ScottsMiracle-Gro

Q1 2024
Quarterly Earnings Report

First quarter ended December 30, 2023

Supplemental Financial Presentation

February 7, 2024

Please view this presentation in conjunction with our Q1 2024 earnings release, which is filed on Form 8-K, our related pre-recorded remarks and additional information regarding our non-GAAP financial measures, including GAAP to non-GAAP reconciliations, available on our website at https://investor.scotts.com.

Safe Harbor Disclosure

Statements contained in this presentation, which address activities, events and developments that the Company expects or anticipates will or may occur in the future, including, but not limited to, information regarding the future economic performance and financial condition of the Company, the plans and objectives of the Company's management, and the Company's assumptions regarding such performance and plans are "forward-looking statements" within the meaning of the U.S. federal securities laws that are subject to risks and uncertainties.

Additional detailed information concerning a number of the important factors that could cause actual results to differ materially from the forward-looking information contained in this presentation is readily available in the Company's publicly filed annual, quarterly and other reports. The Company disclaims any obligation to update developments of these factors or to announce publicly any revision to any of the forward-looking statements contained in this presentation, or to make updates to reflect future events or developments.

This presentation contains certain non-GAAP financial measures. For a reconciliation of GAAP to non-GAAP financial measures, please see the Appendix of this presentation.

Today’s speakers

Jim Hagedorn
Chairman,
Chief Executive Officer
and President

Matt Garth
EVP, Chief Financial Officer
and Chief Administrative Officer

ScottsMiracle-Gro

Q&A

A Q&A session will follow the webcast at approximately 9:30 a.m. ET.

Jim Hagedorn
Chairman,
CEO & President

Nate Baxter
EVP & COO

Matt Garth
EVP, CFO & CAO

Chris Hagedorn
President, Hawthorne Division

Review the press release for registration details.

- To listen to the Q&A, please remain on the webcast link following our video.
- To ask a question, please pre-register via the audio link for call-in details and a unique PIN.

Financial Update

PRESENTED BY

Matt Garth

EVP, Chief Financial Officer and Chief Administrative Officer

1Q 2024

Revenue Performance by Operating Segment

U.S. Consumer

In line with company expectations

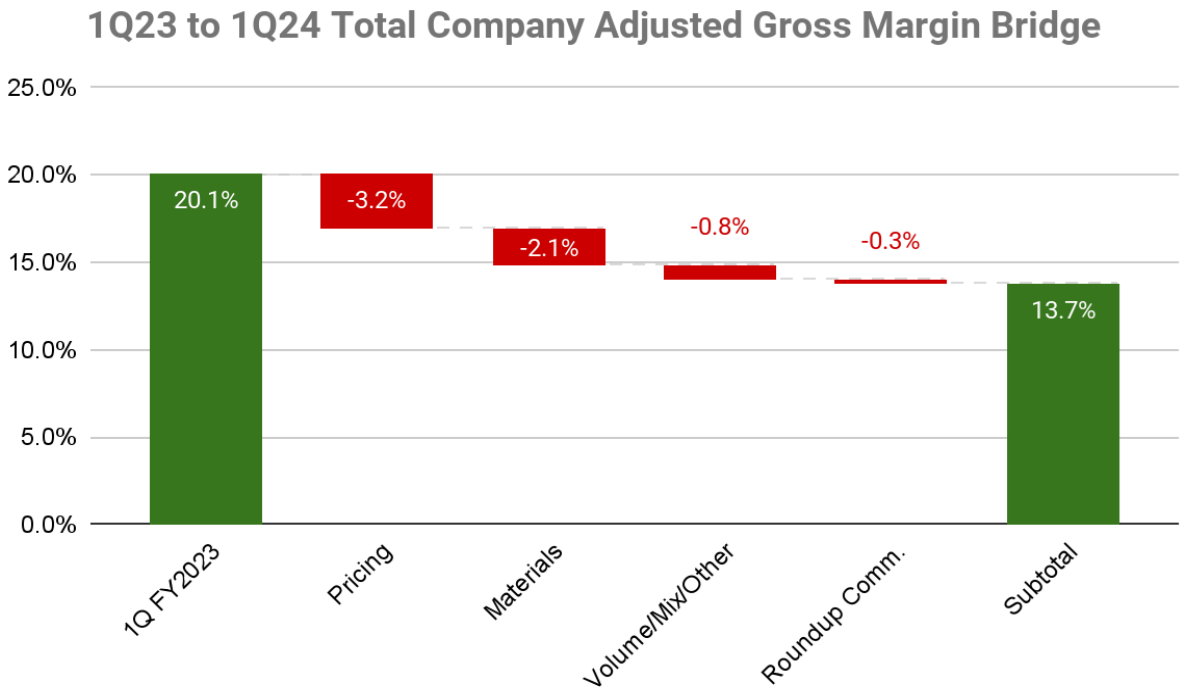
- 17% lower vs. Q1 2023
- Quarterly shipment phasing returning to pre-pandemic norms
- Q1 Strength reflects extended Fall season in Fertilizers and Soils
- Q1 2024 POS +8% y/y in units and dollars
- Retailer inventories declined low double-digits

Hawthorne

Brand restructuring driving lower net sales

- 39% lower vs. Q1 2023
- Industry-related headwinds continue
- Executing Signature Brand strategy to drive fewer, more profitable brands
- 77% Signature Brands vs. 65% of total last year

Adjusted Gross Margin Rate to improve 250 bps for the full year



Full Year Expectations

- +250 bps or more vs. FY23
- Favorable mix more than offsetting low single digit pricing decreases
- Project Springboard distribution and other cost savings benefits
- Avoid prior year one-time excess inventory write-off
- Material cost and fixed cost leverage benefits to be realized late FY24 and FY25

Non-GAAP Measures.

1Q 2024

Total Company Results in line with Management Expectations

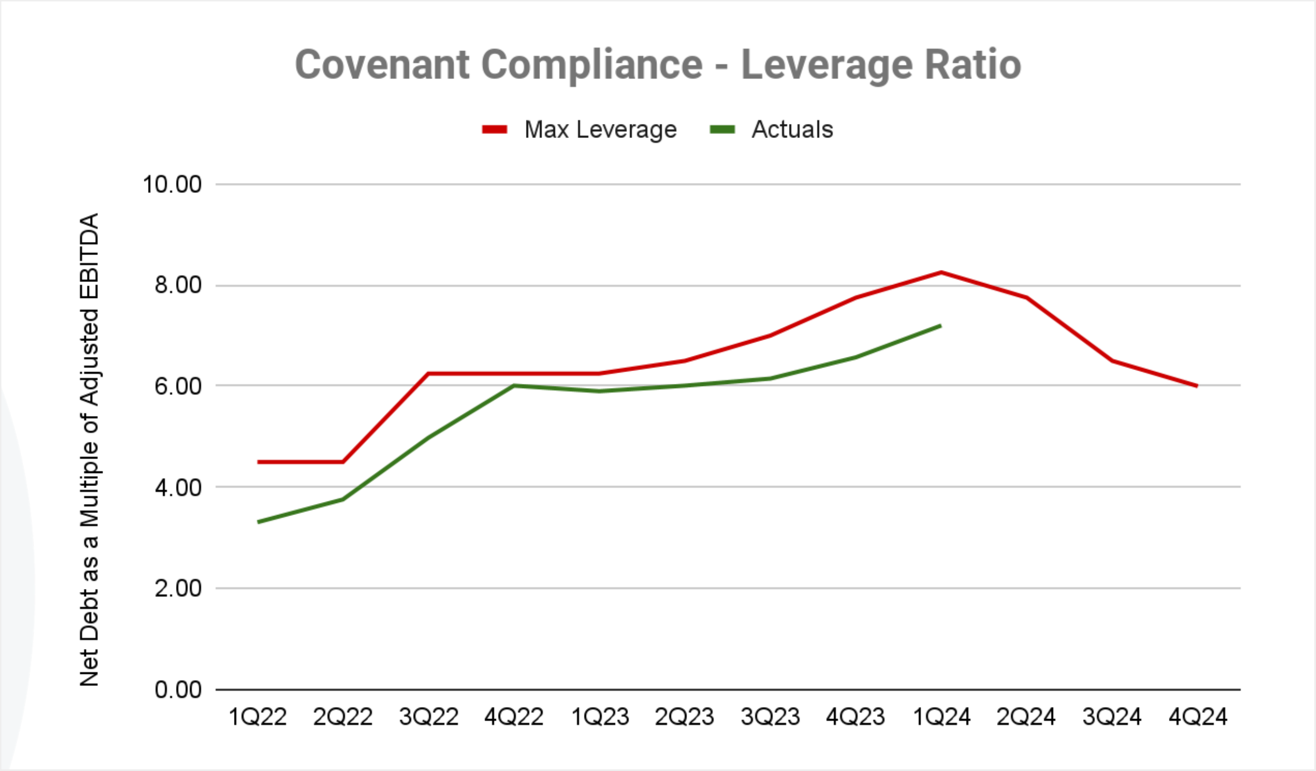
Total Company non-GAAP Results vs. Q1 2023

Net sales	$410 million	-22%
Adjusted Gross Margin Rate	13.7%	-640 bps
SG&A	$115 million	-11%
Adjusted Equity Income/(Loss)	$(12) million	vs. $(11)M
Interest Expense	$43 million	Flat
Adjusted Effective Tax Rate	29.5%	+4%
Adjusted EPS	$(1.45)	vs. $(1.02)
Adjusted EBITDA	$(26) million	vs. $21M
Leverage	7.2x	vs. 8.25x maximum

Non-GAAP Measures. Comparisons are to Q1 2023 unless otherwise indicated.

FY 2024

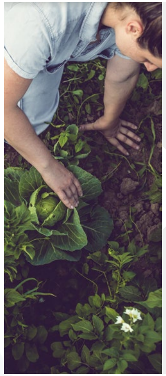
Peak Leverage expected in 2Q 2024 within Covenant Maximum



Non-GAAP Measures.

Financial Objectives FY 2024

Building Financial Flexibility in Fiscal 2024



$575M
Adjusted EBITDA

$560M Free Cash Flow

Balance of $1B over 2 yrs

Reduce Inventories $275M

Reduce Debt $350M

+250 bps
Adjusted Gross Margin Rate

Volume Growth

SG&A <16% of Sales

Non-GAAP Measures.

Q&A

Jim Hagedorn
Chairman,
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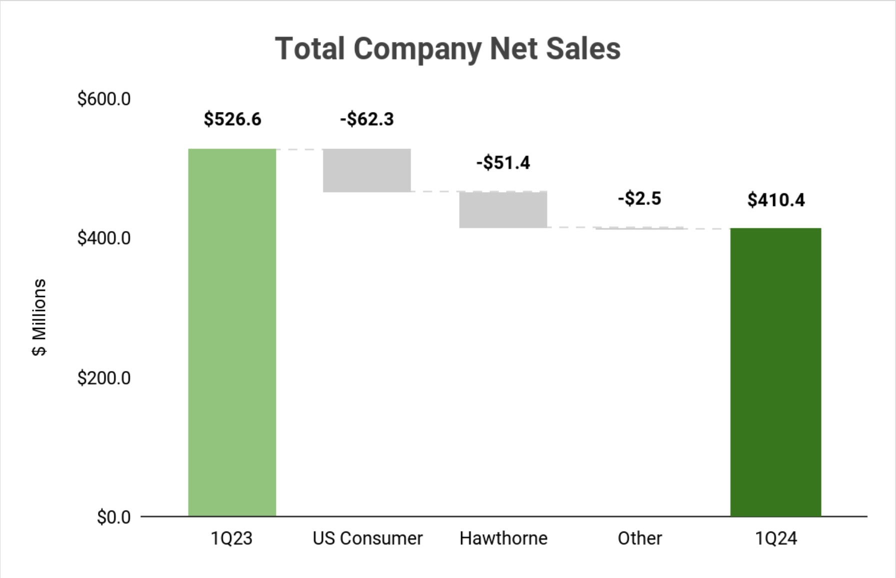
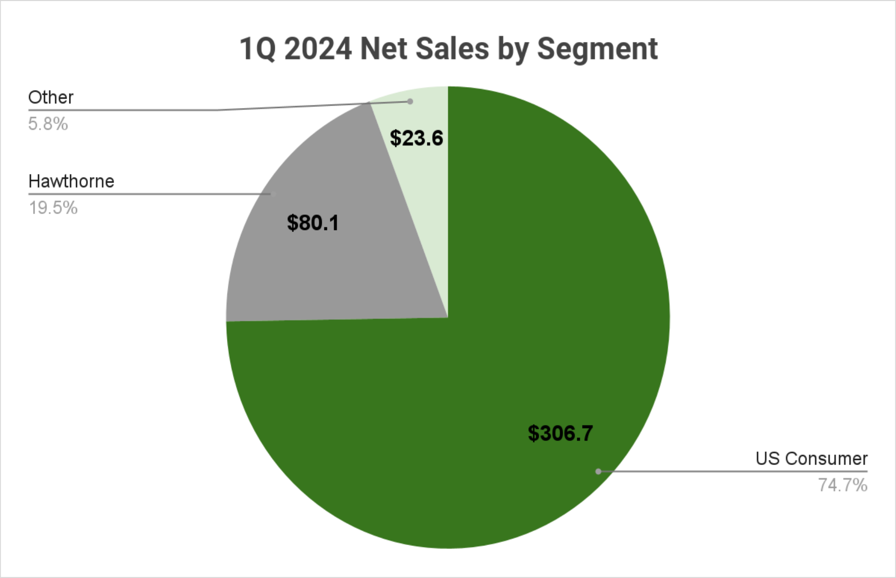
Appendix

First quarter ended December 30, 2023

1Q 2024

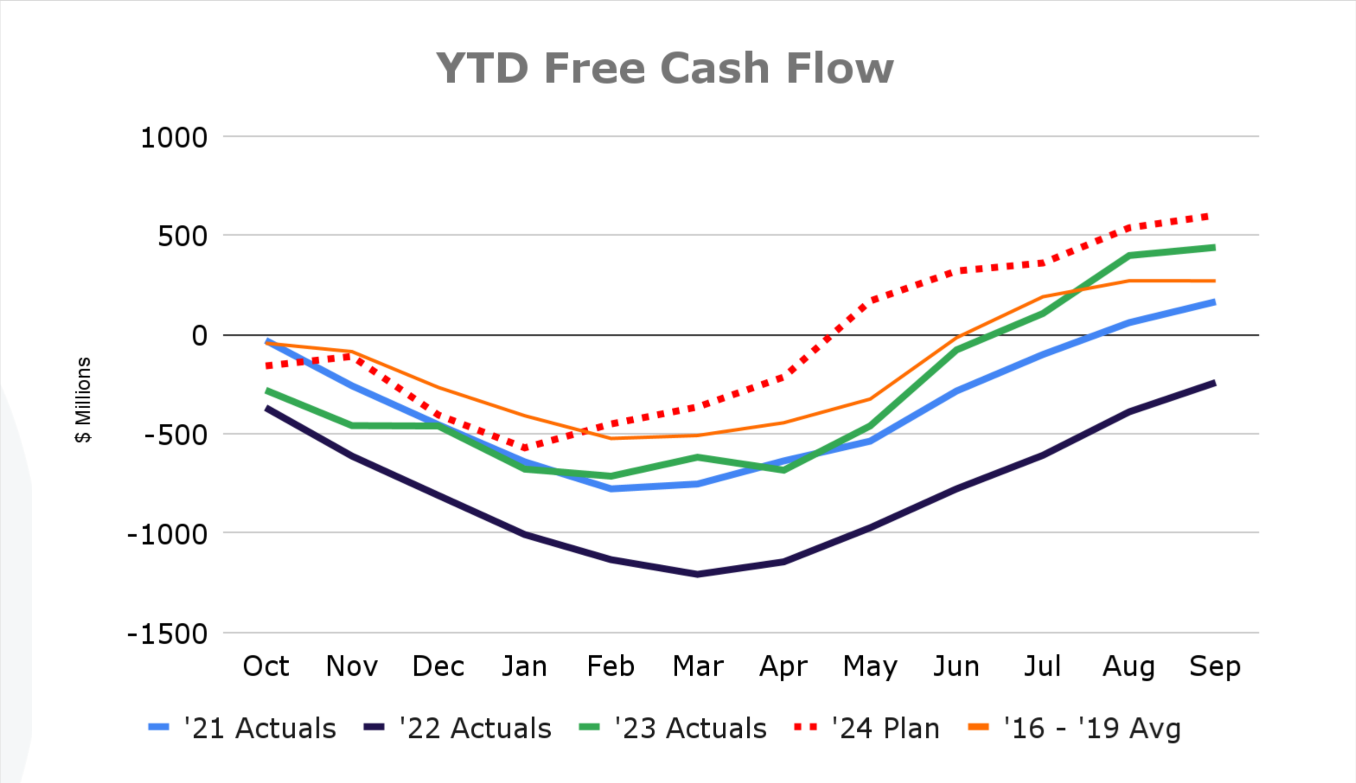
Total Company Net Sales





FY 2024

Company on track to exceed $1 Billion in FCF over 2 years



Non-GAAP Measures.

FY 2024

Our Fiscal 2024 Guidance

Net Sales	● US Consumer: High Single-Digit increase ● Hawthorne: Lower on Brand Restructuring
Adjusted Gross Margin Rate	● 250 bps of improvement
SG&A	● 15% - 16% of net sales ● Media investments +12% y/y
Adjusted Operating Margin Rate	● 10.5% - 11.0% of net sales
Interest Expense	● Flat ● $20 million A/R discount cost in other income/expense
Adjusted Effective Tax Rate	● 29% - 30%
Adjusted EBITDA	● $575 million ● Depreciation, Amortization, and Share-Based Compensation Adjustments flat to prior year in total
Diluted Share Count	● Increase of 1.5 million shares
Free Cash Flow	● $560 million (balance of $1B over 2 years)

Non-GAAP Measures

Reconciliation of Non-GAAP Financial Measures

Use of Non-GAAP Measures

To supplement the financial measures prepared in accordance with U.S. generally accepted accounting principles (“GAAP”), the Company uses non-GAAP financial measures. The reconciliations of these non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are shown in the tables below. These non-GAAP financial measures should not be considered in isolation from, or as a substitute for or superior to, financial measures reported in accordance with GAAP. Moreover, these non-GAAP financial measures have limitations in that they do not reflect all the items associated with the operations of the business as determined in accordance with GAAP. Other companies may calculate similarly titled non-GAAP financial measures differently than the Company, limiting the usefulness of those measures for comparative purposes.

In addition to GAAP measures, management uses these non-GAAP financial measures to evaluate the Company’s performance, engage in financial and operational planning, determine incentive compensation and monitor compliance with the financial covenants contained in the Company’s borrowing agreements because it believes that these non-GAAP financial measures provide additional perspective on and, in some circumstances are more closely correlated to, the performance of the Company’s underlying, ongoing business.

Management believes that these non-GAAP financial measures are useful to investors in their assessment of operating performance and the valuation of the Company. In addition, these non-GAAP financial measures address questions routinely received from analysts and investors and, in order to ensure that all investors have access to the same data, management has determined that it is appropriate to make this data available to all investors. Non-GAAP financial measures exclude the impact of certain items and provide supplemental information regarding operating performance. By disclosing these non-GAAP financial measures, management intends to provide investors with a supplemental comparison of operating results and trends for the periods presented. Management believes these non-GAAP financial measures are also useful to investors as such measures allow investors to evaluate performance using the same metrics that management uses to evaluate past performance and prospects for future performance. Management views free cash flow as an important measure because it is one factor used in determining the amount of cash available for dividends and discretionary investment.

Reconciliation of Non-GAAP Financial Measures

Definitions of Non-GAAP Financial Measures

The reconciliations of non-GAAP disclosure items include the following financial measures that are not calculated in accordance with GAAP:

- Adjusted gross margin: Gross margin excluding impairment, restructuring and other charges / recoveries.
- Adjusted equity in income (loss) of unconsolidated affiliates: Equity in income (loss) of unconsolidated affiliates excluding impairment charges.
- Adjusted income tax expense (benefit): Income tax expense (benefit) excluding the tax effect of impairment, restructuring and other charges / recoveries, costs related to refinancing and certain other non-operating income / expense items.
- Adjusted diluted net income (loss) per common share: Diluted net income (loss) per common share excluding impairment, restructuring and other charges / recoveries, costs related to refinancing and certain other non-operating income / expense items, each net of tax.
- Adjusted EBITDA: Net income (loss) before interest, taxes, depreciation and amortization as well as certain other items such as the impact of the cumulative effect of changes in accounting, costs associated with debt refinancing and other non-recurring or non-cash items affecting net income (loss). A form of Adjusted EBITDA is used in agreements governing the Company's outstanding indebtedness for debt covenant compliance purposes. Adjusted EBITDA as used in those agreements includes additional adjustments to the Adjusted EBITDA presented in the reconciliations above which may decrease or increase Adjusted EBITDA for purposes of the Company's financial covenants.
- Free cash flow: Net cash provided by (used in) operating activities reduced by investments in property, plant and equipment.

Forward Looking Non-GAAP Measures

In this presentation, the Company presents certain forward-looking non-GAAP measures. The Company does not provide outlook on a GAAP basis because changes in the items that the Company excludes from GAAP to calculate the comparable non-GAAP measure, described above, can be dependent on future events that are less capable of being controlled or reliably predicted by management and are not part of the Company's routine operating activities. Additionally, due to their unpredictability, management does not forecast many of the excluded items for internal use and therefore cannot create or rely on a GAAP outlook without unreasonable efforts. The occurrence, timing and amount of any of the items excluded from GAAP to calculate non-GAAP could significantly impact the Company's GAAP results. As a result, the Company does not provide a reconciliation of forward-looking non-GAAP measures to GAAP measures, in reliance on the unreasonable efforts exception provided under Item 10(e)(1)(i)(B) of Regulation S-K.

Reconciliation of Non-GAAP Financial Measures

Reconciliation of Non-GAAP Measures
(In millions, except per share data)
(Unaudited)

	Three Months Ended December 30, 2023			Three Months Ended December 31, 2022		
	As Reported (GAAP)	Impairment, Restructuring and Other	Adjusted (Non- GAAP)	As Reported (GAAP)	Impairment, Restructuring and Other	Adjusted (Non- GAAP)
Gross margin	$ 62.2	$ 5.8	$ 56.4	$ 95.7	$ (10.2)	$ 105.9
Gross margin as a % of sales	15.2%		13.7%	18.2%		20.1%
Equity in loss of unconsolidated affiliates	22.5	(10.4)	12.1	11.4	-	11.4
Income tax benefit	(33.7)	0.7	(34.4)	(29.6)	(10.4)	(19.3)
Effective tax rate	29.5%		29.5%	31.4%		25.5%
Diluted net loss per common share	(1.42)	0.03	(1.45)	(1.17)	(0.15)	(1.02)

Calculation of Adjusted EBITDA:	Three Months Ended December 30, 2023	Three Months Ended December 31, 2022
Net loss (GAAP)	$ (80.5)	$ (64.7)
Income tax benefit	(33.7)	(29.6)
Interest expense	42.8	42.7
Depreciation	16.1	17.5
Amortization	4.0	7.7
Impairment, restructuring and other	(12.9)	18.7
Equity in loss of unconsolidated affiliates	22.5	11.4
Interest income	(0.1)	(3.4)
Share-based compensation	16.0	20.9
Adjusted EBITDA (Non-GAAP)	$ (25.8)	$ 21.2

	Year Ended September 30,						
	2023	**2022**	**2021**	**2019**	**2018**	**2017**	**2016**
Net cash provided by (used in) operating activities (GAAP)	$ 531.0	$ (129.0)	$ 271.5	$ 226.8	$ 342.5	$ 363.2	$ 244.0
Investments in property, plant and equipment	(92.8)	(113.5)	(106.9)	(42.4)	(68.2)	(69.6)	(58.3)
Free cash flow (Non-GAAP)	$ 438.2	$ (242.5)	$ 164.6	$ 184.4	$ 274.3	$ 293.6	$ 185.7

Reconciliation of Non-GAAP Financial Measures

For the three months ended December 30, 2023, the following items were adjusted, in accordance with the definitions above, to arrive at the non-GAAP financial measures:

- During fiscal 2022, the Company began implementing a series of Company-wide organizational changes and initiatives intended to create operational and management-level efficiencies. These changes and initiatives include reducing the size of its supply chain network, reducing staffing levels and implementing other cost-reduction initiatives. During the three months ended December 30, 2023, the Company recorded recoveries of $5.8 million in the "Cost of sales—impairment, restructuring and other" line in the Condensed Consolidated Statements of Operations and incurred costs of $2.0 million in the "Impairment, restructuring and other" line in the Condensed Consolidated Statements of Operations associated with this restructuring initiative, primarily related to the sale of certain previously-reserved inventory at amounts in excess of estimated net realizable value, partially offset by employee termination benefits and facility closure costs.
- During the three months ended December 30, 2023, the Company recorded a gain of $12.1 million in the "Impairment, restructuring and other" line in the Condensed Consolidated Statements of Operations associated with a payment received in resolution of a dispute with the former ownership group of a business that was acquired in fiscal 2022.
- During the three months ended December 30, 2023, the Company recorded a pre-tax impairment charge of $10.4 million associated with its investment in Bonnie Plants, LLC in the "Equity in loss of unconsolidated affiliates" line in the Condensed Consolidated Statements of Operations.

For the three months ended December 31, 2022, the following items were adjusted, in accordance with the definitions above, to arrive at the non-GAAP financial measures:

- During fiscal 2022, the Company began implementing a series of organizational changes and initiatives intended to create operational and management-level efficiencies. During the three months ended December 31, 2022, the Company incurred costs of $9.5 million in the "Cost of sales—impairment, restructuring and other" line in the Condensed Consolidated Statements of Operations and $5.0 million in the "Impairment, restructuring and other" line in the Condensed Consolidated Statements of Operations associated with this restructuring initiative, primarily related to employee termination benefits, facility closure costs and impairment of property, plant and equipment.

The tax effect for each of the items listed above is determined using the tax rate and other tax attributes applicable to the item and the jurisdiction(s) in which the item is recorded.