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The Scotts Miracle-Gro Company
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Company Conference Presentation

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EXECUTIVES

James D. King
Chief Communications Officer, Executive VP & President of The Scotts Miracle-Gro Foundation

Thomas Randal Coleman
Executive VP & CFO

ANALYSTS

Dara Warren Mohsenian
Morgan Stanley, Research Division

Presentation

Dara Warren Mohsenian
Morgan Stanley, Research Division

We're very pleased to welcome Scotts here today, including Randy Coleman, Executive VP and CFO; as well as Jim King, Executive VP, IR and Chief Communications Officer; we look forward to hearing about the company's recent portfolio development and plans for the future after what was a very strong fiscal year they recently reported. So thanks for coming. Gentlemen, I'll turn things over to Randy. And then we'll get into Q&A.

Thomas Randal Coleman
Executive VP & CFO

Thanks, Dara. Good morning, everybody. I'll do a brief kickoff preamble, and then we can get to Q&A. But I assume most people are fairly familiar with Scotts Miracle-GRO. So we have the best brands in the consumer environment for lawn and Garden, the Scotts and Miracle-GRO, Ortho and Roundup, and we've been able to take those brands, run our business extremely well over the last 20-plus years since we were able to combine all those businesses. And what we're doing now is we're taking a similar approach with the Hawthorne Gardening Company. Because right now, it's about 20% of our total company sales but really taking the same kind of approach. So we have the best brands in the industry, innovation that comes along with that, leveraging our R&D expertise, especially around Scotts and the heritage we have around professional products as well. We have the best sales force in the industry. And we also have the best service with supply chain. So we're taking all of that. We're leveraging SAP, which we just went live for the Sunlight Supply acquisition that we completed about a year ago, and all that's up and running.

So like Dara said, we just had a really strong 2019. The headline would be, EPS was up about 20%. Our Hawthorne Gardening Company sales were up 24% on an apples-to-apples basis. In our U.S. consumer business, sales were up about 10% -- approaching 10% last year. So all in EPS, up 20%.

And when you reflect on how that compares to our long term algorithm, our typical rule of thumb is 2% to 4% top-line growth, 4% to 6% operating growth, largely based on slight gross margin improvement, leveraging scale, et cetera. And then an assumption that we repurchase shares with our strong cash flow and our dividend yield is really 2% to 2.5%. So over a long period of time, we typically think double-digit total shareholder return year after year. Like I said, 2019 was better than that. And when we look ahead to 2020, our U.S. consumer expectations for the top line for another strong year are stronger than we would typically expect. So we'll call that 1% to 3%. And then Hawthorne, our initial guidance for the top line is about 12% to 15%. And there's been some discussion about whether we're being conservative on that, I'd say it's too early to tell. Our comps get a lot more difficult in the second half of the year, but we do have a lot of confidence about what our performance is going to look like in 2020. So you roll that up in our EPS guidance, that we just provided several weeks ago, is to be up about 11% to 15% year-over-year. And again, that's higher than what we think in the long run, but a lot of confidence about our outlook for 2020.
With that, I'll ask my colleague here, Jim, to see if there's anything you want to add or we can go straight to Q&A. That's fine with us.

Question and Answer

Dara Warren Mohsenian
Morgan Stanley, Research Division

Okay, great. Well, maybe we can start with the U.S. consumer segment. You mentioned, obviously, the strong growth last year, last fiscal year, 1% to 3% forward expectations. Help us break that down a little bit. I think pricing is a small piece of that, it's mainly volume driven. But after a successful year last year, why couldn't you see better growth than that? And why wouldn't the item continue to some extent? What's grounding you in that 1% to 3% forecast?

Thomas Randal Coleman
Executive VP & CFO

So when you look at the category, you look at our POS or consumer takeaway over, call it, the last 5 or 6 years, It's more or less up 1 point or 2. We get questions periodically about whether and how important that is, I'd say it's worth 1 point or 2 year-over-year. So whether it's good year or a bad year. So not a big impact. And I think that's a misunderstanding to a large degree about our business. But when you compare, call it, 9% or 10% last year to 1% to 3% this year. And the biggest change is last year, we took 3% pricing in 2019. This year, we're going to take about 75 bps. So there's a little bit of a drag there. We also saw a large reloading of inventory in 2019, really, across the board of all of our customers but we don't expect that to repeat again. We're really confident that the inventory levels we have in place as we close out '19, are a good place that we finish in '20 as well, but just the way the math works when you don't see a similar reload year-over-year. That will be a little bit of a drag on the top line. And then there's a little bit of noise, some of the deals we've done. We sold part of our business to buyer on the lawn and garden extensions that we had purchased from them a few years ago. So that's going to be a drag of about 1 point or 1.5 points. So you reconcile all that back, but I think 1% to 3% is a really appropriate place for us to restart the year going forward in 2020.

Dara Warren Mohsenian
Morgan Stanley, Research Division

Okay. And maybe, turning to the Hawthorne business. You mentioned the very strong 24% like-for-like growth this year. As you think about the growth profile of that business going forward over the next few years, give us some insight there? And then second, the top-line performance is very strong, didn't translate as much to the bottom line. So maybe talk about the margin evolution as you look out over the next few years, and specifically some of the promotional spending from this year, it looks like it paid off to a great extent. So should that continue also as we look out over the next year or so?

Thomas Randal Coleman
Executive VP & CFO

Okay. So as far as context on Hawthorne over the last several years, we've been growing that business top line 20% plus up until we hit 2018. The rollout of recreational cannabis for adult-use in California on January 1 of that year. And in retrospect, there was a huge supply and demand imbalance to build up the previous summer and fall heading into 2018. It took a while for that to work itself out. So we're up 20% plus for, call it, 4 or 5 years in a row. That year, we were down 35% to 40%. Kind of depending on how we measure the numbers. This year, again, up 24%. Looking ahead to this year, we're saying 12% to 15%. And again, arguably, we'll be conservative on that. But when we think about the long-term algorithm of how that business should grow, we're really confident in mid- to single digits, and that's more on a demand basis rather than a supply basis. So when we look at modeling of states that have become legal and how the penetration improves and how that develops over time, we've been able to see that repeat itself. We know that there's also a tailwind from indoor growing. We also know that there's more product required for edibles and different kinds of consumables. So you factor all that together and we're confident in high single digits going forward.

Dara, to your question about our emphasis last year on sales versus profitability. That was a conscious decision. So we had purchased the Sunlight Supply business, which was the #1 distributor in the hydroponics channel, and we wanted to be very competitive. The #3 distributor dropped out after a few months. The #2 distributor, we know they're struggling quite a bit. So we know they take a lot of market share last year, and that was really the intention of what we're trying to do. But we ended the year with operating margins of about 8%. As we look ahead to 2020, we expect that number to be at least 10%. And we're still taking a long-term, though. I'd emphasize, we'll expect the margin rate to improve. We're still going to be very competitive. We're not going to take our foot off the gas by any means and expect to still be very competitive and taking more market share in 2020. So that was part of the plan. We executed the plan well. And I think we're going to be able to improve from 8% to 10% really without backing off too much on promotions, but being able to leverage scale, the volume improvement. There's more synergies from integrating the business into Scotts and so on. So all those things combined, along with some innovation and some new products, we figure about 10% next year.

James D. King
Chief Communications Officer, Executive VP & President of The Scotts Miracle-Gro Foundation

And longer term, there, I'd say, the thing to focus on in terms of the profitability on that side of the business. No reason for us to still not believe that we can get to mid-teen operating margins in that business. It will just happen over the next -- call it, 3 to 4 years or so, but significant improvement next year. We think there's a path forward to a significant improvement, the year after that.

So to Randy's point, right now it's been, trying, for us, to find the balance between growing that business rapidly, continuing to take share, take advantage of what's happening in the marketplace. And improving profitability over time.

Dara Warren Mohsenian
Morgan Stanley, Research Division

Okay. And then just a couple of quick follow-up questions on the U.S. consumer business. You mentioned pricing of about 75 basis points this upcoming year versus 300 last year. Conceptually, I think, generally, pricing is used to offset costs, is that the way you look at it? And how do you think about sort of managing that pricing level strategically, longer-term? And then maybe you can -- if you could talk a little bit about your cost bucket for this upcoming year and how that might impact the way you think about pricing?

Thomas Randal Coleman
Executive VP & CFO

Sure. So I would say we don't necessarily think about the cost-plus basis. So we've taken pricing 8 out of the last 10 years, take it some years when commodities were down. Also it's often easier when commodities are up. And our outlook for this year is commodities and tariffs combined in a number of about $20 million. Some of that due to our hedging approach. So we're about 75% hedged right now. Our biggest inputs of urea, resin and fuel, but we also purchased a lot of commodities that are a little bit more difficult for balance to track. So for example, grass seeds, that we source from the Pacific Northwest, and then sphagnum peat that we source largely from Canada. And [we've] had some slight cost increases year-over-year as well as, again, tariffs, especially on our Hawthorne business as we look ahead to next year. So again, confident about our pricing. We took 3% in '19 because we didn't take any. In 2018, it was a bit of a catch-up, but 75 basis points for 2020. I think we're in a good place with lots of conversations with our retailers, but I think we've settled out to a good number, and I still feel really good about our distribution for next year in our U.S. consumer business as well. And that was part of our consideration set.

Dara Warren Mohsenian
Morgan Stanley, Research Division

Okay. And you mentioned that this latest fiscal year, you saw a rebuild in retailer inventory levels, comfortable that it was at the right place during the peak season, and you'll see a similar entry-level next year. Could there be further rebuild, might it need to come down a little bit after this year. How do you think about that? And what gives you visibility there?

Thomas Randal Coleman
Executive VP & CFO

On an absolute dollar basis, I'd right now, expect us to close out 2020 at the same dollar level, 2019 and which was a lot higher than 2018. So there are a couple of dynamics there. In '18, 1 of our largest customers had a management change. They were very focused on inventory reductions in the back half of '18. So they were essentially just reloading to more historic levels but a little bit more with some distribution gains that we picked up in '19. And then another large customer of ours, over time, has been decreasing inventory levels, decided to get more aggressively back in the lawn and garden business, and we were the beneficiary of that last year. So at this point, I'd expect that to be sustainable, not to see growth off of that bank. When you look back over time, we're on a unit basis [indiscernible] should be -- feel pretty good about that.

Dara Warren Mohsenian
Morgan Stanley, Research Division

Okay. As you look out to longer-term sales growth in the U.S. consumer business, theoretically increasing environmental awareness, growing urban population, right, changes the consumer mindset a bit. So can you talk about how you're sort of addressing your business strategically to go after those areas to a greater extent?

Thomas Randal Coleman
Executive VP & CFO

Sure. I think the most obvious place is on the more natural and organic product line. And in 2019, we developed a new product to commercialize, it's called Miracle-Gro Performance Organics. So the technology there is it's essentially soils with a controlled release fertilizer that's completely natural. And it took us years and years of R&D time and effort to be able to develop this technology, but we're able to commercialize that to the point that the natural product has the same or maybe even better than the synthetic product that we've historically had. So in the long run, we would like our entire Miracle-GRO line to be natural and organic. At this point, it's a bit more nichey, but over the long time -- over the long term, that's really our vision, as Miracle-GRO becomes a holistic natural line. And then to your point about urbanization and changes in demographics, I think demographics is very much a tailwind for us, just as the population begins to age. Our real sweet spot is for consumers of age 35 to, call it, 55 or 60. Those are the people that spend the most and have the highest ticket. But now you also see millennials who typically have not been engaged to lawn and garden, are beginning to buy houses, build families. And as they do that, spend much more time on their homes and especially, outside in the yards. And we think that will be a tailwind as well. And then the other aspect of that is trying to find more unique craft brands so that we can actually cannibalize ourselves rather than potentially run the risk of somebody else coming to take some of our market share.

So we have a lot of energy being how we might do that behind direct-to-consumer brands that we sell ourselves, and we really have a really nice pipeline of ideas there as well. And some of those have already been executed in '19 and have a lot of ramp as we look forward.

James D. King
Chief Communications Officer, Executive VP & President of The Scotts Miracle-Gro Foundation

The other part of the demographic story, I think, Dara, that's worth talking about is millennial homeowners are interested in this space. In fact, 3 quarters of them participate in this space once they own a home. So their engagement levels are actually higher than their parents engagement levels are. One of the challenges for us going forward is going to be how we communicate to that group of people differently. So the investments that we're making in marketing and media and how we communicate it, how much of that is being shifted to digital platforms, how much of it is being shifted specifically to social platforms, is ongoing, also creating a little nichey products to specifically focus on that subset of consumers. 2/3 of millennial homeowners have dogs, for example. So a lot of our lawn and garden products or a lot of fertilizer products, in particular, we're creating little brands that speak to those people for that need as opposed to having the best lawn in the neighborhood. So understanding what makes them tick, because what makes them tick is different than what made their parents tick. It's an important part of, I think, how our marketing team's looking at it. But as we look at the millennials coming into this space, we see it much more as an opportunity than a challenge.

Dara Warren Mohsenian
Morgan Stanley, Research Division

Okay. And maybe, picking up on the digital marketing theme. You guys have talked about shifting spending there and sort of, contemporizing marketing how has that worked so far? What's the ROI you're getting around it, what percent of your mix is digital marketing, where could that go over time? And just any thoughts on the effectiveness and how that changes going forward as a percent of your mix would be helpful.

Thomas Randal Coleman
Executive VP & CFO

Sure. So when we talk about direct-to-consumer, historically, we do that through our largest customers as well as Amazon. So that business combined is well over $100 million at this point. And Amazon is now our 6th largest customer. It's been growing 30%, 40%, 50% a year for the last several years. But we now have our own online websites ourselves that we sell our own products on as well. And we've also developed some digitally-native brands, like I said, that we launched in '19. So [indiscernible] is one example that it's more of a subscription service because your house. People open it up and a little bit of surprise in there. Send it towards lawn and garden. Another example is [indiscernible] that we introduced in 2019 for -- like Jim referenced, for people who have dogs and are looking for products that really support -- take care of the yard as well as taking care of their pets. So a couple of examples there. But we've made big strides working with our customers as well as doing it on our own. And as far as your question, as far as ROI, we're not trying to make money at this point. So everything we generate from sales and profit, we're reinvesting into our business right now. And in the long run, we expect scale to be higher. We expect the profits to be more or less consistent with what we see through our traditional brick-and-mortar channel. But right now, we're just looking it purely as an investment and reinvesting in everything we can.

Dara Warren Mohsenian
Morgan Stanley, Research Division

Okay. Maybe we could take a step back and you could just review since you've moved into the hydroponics space aggressively over the last few years, how is sort of the changing landscape and the cannabis market in general played out versus your expectations? And how have you sort of had to adjust strategies as a result of it.

Thomas Randal Coleman
Executive VP & CFO

It's been an interesting journey. I would tell you, initially when we did each of these deals, and there was a -- Hawthorn's a combination of about 5 or 6 different deals over about a 3- or 4-year period. Combined, we go to about $1 billion of capital. But our business case for everyone was more or less 6%, 7%, 8% top-line growth. And we were seeing numbers far outpaced that initially. And so we took a big step back in '18 with California and just how that's spilled over across the rest of the country. But we're very much back in that profile, again, last year, 24%, this year, we're saying 12% to 15% right now. But I think over -- again, the long run, I think, high single digits for the foreseeable future is a very reasonable number. And that's more or less what we expected, I mean, once upon a time. We didn't see what happened in California on the horizon. At that point, we were selling into distributors that were selling into retailers that sold to grow. So we didn't have nearly as much visibility as we do now, after completing the Sunlight Supply acquisition. So we have much more transparency as far as States and where we're shipping to and the retailers or the destination. So we've learned a lot there. But I don't see another similar disruption on the horizon. So a lot of confident about we're going really much more focused on integration now, supply chain, improving our service, marketing and leveraging our brands and really taking that same play that we did for Scotts 20 or 25 years ago and replicating that here in hydroponics.

James D. King
Chief Communications Officer, Executive VP & President of The Scotts Miracle-Gro Foundation

The 1 thing about the marketplace that we've seen also is the consumer participation in the marketplace, is growing just like we thought it would. So continue to see high single, low double-digit increases in consumer participation of cannabis and cannabis related products. Obviously, we sell inputs on the front end of that value chain. So you need plans to have the product. Concentrated products continue to grow at a more rapid pace than using flower. And so that bodes well for us, too, because you need more plants, you need more cultivation. We saw the inputs for the cultivation. So in terms of how the marketplace is developing on the, kind of, the end of the value chain, it's pretty much living up to what we thought it would be. The disruption in California and the rest of the country in 2018 was really on the production side of the business, but not on the consumption side of the business, which we viewed as a good thing. And obviously, if you look at the pipeline going forward, many more markets likely to come online in the years ahead, New Jersey is going to have a ballot initiative in 2020. We think Ohio is going to have a ballot initiative in 2020. Florida, we do think, will have a ballot initiative in 2020, Arizona, and a handful of other states. And then you have states like New York, who continue to look at it through the legislative lens, the Governor has once again said that he's going to take it up in the budget process after the first of the year. So we see more markets coming online, which hopefully bodes well for our business west of the Rockies or East of Rockies rather, going forward.

Dara Warren Mohsenian
Morgan Stanley, Research Division

And some of the concerns out there around vaping. You mentioned on the last call, you haven't seen impact, really, on your business. Is that something you view as a significant risk factor? How do you think about the level of risk to your business from some of these fading concerns.

Thomas Randal Coleman
Executive VP & CFO

I mean, we haven't been seeing it -- these results at all at this point. I -- we are concerned just from a human interest and concerned about consumers and making sure that it is a safe product to use. We've employed some outside consultants as well as some of our R&D people to try to better understand what's going on there. So we are trying to get more educated, even though they're not products that we sell, just got a sense of trying to do the right thing. But no, we haven't seen that. There's lots of ways to consume. What we have seen is vaping as a form of consumption has gone down, where edibles and other forms have gone up as an offset, and the markets continue to grow. So not a big concern for our results, but definitely a concern for the people who have been affected.

Dara Warren Mohsenian
Morgan Stanley, Research Division

Okay. Can you discuss the market up in Canada and how you're positioned there?

Thomas Randal Coleman
Executive VP & CFO

Yes. So historically, our business was very U.S. focused. That's not only the brands that we purchased before Sunlight Supply. Sunlight Supply was really U.S. focused distributors. So we were a little bit late to the part in Canada. And at this point, we're growing at really high levels, but it's only about 10% of our North America business. When you look at U.S. and Canada combined, I think it continues to be an opportunity. I think you could argue that from the capital investment side of things that it's started to mature. We've seen much more investment on hardware and lights in the U.S. versus what we've seen in Canada over the last 12 months, but it is continuing to be a growing market for us, virtually 10% last year, but not nearly as much growth as what we've seen in the U.S. and continue to see in the U.S., east of the [Rockies].

Dara Warren Mohsenian
Morgan Stanley, Research Division

Right. Okay. And the new R&D facility in Canada. Can you talk a little bit about the growth potential that may emerge and how important that is in driving your future growth?

Thomas Randal Coleman
Executive VP & CFO

Right. So we are co-building a facility in Kelowna, British Columbia and idea there is to establish an R&D facility that we can test our products. And historically, we've had things in California, marigold and flowers and not exactly the same as being able to test our products on cannabis and in Canada we're fairly legal. So that's why we're building there. The facility is almost ready to open, and we're doing it with another grower that is licensed, but that's a lot of the rationale behind our partnership there. But the idea is to take all our inputs, take our lights and really find that optimized solution that's turn-key that will help growers, whether they're in Canada or the U.S., be able to turn over the menu and say, here's the best way to grow the product. And I think that puts us in a much different place than anybody else that we're talking about competing against out there.

James D. King
Chief Communications Officer, Executive VP & President of The Scotts Miracle-Gro Foundation

In a parallel track, Dara. We have R&D field stations in the U.S. and Florida, Ohio and Oregon. In Oregon, we're going to have a significant effort there focused on hemp cultivation. So very similar to what Randy is talking about in Canada, but a lot of that will be [acro] growing and when we have the ability to do the same in Ohio. We're going to pursue that same opportunity there. So a lot of R&D effort in dollars going both onto the cannabis and hemp side of the business .

Dara Warren Mohsenian
Morgan Stanley, Research Division

Okay. Can you discuss the recent agreement with iCAN, the Israeli-based cannabis company, and just opportunity potentially in emerging markets over time and looking at some of the other growth areas out there?

Thomas Randal Coleman
Executive VP & CFO

Yes, it's really kind of an immaterial agreement tied through it, and the focus was more on their communication than ours. The focus of the business is overwhelmingly North America. We're keeping our eye on what's happening in Europe and South America and other markets, but really not much of a focus at all on Israel and -- or any other place right now than North America. What I would point out, though, is our lights business, branded Gavita in the U.S., North America, very much focused on cannabis and Europe, wherever, completely different. So it's focused on leafy greens, flowers and so on, both Western Europe and Eastern Europe. So that kind of technology and expertise. Eventually, I believe, can be transferred over to North America as well. So it makes the entire category that we're talking about addressing even larger.

Dara Warren Mohsenian
Morgan Stanley, Research Division

Okay. And then if we look at the U.S. lawn and garden business in the last few years, you've had some really successful innovation. So can you talk a little bit about your innovation process? And as we look out to next year and you cycle some of that, is there some risk that the innovation contribution slows over time? And how do you think about that?

Thomas Randal Coleman
Executive VP & CFO

Sure. So our innovation process really begins with the consumer mind and work backward from there. A lot of our focus has really been on trying to take steps out of the process and combine different kinds of technologies and efforts so that consumer can spend less time and get an even better result . So we've been able to do it, especially well in our fertilizer business, where we've created some products called

Triple Action. 1 in the north, and 1 in the south that are combined fertilizer products with weed control, with enough benefits, whether, again, it's in the north or the south, higher price points that consumers are willing to pay because it's 1 less application that they need to perform themselves. So we've seen a lot of benefit from that. And another example of it is a product called Scotts Lawn Thick'R, which is a combined grass seed product with growing urea or soil and fertilizer as well. So it's more of an over seating product for spring or fall.

And we're see really strong results from that. And again, it takes a little bit of left effort out. So again, higher price point, a little bit more money for the retailer, definitely more margin for Scotts. And those are a couple of good examples. And we continue to work on products like that with the consumer in mind.

Dara Warren Mohsenian
Morgan Stanley, Research Division

As you think about the forward pipeline going forward relative to recent history. Can you give us a bit of insight into top-line contribution?

Thomas Randal Coleman
Executive VP & CFO

Sure. So in 2019, it was the second year for both the Thick'R product and the Triple Action products. So we saw those sales probably doubled year-over-year from '19 versus '18. So we expect to see continued benefit from that.

Like I said earlier, Miracle-Gro Performance Organics was launched for the first time in 2019. First tier, top-line results were about $40 million, and we're going to launch a more complete portfolio of brands to support our Performance Organics in 2020. So we expect that to see some more legs on it in '20 as well. The other product we introduced in '19, that I haven't yet mentioned, is Ortho GroundClear. It's more or less an alternative for consumers who didn't want to use Roundup. It was more of a technology that people could use it, if they wanted to kill weeds in their driveway on their patio on the ports, not as efficacious, if you're

about a complete lawn replacement or poison ivy or issues like that, but something we saw a lot of benefit from. First year sales were approaching $15 million, and we put a really large amount of investment behind that in the first year. And we expect that to continue to grow again in 2020. So to be even higher next year.

James D. King
Chief Communications Officer, Executive VP & President of The Scotts Miracle-Gro Foundation

And Dara, just for everybody's benefit, so the way that we think about it or define innovation, we look at over a 3-year pipeline just because of the frequency of purchases in our category, unlike other household product categories where you're making a purchase every other time you're going to the store. This is 1, 2, 3 times a year, usually tops. So when you look at everything that we had this year and last year through that lens, it's about 15% of sales, a slightly higher percent of profit dollars and no reason to think that's not going to continue to be roughly in line with those kind of numbers going forward.

Dara Warren Mohsenian
Morgan Stanley, Research Division

Right. Okay. And in terms of cash flow priorities, can you outline what your key priorities are, specifically where does M&A fit in, which segments are you primarily focused on and what's the strategic and financial criteria that you look at in terms of M&A?

Thomas Randal Coleman
Executive VP & CFO

Right. So we're pleased with where we're at now from a capital structure perspective. So after the Sunlight acquisition, we were close to 5x leverage for a short period of time. And when we close the year, we're down to 3.7x. So we're now at a point where we have a lot more freedom to operate and think about what our alternatives are. I think, first and foremost, uses of capital for internal reasons or for M&A would be our first priority. But I would say our capital spend internally is pretty consistent over time, typically in about a $60 million to $70 million range, and that's our expectation for 2020.

M&A pipeline right now, there's nothing that's imminent. I would tell you, though, that we're constantly looking at ideas and being the leader in lawn and garden. We get a lot of ideas brought to us, whether they're businesses or technology or R&D and ideas that we can commercialize. So that process is ongoing. It has to have a good strategic fit. It makes sense that dovetails into 1 of our 2 businesses. For sure, the price has to be right. So we do a lot of financial letting and diligence. But assuming there's not a large M&A pipeline, and there isn't right now for us to execute it, our bias would be to return cash to shareholders through share repurchases. And our plan right now is to begin doing that in our second quarter. And that would be our plan for 2020, unless a better idea comes along that would makes sense for us.

Dara Warren Mohsenian
Morgan Stanley, Research Division

Okay, great. Well, we're just about out of time. So I think with that, we'll move over to the breakout room. And again, thank you very much for coming. We appreciate it.

Thomas Randal Coleman
Executive VP & CFO

Thanks for having us.

Dara Warren Mohsenian
Morgan Stanley, Research Division
Thanks for your time.