pronouncements

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

NOTE 2. DISCONTINUED OPERATIONS

International Business

Prior to August 31, 2017, the Company operated consumer lawn and garden businesses located in Australia, Austria, Belgium, Luxembourg, Czech Republic, France, Germany, Poland and the United Kingdom (the "International Business"). On August 31, 2017, the Company completed the sale of the International Business. As a result, effective in its fourth quarter of fiscal 2017, the Company classified its results of operations for all periods presented to reflect the International Business as a discontinued operation. The transaction included contingent consideration with a maximum payout of $23.8 and an initial fair value of $18.2, the payment of which depended on the achievement of certain performance criteria by the International Business following the closing of the transaction through fiscal 2020. During the third quarter of fiscal 2021, the Company agreed to accept a contingent consideration payout of $6.0 and recorded a pre-tax charge of $12.2 in the "Income (loss) from discontinued operations, net of tax" line in the Condensed Consolidated Statements of Operations during the third quarter of fiscal 2021 to write down the contingent consideration receivable to the agreed upon payout amount. During the three months ended April 2, 2022, the Company received the contingent consideration payment and this amount was classified as a financing activity in the "Other financing, net" line in the Condensed Consolidated Statements of Cash Flows.

NOTE 3. ACQUISITIONS AND INVESTMENTS

Cyco

On April 28, 2022, the Company's Hawthorne segment completed the acquisition of substantially all of the assets of S.J. Enterprises PTY LTD, d.b.a. Cyco, an Australia-based provider of premium nutrients, additives and growing media products for indoor growing, for a purchase price of $34.4 plus contingent consideration with a maximum payout of $10.0 based on the achievement of certain performance metrics through December 31, 2024. Prior to the transaction, the Company served as the exclusive distributor of Cyco's products in the United States.

Luxx Lighting

On December 30, 2021, the Company's Hawthorne segment completed the acquisition of substantially all of the assets of Luxx Lighting, Inc., a leading provider of lighting products for indoor growing. The purchase price was $213.2, a portion of which was paid by the issuance of 0.1 million of the common shares of Scotts Miracle-Gro ("Common Shares"), a non-cash investing and financing activity, with a fair value of $21.0 based on the share price at the time of payment. During the three months ended April 2, 2022, the Company identified quality issues with certain products sold prior to the closing of the acquisition and recorded an accrual for product return refund liabilities and warranty claims of $8.0, and an offsetting increase to goodwill. At April 2, 2022, the preliminary valuation of the acquired assets included (i) $36.4 of inventory and accounts receivable, (ii) $6.3 of current assets, (iii) $20.3 of current liabilities, (iv) $106.9 of finite-lived identifiable intangible assets and (v) $83.9 of tax-deductible goodwill. Identifiable intangible assets included tradenames, customer relationships and non-compete agreements with useful lives ranging between 5 and 25 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate discount rate. Certain estimated values for the acquisition, including goodwill, intangible assets and accruals for refund liabilities and warranty claims, are not yet finalized and are subject to revision as additional information becomes available and more detailed analysis is completed.

True Liberty Bags

On December 23, 2021, the Company's Hawthorne segment completed the acquisition of substantially all of the assets of True Liberty Bags, a leading provider of liners and storage solutions to dry and cure plant products, for $10.1. The valuation of the acquired assets included (i) $1.1 of inventory, (ii) $5.8 of finite-lived identifiable intangible assets and (iii) $3.2 of tax-deductible goodwill. Identifiable intangible assets included tradenames and customer relationships with useful lives ranging between 15 and 20 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate discount rate.

Hydro-Logic

On August 27, 2021, the Company's Hawthorne segment completed the acquisition of substantially all of the assets of Hydro-Logic Purification Systems, Inc., a leading provider of products, accessories and systems for water filtration and purification, for $65.3. The valuation of the acquired assets included (i) $4.9 of inventory and accounts receivable, (ii) $1.6 of noncurrent assets, (iii) $2.4 of other liabilities, (iv) $23.1 of finite-lived identifiable intangible assets and (v) $38.1 of tax-deductible goodwill. Identifiable intangible assets included tradenames, customer relationships and non-compete agreements with useful lives ranging between 5 and 25 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate discount rate.

The Hawthorne Collective

On August 24, 2021, the Company's newly formed subsidiary, The Hawthorne Collective, Inc. ("THC"), made its initial investment under the Company's strategic minority non-equity investment initiative in the form of a $150.0 six-year convertible note issued to the Company by Toronto-based RIV Capital Inc. ("RIV Capital") (CSE: RIV) (OTC: CNPOF), a cannabis investment and acquisition firm listed on the Canadian Securities Exchange. The note accrues interest at 2 percent annually for the first two years and provides additional follow-on investment rights. Accrued interest will be payable to THC at maturity or will be included in the conversion value of the note at the time of conversion. The conversion feature, which is based upon the RIV Capital closing stock price on August 9, 2021, would provide the Company with approximately 42 percent ownership of RIV Capital if it exercises the conversion feature. In connection with the Company's investment, RIV Capital increased the size of its board of directors from four to seven members and added three nominees of the Company to the board of directors.

On April 22, 2022, pursuant to its follow-on investment rights, the Company made an additional investment in RIV Capital in the form of a $25.0 convertible note. The note accrues interest at 2 percent annually for the first two years and matures on August 24, 2027. Accrued interest will be payable to THC at maturity or will be included in the conversion value of the note at the time of conversion. The conversion feature is based upon the RIV Capital closing stock price on March 29, 2022. Additionally, RIV Capital is expected to increase the size of its board of directors during fiscal 2022 from seven to nine members, which is expected to include four nominees of the Company.

The Company will not have control of or an active day-to-day role in RIV Capital or any of the companies in which RIV Capital invests. RIV Capital has agreed to use the funds it receives from the Company for general corporate and other lawful purposes, which could include acquisitions, and has agreed that the funds will not be used in connection with or for any cannabis or cannabis-related operations in the U.S. unless and until such operations comply with all applicable U.S. federal laws.

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

Rhizoflora

On August 13, 2021, the Company's Hawthorne segment completed the acquisition of substantially all of the assets of Rhizoflora, Inc., the manufacturer of terpene enhancing nutrient products Terpinator® and Purpinator®, for $33.7. The valuation of the acquired assets included (i) $0.6 of inventory, (ii) $10.9 of finite-lived identifiable intangible assets and (iii) $22.2 of tax-deductible goodwill. Identifiable intangible assets included tradenames, customer relationships and non-compete agreements with useful lives ranging between 5 and 25 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate discount rate.

AeroGrow

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

(Dollars in millions, except per share data)

NOTE 4. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

On December 31, 2020, pursuant to the terms of the Contribution and Unit Purchase Agreement between the Company and Alabama Farmers Cooperative, Inc. ("AFC"), the Company acquired a 50% equity interest in the Bonnie Plants business of planting, growing, developing, distributing, marketing and selling live plants through a newly formed joint venture with AFC ("Bonnie Plants, LLC") in exchange for a cash payment of $100.7, as well as non-cash investing activities that included forgiveness of the Company's outstanding loan receivable with AFC and surrender of the Company's options to increase its economic interest in the Bonnie Plants business. The Company's loan receivable with AFC, which was previously recognized in the "Other assets" line in the Condensed Consolidated Balance Sheets, had a carrying value of $66.4 on December 31, 2020 and the Company recognized a gain of $12.5 during the three months ended January 2, 2021 to write-up the value of the loan to its closing date fair value of $78.9 in the "Other non-operating income, net" line in the Condensed Consolidated Statements of Operations. The Company's options to increase its economic interest in the Bonnie Plants business were previously recognized in the "Other assets" line in the Condensed Consolidated Balance Sheets and had an estimated fair value of $23.3 on December 31, 2020. The Company's interest in Bonnie Plants, LLC had an initial fair value of $202.9 and is recorded in the "Investment in unconsolidated affiliates" line in the Condensed Consolidated Balance Sheets. The Company's interest is accounted for using the equity method of accounting, with the Company's proportionate share of Bonnie Plants, LLC earnings subsequent to December 31, 2020 reflected in the Condensed Consolidated Statements of Operations. During the three and six months ended April 2, 2022, the Company recorded equity in loss of unconsolidated affiliates associated with Bonnie Plants, LLC of $6.5 and $13.8, respectively, as compared to $1.5 during both the three and six months ended April 3, 2021. The estimated fair value of the loan receivable with AFC was determined using an income-based approach, which includes market participant expectations of cash flows over the remaining useful life discounted to present value using an appropriate discount rate. The fair value estimate utilized significant unobservable inputs and thus represents a Level 3 nonrecurring fair value measurement.

NOTE 5. IMPAIRMENT, RESTRUCTURING AND OTHER

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

	Three Months Ended		Six Months Ended	
	April 2, 2022	April 3, 2021	April 2, 2022	April 3, 2021
Cost of sales—impairment, restructuring and other:				
COVID-19 related costs	$ —	$ 12.3	$ —	$ 21.0
Restructuring and other charges, net	2.5	0.1	2.5	0.4
Property, plant and equipment impairments	2.8	—	2.8	—
Operating expenses:				
COVID-19 related costs	—	2.6	—	3.2
Restructuring and other charges (recoveries), net	0.1	(0.1)	1.8	—
Impairment, restructuring and other charges from continuing operations	$ 5.4	$ 14.9	$ 7.1	$ 24.6

The following table summarizes the activity related to liabilities associated with restructuring and other during the six months ended April 2, 2022:

Amounts accrued for restructuring and other at September 30, 2021	$ 1.9
Restructuring and other charges from continuing operations	2.6
Payments and other	(2.7)
Amounts accrued for restructuring and other at April 2, 2022	$ 1.8

Included in restructuring accruals, as of April 2, 2022, is $0.4 that is classified as long-term. Payments against the long-term accruals will be incurred as the employees covered by the restructuring plan retire or through the passage of time. The remaining amounts accrued will continue to be paid out over the course of the next twelve months.

During the second quarter of fiscal 2022, the Company announced plans to consolidate U.S. lighting manufacturing for its Hawthorne segment into a single location and to close another recently acquired assembly facility and move those operations to its Santa Rosa, California facility. During the three and six months ended April 2, 2022, the Company's Hawthorne segment incurred costs of $5.3 in the “Cost of sales—impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations and $0.1 in the “Impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations in connection with this restructuring initiative related to employee termination benefits and impairment of property, plant and equipment.

(Dollars in millions, except per share data)

The COVID-19 pandemic has had, and continues to have, an impact on financial markets, economic conditions, and portions of the Company’s business and industry. The Company has actively addressed the pandemic’s ongoing impact on its employees, operations, customers, consumers, and communities, by, among other things, implementing contingency plans, making operational adjustments where necessary, and providing assistance to organizations that support front-line workers. The first priority of the Company’s pandemic response has been and remains the health, safety and well-being of its employees. In addition to implementing measures to help ensure the health and safety of its employees, the Company implemented an interim premium pay allowance for certain associates in its field sales force and its manufacturing and distribution centers. Costs incurred during the three and six months ended April 2, 2022 related to COVID-19 were immaterial. During the three and six months ended April 3, 2021, the Company incurred costs of $14.9 and $24.2, respectively, associated with the COVID-19 pandemic primarily related to premium pay. The Company incurred costs of $10.7 and $19.0 in its U.S. Consumer segment, $1.5 and $1.9 in its Hawthorne segment and $0.1 in its Other segment in the “Cost of sales—impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations during the three and six months ended April 3, 2021, respectively. The Company incurred costs of $2.6 and $3.2 in its U.S. Consumer segment in the “Impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations during the three and six months ended April 3, 2021, respectively.

NOTE 6. INVENTORIES

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

	April 2, 2022	April 3, 2021	September 30, 2021
Finished goods	$ 1,153.2	$ 709.1	$ 793.7
Raw materials	332.5	238.4	242.8
Work-in-process	108.4	71.7	90.1
Total inventories	$ 1,594.1	$ 1,019.2	$ 1,126.6

Adjustments to reflect inventories at net realizable values were $16.4 at April 2, 2022, $21.4 at April 3, 2021 and $22.5 at September 30, 2021.

NOTE 7. MARKETING AGREEMENT

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

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

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

(Dollars in millions, except per share data)

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

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

	Three Months Ended		Six Months Ended	
	April 2, 2022	April 3, 2021	April 2, 2022	April 3, 2021
Gross commission	$ 46.7	$ 42.5	$ 52.4	$ 50.2
Contribution expenses	(4.5)	(4.5)	(9.0)	(9.0)
Net commission	42.2	38.0	43.4	41.2
Reimbursements associated with Roundup® marketing agreement	22.0	26.6	41.6	40.6
Total net sales associated with Roundup® marketing agreement	$ 64.2	$ 64.6	$ 85.0	$ 81.8

NOTE 8. DEBT

The components of debt are as follows:

	April 2, 2022	April 3, 2021	September 30, 2021
Credit Facilities:			
Revolving loans	$ 1,135.0	$ 460.2	$ —
Term loans	650.0	690.0	670.0
Senior Notes due 2031 – 4.000%	500.0	500.0	500.0
Senior Notes due 2032 – 4.375%	400.0	—	400.0
Senior Notes due 2029 – 4.500%	450.0	450.0	450.0
Senior Notes due 2026 – 5.250%	250.0	250.0	250.0
Receivables facility	400.0	160.0	—
Finance lease obligations	30.5	33.5	33.4
Other	13.6	7.6	11.9
Total debt	3,829.1	2,551.3	2,315.3
Less current portions	459.7	212.8	57.8
Less unamortized debt issuance costs	19.4	16.0	20.8
Long-term debt	$ 3,350.0	$ 2,322.5	$ 2,236.7

Credit Facilities

On July 5, 2018, the Company entered into a fifth amended and restated credit agreement (the “Fifth A&R Credit Agreement”), which provided the Company and certain of its subsidiaries with five-year senior secured loan facilities in the aggregate principal amount of $2,300.0, comprised of a revolving credit facility of $1,500.0 and a term loan in the original principal amount of $800.0 (the “Fifth A&R Credit Facilities”). Under the Fifth A&R Credit Facilities, the Company had the ability to obtain letters of credit up to $75.0.

At April 2, 2022, the Company had letters of credit outstanding in the aggregate principal amount of $19.9 and had $345.2 of borrowing availability under the Fifth A&R Credit Agreement. The weighted average interest rates on average borrowings under the Fifth A&R Credit Agreement were 1.8% and 1.9% for the six months ended April 2, 2022 and April 3, 2021, respectively.

On April 8, 2022, the Company entered into a sixth amended and restated credit agreement (the “Sixth A&R Credit Agreement”), providing the Company and certain of its subsidiaries with five-year senior secured loan facilities in the aggregate principal amount of $2,500.0, comprised of a revolving credit facility of $1,500.0 and a term loan in the original principal amount of $1,000.0 (the “Sixth A&R Credit Facilities”). The Sixth A&R Credit Agreement also provides the Company with the right to seek additional committed credit under the agreement in an aggregate amount of up to $500.0 plus an unlimited additional amount, subject to certain specified financial and other conditions. The Sixth A&R Credit Agreement replaces the Fifth A&R Credit Agreement and will terminate on April 8, 2027. The Sixth A&R Credit Facilities will be available for issuance of letters of credit up to $100.0. The terms of the Sixth A&R Credit Agreement include customary representations and warranties, affirmative and negative covenants, financial covenants, and events of default. The Fifth A&R Credit Agreement would have terminated on July 5, 2023, if it had not been amended and restated pursuant to the Sixth A&R Credit Agreement.

Under the terms of the Sixth A&R Credit Agreement, loans bear interest, at the Company's election, at a rate per annum equal to either (i) the Alternate Base Rate plus the Applicable Spread (each, as defined in the Sixth A&R Credit Agreement) or (ii) the Adjusted Term SOFR Rate for the Interest Period in effect for such borrowing plus the Applicable Spread (all as defined in the Sixth A&R Credit Agreement). Swingline Loans shall bear interest at the applicable Swingline Rate set forth in the Sixth A&R Credit Agreement. Further, interest rates for other select non-U.S. dollar borrowings, including borrowings denominated in euro, Pounds Sterling and Canadian Dollars, are based on separate interest rate indices, as set forth in the Sixth A&R Credit Agreement. The Sixth A&R Credit Agreement is secured by (i) a perfected first priority security interest in all of the accounts receivable, inventory and equipment of Scotts Miracle-Gro and certain of its domestic subsidiaries and (ii) the pledge of all of the capital stock of certain of Scotts Miracle-Gro's domestic subsidiaries and a portion of the capital stock of certain of its foreign subsidiaries. The collateral does not include any of the Company's intellectual property.

The Sixth A&R Credit Agreement contains, among other obligations, an affirmative covenant regarding the Company's leverage ratio determined as of the end of each of its fiscal quarters ending on and after April 2, 2022 calculated as average total indebtedness, divided by the Company's earnings before interest, taxes, depreciation and amortization ("EBITDA"), as adjusted pursuant to the terms of the Sixth A&R Credit Agreement ("Adjusted EBITDA"). The maximum permitted leverage ratio is 4.50, which is unchanged from the Fifth A&R Credit Agreement. The Company's leverage ratio was 3.81 at April 2, 2022. The Sixth A&R Credit Agreement also contains an affirmative covenant regarding the Company's interest coverage ratio determined as of the end of each of its fiscal quarters ending on and after April 2, 2022. The interest coverage ratio is calculated as Adjusted EBITDA divided by interest expense, as described in the Sixth A&R Credit Agreement, and excludes costs related to refinancings. The minimum required interest coverage ratio is 3.00, which is unchanged from the Fifth A&R Credit Agreement. The Company's interest coverage ratio was 7.81 for the twelve months ended April 2, 2022.

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

Senior Notes

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

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

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

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

(Dollars in millions, except per share data)

Receivables Facility

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

The Company accounts for the sale of receivables under the Receivables Facility as short-term debt and continues to carry the receivables on its Condensed Consolidated Balance Sheets, primarily as a result of the Company's requirement to repurchase receivables sold. As of April 2, 2022 and April 3, 2021, there were $400.0 and $160.0, respectively, in borrowings on receivables pledged as collateral under the Receivables Facility, and the carrying value of the receivables pledged as collateral was $444.5 and $177.8, respectively.

Interest Rate Swap Agreements

The Company enters into interest rate swap agreements with major financial institutions that effectively convert a portion of the Company's variable-rate debt to a fixed rate. Interest payments made between the effective date and expiration date are hedged by the swap agreements. Swap agreements that were hedging interest payments as of April 2, 2022, April 3, 2021 and September 30, 2021 had a maximum total U.S. dollar equivalent notional amount of $800.0, $900.0 and $600.0, respectively. The notional amount, effective date, expiration date and rate of each of the swap agreements outstanding at April 2, 2022 are shown in the table below:

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

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

Weighted Average Interest Rate

The weighted average interest rates on the Company's debt were 3.4% and 3.5% for the six months ended April 2, 2022 and April 3, 2021, respectively.

(Dollars in millions, except per share data)

NOTE 9. EQUITY

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

	Common Shares and Capital in Excess of Stated Value	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Loss	Total Equity - Controlling Interest	Noncontrolling Interest	Total Equity
Balance at September 30, 2021	$ 477.0	$ 1,605.1	$ (1,002.4)	$ (66.4)	$ 1,013.3	$ —	$ 1,013.3
Net income (loss)	—	(50.0)	—	—	(50.0)	—	(50.0)
Other comprehensive income (loss)	—	—	—	5.7	5.7	—	5.7
Share-based compensation	7.3	—	—	—	7.3	—	7.3
Dividends declared ($0.66 per share)	—	(37.3)	—	—	(37.3)	—	(37.3)
Treasury share purchases	—	—	(129.5)	—	(129.5)	—	(129.5)
Treasury share issuances	2.6	—	19.5	—	22.1	—	22.1
Balance at January 1, 2022	$ 486.9	$ 1,517.8	$ (1,112.4)	$ (60.7)	$ 831.6	$ —	$ 831.6
Net income (loss)	—	276.5	—	—	276.5	—	276.5
Other comprehensive income (loss)	—	—	—	12.3	12.3	—	12.3
Share-based compensation	15.9	—	—	—	15.9	—	15.9
Dividends declared ($0.66 per share)	—	(35.5)	—	—	(35.5)	—	(35.5)
Treasury share purchases	—	—	(128.1)	—	(128.1)	—	(128.1)
Treasury share issuances	(141.0)	—	143.3	—	2.3	—	2.3
Balance at April 2, 2022	$ 361.8	$ 1,758.8	$ (1,097.2)	$ (48.4)	$ 975.0	$ —	$ 975.0

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

	Common Shares and Capital in Excess of Stated Value	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Loss	Total Equity - Controlling Interest	Noncontrolling Interest	Total Equity
Balance at September 30, 2020	$ 482.5	$ 1,235.6	$ (921.8)	$ (99.1)	$ 697.2	$ 5.7	$ 702.9
Net income (loss)	—	24.4	—	—	24.4	0.8	25.2
Other comprehensive income (loss)	—	—	—	15.6	15.6	—	15.6
Share-based compensation	8.2	—	—	—	8.2	—	8.2
Dividends declared ($0.62 per share)	—	(35.7)	—	—	(35.7)	—	(35.7)
Treasury share purchases	—	—	(38.4)	—	(38.4)	—	(38.4)
Treasury share issuances	(0.1)	—	1.3	—	1.2	—	1.2
Balance at January 2, 2021	$ 490.5	$ 1,224.4	$ (958.8)	$ (83.5)	$ 672.6	$ 6.4	$ 679.0
Net income (loss)	—	310.0	—	—	310.0	0.2	310.2
Other comprehensive income (loss)	—	—	—	5.5	5.5	—	5.5
Share-based compensation	17.7	—	—	—	17.7	—	17.7
Dividends declared ($0.62 per share)	—	(34.2)	—	—	(34.2)	—	(34.2)
Treasury share purchases	—	—	(23.8)	—	(23.8)	—	(23.8)
Treasury share issuances	(21.7)	—	28.3	—	6.6	—	6.6
Acquisition of noncontrolling interests	(13.4)	—	—	—	(13.4)	(6.7)	(20.1)
Balance at April 3, 2021	$ 473.0	$ 1,500.2	$ (954.3)	$ (78.0)	$ 940.9	$ —	$ 940.9

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

(Dollars in millions, except per share data)

Accumulated Other Comprehensive Loss

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

	Three Months Ended				
	Foreign Currency Translation Adjustments	Net Unrealized Gains (Losses) On Derivative Instruments	Net Unrealized Gains (Losses) On Securities	Pension and Other Post-Retirement Benefit Adjustments	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2022	$ (6.0)	$ 19.5	$ (2.2)	$ (72.1)	$ (60.7)
Other comprehensive income (loss) before reclassifications	(1.3)	21.9	0.1	—	20.7
Amounts reclassified from accumulated other comprehensive net income (loss)	—	(5.8)	—	2.2	(3.6)
Income tax benefit (expense)	—	(4.2)	—	(0.6)	(4.8)
Net current period other comprehensive income (loss)	(1.3)	11.9	0.1	1.6	12.3
Balance at April 2, 2022	$ (7.3)	$ 31.5	$ (2.1)	$ (70.5)	$ (48.4)
Balance at January 2, 2021	$ 6.2	$ (10.7)	$ —	$ (79.0)	$ (83.5)
Other comprehensive income (loss) before reclassifications	(4.3)	10.0	—	—	5.7
Amounts reclassified from accumulated other comprehensive net income (loss)	—	2.7	—	0.5	3.2
Income tax benefit (expense)	—	(3.3)	—	(0.1)	(3.4)
Net current period other comprehensive income (loss)	(4.3)	9.4	—	0.4	5.5
Balance at April 3, 2021	$ 1.9	$ (1.3)	$ —	$ (78.6)	$ (78.0)

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

	Six Months Ended				
	Foreign Currency Translation Adjustments	Net Unrealized Gains (Losses) On Derivative Instruments	Net Unrealized Gains (Losses) On Securities	Pension and Other Post-Retirement Benefit Adjustments	Accumulated Other Comprehensive Income (Loss)
Balance at September 30, 2021	$ (1.7)	$ 10.2	$ (2.3)	$ (72.5)	$ (66.4)
Other comprehensive income (loss) before reclassifications	(5.6)	34.9	0.4	—	29.7
Amounts reclassified from accumulated other comprehensive net income (loss)	—	(6.1)	—	2.8	(3.3)
Income tax benefit (expense)	—	(7.5)	(0.1)	(0.7)	(8.2)
Net current period other comprehensive income (loss)	(5.6)	21.3	0.3	2.1	18.1
Balance at April 2, 2022	$ (7.3)	$ 31.5	$ (2.1)	$ (70.5)	$ (48.4)
Balance at September 30, 2020	$ (6.2)	$ (15.1)	$ —	$ (77.8)	$ (99.1)
Other comprehensive income (loss) before reclassifications	8.1	13.4	—	—	21.5
Amounts reclassified from accumulated other comprehensive net income (loss)	—	5.3	—	(1.1)	4.2
Income tax benefit (expense)	—	(4.9)	—	0.3	(4.6)
Net current period other comprehensive income (loss)	8.1	13.8	—	(0.8)	21.1
Balance at April 3, 2021	$ 1.9	$ (1.3)	$ —	$ (78.6)	$ (78.0)

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

(Dollars in millions, except per share data)

Dividends

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

Share Repurchases

On February 6, 2020, Scotts Miracle-Gro announced that its Board of Directors authorized the repurchase of up to $750.0 of Common Shares from April 30, 2020 through March 25, 2023. The authorization provides the Company with flexibility to purchase Common Shares from time to time in open market purchases or through privately negotiated transactions. All or part of the repurchases may be made under Rule 10b5-1 plans, which the Company may enter into from time to time and which enable the repurchases to occur on a more regular basis, or pursuant to accelerated share repurchases. The share repurchase authorization may be suspended or discontinued by the Board of Directors at any time, and there can be no guarantee as to the timing or amount of any repurchases. During the three and six months ended April 2, 2022, Scotts Miracle-Gro repurchased approximately 0.4 million and 1.1 million Common Shares under this share repurchase authorization for $50.0 and $175.0, respectively. During the three and six months ended April 3, 2021, Scotts Miracle-Gro repurchased approximately 0.1 million and 0.3 million Common Shares under this share repurchase authorization for $12.5 and $50.5, respectively. Treasury share purchases also include cash paid to tax authorities to satisfy statutory income tax withholding obligations related to share-based compensation of $78.1 and $82.6 for the three and six months ended April 2, 2022, respectively, and $11.3 and $11.7 for the three and six months ended April 3, 2021, respectively.

Share-Based Awards

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

	Six Months Ended	
	April 2, 2022	April 3, 2021
Employees		
Options	—	183,553
Restricted stock units	135,892	61,749
Performance units	105,275	1,903
Non-Employee Directors		
Restricted and deferred stock units	16,942	8,187
Total share-based awards	258,109	255,392
Aggregate fair value at grant dates	$ 34.5	$ 27.9

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

	Three Months Ended		Six Months Ended	
	April 2, 2022	April 3, 2021	April 2, 2022	April 3, 2021
Share-based compensation	$ 15.9	$ 17.7	$ 23.2	$ 25.8
Related tax benefit recognized	1.7	1.9	3.5	3.9

(Dollars in millions, except per share data)

Restricted share-based awards

Restricted share-based award activity (including restricted stock units and deferred stock units) during the six months ended April 2, 2022 was as follows:

	No. of Units	Wtd. Avg. Grant Date Fair Value per Unit
Awards outstanding at September 30, 2021	375,825	$ 124.50
Granted	152,834	134.00
Vested	(180,710)	80.29
Forfeited	(14,717)	166.87
Awards outstanding at April 2, 2022	333,232	150.96

At April 2, 2022, the total pre-tax compensation cost, net of estimated forfeitures, related to nonvested restricted stock units not yet recognized was $16.6, which is expected to be recognized over a weighted-average period of 2.1 years. The total fair value of restricted stock units and deferred stock units vested was $24.9 for the six months ended April 2, 2022.

Performance-based awards

Performance-based award activity during the six months ended April 2, 2022 was as follows (based on target award amounts):

	No. of Units	Wtd. Avg. Grant Date Fair Value per Unit
Awards outstanding at September 30, 2021	572,557	$ 95.09
Granted	105,275	132.87
Vested (1)	(533,441)	93.22
Forfeited	(9,484)	110.50
Awards outstanding at April 2, 2022	134,907	130.88

(1) Vested at an average of 228 percent of the target performance share units granted.

At April 2, 2022, the total pre-tax compensation cost, net of estimated forfeitures, related to nonvested performance-based units not yet recognized was $6.8, which is expected to be recognized over a weighted-average period of 2.3 years. The total fair value of performance-based units vested was $182.5 for the six months ended April 2, 2022.

On January 30, 2017, the Company issued 0.5 million upfront performance-based award units, covering a five-year performance period, with an estimated fair value of $43.3 on the date of grant to certain senior executives as part of its Project Focus initiative. These awards provided for a five-year vesting period based on achievement of specific performance goals aligned with the strategic objectives of the Company's Project Focus initiatives. Based on the extent to which the targets were achieved, vested shares may range from 50 to 250 percent of the target award amount. The Company's actual performance far exceeded the pre-defined performance goals of this award. As a result, the participants earned the maximum payout equal to 250% of the target shares granted (for a total payout of 1.1 million shares). As of December 1, 2021, the award payout was both fully earned and fully vested and the vested shares were delivered to the recipients on January 30, 2022. Dividend equivalents equal to the cash dividends earned on share-based award units during the vesting period of $19.3 and $20.1 were also paid out during the three and six months ended April 2, 2022, respectively.

(Dollars in millions, except per share data)

NOTE 10. EARNINGS PER COMMON SHARE

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

	Three Months Ended		Six Months Ended	
	April 2, 2022	April 3, 2021	April 2, 2022	April 3, 2021
Income from continuing operations	$ 276.5	$ 311.1	$ 226.4	$ 336.2
Net income attributable to noncontrolling interest	—	(0.2)	—	(0.9)
Income attributable to controlling interest from continuing operations	276.5	310.9	226.4	335.3
Loss from discontinued operations, net of tax	—	(0.9)	—	(0.9)
Net income attributable to controlling interest	$ 276.5	$ 310.0	$ 226.4	$ 334.4
Basic income (loss) per common share:				
Weighted-average common shares outstanding during the period	55.5	55.7	55.5	55.7
Income from continuing operations	$ 4.98	$ 5.58	$ 4.08	$ 6.02
Loss from discontinued operations	—	(0.01)	—	(0.02)
Basic net income per common share	$ 4.98	$ 5.57	$ 4.08	$ 6.00
Diluted income (loss) per common share:				
Weighted-average common shares outstanding during the period	55.5	55.7	55.5	55.7
Dilutive potential common shares	0.5	1.4	0.8	1.3
Weighted-average common shares outstanding during the period plus dilutive potential common shares	56.0	57.1	56.3	57.0
Income from continuing operations	$ 4.94	$ 5.44	$ 4.02	$ 5.88
Loss from discontinued operations	—	(0.01)	—	(0.01)
Diluted net income per common share	$ 4.94	$ 5.43	$ 4.02	$ 5.87

Stock options with exercise prices greater than the average market price of the underlying Common Shares are excluded from the computation of diluted income per Common Share because they are out-of-the-money and the effect of their inclusion would be anti-dilutive. For the three and six months ended April 2, 2022, the average number of out-of-the-money options was 0.2 million. For the three and six months ended April 3, 2021, the average number of out-of-the-money options was 0.1 million.

NOTE 11. INCOME TAXES

The effective tax rates related to continuing operations for the six months ended April 2, 2022 and April 3, 2021 were 22.0% and 23.1%, respectively. The effective tax rate used for interim reporting purposes is based on management's best estimate of factors impacting the effective tax rate for the full fiscal year and includes the impact of discrete items recognized in the quarter. There can be no assurance that the effective tax rate estimated for interim financial reporting purposes will approximate the effective tax rate determined at fiscal year end.

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

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

NOTE 12. CONTINGENCIES

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

Regulatory Matters

At April 2, 2022, $2.9 was accrued in the “Other liabilities” line in the Condensed Consolidated Balance Sheets for environmental actions, the majority of which are for site remediation. The Company believes that the amounts accrued are adequate to cover such known environmental exposures based on current facts and estimates of likely outcomes. Although it is reasonably possible that the costs to resolve such known environmental exposures will exceed the amounts accrued, any variation from accrued amounts is not expected to be material.

Other

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

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

NOTE 13. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

Exchange Rate Risk Management

The Company uses currency forward contracts to manage the exchange rate risk associated with intercompany loans and certain other balances denominated in foreign currencies. Currency forward contracts are valued using observable forward rates in commonly quoted intervals for the full term of the contracts. The notional amount of outstanding currency forward contracts was $184.9, $168.0 and $180.3 at April 2, 2022, April 3, 2021 and September 30, 2021, respectively. Contracts outstanding at April 2, 2022 will mature over the next fiscal quarter.

Interest Rate Risk Management

The Company enters into interest rate swap agreements as a means to hedge its variable interest rate risk on debt instruments. Net amounts to be received or paid under the swap agreements are reflected as adjustments to interest expense. The Company has outstanding interest rate swap agreements with major financial institutions that effectively convert a portion of the Company’s variable-rate debt to a fixed rate. Interest rate swap agreements are valued based on the present value of the estimated future net cash flows using implied rates in the applicable yield curve as of the valuation date. Swap agreements that were hedging interest payments as of April 2, 2022, April 3, 2021 and September 30, 2021 had a maximum total U.S. dollar equivalent notional amount of $800.0, $900.0 and $600.0, respectively. Refer to “NOTE 8. DEBT” for the terms of the swap agreements outstanding at April 2, 2022. Included in the AOCL balance at April 2, 2022 was a gain of $2.0 related to interest rate swap agreements that is expected to be reclassified to earnings during the next twelve months, consistent with the timing of the underlying hedged transactions.

(Dollars in millions, except per share data)

Commodity Price Risk Management

The Company enters into hedging arrangements designed to fix the price of a portion of its projected future urea and diesel requirements. Commodity contracts are valued using observable commodity exchange prices in active markets. Included in the AOCL balance at April 2, 2022 was a gain of $18.3 related to commodity hedges that is expected to be reclassified to earnings during the next twelve months, consistent with the timing of the underlying hedged transactions.

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

Commodity	April 2, 2022	April 3, 2021	September 30, 2021
Urea	40,500 tons	6,000 tons	94,500 tons
Diesel	4,452,000 gallons	4,368,000 gallons	5,880,000 gallons
Heating Oil	2,016,000 gallons	1,680,000 gallons	2,268,000 gallons

Fair Values of Derivative Instruments

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

		Assets / (Liabilities)		
Derivatives Designated as Hedging Instruments	**Balance Sheet Location**	**April 2, 2022**	**April 3, 2021**	**September 30, 2021**
Interest rate swap agreements	Prepaid and other current assets	$ 2.2	$ —	$ —
	Other assets	15.7	4.9	3.3
	Other current liabilities	(0.5)	(8.1)	(5.7)
	Other liabilities	—	(4.7)	(2.5)
Commodity hedging instruments	Prepaid and other current assets	12.2	1.3	13.9
Total derivatives designated as hedging instruments		$ 29.6	$ (6.6)	$ 9.0
Derivatives Not Designated as Hedging Instruments	**Balance Sheet Location**			
Currency forward contracts	Prepaid and other current assets	$ 3.9	$ 1.3	$ 3.4
	Other current liabilities	—	(1.0)	(0.2)
Commodity hedging instruments	Prepaid and other current assets	3.7	1.2	1.3
Total derivatives not designated as hedging instruments		7.6	1.5	4.5
Total derivatives		$ 37.2	$ (5.1)	$ 13.5

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

	Amount of Gain / (Loss) Recognized in AOCL			
	Three Months Ended		Six Months Ended	
Derivatives in Cash Flow Hedging Relationships	**April 2, 2022**	**April 3, 2021**	**April 2, 2022**	**April 3, 2021**
Interest rate swap agreements	$ 11.5	$ 4.9	$ 14.4	$ 5.2
Commodity hedging instruments	4.7	2.5	11.4	4.7
Total	$ 16.2	$ 7.4	$ 25.8	$ 9.9

(Dollars in millions, except per share data)

		Amount of Gain / (Loss)			
		Three Months Ended		Six Months Ended	
Derivatives in Cash Flow Hedging Relationships	Reclassified from AOCL into Statement of Operations	April 2, 2022	April 3, 2021	April 2, 2022	April 3, 2021
Interest rate swap agreements	Interest expense	$ (1.3)	$ (2.3)	$ (2.1)	$ (4.1)
Commodity hedging instruments	Cost of sales	5.6	0.3	6.6	0.2
Total		$ 4.3	$ (2.0)	$ 4.5	$ (3.9)

		Amount of Gain / (Loss)			
		Three Months Ended		Six Months Ended	
Derivatives Not Designated as Hedging Instruments	Recognized in Statement of Operations	April 2, 2022	April 3, 2021	April 2, 2022	April 3, 2021
Currency forward contracts	Other income / expense, net	$ 4.0	$ 0.9	$ 5.0	$ (7.1)
Commodity hedging instruments	Cost of sales	5.9	1.4	6.5	2.1
Total		$ 9.9	$ 2.3	$ 11.5	$ (5.0)

NOTE 14. FAIR VALUE MEASUREMENTS

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

		April 2, 2022		April 3, 2021		September 30, 2021	
	Fair Value Hierarchy Level	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets							
Cash equivalents	Level 1	$ 3.8	$ 3.8	$ 2.4	$ 2.4	$ 222.5	$ 222.5
Other							
Investment securities in non-qualified retirement plan assets	Level 1	47.4	47.4	43.5	43.5	45.0	45.0
Convertible debt investments	Level 3	192.4	192.4	—	—	190.3	190.3
Liabilities							
Debt instruments							
Credit facilities – revolving loans	Level 2	1,135.0	1,135.0	460.2	460.2	—	—
Credit facilities – term loans	Level 2	650.0	650.0	690.0	690.0	670.0	670.0
Senior Notes due 2031 – 4.000%	Level 2	500.0	437.5	500.0	497.5	500.0	498.8
Senior Notes due 2032 – 4.375%	Level 2	400.0	352.0	—	—	400.0	402.0
Senior Notes due 2029 – 4.500%	Level 2	450.0	420.8	450.0	464.6	450.0	466.9
Senior Notes due 2026 – 5.250%	Level 2	250.0	252.5	250.0	261.6	250.0	258.1
Receivables facility	Level 2	400.0	400.0	160.0	160.0	—	—
Other debt	Level 2	13.6	13.6	7.6	7.6	11.9	11.9

(Dollars in millions, except per share data)

The cost basis of convertible debt investments was $193.1 at April 2, 2022 and September 30, 2021. There were no purchases of convertible debt investments during the three and six months ended April 2, 2022. During the three and six months ended April 2, 2022, the Company recorded unrealized gains of $0.1 and $0.4 in AOCL, respectively, and investment income of $0.9 and $1.7, respectively, associated with its Level 3 convertible debt investments. The amortized cost basis of convertible debt investments was $195.1 and $193.4 at April 2, 2022 and September 30, 2021, respectively.

NOTE 15. LEASES

The Company leases certain property and equipment from third parties under various non-cancelable lease agreements, including industrial, commercial and office properties and equipment that support the management, manufacturing, distribution and research and development of products marketed and sold by the Company. The lease agreements generally require that the Company pay taxes, insurance and maintenance expenses related to the leased assets. At April 2, 2022, the Company had entered into operating leases that were yet to commence with a combined total expected lease liability of $54.6. From time to time, the Company will sublease portions of its facilities, resulting in sublease income. Sublease income and the related cash flows were not material to the condensed consolidated financial statements for the three and six months ended April 2, 2022 and April 3, 2021.

The Company leases certain vehicles (primarily cars and light trucks) under agreements that are cancellable after the first year, but typically continue on a month-to-month basis until canceled by the Company. The vehicle leases and certain other non-cancelable operating leases contain residual value guarantees that create a contingent obligation on the part of the Company to compensate the lessor if the leased asset cannot be sold for an amount in excess of a specified minimum value at the conclusion of the lease term. If all such vehicle leases had been canceled as of April 2, 2022, the Company's residual value guarantee would have approximated $5.0.

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

	Balance Sheet Location	April 2, 2022	April 3, 2021	September 30, 2021
Operating leases:				
Right-of-use assets	Other assets	$ 293.2	$ 208.0	$ 293.0
Current lease liabilities	Other current liabilities	71.9	60.1	66.4
Non-current lease liabilities	Other liabilities	230.3	154.9	234.4
Total operating lease liabilities		$ 302.2	$ 215.0	$ 300.8
Finance leases:				
Right-of-use assets	Property, plant and equipment, net	$ 28.3	$ 31.9	$ 31.3
Current lease liabilities	Current portion of debt	6.0	5.3	5.9
Non-current lease liabilities	Long-term debt	24.5	28.2	27.5
Total finance lease liabilities		$ 30.5	$ 33.5	$ 33.4

(Dollars in millions, except per share data)

Components of lease cost were as follows:

	Three Months Ended		Six Months Ended	
	April 2, 2022	April 3, 2021	April 2, 2022	April 3, 2021
Operating lease cost [(a)]	$ 21.5	$ 16.1	$ 42.4	$ 31.5
Variable lease cost	11.2	12.1	21.0	15.2
Finance lease cost				
Amortization of right-of-use assets	1.6	1.5	3.2	3.0
Interest on lease liabilities	0.3	0.3	0.6	0.7
Total finance lease cost	$ 1.9	$ 1.8	$ 3.8	$ 3.7

(a) Operating lease cost includes amortization of ROU assets of $19.3 and $36.9 for the three and six months ended April 2, 2022, respectively, and $14.6 and $27.9 for the three and six months ended April 3, 2021, respectively. Short-term lease expense is excluded from operating lease cost and is not material.

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

	Six Months Ended	
	April 2, 2022	April 3, 2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases, net	$ 41.4	$ 29.0
Operating cash flows from finance leases	0.6	0.7
Financing cash flows from finance leases	2.9	2.6
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 38.1	$ 77.6

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

	April 2, 2022
Weighted-average remaining lease term (in years):	
Operating leases	5.2
Finance leases	7.6
Weighted-average discount rate:	
Operating leases	3.2 %
Finance leases	4.3 %

Maturities of lease liabilities by fiscal year for the Company's leases as of April 2, 2022 were as follows:

Year	Operating Leases	Finance Leases
2022 (remainder of the year)	$ 41.6	$ 3.5
2023	75.6	7.1
2024	67.6	7.1
2025	52.4	2.9
2026	35.8	1.9
Thereafter	55.9	13.6
Total lease payments	328.9	36.1
Less: Imputed interest	(26.7)	(5.6)
Total lease liabilities	$ 302.2	$ 30.5

(Dollars in millions, except per share data)

NOTE 16. SEGMENT INFORMATION

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

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

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

	Three Months Ended		Six Months Ended	
	April 2, 2022	April 3, 2021	April 2, 2022	April 3, 2021
Net Sales:				
U.S. Consumer	$ 1,379.8	$ 1,374.0	$ 1,722.2	$ 1,782.2
Hawthorne	202.6	363.8	393.2	673.2
Other	96.0	91.0	128.9	122.0
Consolidated	$ 1,678.4	$ 1,828.8	$ 2,244.3	$ 2,577.4
Segment Profit (Loss):				
U.S. Consumer	$ 428.9	$ 435.9	$ 439.6	$ 481.2
Hawthorne	3.3	41.4	(2.0)	81.8
Other	10.5	17.6	11.8	17.6
Total Segment Profit	442.7	494.9	449.4	580.6
Corporate	(39.1)	(48.1)	(70.5)	(82.7)
Intangible asset amortization	(10.4)	(7.8)	(19.3)	(15.2)
Impairment, restructuring and other	(5.3)	(14.9)	(7.1)	(24.6)
Equity in loss of unconsolidated affiliates	(6.5)	(1.5)	(13.8)	(1.5)
Interest expense	(28.3)	(19.3)	(52.1)	(35.4)
Other non-operating income, net	1.9	0.9	3.7	16.1
Income from continuing operations before income taxes	$ 355.0	$ 404.2	$ 290.3	$ 437.3

(Dollars in millions, except per share data)

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

	Three Months Ended		Six Months Ended	
	April 2, 2022	April 3, 2021	April 2, 2022	April 3, 2021
U.S. Consumer:				
Growing media and mulch	$ 542.0	$ 532.4	$ 622.0	$ 622.4
Lawn care	536.1	530.3	659.9	696.3
Controls	141.9	142.2	196.7	204.7
Roundup® marketing agreement	63.9	63.8	84.7	81.1
Other	95.9	105.3	158.9	177.7
Hawthorne:				
Nutrients	45.1	80.1	81.0	141.2
Lighting	42.6	108.5	91.4	223.8
Growing environments	42.4	65.5	88.4	121.3
Growing media	40.8	58.4	70.7	94.0
Other, primarily hardware	31.7	51.3	61.7	92.9
Other:				
Lawn care	36.6	34.4	39.2	39.2
Growing media	27.9	27.9	42.9	44.7
Other, primarily gardening and controls	31.5	28.7	46.8	38.1
Total net sales	$ 1,678.4	$ 1,828.8	$ 2,244.3	$ 2,577.4

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

	Three Months Ended		Six Months Ended	
	April 2, 2022	April 3, 2021	April 2, 2022	April 3, 2021
Net sales:				
United States	$ 1,575.5	$ 1,711.2	$ 2,082.2	$ 2,391.7
International	102.9	117.6	162.1	185.7
	$ 1,678.4	$ 1,828.8	$ 2,244.3	$ 2,577.4

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

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

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

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

EXECUTIVE SUMMARY

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

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

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

On December 30, 2021, our Hawthorne segment completed the acquisition of substantially all of the assets of Luxx Lighting, Inc., a leading provider of lighting products for indoor growing that significantly strengthens our industry-leading lighting portfolio, for a purchase price of $213.2. On April 28, 2022, our Hawthorne segment completed the acquisition of substantially all of the assets of Cyco, an Australia-based provider of premium nutrients, additives and growing media products for indoor growing, for a purchase price of $34.4 plus contingent consideration with a maximum payout of $10.0.

During fiscal 2021, we announced the creation of a newly formed subsidiary, THC, which will focus on strategic minority non-equity investments in areas of the cannabis industry not currently pursued by our Hawthorne segment. This initiative is designed to allow us, in the future, to participate directly in a larger marketplace as the legal environment changes over time. On August 24, 2021, we made our initial investment under this initiative in the form of a $150.0 six-year convertible note issued to us by Toronto-based RIV Capital (CSE: RIV) (OTC: CNPOF), a cannabis investment and acquisition firm listed on the Canadian Securities Exchange. On April 22, 2022, pursuant to our follow-on investment rights, we made an additional investment in RIV Capital in the form of a $25.0 convertible note. During the fourth quarter of fiscal 2021, we made additional minority non-equity investments of $43.1 in other entities focused on branded cannabis and high quality genetics. These investments include conversion features that would provide us with minority ownership interests in these entities if we exercise the conversion features. Refer to “NOTE 3. ACQUISITIONS AND INVESTMENTS” for more information regarding these investments.

(Dollars in millions, except per share data)

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

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

On February 6, 2020, Scotts Miracle-Gro announced that its Board of Directors authorized the repurchase of up to $750.0 of Common Shares from April 30, 2020 through March 25, 2023. During the three and six months ended April 2, 2022, Scotts Miracle-Gro repurchased approximately 0.4 million and 1.1 million Common Shares under this share repurchase authorization for $50.0 and $175.0, respectively. During the three and six months ended April 3, 2021, Scotts Miracle-Gro repurchased approximately 0.1 million and 0.3 million Common Shares under this share repurchase authorization for $12.5 and $50.5, respectively.

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

Recent Events

The COVID-19 pandemic has had, and continues to have, an impact on financial markets, economic conditions, and portions of our business and industry. We have actively addressed the pandemic’s ongoing impact on our employees, operations, customers, consumers, and communities, by, among other things, implementing contingency plans, making operational adjustments where necessary, and providing assistance to organizations that support front-line workers. The first priority of our pandemic response has been and remains the health, safety and well-being of our employees. In addition to implementing measures to help ensure the health and safety of our employees, we implemented an interim premium pay allowance during fiscal 2020 and 2021 for certain associates in our field sales force and our manufacturing and distribution centers, which paid out nearly $50.0 in aggregate.

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

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

We have experienced higher transportation and materials costs, including fertilizer inputs such as urea, due in part to the negative impact of the war in Ukraine on the global economy. We expect a continuing inflationary environment that is heightened by this conflict, and we are continuing to address these impacts to our operations. We have no operations in Russia or Ukraine.

(Dollars in millions, except per share data)

RESULTS OF OPERATIONS

The following table sets forth the components of earnings as a percentage of net sales for the three months ended April 2, 2022 and April 3, 2021:

	April 2, 2022	% Of Net Sales	April 3, 2021	% Of Net Sales
Net sales	$ 1,678.4	100.0 %	$ 1,828.8	100.0 %
Cost of sales	1,084.7	64.6	1,158.9	63.4
Cost of sales—impairment, restructuring and other	5.3	0.3	12.4	0.7
Gross profit	588.4	35.1	657.5	36.0
Operating expenses:				
Selling, general and administrative	204.7	12.2	231.5	12.7
Impairment, restructuring and other	0.1	—	2.5	0.1
Other income, net	(4.3)	(0.3)	(0.6)	—
Income from operations	387.9	23.1	424.1	23.2
Equity in loss of unconsolidated affiliates	6.5	0.4	1.5	0.1
Interest expense	28.3	1.7	19.3	1.1
Other non-operating income, net	(1.9)	(0.1)	(0.9)	—
Income from continuing operations before income taxes	355.0	21.2	404.2	22.1
Income tax expense from continuing operations	78.5	4.7	93.1	5.1
Income from continuing operations	276.5	16.5	311.1	17.0
Loss from discontinued operations, net of tax	—	—	(0.9)	—
Net income	$ 276.5	16.5 %	$ 310.2	17.0 %

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

The following table sets forth the components of earnings as a percentage of net sales for the six months ended April 2, 2022 and April 3, 2021:

	April 2, 2022	% Of Net Sales	April 3, 2021	% Of Net Sales
Net sales	$ 2,244.3	100.0 %	$ 2,577.4	100.0 %
Cost of sales	1,532.0	68.3	1,707.7	66.3
Cost of sales—impairment, restructuring and other	5.3	0.2	21.4	0.8
Gross profit	707.0	31.5	848.3	32.9
Operating expenses:				
Selling, general and administrative	358.7	16.0	388.2	15.1
Impairment, restructuring and other	1.8	0.1	3.2	0.1
Other income, net	(6.0)	(0.3)	(1.2)	—
Income from operations	352.5	15.7	458.1	17.8
Equity in loss of unconsolidated affiliates	13.8	0.6	1.5	0.1
Interest expense	52.1	2.3	35.4	1.4
Other non-operating income, net	(3.7)	(0.2)	(16.1)	(0.6)
Income from continuing operations before income taxes	290.3	12.9	437.3	17.0
Income tax expense from continuing operations	63.9	2.8	101.1	3.9
Income from continuing operations	226.4	10.1	336.2	13.0
Loss from discontinued operations, net of tax	—	—	(0.9)	—
Net income	$ 226.4	10.1 %	$ 335.3	13.0 %

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

(Dollars in millions, except per share data)

Net Sales

Net sales for the three months ended April 2, 2022 were $1,678.4, a decrease of 8.2% from net sales of $1,828.8 for the three months ended April 3, 2021. Net sales for the six months ended April 2, 2022 were $2,244.3, a decrease of 12.9% from net sales of $2,577.4 for the six months ended April 3, 2021. These changes in net sales were attributable to the following:

	Three Months Ended April 2, 2022	Six Months Ended April 2, 2022
Volume	(16.0)%	(19.7)%
Pricing	7.0	6.1
Acquisitions	0.8	0.7
Change in net sales	(8.2)%	(12.9)%

The decrease in net sales for the three and six months ended April 2, 2022 as compared to the three and six months ended April 3, 2021 was primarily driven by:

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

Cost of Sales

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

	Three Months Ended		Six Months Ended	
	April 2, 2022	April 3, 2021	April 2, 2022	April 3, 2021
Materials	$ 627.4	$ 680.9	$ 864.6	$ 995.3
Distribution and warehousing	235.3	216.1	350.3	324.3
Manufacturing labor and overhead	200.0	235.3	275.5	347.5
Costs associated with Roundup® marketing agreement	22.0	26.6	41.6	40.6
Cost of sales	1,084.7	1,158.9	1,532.0	1,707.7
Cost of sales—impairment, restructuring and other	5.3	12.4	5.3	21.4
	$ 1,090.0	$ 1,171.3	$ 1,537.3	$ 1,729.1

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

	Three Months Ended April 2, 2022	Six Months Ended April 2, 2022
Volume, product mix and other	$ (122.3)	$ (224.0)
Material cost changes	53.1	47.6
Costs associated with Roundup® marketing agreement	(4.7)	1.0
Foreign exchange rates	(0.3)	(0.3)
	(74.2)	(175.7)
Impairment, restructuring and other	(7.1)	(16.1)
Change in cost of sales	$ (81.3)	$ (191.8)

The decrease in cost of sales for the three months ended April 2, 2022 as compared to the three months ended April 3, 2021 was primarily driven by:

- lower sales volume in our U.S. Consumer and Hawthorne segments;
- a decrease in impairment, restructuring and other charges; and

(Dollars in millions, except per share data)

- a decrease in costs associated with the Roundup® marketing agreement;
- partially offset by higher material costs in our U.S. Consumer and Other segments; and
- higher transportation and warehousing costs included within "volume, product mix and other" in our U.S. Consumer, Hawthorne and Other segments.

The decrease in cost of sales for the six months ended April 2, 2022 as compared to the six months ended April 3, 2021 was primarily driven by:

- lower sales volume in our U.S. Consumer and Hawthorne segments; and
- a decrease in impairment, restructuring and other charges;
- partially offset by higher material costs in our U.S. Consumer and Other segments; and
- higher transportation and warehousing costs included within "volume, product mix and other" in our U.S. Consumer, Hawthorne and Other segments.

Gross Profit

As a percentage of net sales, our gross profit rate was 35.1% and 36.0% for the three months ended April 2, 2022 and April 3, 2021, respectively. As a percentage of net sales, our gross profit rate was 31.5% and 32.9% for the six months ended April 2, 2022 and April 3, 2021, respectively. Factors contributing to the change in gross profit rate are outlined in the following table:

	Three Months Ended April 2, 2022	Six Months Ended April 2, 2022
Volume, product mix and other	(3.4)%	(4.7)%
Material costs	(3.4)	(2.3)
Acquisitions	(0.1)	(0.1)
Roundup® commissions and reimbursements	0.3	—
Pricing	5.4	5.1
	(1.2)%	(2.0)%
Impairment, restructuring and other	0.3	0.6
Change in gross profit rate	(0.9)%	(1.4)%

The decrease in gross profit rate for the three months ended April 2, 2022 as compared to the three months ended April 3, 2021 was primarily driven by:

- higher material costs in our U.S. Consumer and Other segments;
- higher transportation and warehousing costs of 300 bps included within "volume, product mix and other" in our U.S. Consumer, Hawthorne and Other segments; and
- unfavorable leverage of fixed costs driven by lower sales volume in our U.S. Consumer and Hawthorne segments;
- partially offset by increased pricing in our U.S. Consumer, Hawthorne and Other segments;
- a decrease in impairment, restructuring and other charges; and
- a decrease in costs associated with the Roundup® marketing agreement.

The decrease in gross profit rate for the six months ended April 2, 2022 as compared to the six months ended April 3, 2021 was primarily driven by:

- higher transportation and warehousing costs of 340 bps included within "volume, product mix and other" in our U.S. Consumer, Hawthorne and Other segments;
- higher material costs in our U.S. Consumer and Other segments; and
- unfavorable leverage of fixed costs driven by lower sales volume in our U.S. Consumer and Hawthorne segments;
- partially offset by increased pricing in our U.S. Consumer, Hawthorne and Other segments; and
- a decrease in impairment, restructuring and other charges.

(Dollars in millions, except per share data)

Selling, General and Administrative Expenses

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

	Three Months Ended		Six Months Ended	
	April 2, 2022	April 3, 2021	April 2, 2022	April 3, 2021
Advertising	$ 49.1	$ 68.8	$ 67.3	$ 95.5
Research and development	12.4	10.3	24.9	20.6
Amortization of intangibles	8.9	7.3	16.3	14.5
Share-based compensation	15.9	17.7	23.2	25.8
Other selling, general and administrative	118.4	127.4	227.0	231.8
	$ 204.7	$ 231.5	$ 358.7	$ 388.2

SG&A decreased $26.8, or 11.6%, during the three months ended April 2, 2022 compared to the three months ended April 3, 2021. Advertising expense decreased $19.7, or 28.6%, during the three months ended April 2, 2022 driven by decreased media spending in our U.S. Consumer segment. Other SG&A decreased $9.0, or 7.1%, during the three months ended April 2, 2022 driven by a decrease in short-term variable cash incentive compensation expense.

SG&A decreased $29.5, or 7.6%, during the six months ended April 2, 2022 compared to the six months ended April 3, 2021. Advertising expense decreased $28.2, or 29.5%, during the six months ended April 2, 2022 driven by decreased media spending in our U.S. Consumer segment. Other SG&A decreased $4.8, or 2.1%, during the six months ended April 2, 2022 driven by a decrease in short-term variable cash incentive compensation expense, partially offset by higher people costs.

Impairment, Restructuring and Other

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

	Three Months Ended		Six Months Ended	
	April 2, 2022	April 3, 2021	April 2, 2022	April 3, 2021
Cost of sales—impairment, restructuring and other:				
COVID-19 related costs	$ —	$ 12.3	$ —	$ 21.0
Restructuring and other charges, net	2.5	0.1	2.5	0.4
Property, plant and equipment impairments	2.8	—	2.8	—
Operating expenses:				
COVID-19 related costs	—	2.6	—	3.2
Restructuring and other charges (recoveries), net	0.1	(0.1)	1.8	—
Impairment, restructuring and other charges from continuing operations	$ 5.4	$ 14.9	$ 7.1	$ 24.6

During the second quarter of fiscal 2022, we announced plans to consolidate U.S. lighting manufacturing for our Hawthorne segment into a single location and to close another recently acquired assembly facility and move those operations to our Santa Rosa, California facility. During the three and six months ended April 2, 2022, our Hawthorne segment incurred costs of $5.3 in in the “Cost of sales—impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations and $0.1 in the “Impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations in connection with this restructuring initiative related to employee termination benefits and impairment of property, plant and equipment.

Subsequent to April 2, 2022, we began evaluating actions to reduce the size of our Hawthorne segment supply chain network and implement productivity and other restructuring activities in our U.S. Consumer segment and Corporate functions, which, if executed, may result in additional charges during our third and fourth quarters of fiscal 2022.

In response to the COVID-19 pandemic, we implemented measures intended to protect the health and safety of our employees and maintain our ability to provide products to our customers. Costs incurred during the three and six months ended April 2, 2022 were immaterial. During the three and six months ended April 3, 2021, we incurred costs of $14.9 and $24.2, respectively, associated with the COVID-19 pandemic primarily related to premium pay. We incurred costs of $10.7 and $19.0 in our U.S. Consumer segment, $1.5 and $1.9 in our Hawthorne segment and $0.1 in our Other segment in the “Cost of sales—impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations during the three and six months ended April 3, 2021, respectively. We incurred costs of $2.6 and $3.2 in our U.S. Consumer segment in the “Impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations during the three and six months ended April 3, 2021, respectively.

Other Income, net

Other income is comprised of activities such as royalty income from the licensing of certain of our brand names, foreign exchange transaction gains and losses and gains and losses from the disposition of non-inventory assets. Other income was $4.3 and $0.6 for the three months ended April 2, 2022 and April 3, 2021, respectively; and was $6.0 and $1.2 for the six months ended April 2, 2022 and April 3, 2021, respectively. The change for the three and six months ended April 2, 2022 was primarily due to gains on the sale of long-lived assets during the second quarter of fiscal 2022.

Income from Operations

Income from operations was $387.9 for the three months ended April 2, 2022, a decrease of 8.5% compared to $424.1 for the three months ended April 3, 2021; and was $352.5 for the six months ended April 2, 2022, a decrease of 23.1% compared to $458.1 for the six months ended April 3, 2021. For the three and six months ended April 2, 2022, the decrease was driven by lower net sales and a decrease in gross profit rate, partially offset by lower impairment, restructuring and other charges, lower SG&A and higher other income.

Equity in Loss of Unconsolidated Affiliates

We acquired a 50% equity interest in Bonnie Plants, LLC on December 31, 2020. Our interest is accounted for using the equity method of accounting, with our proportionate share of Bonnie Plants, LLC earnings subsequent to December 31, 2020 reflected in the Condensed Consolidated Statements of Operations. We recorded equity in loss of unconsolidated affiliates associated with Bonnie Plants, LLC of $6.5 and $13.8 during the three and six months ended April 2, 2022, respectively, as compared to $1.5 during the three and six months ended April 3, 2021.

Interest Expense

Interest expense was $28.3 for the three months ended April 2, 2022, an increase of 46.6% compared to $19.3 for the three months ended April 3, 2021. The increase was driven by higher average borrowings of $1,158.2 due to higher inventory production, capital expenditures, acquisition activity and repurchases of our Common Shares.

Interest expense was $52.1 for the six months ended April 2, 2022, an increase of 47.2% compared to $35.4 for the six months ended April 3, 2021. The increase was driven by higher average borrowings of $1,041.5 due to higher inventory production, capital expenditures, acquisition activity and repurchases of our Common Shares.

Other Non-Operating Income, Net

Other non-operating income was $1.9 and $0.9 for the three months ended April 2, 2022 and April 3, 2021, respectively, and was $3.7 and $16.1 for the six months ended April 2, 2022 and April 3, 2021, respectively. On December 31, 2020, we acquired a 50% equity interest in Bonnie Plants, LLC in exchange for a cash payment of $100.7, forgiveness of our outstanding loan receivable with AFC and surrender of our options to increase our economic interest in the Bonnie Plants business. Our loan receivable with AFC, which was previously recognized in the “Other assets” line in the Condensed Consolidated Balance Sheets, had a carrying value of $66.4 on December 31, 2020 and we recognized a gain of $12.5 during the three months ended January 2, 2021 to write-up the value of the loan to its closing date fair value of $78.9.

Income Tax Expense from Continuing Operations

The effective tax rates related to continuing operations for the six months ended April 2, 2022 and April 3, 2021 were 22.0% and 23.1%, respectively. The effective tax rate used for interim purposes is based on our best estimate of factors impacting the effective tax rate for the full fiscal year. Factors affecting the estimated effective tax rate include assumptions as to income by jurisdiction (domestic and foreign), the availability and utilization of tax credits and the existence of elements of income and expense that may not be taxable or deductible. The estimated effective tax rate is subject to revision in later interim periods and at fiscal year-end as facts and circumstances change during the course of the fiscal year. There can be no assurance that the effective tax rate estimated for interim financial reporting purposes will approximate the effective tax rate determined at fiscal year-end.

(Dollars in millions, except per share data)

Income from Continuing Operations

Income from continuing operations was $276.5, or $4.94 per diluted share, for the three months ended April 2, 2022 compared to $311.1, or $5.44 per diluted share, for the three months ended April 3, 2021. The decrease was driven by lower net sales, a decrease in gross profit rate, higher interest expense and higher equity in loss of unconsolidated affiliates, partially offset by lower impairment, restructuring and other charges, lower SG&A and higher other income.

Diluted average common shares used in the diluted income per common share calculation for the three months ended April 2, 2022 were 56.0 million, which included dilutive potential Common Shares of 0.5 million. Diluted average common shares used in the diluted income per common share calculation for the three months ended April 3, 2021 were 57.1 million, which included dilutive potential Common Shares of 1.4 million. The decrease was primarily the result of Common Share repurchase activity partially offset by the exercise and issuance of share-based compensation awards.

Income from continuing operations was $226.4, or $4.02 per diluted share, for the six months ended April 2, 2022 compared to $336.2, or $5.88 per diluted share, for the six months ended April 3, 2021. The decrease was driven by lower net sales, a decrease in gross profit rate, higher interest expense, higher equity in loss of unconsolidated affiliates and lower other non-operating income, partially offset by lower impairment, restructuring and other charges, lower SG&A and higher other income.

Diluted average common shares used in the diluted income per common share calculation for the six months ended April 2, 2022 were 56.3 million, which included dilutive potential Common Shares of 0.8 million. Diluted average common shares used in the diluted income per common share calculation for the six months ended April 3, 2021 were 57.0 million, which included dilutive potential Common Shares of 1.3 million. The decrease was primarily the result of Common Share repurchase activity partially offset by the exercise and issuance of share-based compensation awards.

SEGMENT RESULTS

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

The following table sets forth net sales by segment:

	Three Months Ended		Six Months Ended	
	April 2, 2022	April 3, 2021	April 2, 2022	April 3, 2021
U.S. Consumer	$ 1,379.8	$ 1,374.0	$ 1,722.2	$ 1,782.2
Hawthorne	202.6	363.8	393.2	673.2
Other	96.0	91.0	128.9	122.0
Consolidated	$ 1,678.4	$ 1,828.8	$ 2,244.3	$ 2,577.4

(Dollars in millions, except per share data)

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

	Three Months Ended		Six Months Ended	
	April 2, 2022	April 3, 2021	April 2, 2022	April 3, 2021
U.S. Consumer	$ 428.9	$ 435.9	$ 439.6	$ 481.2
Hawthorne	3.3	41.4	(2.0)	81.8
Other	10.5	17.6	11.8	17.6
Total Segment Profit (Non-GAAP)	442.7	494.9	449.4	580.6
Corporate	(39.1)	(48.1)	(70.5)	(82.7)
Intangible asset amortization	(10.4)	(7.8)	(19.3)	(15.2)
Impairment, restructuring and other	(5.3)	(14.9)	(7.1)	(24.6)
Equity in loss of unconsolidated affiliates	(6.5)	(1.5)	(13.8)	(1.5)
Interest expense	(28.3)	(19.3)	(52.1)	(35.4)
Other non-operating income, net	1.9	0.9	3.7	16.1
Income from continuing operations before income taxes (GAAP)	$ 355.0	$ 404.2	$ 290.3	$ 437.3

U.S. Consumer

U.S. Consumer segment net sales were $1,379.8 in the second quarter of fiscal 2022, an increase of 0.4% from second quarter of fiscal 2021 net sales of $1,374.0; and were $1,722.2 for the first six months of fiscal 2022, a decrease of 3.4% from the first six months of fiscal 2021 net sales of $1,782.2. For the second quarter of fiscal 2022, the increase was driven by the favorable impact of increased pricing of 8.4%, partially offset by the unfavorable impact of volume of 8.0%. For the six months ended April 2, 2022, the decrease was driven by the unfavorable impact of volume of 10.7%, partially offset by the favorable impact of increased pricing of 7.3%. The decrease in sales volume for the three and six months ended April 2, 2022 was driven by seed, fertilizer, soils and controls products.

U.S. Consumer Segment Profit was $428.9 in the second quarter of fiscal 2022, a decrease of 1.6% from the second quarter of fiscal 2021 Segment Profit of $435.9; and Segment Profit was $439.6 for the first six months of fiscal 2022, a decrease of 8.6% from the first six months of fiscal 2021 Segment Profit of $481.2. For the three months ended April 2, 2022, the decrease was primarily due to a lower gross profit rate, partially offset by lower SG&A. For the six months ended April 2, 2022, the decrease was primarily due to lower net sales and a lower gross profit rate, partially offset by lower SG&A.

Hawthorne

Hawthorne segment net sales were $202.6 in the second quarter of fiscal 2022, a decrease of 44.3% from second quarter of fiscal 2021 net sales of $363.8; and were $393.2 for the first six months of fiscal 2022, a decrease of 41.6% from the first six months of fiscal 2021 net sales of $673.2. For the second quarter of fiscal 2022, the decrease was driven by the unfavorable impacts of volume and foreign exchange rates of 50.9% and 0.1%, respectively, partially offset by the favorable impacts of increased pricing and acquisitions of 2.7% and 4.0%, respectively. For the six months ended April 2, 2022, the decrease was driven by the unfavorable impacts of volume and foreign exchange rates of 47.0% and 0.2%, respectively, partially offset by the favorable impacts of increased pricing and acquisitions of 3.1% and 2.5%, respectively. The decrease in sales volume for the three and six months ended April 2, 2022 was driven by lighting, nutrients, growing media, hardware and growing environments products.

Hawthorne Segment Profit was $3.3 in the second quarter of fiscal 2022, a decrease of 92.0% from the second quarter of fiscal 2021 Segment Profit of $41.4; and Segment Loss was $2.0 for the first six months of fiscal 2022, a decrease of 102.4% from the first six months of fiscal 2021 Segment Profit of $81.8. For the three and six months ended April 2, 2022, the decrease was driven by lower net sales, a lower gross profit rate and higher SG&A.

(Dollars in millions, except per share data)

Our Hawthorne segment has been negatively impacted during the six months ended April 2, 2022 by both an oversupply of cannabis, which has slowed down indoor and outdoor cultivation, and higher transportation and warehousing costs. Although we expect that the oversupply of cannabis and cost increases will continue to adversely impact our Hawthorne segment during the remainder of fiscal 2022, we are taking actions intended to mitigate the impact, including reducing costs. If the oversupply of cannabis and cost increases persist longer, or are more significant than we expect or we are unable to mitigate their impact, our results of operations could be adversely impacted for a longer period and to a greater extent than we currently anticipate. At April 2, 2022, the goodwill for our Hawthorne segment totaled $433.0. As of April 2, 2022, we concluded that no goodwill impairment exists for our Hawthorne segment. This assessment considered the impact of temporary lower sales volumes and increased costs being experienced by our Hawthorne segment during the first six months of fiscal 2022 as well as changes to other assumptions used in the fiscal 2021 annual impairment assessment, including the discount rate. While we consider our assumptions to be reasonable and appropriate and informed by temporary downturns in Hawthorne results experienced during 2018 and 2019, they are complex and subjective. Adverse changes in key assumptions in the future may result in a decline in the fair value of our Hawthorne segment below its carrying value and an impairment of its goodwill. These adverse changes may include, among other things: a failure to meet expected revenue and profitability growth rates; an increase in the discount rate; a decrease in the long-term growth rate; or a significant change in economic conditions.

Other

Other segment net sales were $96.0 in the second quarter of fiscal 2022, an increase of 5.5% from the second quarter of fiscal 2021 net sales of $91.0; and were $128.9 for the first six months of fiscal 2022, an increase of 5.7% from the first six months of fiscal 2021 net sales of $122.0. For the second quarter of fiscal 2022, the increase was driven by the favorable impacts of pricing, volume and foreign exchange rates of 4.7%, 0.6% and 0.2%, respectively. For the six months ended April 2, 2022, the increase was driven by the favorable impacts of pricing and foreign exchange rates of 5.2% and 0.9%, respectively, partially offset by the unfavorable impact of volume of 0.4%.

Other Segment Profit was $10.5 in the second quarter of fiscal 2022, a decrease of 40.3% from the second quarter of fiscal 2021 Segment Profit of $17.6; and Segment Profit was $11.8 for the first six months of fiscal 2022, a decrease of 33.0% from the first six months of fiscal 2021 Segment Profit of $17.6. For the three and six months ended April 2, 2022, the decrease was driven by a lower gross profit rate, partially offset by higher net sales.

Corporate

Corporate expenses were $39.1 in the second quarter of fiscal 2022, a decrease of 18.7% from second quarter of fiscal 2021 expenses of $48.1; and were $70.5 for the first six months of fiscal 2022, a decrease of 14.8% from the first six months of fiscal 2021 expenses of $82.7. For the three and six months ended April 2, 2022, the decrease was driven by lower short-term variable cash incentive compensation expense and higher other income.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes cash activities:

	Six Months Ended	
	April 2, 2022	April 3, 2021
Net cash used in operating activities	$ (1,142.6)	$ (699.9)
Net cash used in investing activities	(255.8)	(173.8)
Net cash provided by financing activities	1,171.3	871.1

Operating Activities

Cash used in operating activities totaled $1,142.6 for the six months ended April 2, 2022, an increase of $442.7 as compared to $699.9 for the six months ended April 3, 2021. This increase was driven by higher inventory, lower net income and higher interest payments, partially offset by lower tax payments and lower short-term variable cash incentive compensation payouts. Higher inventory was driven by higher production to meet expected future demand and higher input costs. The six months ended April 2, 2022 was also impacted by extended payment terms with several of our major vendors across the U.S. Consumer and Hawthorne segments, as well as Monsanto, for payments originally due in the final weeks of fiscal 2021 that were paid in the first quarter of fiscal 2022.

Investing Activities

Cash used in investing activities totaled $255.8 for the six months ended April 2, 2022, an increase of $82.0 as compared to $173.8 for the six months ended April 3, 2021. Cash used for investments in property, plant and equipment during the first six months of fiscal 2022 and 2021 was $66.0 and $53.7, respectively. We also completed the acquisitions of Luxx Lighting, Inc. and True Liberty Bags during the six months ended April 2, 2022 in exchange for cash payments of $202.8, as well as the issuance of 0.1 million Common Shares, a non-cash investing and financing activity, with a fair value of $21.0 based on the share price at the time of payment. In addition, we received proceeds from the sale of long-lived assets of $8.5 and received $4.5 associated with currency forward contracts during the six months ended April 2, 2022. During the six months ended April 3, 2021, we acquired a 50% equity interest in Bonnie Plants, LLC in exchange for a cash payment of $100.7, as well as non-cash investing activities that included forgiveness of our outstanding loan receivable with AFC and surrender of our options to increase our economic interest in the Bonnie Plants business. In addition, during the six months ended April 3, 2021, we acquired contract rights within our U.S. Consumer segment for a cash payment of $10.0 and we paid cash of $8.9 associated with currency forward contracts.

Financing Activities

Cash provided by financing activities totaled $1,171.3 for the six months ended April 2, 2022 as compared $871.1 for the six months ended April 3, 2021. This change was driven by an increase in net borrowings under our Fifth A&R Credit Facilities of $994.3 during the six months ended April 2, 2022, partially offset by the issuance of $500.0 aggregate principal amount of 4.00% Senior Notes during the six months ended April 3, 2021, an increase in repurchases of our Common Shares of $194.2 and an increase in dividends paid of $22.3 during the six months ended April 2, 2022. In addition, during the six months ended April 3, 2021, we made payments of $15.5 associated with the acquisition of the remaining outstanding shares of AeroGrow and paid financing and issuance fees of $7.0.

Cash and Cash Equivalents

Our cash and cash equivalents were held in cash depository accounts with major financial institutions around the world or invested in high-quality, short-term liquid investments having original maturities of three months or less. The cash and cash equivalents balances of $17.1, $14.4 and $244.1 as of April 2, 2022, April 3, 2021 and September 30, 2021, respectively, included $4.0, $6.2 and $15.9, respectively, held by controlled foreign corporations. As of April 2, 2022, we maintain our assertion of indefinite reinvestment of the earnings of all material foreign subsidiaries.

Borrowing Agreements

Credit Facilities

Our primary sources of liquidity are cash generated by operations and borrowings under our credit facilities, which are guaranteed by substantially all of Scotts Miracle-Gro's domestic subsidiaries. On July 5, 2018, we entered into a fifth amended and restated credit agreement (the "Fifth A&R Credit Agreement"), which provided us with five-year senior secured loan facilities in the aggregate principal amount of $2,300.0, comprised of a revolving credit facility of $1,500.0 and a term loan in the original principal amount of $800.0 (the "Fifth A&R Credit Facilities"). Under the Fifth A&R Credit Facilities, we had the ability to obtain letters of credit up to $75.0.

At April 2, 2022, we had letters of credit outstanding in the aggregate principal amount of $19.9 and had $345.2 of borrowing availability under the Fifth A&R Credit Agreement. The weighted average interest rates on average borrowings under the Fifth A&R Credit Agreement were 1.8% and 1.9% for the six months ended April 2, 2022 and April 3, 2021, respectively.

On April 8, 2022, we entered into a sixth amended and restated credit agreement (the "Sixth A&R Credit Agreement"), providing us with five-year senior secured loan facilities in the aggregate principal amount of $2,500.0, comprised of a revolving credit facility of $1,500.0 and a term loan in the original principal amount of $1,000.0 (the "Sixth A&R Credit Facilities"). The Sixth A&R Credit Agreement also provides us with the right to seek additional committed credit under the agreement in an aggregate amount of up to $500.0 plus an unlimited additional amount, subject to certain specified financial and other conditions. The Sixth A&R Credit Agreement replaces the Fifth A&R Credit Agreement and will terminate on April 8, 2027. The Sixth A&R Credit Facilities will be available for issuance of letters of credit up to $100.0. The terms of the Sixth A&R Credit Agreement include customary representations and warranties, affirmative and negative covenants, financial covenants, and events of default. The Fifth A&R Credit Agreement would have terminated on July 5, 2023, if it had not been amended and restated pursuant to the Sixth A&R Credit Agreement.

Under the terms of the Sixth A&R Credit Agreement, loans bear interest, at our election, at a rate per annum equal to either (i) the Alternate Base Rate plus the Applicable Spread (each, as defined in the Sixth A&R Credit Agreement) or (ii) the

Adjusted Term SOFR Rate for the Interest Period in effect for such borrowing plus the Applicable Spread (all as defined in the Sixth A&R Credit Agreement). Swingline Loans shall bear interest at the applicable Swingline Rate set forth in the Sixth A&R Credit Agreement. Further, interest rates for other select non-U.S. dollar borrowings, including borrowings denominated in euro, Pounds Sterling and Canadian Dollars, are based on separate interest rate indices, as set forth in the Sixth A&R Credit Agreement. The Sixth A&R Credit Agreement is secured by (i) a perfected first priority security interest in all of the accounts receivable, inventory and equipment of Scotts Miracle-Gro and certain of its domestic subsidiaries and (ii) the pledge of all of the capital stock of certain of Scotts Miracle-Gro's domestic subsidiaries and a portion of the capital stock of certain of its foreign subsidiaries. The collateral does not include any of our intellectual property.

The Sixth A&R Credit Agreement contains, among other obligations, an affirmative covenant regarding our leverage ratio determined as of the end of each of its fiscal quarters ending on and after April 2, 2022 calculated as average total indebtedness, divided by our earnings before interest, taxes, depreciation and amortization ("EBITDA"), as adjusted pursuant to the terms of the Sixth A&R Credit Agreement ("Adjusted EBITDA"). The maximum permitted leverage ratio is 4.50, which is unchanged from the Fifth A&R Credit Agreement. Our leverage ratio was 3.81 at April 2, 2022. The Sixth A&R Credit Agreement also contains an affirmative covenant regarding our interest coverage ratio determined as of the end of each of our fiscal quarters ending on and after April 2, 2022. The interest coverage ratio is calculated as Adjusted EBITDA divided by interest expense, as described in the Sixth A&R Credit Agreement, and excludes costs related to refinancings. The minimum required interest coverage ratio is 3.00, which is unchanged from the Fifth A&R Credit Agreement. Our interest coverage ratio was 7.81 for the twelve months ended April 2, 2022. As of April 2, 2022, we were in compliance with these financial covenants.

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

Senior Notes

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

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

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

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

Receivables Facility

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

(Dollars in millions, except per share data)

We account for the sale of receivables under the Receivables Facility as short-term debt and continue to carry the receivables on our Condensed Consolidated Balance Sheets, primarily as a result of our requirement to repurchase receivables sold. As of April 2, 2022 and April 3, 2021, there were $400.0 and $160.0, respectively, in borrowings on receivables pledged as collateral under the Receivables Facility, and the carrying value of the receivables pledged as collateral was $444.5 and $177.8, respectively.

Interest Rate Swap Agreements

We enter into interest rate swap agreements with major financial institutions that effectively convert a portion of our variable rate debt to a fixed rate. Interest payments made between the effective date and expiration date are hedged by the swap agreements. Swap agreements that were hedging interest payments as of April 2, 2022, April 3, 2021 and September 30, 2021 had a maximum total U.S. dollar equivalent notional amount of $800.0, $900.0 and $600.0, respectively. The notional amount, effective date, expiration date and rate of each of the swap agreements outstanding at April 2, 2022 are shown in the table below:

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

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

Availability and Use of Cash

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

Financial Disclosures About Guarantors and Issuers of Guaranteed Securities

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

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

(Dollars in millions, except per share data)

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

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

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

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

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

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

	April 2, 2022	September 30, 2021
Current assets	$ 2,953.8	$ 1,834.8
Noncurrent assets [(a)]	2,699.3	2,484.5
Current liabilities	1,354.0	1,038.1
Noncurrent liabilities	3,662.9	2,611.8

(a) Includes amounts due from Non-Guarantor subsidiaries of $69.5 and $39.8, respectively.

	Six Months Ended April 2, 2022	Year Ended September 30, 2021
Net sales	$ 2,085.7	$ 4,507.6
Gross profit	681.5	1,380.6
Income from continuing operations [(a)]	230.1	510.9
Net income	230.1	510.8
Net income attributable to controlling interest	230.1	509.9

(a) Includes intercompany income from Non-Guarantor subsidiaries of $6.9 and $26.3, respectively.

Judicial and Administrative Proceedings

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

Contractual Obligations

Other than as disclosed in this Quarterly Report on Form 10-Q, there have been no material changes outside of the ordinary course of business in our outstanding contractual obligations since the end of fiscal 2021 and through April 2, 2022.

REGULATORY MATTERS

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

With the participation of the principal executive officer and principal financial officer of the Registrant, the Registrant’s management has evaluated the effectiveness of the Registrant’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, the Registrant’s principal executive officer and principal financial officer have concluded that the Registrant's disclosure controls and procedures were effective as of April 2, 2022.

Changes in Internal Control Over Financial Reporting

In addition, there were no changes in the Registrant's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the Registrant's fiscal quarter ended April 2, 2022 that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

ITEM 1A. RISK FACTORS

Reference is made to the Risk Factors set forth in Part I, Item 1A of our Annual Report on Form 10-K for the year ended September 30, 2021 filed on November 23, 2021. The information presented below updates the applicable risk factor appearing in our 2021 Annual Report on Form 10-K.

Our goodwill may be impaired, which would require us to record a significant charge to earnings in accordance with generally accepted accounting principles.

U.S. GAAP requires us to test our goodwill for impairment on an annual basis, or more frequently if circumstances indicate potential impairment. Our Hawthorne segment has been negatively impacted by both an oversupply of cannabis, which has slowed down indoor and outdoor cultivation, and higher transportation and warehousing costs. As of April 2, 2022, we concluded that no goodwill impairment exists for our Hawthorne segment. This assessment considered the impact of temporary lower sales volumes and increased costs being experienced by our Hawthorne segment during fiscal 2022 as well as changes to other assumptions used in the fiscal 2021 annual impairment assessment. This testing involves estimates and significant judgments by management. While we consider our assumptions to be reasonable and appropriate and informed by temporary downturns in Hawthorne results experienced during 2018 and 2019, they are complex and subjective. Adverse changes in key assumptions in the future may result in a decline in the fair value of our Hawthorne segment below its carrying value and an impairment of its goodwill. If we determine that an impairment has occurred, it may be necessary to record impairment charges in the future, which could have a material adverse effect on our results of operations in the period in which the impairment charge is recorded.

Cautionary Note Regarding Forward-Looking Statements

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

Forward-looking statements contained in this Quarterly Report on Form 10-Q are predictions only and actual results could differ materially from management's expectations due to a variety of factors, including those described in "ITEM 1A. RISK

FACTORS” in the 2021 Annual Report. All forward-looking statements attributable to us or persons working on our behalf are expressly qualified in their entirety by such risk factors.

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

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

The payment of future dividends, if any, on the Common Shares will be determined by the Board of Directors in light of conditions then existing, including the Company’s earnings, financial condition and capital requirements, restrictions in financing agreements, business conditions and other factors. The Sixth A&R Credit Agreement allows the Company to make unlimited restricted payments (as defined in the Sixth A&R Credit Agreement), including dividend payments on, and repurchases of, the Company’s Common Shares, as long as the leverage ratio resulting from the making of such restricted payments is 4.00 or less. Otherwise, the Company may make further restricted payments in an aggregate amount for each fiscal year not to exceed $225.0 million. The Company’s leverage ratio was 3.81 at April 2, 2022.

The following table shows the purchases of Common Shares made by or on behalf of Scotts Miracle-Gro or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) of Scotts Miracle-Gro for each of the three fiscal months in the quarter ended April 2, 2022:

Period	Total Number of Common Shares Purchased(1)	Average Price Paid per Common Share(2)	Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs(3)	Approximate Dollar Value of Common Shares That May Yet be Purchased Under the Plans or Programs(3)
January 2, 2022 through January 29, 2022	97,009	$ 157.71	96,366	$ 496,721,924
January 30, 2022 through February 26, 2022	109,671	$ 138.62	109,671	$ 481,519,753
February 27, 2022 through April 2, 2022	159,710	$ 126.34	155,140	$ 461,912,353
Total	366,390	$ 138.32	361,177	

(1) All of the Common Shares purchased during the second quarter of fiscal 2022 were purchased in open market transactions. The total number of Common Shares purchased during the quarter includes 5,213 Common Shares purchased by the trustee of the rabbi trust established by the Company as permitted pursuant to the terms of The Scotts Company LLC Executive Retirement Plan (the “ERP”).

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

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

Not Applicable.

ITEM 6. EXHIBITS

See Index to Exhibits at page 44 for a list of the exhibits included herewith.

THE SCOTTS MIRACLE-GRO COMPANY
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED APRIL 2, 2022

INDEX TO EXHIBITS

		Incorporated by Reference			
Exhibit No.	Description	Form	Exhibit	Filing Date	Filed Herewith
10.1	The Scotts Miracle-Gro Company Long-Term Incentive Plan (Effective as of January 24, 2022)	8-K	10.1	January 27, 2022	
10.2	Consulting Agreement, dated February 8, 2022, between The Scotts Company LLC and Hanft Ideas LLC				X
10.3	Form of Standard Performance Unit Award Agreement which may be made under The Scotts Miracle-Gro Company Long-Term Incentive Plan	10-Q	10.1	February 9, 2022	
10.4	Form of Standard Restricted Stock Unit Award Agreement which may be made under The Scotts Miracle-Gro Company Long-Term Incentive Plan	10-Q	10.2	February 9, 2022	
10.5	Sixth Amended and Restated Credit Agreement, dated as of April 8, 2022, by and among The Scotts Miracle-Gro Company, as a Borrower; the Subsidiary Borrowers (as defined therein); JPMorgan Chase Bank, N.A., as Administrative Agent; Wells Fargo Bank, National Association, Mizuho Bank, Ltd. and Bank of America, N.A., as Co- Syndication Agents; CoBank, ACB, Fifth Third Bank, National Association, Coöperatieve Rabobank U.A., New York Branch, Sumitomo Mitsui Banking Corporation, TD Bank N.A. and Truist Bank, as Co-Documentation Agents; and the several other banks and other financial institutions from time to time parties thereto	8-K	10.1	April 14, 2022	
10.6	Sixth Amended and Restated Guarantee and Collateral Agreement, dated as of April 8, 2022, made by The Scotts Miracle-Gro Company, each domestic Subsidiary Borrower under the Sixth Amended and Restated Credit Agreement, and certain of its and their domestic subsidiaries, in favor of JPMorgan Chase Bank, N.A., as Administrative Agent	8-K	10.2	April 14, 2022	
21	Subsidiaries of The Scotts Miracle-Gro Company				X
22	Guarantor Subsidiaries				X
31.1	Rule 13a-14(a)/15d-14(a) Certifications (Principal Executive Officer)				X
31.2	Rule 13a-14(a)/15d-14(a) Certifications (Principal Financial Officer)				X
32	Section 1350 Certifications (Principal Executive Officer and Principal Financial Officer)				X
101.SCH	XBRL Taxonomy Extension Schema				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase				X
101.DEF	XBRL Taxonomy Extension Definition Linkbase				X
101.LAB	XBRL Taxonomy Extension Label Linkbase				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase				X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				X

SIGNATURES

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

THE SCOTTS MIRACLE-GRO COMPANY

Date: May 11, 2022

/s/ CORY J. MILLER

Printed Name: Cory J. Miller

Title: Executive Vice President and Chief Financial Officer

February 8, 2022

Mr. Adam Hanft
Chief Executive Officer
Hanft Ideas LLC
50 Astor Lane
Sands Point, New York 11050

Dear Adam:

This letter sets forth our agreement (the "Agreement") regarding a consulting engagement between Hanft Ideas and The Scotts Company LLC ("Scotts" or the "Company"). For the purposes of this Agreement, the term "Contractor" means Hanft Ideas, its primary designee/employee Adam Hanft, and any other designee or employee of Hanft Ideas. These consulting services are separate and distinct from the services Mr. Hanft is and will be providing as a member of the Scotts Miracle-Gro Company's Board of Directors (the "Board") or any Board Committees or other Committees on which Mr. Hanft may serve.

I. Scope of Services

Subject to the approval of the Board, Contractor agrees to provide the consulting services to Scotts described below. It is anticipated that Contractor will generally undertake the following work and activities pursuant to this Agreement:

1. Provide enterprise-wide as well as division- and brand-specific support to the Company in areas that include:

   - The Company's activities and communication with regard to ESG initiatives, as well as climate change;
   - The Company's investor relations narrative and communications;
   - The Company's merger and acquisition and growth strategies, including consulting with the company's internal venture group;
   - The Company's strategy and practices as relate to the metaverse and role of NFTs; and
   - Working with the Company's external partners and resources.

2. In addition, the Contractor will:

   - Provide insights and expertise to help inspire and develop a culture of creativity, with emphasis on: Shaping and assisting with the development of the overall marketing, creative and content strategies in conjunction with the CEO, COO,CMO and SBU leaders; inspiring innovation; building Scotts' brands and consumer loyalty; and mentoring and coaching key marketing and business executives as requested;
   - Consult with and provide recommendations to the CEO, COO and CMO on an as-needed basis on issues of marketing strategy, including new product development; and
   - Participate in marketing meetings to support the successful execution of the anticipated marketing initiatives of the Company, including on-going support of core brands, the Company's direct-to-consumer business, live goods, the efforts of Hawthorne Gardening Company, the Black Ops project, and any other special projects as assigned.

Contractor and the Company may agree to modifications of these work activities from time to time as necessary to achieve the purpose of this Agreement. When such modifications are necessary, Contractor and the Company will execute an amendment to this agreement reflecting the agreed upon modifications, which may include, by way of non-limiting examples, modifications regarding the work activities, the hours of consulting services provided, and/or the consulting fees and expenses paid to Contractor. Company expects Contractor to provide a minimum of 1,000 hours (50% of FTE) of consulting services during the term of this Agreement (outside services in his capacity as a member of the Board).

In providing consulting services to Scotts under this Agreement, Contractor will be an independent contractor and will not be an employee, agent, partner, or joint venturer of Scotts or of any of Scotts' affiliates, or of any of its or their respective officers, directors or employees. Except as provided as a member of the Board, if applicable, and except as otherwise expressly stated herein, Mr. Hanft and any other designee or employee of Contractor will not participate in or receive benefits under any of Scotts' employee fringe benefit programs or receive any other fringe benefits from Scotts, including, without limitation, the health, disability, life insurance, retirement, equity awards, pension and profit sharing benefits on account of the consulting services provided to Scotts under this Agreement.

II. Length of Agreement

The term of this Agreement will commence on February 1, 2022 and will end on January 31, 2023 (the "Termination Date"), unless terminated earlier under Section V.1. The term of this Agreement may be extended only by written agreement, signed by both parties and setting forth expressly the terms related to the consulting fee.

III. Authority

In providing consulting services to Scotts under this Agreement, Contractor will have no authority at any time to assume or create any obligation or liability, express or implied, on Scotts' behalf or in Scotts' name or to bind Scotts in any manner whatsoever.

IV. Consulting Fees and Expenses

1. In exchange for providing the consulting services hereunder, during the term of this Agreement, Scotts shall pay Contractor a consulting fee consisting of a combination of cash and restricted stock units, as follows:

   a. A monthly cash payment of $75,000 for each month during the term irrespective of whether Scotts requests that Contractor provides consulting services hereunder. Contractor shall be required to submit monthly invoices including days/hours worked with brief descriptions of the services provided. Scotts shall pay Contractor within 30 days of its receipt of Contractor's invoices.

   b. A one-time grant of restricted stock units ("RSUs") with a grant date of February 4, 2022 (the "Grant Date") and a Grant Date value of $400,000. The RSUs' shall be issued in the name of Adam Hanft individually. The number of RSUs will be determined by dividing the intended Grant Date value by the closing price of a share on the Grant Date, rounded up to the next whole share. Each dividend equivalent represents the right to receive additional RSUs in respect of the dividends that are declared and paid during the period beginning on the Grant Date and ending on the applicable Settlement Date. The RSUs and any related dividend equivalents will vest on January 31, 2023, provided that this Agreement has not otherwise been terminated or notified for termination on that date for any reason listed in Section V.1(b)-(f) of this Agreement. The vested RSUs and related dividend equivalents, if any, will be settled as soon as administratively practical following vesting.

i. With the exception of the vesting provisions described above, the award of RSUs and related dividend equivalents shall be subject to the terms of The Scotts Miracle-Gro Company Long Term Incentive Plan, effective as of January 24, 2022 (the "Plan"), and the standard terms and conditions of the applicable award agreement. In the event of any conflicts or ambiguity between this Agreement and the terms of the Plan and/or the award agreement, the Plan and/or award agreement will be controlling.

2. Scotts also will pay or reimburse Contractor for all reasonable expenses incurred by Contractor in connection with providing consulting services to Scotts as contemplated herein, including, without limitation, all reasonable (a) telephone and fax expenses, and (b) travel expenses, including, without limitation, transportation, food and lodging, incurred in connection with attending Scotts approved meetings pursuant to this consulting agreement. Contractor must incur and account for expenses in accordance with the policies and procedures established by Scotts as a precondition to Scotts' obligation to pay or reimburse Contractor for such expenses pursuant to the terms of the preceding sentence. This includes describing expenses in reasonable detail on invoices. Scotts will provide private transportation when practical and economically reasonable.

3. Contractor agrees to provide, at its own expense, all equipment necessary to provide the consulting services contemplated herein and to be responsible for its own overhead costs and expenses except for those expenses that Scotts has expressly agreed to pay pursuant to the terms of the preceding paragraph.

V. Termination

1. Scotts shall be permitted to terminate this Agreement and its consulting relationship with Contractor under any of the following circumstances: (a) upon Scotts' 60 days advance written notice to Contractor, (b) Mr. Hanft's death or disability, or Contractor ceasing operations, (c) Contractor's material breach of its obligations to Scotts if such breach is not cured within 30 days after receiving notice thereof, (d) Contractor's and/or Mr. Hanft's indictment for a felony or serious misdemeanor, (e) Contractor's and/or Mr. Hanft's commission of an act of fraud or bad faith toward Scotts, or (f) Contractor's and/or Mr. Hanft's misappropriation of any funds, property or rights of Scotts. Contractor shall be permitted to terminate this Agreement and its consulting relationship with Scotts upon Contractor's 30 day advance written notice to Scotts.

2. In the event that Scotts terminates this Agreement for any reason other than those listed in Section V.1(b)-(f), Scotts will pay Contractor the total value of this Agreement, including RSUs, less any amounts already paid pursuant to this Agreement, as well as any expenses Contractor has incurred pursuant to the terms of this Agreement prior to the date of such termination.

3. In the event that Contractor terminates this Agreement and its consulting relationship with Scotts or Scotts terminates this Agreement and its consulting relationship with Contractor for any reason listed in Section V.1(b)-(f) of this Agreement, such termination shall not affect Scotts' obligation to pay Contractor for the cash fees Contractor has earned prior to the date of such termination or reimburse Contractor for the expenses Contractor has incurred pursuant to the terms of this Agreement prior to the date of such termination.

VI. Confidential Information and Insider Trading

1. In providing the consulting services contemplated herein, Contractor will receive Confidential Information about Scotts and its affiliates. Maintaining the confidential nature of this information is very important to Scotts. As used in this Agreement, "Confidential Information" is any information about Scotts, or its affiliates, to which Contractor gains access in connection with its provision of consulting or other services to Scotts, including Mr. Hanft's service as a member of the Board. Confidential Information does not include information Contractor can show (a) was already in Contractor's possession prior to the time Contractor received such information as a consultant to Scotts, or (b) is publicly available or otherwise in the public domain by means other than Contractor's violation of the terms of this Agreement.

2. Contractor agrees to not at any time hereafter, without the prior written consent of Scotts, disclose, directly or indirectly, any Confidential Information or use any Confidential Information for any purpose other than providing consulting services to Scotts as contemplated herein.

3. In an effort to avoid the appearance of impropriety, you agree to follow all laws and regulations concerning insider trading, as well as the Scotts Insider Trading policy (attached), during the term of this Agreement. Further, you agree that you will not engage in any transaction of Scotts securities during the term of this Agreement except while the Scotts trading window is open and only after having obtained pre-clearance of the transaction per the procedure described in the Scotts Insider Trading policy. Following the termination of this Agreement, you agree that you remain subject to the Scotts Insider Trading policy if you are still serving as a member of the Board; if not, you agree that you remain subject to the Scotts Insider Trading policy until the next scheduled open trading window period and will not engage in any transaction of Scotts securities until then, and then only if you are not in possession of material, non-public information.

4. Contractor agrees to promptly return to Scotts, upon Scotts' request, all electronic or tangible documents that contain any Confidential Information and to retain no copies.

5. These confidentiality obligations are in addition to, and not in place of, any and all confidentiality obligations arising as a result of Mr. Hanft's membership on the Board and applicable Board Committees.

VII. Conflicts of Interest

While Contractor is not restricted from having other clients during the term of this Agreement, it is important to the Company that Contractor avoids actual or potential conflicts of interest. As such, Contractor agrees that Contractor has no business, professional, personal or other interest, including but not limited to representation of other clients, that conflicts in any manner or degree with the performance of Contractor's obligations under this Agreement. If any such actual or potential conflict of interest arises under this Agreement, Contractor shall immediately inform the Company in writing of such conflict.

If, in the reasonable judgment of the Company, such conflict poses a material conflict to and with the performance of Contractor's obligations under this Agreement, then the Company may terminate this Agreement in accordance with Section V above.

VIII. Cooperation with Litigation

Contractor agrees to cooperate fully with Scotts in its defense of any lawsuit filed over matters that occurred while Contractor was or is a consultant to Scotts. Contractor agrees to provide full and accurate information with respect to the same. Contractor further agrees not to assist any party in maintaining any lawsuit against Scotts or any of its employees, officers or agents, and that Contractor will not provide any information to anyone concerning Scotts or its employees, directors, officers or agents, unless compelled to do so by valid subpoena or other court order, and in such case only after first notifying Scotts sufficiently in advance of such subpoena or court order to reasonably allow Scotts an opportunity to object to same. In the event that Contractor's cooperation is necessary under this paragraph, Contractor and Scotts shall agree on a reasonable rate for Contractor's time in providing that cooperation.

IX. Other

1. Contractor understands and agrees that this Agreement does not obligate Scotts to utilize Contractor's consulting services, but it is intended to set forth the terms pursuant to which Scotts may utilize Contractor's consulting services in Scotts' discretion.

2. Contractor is not permitted to assign, sell or otherwise transfer any of its rights or obligations hereunder.

3. Contractor acknowledges that neither Scotts nor any representatives of Scotts have made any representations or promises about the tax implications of this Agreement. Nothing in this Agreement may be construed as tax advice from Scotts to Contractor. Contractor has been encouraged to discuss the tax implications of this Agreement with his own tax and financial counsel.

THE SCOTTS COMPANY LLC

By: /S/ DENISE STUMP
Denise Stump
EVP, Global Human Resources & Chief Ethics Officer

ACKNOWLEDGED AND AGREED:

/S/ ADAM HANFT
Adam Hanft, Chief Executive Officer
Hanft Ideas LLC

Exhibit 21

DIRECT AND INDIRECT SUBSIDIARIES OF
THE SCOTTS MIRACLE-GRO COMPANY

Directly owned subsidiaries, as of April 2, 2022, are located at the left margin, each subsidiary tier thereunder is indented. Subsidiaries are listed under the names of their respective parent entities. Unless otherwise noted, the subsidiaries are wholly-owned.

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

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

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

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

Exhibit 22

LIST OF GUARANTOR SUBSIDIARIES

The following subsidiaries of The Scotts Miracle-Gro Company (the "Company") were, as of April 2, 2022, guarantors of the Company's 5.250% Senior Notes due 2026, 4.500% Senior Notes due 2029, 4.000% Senior Notes due 2031 and 4.375% Senior Notes due 2032:

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

Exhibit 31.1

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

I, James Hagedorn, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Scotts Miracle-Gro Company for the fiscal quarter ended April 2, 2022;

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

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

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

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

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

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

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

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

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

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

Date: May 11, 2022	By:	/s/ JAMES HAGEDORN
		Printed Name: James Hagedorn
		Title: Chief Executive Officer and Chairman of the Board

Exhibit 31.2

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

I, Cory J. Miller, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Scotts Miracle-Gro Company for the fiscal quarter ended April 2, 2022;

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

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

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

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

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

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

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

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

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

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

Date: May 11, 2022	By:	/s/ CORY J. MILLER
		Printed Name: Cory J. Miller
		Title: Executive Vice President and Chief Financial Officer

Exhibit 32

SECTION 1350 CERTIFICATIONS*

In connection with the Quarterly Report on Form 10-Q of The Scotts Miracle-Gro Company (the “Company”) for the fiscal quarter ended April 2, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned James Hagedorn, Chief Executive Officer and Chairman of the Board of the Company, and Cory J. Miller, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of their knowledge:

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

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

JAMES HAGEDORN	/s/ CORY J. MILLER
nted Name: James Hagedorn	Printed Name: Cory J. Miller
le: Chief Executive Officer and Chairman of the Board	Title: Executive Vice President and Chief Financial Officer
ıy 11, 2022	May 11, 2022

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