S&P Global
Market Intelligence

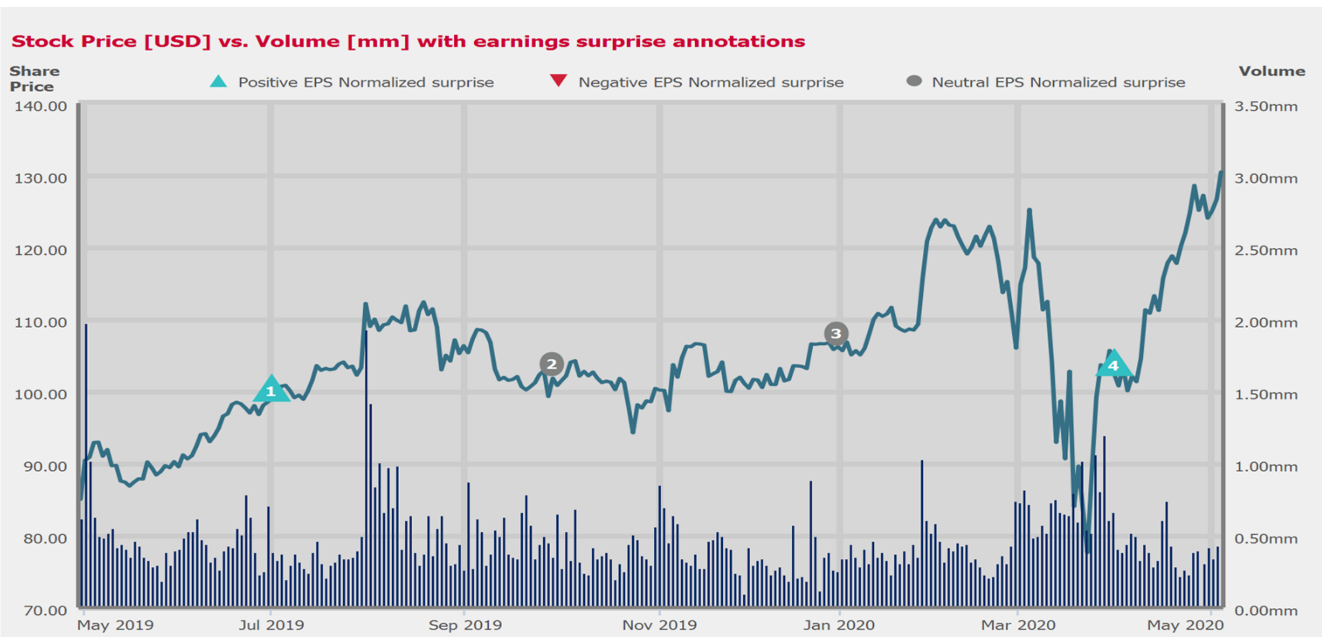
The Scotts Miracle-Gro Company
NYSE:SMG
FQ2 2020 Earnings Call Transcripts

Wednesday, May 06, 2020 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2020-			-FQ3 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	3.50	4.50	▲28.57	3.16	5.25	5.88
Revenue (mm)	1309.85	1382.80	▲5.57	1153.63	3331.09	3480.51

Currency: USD
Consensus as of May-06-2020 1:00 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2019	2.74	3.11	▲1 13.50 %
FQ4 2019	(0.85)	(0.91)	NM
FQ1 2020	(1.21)	(1.12)	NM
FQ2 2020	3.50	4.50	▲2 28.57 %

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Call Participants

EXECUTIVES

Christopher J. Hagedorn
GM & Senior VP

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

James S. Hagedorn
CEO & Chairman of the Board

Michael C. Lukemire
President & COO

Thomas Randal Coleman
Executive VP & CFO

ANALYSTS

Alexander Rocco Maroccia
Joh. Berenberg, Gossler & Co. KG, Research Division

Eric Bosshard
Cleveland Research Company

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

Sarah Stuart Clark
JP Morgan Chase & Co, Research Division

Unknown Analyst

William Bates Chappell
SunTrust Robinson Humphrey, Inc., Research Division

Presentation

Operator

This is the Scotts Miracle-Gro Company's Second Quarter Conference Call. Today's call is being recorded. Mr. King, you can now begin.

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

Good morning, everyone. I'm Jim King, Executive Vice President and Chief Communications Officer of the Scotts Miracle-Gro Company, and I want to welcome all of you this morning to our second quarter earnings conference call. I'm joined this morning by our CEO, Jim Hagedorn; and CFO, Randy Coleman; as well as our President and Chief Operating Officer, Mike Lukemire; and finally, Chris Hagedorn, General Manager of the Hawthorne Gardening Company.

Our call today will take a slightly different approach than normal. While we always strive to be comprehensive in our prepared remarks, our comments today are likely to go further than normal. We will discuss not only our results, but our full year outlook and the longer-term implications we currently anticipate as a result of the COVID-19 crisis. Therefore, our commentary will be longer than normal.

Jim and Randy have both prerecorded the prepared remarks today. At the conclusion of their remarks, we will rejoin the call for a live Q&A session. We want to answer as many questions as possible, so I'm requesting your assistance and asking just a single question and a related follow-up. I already have scheduled calls with members of the sell-side and buy-side communities throughout the balance of the week, and you have my assurance that I will be reachable in the days ahead at (937) 578-5622.

One bit of housekeeping before we start. Randy and I will be participating in a virtual investor conference sponsored by William Blair & Company on June 9. We have historically used the timing of this event to update the financial community on our performance and outlook through the month of May, and that is our intention again this year. We currently anticipate issuing a press release before the event and intend to provide some additional commentary during the virtual conference itself. So with that, let's get started.

I want everyone to know that our comments today will include forward-looking statements, and that our actual results could differ materially from what we have said today based on a variety of risk factors. A comprehensive list of those risk factors are contained at the end of today's press release, as well as within our 10-K, which is filed with the Securities and Exchange Commission. I also want everyone to know that this call is being recorded. An archived recording of the call as well as the transcript of the call, will be stored on our Investor Relations website, investor.scotts.com.

Without further delay, I now want to turn things over to our CEO, Jim Hagedorn.

James S. Hagedorn
CEO & Chairman of the Board

Thanks, Jim, and good morning, everyone. As you can imagine, we have a lot of ground to cover this morning. It's probably obvious to everyone listening that I'm extremely pleased with our performance so far. What's less obvious is I'm not just talking about the numbers.

Before I get into the details, I want to acknowledge the challenges we are all facing at this society. Yes, we are fortunate here at Scotts Miracle-Gro that our business is doing well. But I know thousands of businesses are struggling and that millions of our fellow citizens are, too. Our thoughts and prayers go out to those who have lost love ones during this crisis and those who will as the virus lingers. And our best wishes go out to those companies who face a long road to recovery.

Above the door in my office is a saying my father always like, that luck is where hard work and opportunity meet. Like my dad, I'm not a big believer in luck. Our results through the second quarter and our outlook for the balance of the year is the result of the intersection of our talent, our planning and our corporate culture. The culture we have built and carefully nurtured here has proven to be our most valuable asset as we've navigated this crisis. That's a credit to all of our people, starting with Mike Lukemire and the rest of my team.

I'm hard-pressed to identify a major weakness in the organization right now. Not only has every part of the company stepped up to the challenge, it feels like every associate has taken this crisis personally. And of course, it doesn't hurt that we're engaged in a category where our participation has actually increased despite current events.

You probably aren't hearing this from other CEOs, but I believe we may be operating the business better right now. I'm particularly pleased by what we've done since the end of the second quarter, and that's why we remain confident enough to reaffirm our full year guidance at a point when most companies are suspending theirs. I'm going to leave most of the details regarding our financials for Randy to discuss.

For the balance of my prepared comments, I want to spend my time talking about 3 things: first, I want to discuss the advanced planning that has helped us manage through this crisis and how those actions helped lead to the results we reported today. As you can see, we are significantly ahead of last year on both the top and bottom line through the end of March; second, I want to discuss the real-time operating adjustments we've made to keep our business on track. These have occurred mostly in April, generally in the areas of sales and marketing and focused primarily in our U.S. Consumer segment; third, I want to talk longer term, and in doing so, talk about what we've learned over the past 2 months about the real definition of an essential business.

While I can't predict the future, what is clear to me is that our business and our company has permanently changed as a result of what we're dealing with right now, for the better, I believe.

Our challenge will be to take the lessons of 2020 and apply them to our business next year and beyond, especially in the U.S. Consumer segment. I happen to believe that many legacy consumer-branded companies will be stronger coming out of the crisis, and I definitely put Scotts Miracle-Gro on that list. So let's get going.

I'm proud to say we were extremely well prepared to deal with this crisis. We are now midway through week 8 of operating our business remotely. I happen to be in the same room this morning as some of my colleagues in Ohio because it was the best way to ensure we put our best effort forward for this call. But we're sitting at opposite ends of a large conference table in our boardroom. This is the first time I've seen any of them in person since March 12. While we've actually been working well together from a distance, I must admit it's nice to actually see people in the flesh once again.

For those of you who don't know, I'm a former member of the Board of the CDC Foundation, and I was a member of that Board during a period of high concern about Avian flu. My proximity to that issue prompted Scotts to put a pandemic plan in place back then, which we dusted off shortly after we returned from the Christmas break.

Going back to my comments about the combination of talent and planning, the team here has spent about 6 weeks developing a plan to run our business if the threat from COVID-19 reached the level that ultimately occurred. That effort was led by our Head of HR, Denise Stump; our General Counsel, Ivan Smith; our supply chain lead,Scott Hendrick; and our Head of IT, Ricardo Bartra. We also hired outside experts in the specialty areas of public health and corporate wellness.

We were doing all of that in early February. So by the second week of March, we had tested our systems with safety protocols in place, communicated thoroughly with our Board of Directors, advised the state of Ohio and made the decision to close our offices and to begin working remotely. We took those steps before nearly any other company and probably 2 weeks before anyone who was talking about shelter-in-place orders.

Throughout the entirety of our planning, the safety of our associates and the communities where they live was our #1 priority. In all of our more than 50 manufacturing and distribution facilities for both U.S. Consumer and Hawthorne, we put new protocols in place to keep people healthy, including asking our associates to take their temperatures before they came to work. We either separated people by 6 feet or put dividers in place to make it easier for them to social distance while on the job.

We created downtime between shifts so that we could properly clean our equipment. When it was available, we provided protective gear. We waived our sick leave policy so people wouldn't be nervous about staying home if they weren't feeling well, and we communicated with them constantly. We worked with our retail partners so that our frontline sales associates can work in the evening to minimize their contact with other people. We discontinued all consumer counseling activity and had them focus solely on managing retail inventory and product merchandising.

We also recognize that the work of our front-line associates involved a level of risk and stress for those of us in management, those of us working remotely at home did not have to endure. So we implemented a generous premium pay package that increased their hourly range by 50%. While we have since decided to exclude the total onetime cost of that effort, roughly $30 million to $35 million from our adjusted earnings, it doesn't really matter whether we do or we don't. Our associates, communities and customers, not our shareholders, were our priority when we implemented that program.

The premium we paid our associates was money well-earned. We were fortunate that the products we sell, especially related to edible gardening and insect control as well as the retail channels in which those products are sold were considered an essential business from day 1 of this crisis. By planning ahead and putting our associates first, we were able to do more than just stay in business. We were able to constantly meet increases in demand for our products and, in many cases, exceeded our expectations.

I'm sure that some of our frontline associates felt stressed in the early days of the crisis. But we saw a few call offs, and they appreciated the steps we took to both protect them and reward them. While several hundred of our associates have called us they've had COVID-like symptoms, only about a dozen associates of our 7,000 tested positive for virus. And those are divided between management and front line associates. Two of our associates had to be briefly hospitalized, but both are now home and doing well.

In both major segments, we saw a surge in demand in the last 2 weeks of March after management had begun working remotely, which we alluded to in our press release on March 26. We were already having a solid quarter in both businesses, but that surge was meaningful in driving the 11% sales growth we saw in U.S. Consumer in the quarter and the 60% sales growth we saw in Hawthorne. Both businesses did even better on the bottom line, with U.S. Consumer profits up 17% and Hawthorne up 148%. So it's obvious that we're pleased with our second quarter results and like where we stand on a year-to-date basis as well. I want to move to my second theme and discuss the adjustments that have been made since the end of the March quarter to keep the business moving forward.

Consumer POS during Q2 increased more than 20% compared to 2019, as we disclosed on March 26, and we were up more than 14% on a year-to-date basis. And as you can see this morning, our U.S. Consumer business reported an 11% increase in sales in the quarter. I know some retailers were concerned in March about the potential breakdown in supply chain. We also know that some consumers were worried about stores being closed. So there was some degree of pantry load going on, especially in the last 2 weeks of the quarter.

Additionally, April is our largest month of the year, and we were up against a tough comp, up 27% and compared to prior year. On top of that, we participated in conversations with our largest retail partners about temporarily pulling back on promotional activity, so we weren't creating big crowds during the height of the virus. And finally, some of those same retailers placed limits on the number of consumers who could be in the store at the same time.

So as we expected, POS declined in April, down 8% from last year. Shipments declined as well. But just because we gave back some of our early gains doesn't mean we didn't have a strong April. We did, and May is off to a good start, too. In each of the last 5 weeks, POS has [stocked] $120 million. We set a company record for the last week of April when consumer purchases exceeded $150 million. In the first week of fiscal May, POS was over $190 million, not just a record for that 7-day period, it was the highest level of POS for any 7-day period in company history.

So sitting here today, year-to-date POS at our largest 4 retailers is up 8%. The greatest strength has been in gardening and insect controls. POS of soils is up 31% and plant food is 16% higher. The other area of our gardening business is Bonnie Plants, in which we have a 25% interest, POS of Edible plants is up 43%. POS of Ortho indoor insect products has grown by 27%, and outdoor insect products are up 31%. Grass seed is plus 11%, Ortho Weed control products are up 9%, Roundup is plus 6%, lawn fertilizer is plus 1% from last year. mulch is down 37%, a number we would expect to improve significantly in May as retailers reengage in promotional activity. As most of you know, mulch is an important but low-margin business. So given the strength in other categories, we've been able to overcome the bottom line impact so far. If you exclude mulch form the calculation, POS is up 13% on a real-time basis.

Three things led to the strong performance so far in Q3, all of which will remain critical for the balance of the year. First is how we manage our advertising. Near the end of March, we scrapped nearly all of the creative that had been developed to support the business this spring. We realized it would be tone deaf to use advertising to focus on product performance and promotions at a time that so many Americans were panicked about their physical and financial health. That doesn't mean we didn't advertise. In fact, just the opposite. But we didn't talk to consumers about why our products matter. We talk to them about why gardening matters. We talk to them about why being outside matters. These were messages that were relevant in the moment and struck exactly the right time. We also shifted the mix of spending with about 60% of the activity occurring digitally, the first time ever that TV received such a low percentage. So the precision of our targeting was just as important as the message itself.

Our heavy use of social was giving us near-instant feedback from consumers, which allowed us to continue to refine both the message and the visuals, a challenge because we couldn't shoot any new footage. The majority of our advertising was also focused on the gardening category, where we have continued to see strong momentum all-season.

There are certain interest in gardening that bodes well for the opportunity to strengthen our relationship with consumers for years to come. Our early research suggests that as many as 30% of the people who engage in edible gardening so far this spring or either lapsed users are gardening the first time. So the category has expanded, and our job going forward is to keep those new consumers engaged. That means they need to continue seeing lawn and garden as essential in their lives. And the way they view our company and our brand is even more important. I'll elaborate on this point in a few minutes.

The second reason behind our continued momentum is our e-commerce business has exploded. By the end of April, online sales had already exceeded $100 million and topped our full year numbers for 2019. The majority of these sales were through the websites owned by our traditional retailers, with an option for products to be delivered or to be made available for in-store pickup. There is no doubt curbside pickup is likely to be a bigger fixture in the category as we move forward. We were seeing new online sales records by our major retailers day-after-day during April. And it took a new level of collaboration between our sales, marketing and supply chain teams working with our retailers to pull that off. Through the first week of May, even if some consumers started to venture out a bit more, the online business has not lost a step. We've also seen record sales levels this season through exclusively online distribution channels like Amazon and through our own .com platforms.

The third reason for our momentum in April was a shift in the retail landscape. I'm going to be careful not to be overly precise here because many of our retail partners, both large and small, are also publicly traded companies, and I don't want to discuss their individual performance. Retailers were each making very different decisions, sometimes difficult ones based on the setup of their stores, their ability to manage large crowds and their desire not to be seen as exploiting the benefit of being designated as an essential service.

Not surprisingly, consumer activity was curtailed with some of our largest retailers. At the same time, in both channels like hardware and farm and fleet, where retailers have a smaller footprint, they did not have to make major adjustments to their business models. We were seeing growth in a range of 20% to 30% in April. This next tier of customers has been extremely innovative during this crisis and have improved their market share. We are far ahead of what we expected from this group, and those gains were perfectly timed.

While these 3 factors definitely allowed us to maintain our momentum in April, the season is hardly in the bag. It's worth remembering that in a normal year, we still have 50% of consumer activity in front of us. Weather has been a bit of a drag in the Midwest and Northeast for the last few weeks, and our comps for the balance of the year are pretty easy. So I'm extremely confident in where we stand in relation to our adjusted EPS guidance for the year. But these are clearly unpredictable times. Our largest retail partners are starting to engage in more typical fashion entering May, and we need that to continue. That means our sales and marketing efforts over the next 6 weeks have to do the same. While we remain highly encouraged, we also know we have a long road still ahead of us.

Speaking of the road ahead of us, I want to switch to my third theme and talk about the long-term impact I see us likely coming out of this crisis and the steps we must take to further strengthen our business. In the early days of the crisis, there was a lot said and written by politicians and [funded] about the businesses that were considered essential and those that were not. In the end, the real decision-makers on the question of essentiality turned out to be consumers.

From the New York Times and Wall Street Journal to nearly every major broadcasting cable network, stories were popping up almost daily about the resurgence in gardening. There were stories about victory gardens, story about millennial moms who had turn their backyards into science labs, and stories about the comfort families were getting from having an outdoor activity that they could enjoy together. There were also stories about sharp increase in demand for edible plants and seed for vegetable gardens.

Celebrities were sharing their gardening post on social media and there was a spontaneous online conversation about gardening occurring among millions of people. If we were nothing more than lucky, that these story lines will have merely helped us navigate a once-in-a-century crisis and deliver the financial results that we first outlined for you all back in November. And for that, we'd be grateful.

But as I said at the outset, I'm not a big believer in luck. There is a human element to our business that is different from most other branded companies. Gardening isn't a chore for most people, it's a passion. It's a form of self-expression. It solves a basic human need to nurture. So we're good. If we continue to exploit the intersection of talent and planning and culture that I mentioned earlier, then we'll take the learnings from this year and use them to build a better business going forward. I was among those CEOs who sometimes lost sleep at night, wondering whether legacy brands had what it took to remain relevant for the next-generation of consumers. For me, that question has been answered.

What you're seeing right now is that consumers want products they can rely on, products they believe provide value for their family, even if sometimes they come at a slightly higher cost. That means they'll pay for innovation, and I believe be less likely to experiment with private-label and lower-cost options. Consumers want to do business with companies that share their values, companies who care about the planet and don't put the concerns of near-term profits in term of treating their associates the right way. We ask ourselves a simple question almost every day, what would a good company do? And we strive to behave in a way that answers that question. We understand that consumers want to do business with companies that establish and take seriously a moral contract with the consumers and communities they serve.

Consumers also want flexibility. It will be a long time before the majority of our products are sold through e-commerce. What we have clearly seen this year that more consumers than ever want the ability to buy our products online, regardless of how they take delivery. There is no looking back. We must embrace this reality and continue to get better at it season-after-season-after-season.

Our consumer business has permanently changed over the past 8 weeks. How and where we work will be different going forward. How we advertise will be different. There is increasingly less room for slow-to-develop focused-group testing advertising campaign. The winners will be those who can understand consumer sentiment, and in real-time, and then adjust accordingly with both speed and precision. I'd like to believe that the issues that brought so many new people to gardening this year also represent a permanent change. If we manage this the right way, I believe we can impact the way consumers see our company, our brand and our category for the next decade. All of this also requires us to stick with our retail partners and talk about the right path going forward.

The POS numbers I mentioned in our soils business tell an interesting story. The growth in dollars year-to-date is nearly 2x higher than units, and that's because there's been little promotional activity in this category so far this year. Promotions have always been an important part of activating consumers in the lawn and garden category, and that shouldn't change. But consumer activity, so far this season, is demonstrating there is a better balance out there to engage consumers in the category long term.

These trends reinforce the ideas we began sharing with our retail partners last season and that I've shared with you all in the past as well. We see an opportunity for more targeted promotions going forward. Both in terms of scale and geography. We see local activation. That means more limited but localized weather-triggered promotions, coupled with local media buys in both traditional and social channels as a key to success going forward. It's too soon to know the answer here, but it's not too soon to ask the question. I quickly want to pivot and talk about Hawthorne, where the idea of essentiality manifested itself in very different ways, but just as importantly.

Throughout the COVID-19 crisis, agricultural products and activities were deemed Essential. As a result, in most states, the legal cultivation, sale and use of cannabis was viewed the same way. What did it mean? It meant stronger demand, especially in March. It meant growers need to replenish their inventory, which meant our retail partners at Hawthorne needed us to deliver day-after-day, and we did.

The state-authorized cannabis industry has evolved greatly over the past decade. Even with all the new money in this space, the entrepreneurial culture that created this industry is still alive and well. Within some circles, that culture questions whether Scotts Miracle-Gro, like so many other investors, were simply in this industry to make a quick buck. I think many of those questions have been answered, too. Two stories quickly made their way through this industry. One was the fact that our supply chain didn't miss a beat. The other was the way we were treating our frontline associates. In an industry that is still largely comprised of small family-run businesses, we showed that we're a family business, too. It's just a family with 7,000 members.

For investors listening who think that kind of stuff doesn't matter, you're wrong. If you haven't been watching, the fast-money players in the cannabis industry aren't doing so well these days. The survivors will be those with a commitment to quality and who demonstrate a commitment to understanding the nuances of the industry and its culture. We've called up our sales guidance for Hawthorne this morning, and we're clearly pleased with how the business is performing. We have no doubt we continue to gain share. And we're seeing the real-time benefits of our implementation of SAP, and we're on pace to hit margin targets we shared with you at the beginning of the year.

We also remained bullish about the opportunities for this category to expand in the quarter and years ahead. My own view is that state budgets have been crushed over the past 2 months. There aren't many ways to create new revenue streams for state coffers, but allowing for a regulated and tax system for legal cannabis is definitely one of them, especially in states such as New Jersey that is approaching the issue in a very thoughtful way.

There's still a lot to cover this morning, but before I turn things over to Randy, I want to make one more comment. I want our shareholders to know that I put the quality of this team against any other company in America. It would take me 15 minutes to lift all the people who deserve credit for the way we've navigated the challenges of this season.

In my entire career, I've never seen anything like it. The creativity, agility, collaboration and passion has been humbling to watch from upclose. I've said in a recent town hall that if I could thank each of our 7,000 associates in person, I would. And I meant it. I know terms like world-class can sound cliché, but shareholders need to know and appreciate that the quality of this team is exactly that. Scotts Miracle-Gro won't just survive the challenges of 2020, but we'll be a better company, too.

With that, Randy, take it away.

Thomas Randal Coleman
Executive VP & CFO

Thanks, Jim, and good morning, everyone. I'm going to start by quickly running through the numbers, but mostly at a pretty high level. While our March 26 announcement was focused on anticipated top line results, I'm sure most of you came pretty close to extrapolating the bottom line impact in your own modeling efforts. After I get through the quarter, I'll share some thoughts related to our full year guidance. I also wanted to give you an update about how we're thinking about leverage, our current priorities for uses of cash and liquidity. So for Q2, the one surprise versus our March 26 announcement was that Hawthorne sales growth of 60% was actually higher than we outlined in the press release. Frankly, we were seeing unprecedented shipment levels in those final days of the quarter, and that pushed us higher as we crossed the finish line.

While gamuts in daily orders continue to be quite as high as they were during those last few days of March, we have seen the weekly shipments trend continue to be strong from March into April and also into early May. The 11% growth in U.S. Consumer and the 16% company-wide growth was in line with what we had projected. The gross margin line, however, requires a good bit explanation this quarter. The adjusted rate was 40%, but up 20 basis points from last year, but there are quite a number of moving parts to explain.

Let's start with the impact of our Roundup commission. Beginning this year, we received 50% of the profit from Roundup beginning from the first dollar of earnings. In the past, we received nothing until the business earned $40 million. For the full year, that's an incremental $20 million of Roundup commission. That change in the proper churn calculation and timing was worth $18 million for us in Q2 and impacted the gross margin rate by about 70 basis points. Also, remember that last year in Q3, we received a reimbursement from Bayer of $20 million. While that money was not technically commission income as it relates to our agency agreement, but still flowed through the P&L in the same way. So the gross margin rate benefit we saw in Q2 will be more than offset by the lack in reimbursement payment in Q3 and the full year impact on margin from the various puts and takes will be 0.

As you know, we offset some pricing in 2020, about 75 basis pricing. Plus volume-related benefits also collectively benefited the gross margin rate by about 100 basis points. All these margin improvements, however, were mostly offset by 160 basis points of unfavorable product mix, and most of that was driven from Hawthorne's tremendous growth. To be clear, Upland had a nice improvement in its gross margin rate during the quarter, up 340 basis points. However, since the upland business has a lower overall gross margin rate in the U.S. Consumer business, the unfavorable mix impact on the company-wide rate is still dilutive.

SG&A is pretty much in line with what we expected, up 9% in quarter to $196 million. The biggest drivers higher investments in Hawthorne, increased selling and marketing expenses in U.S. Consumer and slightly higher tools to variable compensation. All of these were expected. What is not expected, however, were lower advertising rate versus a year ago. On slightly higher for 2020 media spending, we now expect at least a 15% increase in consumer impressions for gardening experience and also for our branded products.

We achieved some nice leverage in both major business segments, which allowed U.S. Consumer to report an increase in segment income of 17% to $373 million, and Hawthorne reported a 148% increase to $26 million. Jim mentioned that Hawthorne remains on track for its margin targets with the operating margin rate exceeding 11% in Q2. And while the business is both slightly below our full year goal of 10% on a year-to-date basis, we are in line with where we hoped to be entering Q3.

Interest expense declined a little more than $6 million or $22.7 million. We're turning slightly better than we thought here due to both lower rates and lower borrowings. We've been very focused on divesting certain noncore businesses investments over the last 2 years to reduce our leverage in retrospect, which were prudent decisions. Other nonoperating income was about $3 million in the quarter, down from $250 million last year. We benefited in Q2 of 2019 from the divestiture of our stake in TruGreen. We excluded that impact from our adjusted earnings last year, however, so there's no year-over-year impact on adjusted EPS, which is the basis of our guidance.

Taking it down to the bottom line. We had GAAP earnings in the quarter of $249.8 million or $4.43 per share compared with $396.9 million or $7.10 per share. Adjusted earnings, which excludes restructuring, impairment or other onetime items, was $253.8 million or $4.50 per share. This compares with $203.2 million or $3.64 per share. The impact of the Roundup commission was worth about $0.25 for the quarter. But as I said earlier, that nets up in the year or after Q3.

So let me switch gears and talk about guidance for a few moments. As you saw, we called up our sales guidance for Hawthorne to a range of 30% to 35% growth for the year, and that's up from our original range of 12% to 15%. From day 1, we were transparent in saying we deliberately adopted the original range to be conservative. I'd be just as straightforward in telling you I never expected our revised guidance to be this high. As the business just keeps delivering, there are times when the team is doing everything they can do just to keep up.

Given the recent strength of Hawthorne, we've done a lot of work to evaluate the sustainability of our sales arm. It's clear the industry has recovered from the doldrum of 2018.

Over the last few years, we have seen a lot of volatility. In 2017, growth was very strong. In 2018, our business was down by nearly 40%. In 2019, we drove a partial recovery. And in 2020, we have now seen a full recovery. In fact, over the 2017-to-2020 period, our sales CAGR is now in the high single digits, consistent with our growth expectations when we began building the Hawthorne business. In addition, both wholesale and retail pricing trends are mostly positive across the [footprint], and these are key leading indicators for our business. We have also taken pricing in recent months and have seen no related slowdown in orders.

Category rebound, market share gain, new innovative products and opening to new state marketplaces are all driving our growth. Our conclusion is the industry rebalance is now at a sustainable level and we expect to continue to outpace the growth with our strong competitive position. But the industry is generally volatile, and we still expect our long-term growth to be periodically choppy rather than consistent linear.

The new Hawthorne range takes our company-wide sales growth range up to 6% to 8% versus originally 4% to 6%. We're reaffirming U.S. Consumer growth of 1% to 3% and which continues to be reasonable based on what I note right now. Going into May, our year-to-date shipments were up about 1%. However, our May U.S. comp is minus 13%, and for June to September, the comp is positive mid-single digits. Gross margin is probably the other line in the P&L where I'm most focused. Our original range was flat-to-plus-25 basis points. Consistent with our year-to-date results, I watch out here a segment next. Both major statements stay on the current trajectory, and our margin rate will become slightly negative for the year. But remember, even if that happens, Hawthorne's stand-alone margins are still moving in the right direction. I'm stricter in wondering about the current commodity environment. So let me address it up so. Yes, we're seeing some interest right now in the lower commodities. However, so much of our cost is already locked in place, so it will have only negligible impact on the year. We are, however, taking advantage of this environment as we planned through 2021.

We are aggressively locking in diesel and urea with recent hedges for next year, well below our 2020 lot costs. This could possibly be scenario right now where commodity costs are a headwind to 2021, but it's still too early to make that call right now. Back to 2020, I know some of you will tell us we're being too conservative when it comes to our adjusted EPS guidance. Given the fact that we on the few CPG companies, still willing to provide guidance at all. I'm perfectly comfortable to be conservative at this point. Is there a potential upside here? Obviously, there's potential that's still warrant, but given the level of uncertainty in the world, the prudent round was to maintain our earnings guidance for a few more weeks.

Similar to most years, we will update on our guidance at an investor conference in early June where we see about 2/3 of the U.S. Consumer POS group. As for cash flow, we said we expected about $300 million of free cash flow for the year as operating cash flow minus CapEx. In the current global uncertainty around supply chain, we'll likely make a decision to increase our inventories before year-end, although this plan does not reflect any specific concern that we have right now.

Jim mentioned the $30 million to $35 million of COVID-related expenses that we'd like to believe to incur for the year. We intend to exclude those from our adjusted EPS calculation and from our leverage ratio.

That's consistent with the onetime nonrecurring nature of these costs and our effort of transparency around the impacts of COVID are [intended]. In addition, this treatment is consistent with SEC guidance and disclosures provided by similar companies.

However, that's still cash out the door. It's too early to know whether our free cash flow guidance will hold, but I want it to be on the radar before next update in June. Speaking of cash flow, I also want to update you on our thoughts about uses of cash.

As we said on our March 26 press release, we have indefinitely suspended any share repurchase activity. This has nothing to do with our longer-term philosophy about returning cash to shareholders. Also it has nothing to do with our confidence in the business. Rather, this is about giving us a little more flexibility as we navigate the pandemic. Right now, leverage is 3.1x. I've said multiple times that I'm comfortable managing the balance sheet at 3.5x, and that has not changed. But the worst thing that happens when our leverage falls closer to 3x for a few quarters, I'm okay with that, and I'm sure most of our shareholders are, too. I want to be unequivocal in stating that we have very little concern about our liquidity. In this environment, there's also nothing wrong with a bias or a slightly more conservative balance sheet.

Before I close, I want to say that I'm extremely comfortable with where we are right now financially, extremely pleased with how we're operating the business and extremely proud to be part of this organization. Jim said in his remarks he does not believe in luck. All of us here recognize how well our business is performing in the current crisis, and we're tremendously very strong.
So Jim is right. This is not luck, the advanced planning, the team's focus and the commitment of our associates and why we're in such a unique position. And with that, thank you for your attention. And let's open things up to your questions.

Question and Answer

Operator

[Operator Instructions] We'll take our first question from Joe Altobello with Raymond James.

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

I just wanted to start with Hawthorne. And obviously, very strong top line. Margins are improving. But I'm a little surprised you didn't see better margins this quarter and maybe better margins for this year. Maybe help us understand what's going on in that business in terms of pricing increases, et cetera?

Thomas Randal Coleman
Executive VP & CFO

Yes, Joe. This is Randy. I'll take this one. We're actually pacing ahead of where we thought we'd be at this point. So we're very satisfied. We did back off on some of the promotions early in Q2. And we took some pricing increases on certain products, a little bit in February and also and in March.

So when you look at our margin rate improvement, both gross margin rate and operating margin rate, the acceleration from Q1 into January and into February and in March than April, the trend is really positive. And we're definitely on track to reach our 10% operating margin guidance for the year. We could do a little bit better, but I'm really pleased with the way things are going right now.

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

Yes. I guess that's where I was going, Randy, was the top line is now 30% to 35% growth versus what we're seeing in 10%, but that's where the try to get that. That's all.

Just, I guess, secondly, in terms of your channel, you mentioned earlier, Jim, I think that -- general, like hardware, has outperformed some of your larger retail partners. So you've seen a bit of a switch recently. Maybe we can get a little bit more color on what you're seeing in April and early May in the DIY channel in the category.

James S. Hagedorn
CEO & Chairman of the Board

I think they're getting their heads back in the game. The -- they've taken it pretty seriously, this issue of being responsible as an essential player. And I think the crowd's protecting their associates, protecting their customers. But if you look at the orders, just the last few days, primarily driven by our biggest -- I mean, biggest quarters by far we've ever had on any single days.

They are largely coming from our largest customers. So I would say they're getting their handle bays loaded up, ready to play in a serious way that it's happening right now. So I think -- Mike, I don't know what you feel. We're actually having this conversation. We're all like scattered across the room. So I don't know how you feel, Mike, but I think that...

Michael C. Lukemire
President & COO

Yes. They're expanding their store hours back because they had consolidated that, and we're starting to see more garden doors open up and as they follow the cases across the country. But they were really very sensitive about the number of people in the store and the -- and keeping their essential status, which it's easier for hardware and the smaller stores, smaller footprints to react to that.

Operator

Our next question comes from William Reuter with Bank of America.

Unknown Analyst

This is Mary on for Bill. So my first, just on your customer base. It seems most are considered essential, but given that it does vary by region, do you have any that are closed or were closed for a period of time?

Michael C. Lukemire
President & COO

So there were no specific retailers that come to mind that jump out. I think people are probably familiar with what happened in Michigan and also in Vermont. And we also install some curbside pick up in Canada as well. So if you look at the POS in those geographies, they were down versus everything else in Michigan and Vermont.

Interestingly, we're not seeing the same thing in Canada. So our POS has actually ticked up despite what's going on. But to specifically answer your question, there aren't any retailers that come to mind. They're closed. It's good stand out, right?

James S. Hagedorn
CEO & Chairman of the Board

Yes. It's hard to hear in this room. So Jim Hagedorn here. Look, when Vermont got tight, there was still snow on the ground when that happened and had nothing to do with us. It happened to do with sort of general merchandise at Walmart and the governor up there. And the ex-governor of Vermont's on our Board, so I'm pretty familiar with what occurred there.

And in Michigan, Whitmer backed off that in about 2 weeks. But again, it was still extremely early in the season. And so it really didn't have that big an effect on us. And so the gardening business in Vermont is great. I mean that's where [Carli] and I are domiciled right now. And the Michigan numbers also look good. So that -- those were the areas that I think at the height of the sort of questions of essentiality, I think it was Vermont and Michigan that got tight and started closing up departments.

Now a lot of the retailers just modified their merchandising setup given the importance of lawn and garden tool is happening. And even if they close their garden doors, they brought back into the main part of the store gardening products. So it was not quite as impactful to us based on merchandising decisions that retailers made in order to sort of protect the business. And that, I think, happened without any sort of compliance issues in those states.

Thomas Randal Coleman
Executive VP & CFO

And it's also difficult to tease apart, like Jim said, weather versus the impact of COVID. But if you look at the city of Detroit and compare it to the city of Cleveland, our year-to-date POS in both of those cities is nearly identical and just down a couple of points as we sit here today. So again, difficult to tell. It definitely wasn't helpful, but I think credit goes out to the people working in the stores to there -- try to bring the products out to the people and...

James S. Hagedorn
CEO & Chairman of the Board

I think at the end of the day, the crisis is caused people to make sort of fundamental decisions about how they spend their time, and that's been good for us. It hasn't changed the weather. And so I think for those of us -- I'm -- for my first time in a couple of months here in Ohio, people are saying it's been kind of wet and dewy. It's been cool in Vermont, where I have been and so if you look at Northeast sales, I don't know if they're down, but they're not up for sure. And this is a good thing for us because the sort of strength of the business is kind of everywhere, but the Northeast, if you include kind of west here to Ohio.

And the coolness, I think, is going to act as something of a buffer that during this sort of debate over essentiality, which I think made people nervous, especially people who are running retail companies, large footprint retail companies. This gave us time where the season didn't pass [aside], and it just seems to me looking at the weather that this is going to result in a somewhat extended season, which is exactly what I think we were kind of hoping for in that region, especially with the dominance of big-box in up there. So I think it's actually really good for us.

Unknown Analyst

Got it. And then just one other, particularly on some of your small independent customers. Have there been any delay in payments? Or are there any concerns with regards to your receivables?

Thomas Randal Coleman
Executive VP & CFO

No. Our payment terms are such that we typically get paid early to mid-June. But at this point, we're not seeing any kind of late pay. And even when you think about Hawthorne, which is much more fragmented group of customers, at this point, we don't have any issues either.

So definitely something we're keeping our eye on and we're on top of, but we haven't seen anything yet there that would give us a lot of concern other than this, the general need to stay on top of it.

Operator

Our next question comes from Bill Chappell with SunTrust.

William Bates Chappell
SunTrust Robinson Humphrey, Inc., Research Division

Yes. I have 2 questions. One, help me understand on the Hawthorne business, why the business surged kind of in March, and it doesn't seem like it was all just stockpiling and it continued into April. I just -- I say that it's -- you don't sell actual cannabis. And so I understand the run on that, but you're selling supplies that will help cannabis production over the next like, 6, 9, 12 months. So I'm trying to understand why there was that surge and why it sustained into April and May.

James S. Hagedorn
CEO & Chairman of the Board

When this whole thing started, I'll let Chris answer most of the question. I just want to -- this is the question that I asked, kind of like as we were -- I guess this was probably beginning of April. And so I've made a few friends in the industry by just traveling with Chris and some of his team. And so as this question is, where are these sales going? By the way, the sales have been great the entire time. It's not just been like 1 month.

We were briefing members of the Board up yesterday, and Mike just said, Chris as sales in force just like a buck and broken record, it just continues to be positive. So it's not like it was 1 month. But as we saw numbers just kind of go bananas, I said, let's call some of our friends up that own retail channels, which we did, and super connected guy, a guy who's doesn't hear much from me, but he's got my number in his iPhone. So as soon as I call him, he picked up and he said, "Holy mackerel, dude, like I need product bad." So we had thought maybe it's like stocking up kind of figuring the demand was going to come and that maybe people couldn't ship, which I think has been a problem in the industry, not with us.

As some people had COVID in some of their warehouses, some of our competitors. But he said, "Dude, everything, it's going. I'm low on product It's been a pain what's happening here." And I think just a lot of retailers just upped to their production. A lot of people, what we call traditional growers, reentered the space, especially in California and just needed product. And a lot of it was nutrients and grow media, which are the consumable side of the business, which is really nice to see. I don't know, Chris, where do you go from this, but it's not flu. Yes. So I mean, I'm not sure how much meat you left on that question. My bad, dude.

Christopher J. Hagedorn
GM & Senior VP

Bill, it's Chris. I think everything that Jim said is correct. There was an element of pantry loadings. I think that was really something we experienced kind of second, third week in March when we saw pretty extreme spikes in volume that I do think had something to do with pantry loading as people were concerned that our service levels wouldn't be able to keep up. Now luckily, they have been, and I can't give enough credit to the supply chain team for Hawthorne and the support we get from Scotts. Those guys have done a phenomenal job and battled through some tough conditions.

But as Jim was alluding to, we joked when all this started, not that it's filled in a manner, but you got to find levity where you can that what were people going to do when quarantine hit the whole country is they're going to sit at home and smoke pot in garden. And I think in all seriousness, a lot of that -- there's a lot of truth in that statement. So demand for the kind of end-consumable product clearly has gone up. We've seen that both anecdotally and in data that we've gathered through the industry. So just massive surge in demand for the end product has driven surge downstream to us.

Now that increase in demand appears to have had been pretty sticky. Service carried through until now, and we're doing everything we can to keep up. And that was talked about in our reported remarks at the top of the call that the supply chain guys are running hard right now. We're shipping more out the door at Hawthorne than we ever had before.

It just speaks to the benefits of SAP, the benefits of further integration with Scotts and their supply chain and just the quality of the people that we have top to bottom within Hawthorne and the team that I'm lucky enough to get to be part of. But yes, it was -- I think there's a little bit of pantry loading. I think there's a lot of just really high demand for cannabis as this quarantine continues to drive new consumer behavior.

William Bates Chappell
SunTrust Robinson Humphrey, Inc., Research Division

Great. No, and I appreciate the [promised] part of the response, it does give me a sense of normalcy on this call, so I do appreciate it. I just switch more quickly to the consumer business. I've always heard or thought that the garden season starts in the south at Easter and North in Mother's Day. So we still -- it would imply that we still really have kind of a big part of the season in front of us.

And so how much, if any, is pantry loading in the northern half that you've already seen? Or how much of it is really -- it seems like May has set up fairly well with most of your retailers now really open. Everybody is still working from home, school is out. It seems like it's -- other than weather, which is -- it's found on the North half and it sounds it really could. Now is that a fair way to look at it?

James S. Hagedorn
CEO & Chairman of the Board

Yes. I think what we're seeing though, Bill, is in the southern markets because gardening is so hot, the south and the West are over-indexing right now. And the north is just getting started. We saw a little bit of pantry loading back at the end of March, but North is now just waking up, and we've seen some really good results even in New York last week.

So -- and your thoughts on Mother's Day and beyond for the north, and I've been around this business a long time. I've seen where April has been bad in the north, and then they come back with the storm. So we're kind of set up at the South and West are over-indexing and the North is going to come on strong. We're seeing that trend right now. So -- and I think it will go through the end of June in the North.

Operator

Our next question comes from Eric Bosshard with Cleveland Research.

Eric Bosshard
Cleveland Research Company

Two things. First of all, in terms of the guidance for consumer, holding that up 1% to 3%, knowing where you sit now through March to rate growth through the first handful days of May. Just curious in why I'd leave that number where it is rather than raise it to reflect what you've seen.

And then my second question is, if you could just parse the last 5 or 6 weeks, you talked about some record $100-million-plus weeks and record days of orders, and also the April number down 8%, I think you said. It feels like there's some different periods within that. And so curious if you could give us a little bit of color on what the last 2 weeks over the last 6 weeks, each of those periods might have looked like. Those 2 things would be helpful.

Thomas Randal Coleman
Executive VP & CFO

Sure. Eric, this is Randy again. 1% to 3% was our original guidance. And I could tell you I feel a lot better today than I did a week ago. But this business can be incredibly volatile and seasonal. And I'd remind you, a couple of years ago, we were down 12%, I think, year-to-date at this point of the year on this Q2 earnings call, and we ended up back to flat.

So at this point, there's still half of the season ahead of us. And Mid-June, we'll have 2/3 of the year complete. We still have 1/3 ahead of us, and we'll have a lot more insight and confidence at that point. But I will say that in here today, and we're confident than I would have been a week ago or a couple of weeks ago and May starting out extremely well like Mike Lukemire pointed out, so see you in a month.

James S. Hagedorn
CEO & Chairman of the Board

The only thing, Hagedorn here, that I'd say, Eric, is that Randy will be lonely like a pretty serious dude. And I can just tell you that the sales over like last week have been like pretty crazy. I mean, I had to and so you might just comment on it, Randy. It's like -- it came in this morning as a joke. calm down son, like remember as a CFO, but kind of what you're seeing in regard to this volatility, but how positive it is right now.

Thomas Randal Coleman
Executive VP & CFO

Yes. Well the reason why I was enthusiastic this morning is, I believe this is true, and we have it validated, but I think yesterday, it was the biggest order day for U.S. Consumer that we've ever seen. So it wasn't the biggest, it's darn near the biggest and that gives me that a lot of, I guess, confidence that the retailers are going to fit in there. We probably won't see the level of promotional activity that we've seen in years past, but people are definitely trying to sell product. Consumers want to get out.

They want to get out of the yard. It's good for their physical health. It's definitely good for their mental health. And I think the season starts to break here in the Midwest and Northeast where we really haven't seen that much activity yet. It just gives me even more confidence. So I'm feeling good about that.

The other thing I'd point out, though, is POS, trying to reconcile POS dollars to our shipments, is a bit complicated as well. So by having less promotions in the month of April, our POS numbers are inflated in dollars versus units. And eventually, everything comes back to units and inventories at retail and our shipments and the POS dollars, I'll have to reconcile to a degree. But keep that in mind as well, but I am feeling really good.

James S. Hagedorn
CEO & Chairman of the Board

Kind of 2 interesting stories there. #1, we went into this call, as we prepped yesterday. We just said there's no way somebody is knocking us off of our stance on holding fast with the numbers, even if people said to us, so how can you sandbag that bad?

I think compared to what's happening to other companies and just the general environment out there, I think it's a correct place for us to not get knocked off our guidance at the moment. The fact that we're maintaining it, even if it's a little bit not so credible based on the positivity of the business. I think just given what we know a few weeks to sort of get smarter is probably, I would say, bear with us on that. I don't know what else I can say. But was there a part 2?

Eric Bosshard
Cleveland Research Company

Yes, the second part was...

James S. Hagedorn
CEO & Chairman of the Board

Hold on. I just came back to see, Eric, is this issue that Randy was talking about is dollar volume versus unit volume. This is one of the things that we're seeing, that we're trying to sort of talk coherently to our retail partners about, which is with the almost complete lack of promotion that we would normally be seeing this time of year, sales are really good. That doesn't mean that promotion isn't important, but it does mean that as we look back on the sort of so-called Black Friday events that are not like Christmas as the 1 day, but sort of 2 or 3 major promotions through out of season that take a lot of our promotional dollars, what we've seen is they're pretty early.

The last few years, they've been up against kind of crappy weather and more and more, we have been thinking they could be much more productive in sort of this rifle shot that we talked about in the script, which is that promote when certain products are in calendar, in areas where the weather is good and the inventory is in the stores. And we've been playing with that with the retailers last year to see if we can increase the effectiveness of these promotions and not spend as much money blindly, especially in this shitty weather as we've seen in the past.

And so we felt pretty strongly coming out of last season that the demonstrations we did with them showed that we can produce equivalent results in a much more targeted way. And so those discussions are going to happen, and that's what we were alluding to. And I'm hoping that we'll find retailers much more willing to sort of -- because foregoing Black Friday events for retailers, it's scary. It's how they get customers in. If they get customers in, they tend to be sticky through the season.

Because it didn't happen this year, and by definition, we're doing much more targeted work, and it's not really them. It's us doing that work this year. I think we've got a lot more data to talk about next year. And so I don't know what it means. Randy is talking about dollars versus units. I think we're going to end up the year with a sort of much better dollar story and much more -- much better margin story on both sides, on our side and their side, which we then have to say, okay, what does that mean next year and beyond, so?

Eric Bosshard
Cleveland Research Company

Okay. That's helpful. The other question I wanted to ask is your business historically has set a below-average business in terms of online penetration relative to what [depots] do in other categories. That's changing this year, maybe.

As you look to the future, does it matter to you if more of this is done online? Do you have to run the business differently? Does it change the profit opportunity? How does this business look different if it becomes more meaningfully online ordered and executed?

James S. Hagedorn
CEO & Chairman of the Board

I'll mostly hand that to Mike because I think -- I don't think it's a maybe. I think it's a for sure. We don't talk a lot about Amazon. It's -- and relative to our entire business, it's not that big. Amazon has been an important partner to us this year. And I think we've been an important partner to them. So I think that there was -- I don't know. I've been pretty negative on Amazon, at least from lawn and garden point of view that kind of their attitude.

I think this is one where they've seen lawn and garden is important. They've seen our ability to deliver. We help them pretty hard. They needed bottles of stuff to convert bulk cleaners and stuff for their warehouses and they reached out to a bunch of vendors to help, if they could, with packaging, and we were able to put Ortho packaging their direction. But I think -- so there at Amazon, I think, a much higher respect for the power of lawn and garden this time of year. And within our conventional retailers, just record weeks-after-weeks that lawn and garden -- I don't know. I'll probably screw this number up.

But I think the number is like 15% of our lawn fertilizer business is going out online now. And a lot of our retailer business is drop ship business, and that's a model issue that Mike can talk better about than I can, where we're shipping directly to consumers for even our traditional retailers. But I think there's no doubt that the online business will represent a larger percent of our overall business this year. And I think that doesn't change. I think that for sure, consumers are just pushing a button and it shows up at their house. So, Mike, I don't know, what do you think it means to the business? And what about margins?

Michael C. Lukemire
President & COO

I -- well, I think the margins will improve for us and the retailer. We're building the capability of the supply chain that we built years ago with a home center to be able to drop ship and it's an acceleration. In my mind, 5 to 10 years where we thought e-commerce would be. And I think it will stay. I think it will help the stores with their assortments, to be more efficient for curbside pickup and delivery. And we'll be able to provide that supply chain network that they're not building warehouses.

We have -- from our existing warehouses, we're transitioning to a direct-to-consumer capability using the same inventory. It will be more efficient. And we'll be able to provide that for any platform out there. So to me, it's actually taking us where we thought we'd be 5 to 10 years. I think it's here now. I think it's a great way to do business. And I think we're the perfect ones to be able to do it nationally in lawn and garden to support what -- a retail platform or even our own platform.

Thomas Randal Coleman
Executive VP & CFO

And then this is Randy again. I'd add just to put some numbers around this. Our Amazon business is about the same size as our online business for our largest retailers. So that's about the same. And then our own SMD sites are much smaller, but growing fast as well. When we think about our market share, we actually have the highest market share in the channel where consumers buy online and then pick up in the store.

I think that logically makes sense when you think about people searching online and playing ahead, but they're nationally -- naturally going to gravitate to national brands, and we have a national fulfillment. So I think that, that's good for us, and that's good for our large retailers as well.

And we have the lowest share, by far, in trying to just sell online through our own website. But that's where you might see some smaller competitors trying to compete. But I feel really good about our competitive position and our ability to work across all channels and with all those customers and help them win, too.

Operator

We'll take our next question from Carla Casella with JPMorgan.

Sarah Stuart Clark
JP Morgan Chase & Co, Research Division

This is Sarah Clark on for Carla Casella. Apologies if this is already said. We had to hop on a little bit late, but have you had to pay any of your employees bonus payments or incurred any additional costs for [pooling] or employee management costs or any additional expenses due to COVID? Can you just talk a little bit about that and what you're seeing in terms of transportation costs?

Thomas Randal Coleman
Executive VP & CFO

Sure, Sarah. This is Randy again. So this was infill provided earlier, but just to reiterate, we spent about $4 million through the end of March. Our full year forecast is at a range of $30 million to $35 million. And the way I'd break that down is the first $25 million is premium pay for our associates who are working in stores or working in DCs and warehouses or factories as well.

And then about the next $5 million is an outlook for incremental cleaning and maintenance costs. And then beyond that, we plan to spend maybe $4 million to $5 million in face shields that we're manufacturing in our Temecula, California facility and the start-up costs for that. And then the cost to manufacture and then giving all those pieces of equipment away to various places across the country as an act of goodwill.

So all that combined is how we'll get into our $30 million to $35 million estimate. And I especially feel good about the last part with the $5 million for the face shields, but also the premium pay. I think we're treating our associates extremely well.

James S. Hagedorn
CEO & Chairman of the Board

And their rate were that adjusted.

Thomas Randal Coleman
Executive VP & CFO

And our expectation and our -- clearly, our plan is to adjust that out given the onetime nature of all that. And we've run that by our auditors, and they're we're very comfortable with that. And we've talked to our banks as well for leverage ratio. So everybody understands and it's consistent with what we're doing.

Sarah Stuart Clark
JP Morgan Chase & Co, Research Division

Of course. Thank you for that cost breakdown. That was really helpful. Have you disclosed what percent of your costs are fixed versus variable?

Thomas Randal Coleman
Executive VP & CFO

No, we haven't. I can tell you, the way we plan is on the way up, we don't gain a lot of absorption just because we planned for certain sales levels. I'll tell you on the way down, it is a lot more punitive. So we probably -- it's hard to use a very good rule of thumb.

But I'd say at this point in the year, as we lose sales, we probably will lose 10% to 15% of margin on the way down if we don't hit our sales expectations. So I don't know if we provide that specifically in the past, but I think that's a reasonable rule of thumb.

Sarah Stuart Clark
JP Morgan Chase & Co, Research Division

Okay. Helpful. And then one more for me. You highlighted that you've seen continued strength in April, but we're just wondering if any of this quarter's strength maybe will pull forward from next quarter as people shelter in place and look to buy products than what you were mentioning on the Hawthorne side. So any commentary around that?

Thomas Randal Coleman
Executive VP & CFO

Well, I think we've addressed the Hawthorne piece pretty thoroughly already. And on the consumer piece, time will tell. I know that consumers are gardening more than they have in the past. We have research, I would say, 30% of our gardening consumers this year are either new or lapsed consumers.

So I think that's good for the long-term health of the business. And we'll see, but we're really confident about our outlook for this year and think why that's going to stick as we look beyond 2020.

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

Lauren, it's Jim King here. Let's just -- in the interest of time, we'll stick it to -- or let's have just 1 more question, and then I can follow-up with people offline later.

Operator

Our next question comes from Alex Maroccia with Berenberg.

Alexander Rocco Maroccia
Joh. Berenberg, Gossler & Co. KG, Research Division

Your guidance implies your thoughts on continue doing incredibly well, just like the financial issues we've seen among some of the larger producers that you alluded to earlier. Can you pinpoint where you're seeing the big of the growth there in terms of geographies such as [your] producer size?

Christopher J. Hagedorn
GM & Senior VP

Yes. This is Chris. So we're seeing growth really across the board. It's a mix of some of our more kind of legacy big states. California is up pretty significantly, over 75%. In Michigan, which we've talked to you guys about in the past. And our second biggest state, we're seeing growth in Michigan over 100% year-over-year. But then you've also got newer states in there. Florida, Alabama are both up significantly above average. Oklahoma is up over 230%.

So we're seeing strong growth really across the country. Like I said, a combination of our more established markets like California, Michigan, Colorado, along with newer states. As far as the customer mix, our -- Jim has talked a little bit about this earlier, but our visibility is limited once we go past the retail level.

If you look at the sizes of some of the SKUs that we're selling were -- our [inferences] that we're seeing growth, both among the large-scale multi-state operators and large commercial growers as well as some of the more traditional smaller-format growers.

Alexander Rocco Maroccia
Joh. Berenberg, Gossler & Co. KG, Research Division

That makes sense to me. And second question is the clarification on the accounts receivable or comp earlier. You mentioned June payment terms, but I'm just asking because AR is at its highest as a percentage of sales in Q2 2017. You think this is a unique phenomenon to 2020 in its receivables cadence due to the surge in March?

Thomas Randal Coleman
Executive VP & CFO

Well, clearly, AR is up when we sell more. And like I said earlier, we don't have any specific issues yet with customers paying late, something we're on top of. Our orders to cash team is very much on top of that. But at this point, we haven't seen any cracks at all. And I guess, we'll see, but it's not a big watch out. It's a concern on top of, but it's not a huge concern.

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

All right. I'm going to jump back in here. We're going to wrap up with the call today. I know there are some folks that may still want to ask questions. So a couple of ways to reach me. You can call me directly at (937) 578-5622, and we'll set up a time to follow-up or send me an email at jim.king@scotts.com K-I-N-G. And just as a reminder, Randy and I will be participating in the William Blair event on June 9, and we will probably have a communication out prior to that event.

So thanks, everybody, for joining us today and be well, be safe. Thanks.

Operator
That does conclude today's conference. We thank you for your participation. You may now disconnect.