# The Scotts Miracle-Gro Company
## NYSE: SMG
### FQ1 2019 Earnings Call Transcripts
**Wednesday, January 30, 2019 2:00 PM GMT**

## S&P Global Market Intelligence Estimates

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Currency: USD
Consensus as of Jan-30-2019 1:21 PM GMT

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### Stock Price [USD] vs. Volume [mm] with earnings surprise annotations

#### - EPS NORMALIZED -

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Raymond James & Associates,
Inc., Research Division
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Operator

Good day, and welcome to the ScottsMiracle-Gro 2019 First Quarter Earnings Call. Today’s conference is being recorded.

At this time, I’d like to turn the conference over to Mr. Jim King. Please go ahead, sir.

Jim King
Chief Communications Officer and Senior VP of Investor Relations & Corporate Affairs

Thank you, Allison, and good morning, everyone. Thanks for joining us here today. With me in sunny and warm Marysville, Ohio are Jim Hagedorn, our Chairman and CEO; Randy Coleman, our Chief Financial Officer; and Mike Lukemire, our President and Chief Operating Officer.

We'll get started in a moment with prepared remarks by Jim and Randy, respectively, and at that point, we'll open the call to your questions. [Operator Instructions] If there are anything left unanswered, I'm glad to follow up with as many of you as possible later in the day.

One bit of housekeeping before we get it started. On Monday, March 4, Randy and I will be presenting at the Raymond James Conference at JW Marriott in Orlando at 7:30 a.m. This will be a webcast presentation followed by a breakout session and a series of one-on-ones and small group meetings. We'll announce more details leading up to that event.

So with that, let's move on to today's call. As always, we expect to make forward-looking statements this morning, so I want to caution you that our actual results could differ materially from what we say. Investors should familiarize themselves with the full range of risk factors that could impact our results. And those are filed in our Form 10-K, which was filed with the Securities and Exchange Commission.

I also want to remind everyone that our call is being recorded today, and an archived version of the call will be available later today on our website.

With that, let's get things started, and I'll turn things over to Jim Hagedorn.

James S. Hagedorn
Chairman & CEO

Thanks, Jim. Good morning, everyone. All of you listening today know that our Q1 results really don't provide much insight in how the full year P&L will take shape. That said, if you're working inside the business, the trends you see developing this time of the year, those that haven't made their way into the financial statements yet can tell you a lot. And based on what I'm seeing right now, I'm extremely encouraged by the opportunity in front of us.

Before I go there, though, I want to cover a topic that I seldom touch upon, our valuation. I'm not really that interested in focusing on the share price itself. I do want to talk about the volatility we've seen over the past year and the implications it's had on our strategy going forward. It was about this time a year ago that we hit an all-time high of $110 per share. By the end of the calendar year, we hit a multiyear low of $57. I tend to believe that things are seldom as good as they look or as bad. The truth is usually somewhere in between.

That said, there are a few things that can get the attention of a CEO more than a crash in stock price. In November, I told my team I wanted to sit down and conduct a thorough review of our strategy. I wanted us to question whether the decisions we made in Project Focus to divest Europe and LawnService to focus on North America and to invest in areas like live goods and hydroponics was still sound. I also wanted us to look more closely at our operating plan for 2019 to talk about our organizational structure and our planned investments in the future. In other words, I wanted us to take a hard look at whether we made a
mistake and, if so, how to adjust and move on. Randy now oversees our corporate strategy group, and he was diligent in facilitating this process. The conversations we had, which occurred over several days early this month, were rich in content, thoughtful, candid and passionate.

You might be assuming by now that I'm going to announce a series of changes this morning. Not. Instead, I can tell you we came out of that process confident and aligned that our strategy is sound. While there are always lessons to be learned and adjustments to be made, there is no reason to change our strategy. The last 12 months have been tough, that's for sure. I wish I could have predicted the contraction of the California cannabis market, but no one else saw that coming either. And in the U.S. Consumer segment, the start to the 2018 season was historically bad. There's nothing we or our retail partners could have done differently to change that fact. Sometimes things happen. That's not an excuse; it's just reality. The share price was, to some degree, one of those things. The euphoria around Hawthorne and a legally authorized cannabis production is what took our share price to $110. That wasn't solely based on our performance clearly. A portion of that valuation was speculative. Likewise, when the share price fell to $57 last month, it was clear we were swept up into the overall volatility of the market. That valuation didn't make much sense to me either.

What was encouraging is that we saw some of our largest and longest-tenure shareholders, those who really understand our business, increase their positions in November and December. I suspect those shareholders believe we still have a lot of upside in front of us. We agree. I am not suggesting that we were simply victims over the past year. That's not true either. We missed our numbers and not by a little. When you miss your numbers, you get dinged. And when you miss your numbers after a major shift in strategy, one that results in higher leverage, you get dinged even worse. And that's even more true when the market is already jittery, I get that.

So my challenge to the team after our strategic planning review was a simple one: we must improve our execution and be willing to be held accountable when we don't. And that starts with me. I have a great team, and I have full confidence in their ability, but I know I am the one ultimately accountable to all of you listening today. That's why I want you to know that I have been personally involved in visiting customers, in challenging our execution, questioning our planning assumptions, spending more time with our emerging leaders, pushing for even more progressive thinking about our brands, our products and our relationship with consumers and in making sure we stay focused on the right performance metrics, especially cash flow.

That's also why I can tell you with confidence that I haven't felt this good about our prospects in quite some time. Coming out of Q1, there are also a lot of encouraging signs. So let me just jump right into it, starting with Hawthorne. My comments here will be brief but noteworthy. During our last call, we said we believed the worst was behind us. This was based on the fact that our rate of sales decline on a comparable basis went from nearly 40% in Q3 to a little more than 30% in Q4. Using that same process, comparable sales in Q1 declined by less than 10%. However, the Q1 numbers masked a better story as U.S. hydroponic business started to show growth in the back half of the quarter. That positive trend continued in January with growth in every product category. The highest growth rate was in lighting. So we've reported a positive comp in 2 of the last 3 months. On a year-to-date basis through January, we're back to flat on an apples-to-apples basis in the U.S. hydroponics business. More importantly, we're getting good feedback that our customers have also begun to see a recovery. If our run rate exiting January holds, we would expect to see positive top line for Q2.

Let's be clear, I'm not claiming victory. We have a long way to go for that to happen, and we've learned the hard way that this industry has a lot of ups and downs. Hawthorne has clearly benefited as the cannabis industry has grown in both the U.S. and Canada. The industry is changing rapidly, and what's important is that we're changing with it. Markets like Canada, Massachusetts, Michigan and Florida don't look like the Western United States. There are fewer limited licenses in these markets, which means fewer growers but larger ones. That's likely to be true as new markets open in places like New York and New Jersey, both of which have committed to using the legislative process this year to allow for adult use. The evolution of the market requires greater commitment to innovation, to technically proficient sales force, to a world-class customer service. Due to a series of organizational and process changes we've
made over the past several quarters, I believe no one in the hydroponics industry is better positioned than Hawthorne. But as I said earlier, our focus has to stay on execution and accountability.

One last point on Hawthorne is the integration of the Sunlight deal. Nothing has changed. The integration is going as planned, we’re achieving the cost savings we expected, and the year-over-year benefit to Hawthorne’s bottom line remains on track. We know that the interest in this business is high. Randy and Jim King will be out on the road a good bit in March, including a conference that will allow us to provide a public update. Our intent is to let you know where things stand and to keep you updated on our progress.

Let me shift gears and talk about why I’m also encouraged by what I see in all retail channels in the U.S. Consumer business. You should know that I have not seen this level of retailer enthusiasm about our category and brands in several years. The results you saw this morning are a testimony to that. Even in the historically small first quarter, we saw a solid increase in shipments as retailers prepare for the season. That trend accelerated in January. The flow of the season in both 2017 and ‘18 would suggest we have pretty easy weather comps as we start the season. That said, the temperatures here in Ohio this week, right now, remain below 0, so I don’t want to get carried away in predicting when the season will break.

What I do know is that retailers want to be ready. I believe we’ll see them all leverage innovation like Miracle-Gro Performance Organics to create enthusiasm among new consumers and expand the gardening category. I also think they’ll use products like Scotts Turf Builder Triple Action to drive lawn-care loyalists into the store. I also expect retailers to hit the ground running at the beginning of the season with a focus on Scotts-branded products. Right now, it looks like we’ll see an even greater focus on branded mulch, probably higher than our original expectations. That could have some top line benefit, but as you know, mulch is a low-margin product. Regardless, the fact that we expect retailers to come out of the gate hard is definitely a good sign.

I know that many of you continue asking whether our price increases will stick and whether retailers are moving away from brands and toward private-label offerings. I can tell you that I’ve personally been engaging with our retailers leading into this season, and literally none of them have raised those issues. In every channel or trade, retailers need vendors like ScottsMiracle-Gro. They want partners who remain committed to R&D, to brand support, to supply chain excellence and to in-store execution. They continue to place value on the role of industry leaders like us, partners who can help them grow. That's why 3 of the 4 largest partners we have named us Vendor of the Year over the past 18 months. Over the past month, one of those partners named us their vendor for the second consecutive year. We don't get this kind of recognition because retailers think we're good people. It's because we can help them win.

Part of the reason we're winning with our retailers is our successful track record when it comes to innovation. About a year ago, I began talking to you about this year's introduction of Miracle-Gro Performance Organics. I still believe this is the most important organic product our industry has ever seen. It was years in the making and provides consumers with results that are on par with synthetic fertilizers.

The other breakthrough we have this year is a new product under the Ortho GroundClear brand. It is our first nonselective weed control product that is OMRI listed and certified for use in organic gardens. I mentioned the product briefly to you on the last call. Since then, we've received enthusiastic support by every major retail partner and strong display space commitments entering the season.

The goal with GroundClear is twofold. First, we see the product as complementary to Roundup. We know more consumers than ever are interested in organic gardening, and this version of GroundClear provides them a viable and effective solution. In that regard, the product offers us an opportunity to bring in new consumers and expand that category. Second, we recognize some consumers may be unsure about using traditional weed control products like Roundup given recent headlines about the product and the advertising being run by plaintiff law firms across the country. We would be negligent to ignore that reality. And so in that regard, GroundClear allows us to keep that subset of consumers engaged in one of the most important categories in lawn and garden and one in which we are the unquestioned leader at retail.

For the record, Roundup is off to a very solid start. Yes, it's a small sampling, but it's still an encouraging early sign. I also want to stress that all of our top 4 retail partners remain committed to the Roundup
brand, and all of them have also listed the new GroundClear product. We know of at least one retailer, one with a more organic focus, that has decided not to carry the Roundup brand this year. Based on the demographics of their consumer base, I understand and respect that decision. But I’m also glad that the new GroundClear product will be on their shelves this season.

I want to stress that we respect Bayer's defense of the science around glyphosate and their commitment to the Roundup brand. We also remain fully committed to the Roundup brand, our role as Bayer's agent in the marketplace and our belief that the product is safe for the consumer when the product is used as directed. But our understanding of the science isn't what's relevant here. We have an obligation to meet the evolving needs of the consumer marketplace, to provide service to our retail partners, a vibrant workplace for our associates and to return value to our shareholders. Or more simply, we have to control our own destiny. Along those lines, because of the current uncertainties about the upcoming season, we remain engaged with the Bayer team about potential adjustments in our relationship with them. We remain encouraged by their positive response, and we'll communicate to you all if anything changes.

Our product innovation is also leading us down a new path with marketing support. Both of our new products, Performance Organics and GroundClear, will be supported by a more contemporary campaign that blends consumer lifestyle and product performance messages. We'll also be using our social media platforms more aggressively than ever to test multiple approaches simultaneously. We'll invest more heavily in traditional media buy behind the spots that do best on our social platforms. During the spring, you'll also see a complete redesign and relaunch of our corporate properties, starting with our website, scottsmiraclegro.com.

We know all of our stakeholders expect more from companies these days than sales and profits. They want to know the companies they do business with, whether as a consumer or a shareholder, stand for something and use their business to advance a social purpose. Those values, which have been part of our DNA for decades, will be more clearly defined as we move ahead.

So as I said at the outset, I believe the flurry of all season activity has us well positioned for a good year. You saw in the press release that we are reaffirming our guidance for sales, EPS and cash flow for the year. But more importantly than that, as a team, we are reaffirming our commitments to shareholders. We remain committed to the path outlined 3 years ago. The goals we outlined in Project Focus, while perhaps delayed, remain our goals. We will continue to leverage our competitive advantages in the U.S. Consumer business and supplement our performance in faster-growing categories like live goods and hydroponics. We can continue to leverage the P&L to improve our operating margins and to drive earnings even higher. We can continue to combine our earnings power with improvements in working capital to drive free cash flow and cash flow productivity. And while we'll use that cash for the next year or so to reduce leverage, we remain fully committed to a long-term strategy of returning cash to shareholders.

If I sound enthusiastic this morning, it's because I am. We can't control when the snow will melt and whether Mother Nature will make this a better year for lawn and garden. But in the areas that we can control, I am a lot more positive than I've been in a while. We see 2019 as a bounceback year for ScottsMiracle-Gro and look forward to proving it. I feel good about our business, about our plans and our team. I also feel good about the commitments to you.

I look forward to your questions, but for now, let me turn the call over to Randy to talk about the numbers.

Thomas Randal Coleman
Executive VP & CFO

Thank you, Jim, and good morning, everyone. All of you know that Q1 is a disproportionately small quarter for us, so I would be remiss if I didn't caution you against extrapolating too much from today's press release. Given the size of the quarter, a small dollar change can have an exaggerated impact on the percentage change. Also, the fact that it's the last quarter means that good stories below the operating line, like a lower share count or effective tax rate, actually have an adverse effect on EPS.
I'll reiterate Jim's comments related to what I consider the main themes. First, our U.S. retailers are highly engaged in getting ready for the lawn and garden season. Second, the trends at Hawthorne continue as we expected, and we're starting to see positive year-over-year results. Third, we remain confident in our full year outlook for sales, earnings and cash flow.

As you saw this morning, sales in the quarter increased 35% on a companywide basis. The 9% increase on the U.S. Consumer segment represented just an $11 million year-over-year increase. While the number is small, there's a bigger story here. Retailers in total reduced their inventories during the period, as we've seen in the first quarter over many of the past few years. However, as we sit here today, retail inventory levels are now ahead of last year, a good signal to us that they intend to have their stores ready well in advance of the warm weather. At this point, given our expectation that our largest retailers will be more aggressive in loading stores this year, we now believe our first half net sales for U.S. Consumer will approach $100 million higher than a year ago. However, our outlook on consumer takeaway is currently unchanged, so we expect this is only a shift in timing.

Consumer purchases were essentially flat in the quarter. On a more real-time basis, they're up about 4% entering February, led by the strong performance of Roundup that Jim alluded to as well as the more than 20% jump in grass seed purchases.

The other important top line story is within Hawthorne. The 84% increase in revenue to $141 million is primarily driven by the addition of Sunlight, though our European professional hort business, which made up about a little more than 20% of overall Hawthorne sales, grew about 8%. AeroGrow saw a decline of about $5 million as Christmas sales fell short with several retailers.

That leaves us with the North American hydroponics business. Jim already mentioned that -- the comparable year-over-year results, but let me provide a little more context. Remember that Hawthorne discontinued sales to other distributors after the Sunlight acquisition. When we make adjustments for changes to the business model, the comparable decline was about 10% on a year-over-year basis. It's important to understand there's some emphasis into these numbers. That said, we've been using the same process and methodology since the Sunlight deal closed, and that is what gives us confidence in the trends that we are seeing. More recently, January performance for the U.S. hydro business has been double digits above year-ago levels. I don't want to be too specific today. Let's wait and see how the entire quarter comes together. I'm less concerned about the specific number than I am about the trend, and right now, that's really encouraging.

I'll also point out that we expect Hawthorne earnings to increase over the next 3 quarters largely due to higher sales and the realization of the cost synergies from the Sunlight acquisition.

Let's move on to the gross margin line. The GAAP numbers are outlined in the press release, so I won't spend time there as our guidance is based on the adjusted non-GAAP numbers. On an adjusted basis, the rate declined 290 basis points in the quarter to 12.4%. Our guidance for the full year is that the gross margin rate will be flat, so I want to make sure you understand the differences in the quarter. Higher distribution expenses account for the vast majority of the decline. However, most of the distribution pressure we saw in Q1 will reverse itself later in the year. Half of the higher cost came from mark-to-market adjustments related to fuel hedges. As that lower-cost fuel flows to the P&L later this year, it will offset that adjustment.

The second matter is related to higher distribution expenses associated with our decision to close our liquid manufacturing facility in Mississippi and combine it with our primary facility in Iowa. In the short run, this may result in near-term distribution challenges, which we expected related to higher inbound freight costs. We will more than offset those challenges later in the year, however, with lower manufacturing costs. In fact, the overall project will be accretive to the gross margin rate by the end of the year.

Finally, you might recall that we made a decision last year to invest in a small fleet of trucks this year to have more predictability in our cost structure. This also will be accretive on a full year basis, but it was dilutive in Q1. The balance of the gross margin rate decline was related to anticipated higher distribution costs, which were assumed in our guidance.
Moving on, there really isn’t much color related to SG&A, so I won’t elaborate here. We’re up 7% in the quarter due primarily to the impact of acquisitions. That is what we expected.

Let me jump below the operating line. Again, no major news, but certain items significantly impacted EPS numbers in Q1. First, interest expense was roughly $7.5 million higher in the quarter due primarily to the Sunlight acquisition. As a result of higher borrowings, our leverage ratio, which is based on a rolling 12-month average, was 4.5x at the end of the quarter. As I’ve told you in the past, our primary use of cash for the next several quarters will be to delever. Based on the way the calculation works, I would not anticipate the leverage ratio moving below 4x this year. However, that will change in 2020 when our expectation is to move to about 3.5x.

The final headline in the P&L is the effective tax rate. There was a discrete entry in the quarter that lowered our rate on the Q1 loss to a few percentage points less than our full year expected rate of approximately 25%. And that has not changed. The lower rate in the last quarter is a headwind to EPS.

When you bring it all down to the bottom line, the GAAP loss for the quarter was $79.6 million or $1.49 per share compared with $21.2 million or $0.35 per share. The difference is largely due to the fact that we recognized a net deferred tax benefit of $42 million last year as a result of tax reform. On an adjusted basis, excluding impairment, restructuring and other onetime items, we reported a loss of $77 million or $1.39 per share compared with $62.2 million or $1.08 per share.

Let me as well point out again that only $0.07 of the $0.31 decline from last year is due to operating items and the remainder is due to higher interest expense and the unfavorable impact of tax rate and share count during the last quarter. We also ended slightly better than our own internal operating targets.

I’m always cautious about getting too carried away this time of year. That said, I am encouraged by the way things are lining up. In U.S. Consumer, our retailers are approaching the year with enthusiasm, we expect our new products to be embraced by our consumers, and our internal teams are executing well in key areas like supply chain, sales and marketing. In Hawthorne, the trends also remain encouraging. As Jim said, it’s too early to declare victory, but the market trends we’re seeing reinforce our belief that we'll see the business back in the win column in 2019.

With that, let me turn things back to the operator, so we can take your questions. Thanks.
Question and Answer

Operator

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

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

So first question. Jim, you mentioned a couple of times this morning how encouraged you are by retailer engagement. So far, obviously early in the season, not even in the season, but is it greater than what you've seen in recent years? And if so, why do you think that is?

James S. Hagedorn
Chairman & CEO

I'm not -- I'm just trying to be careful. More and more retailers are saying, "Don't ever mention my name again." So what I would say is, first, I've been on the road, and I know Mike has been as well, visiting with senior management and the merchandising teams at our most important customers. And so I think that those visits were pretty effective. And so I think we, Mike and I, have kind of achieved our goals for those visits, especially where we haven't sort of been there in a while, and I regret that. And I -- so I think we're seeing some changes there. I think some retailers where we've seen, to some extent, less support, those meetings were particularly valuable, and we're seeing reversals of that. I mean, not just because of our visits because I think people say, "You're right, we kind of overdid things." In addition, I think that one of the big home center chains has completely new management that is very merchant oriented, and I think that they are highly focused -- one of the things we saw was -- last year was a reduction in inventories and, to some extent, our sales at the end of the year as people were clearing shelves. What we're seeing now is very much a commitment to hitting the season running, hitting the ground running, and that this quarter is kind of their first quarter to show what they can do. And so kind of we're up, and we're very happy participants in that. And I'd say all retailers, we are engaged with and ready to play. And so it's not just 1 or 2 retailers. I would say it's all the retailers I visited want to get it on and want the spring to go well. Joe, I have not spent a lot of time on this, but it's become more clear to me during those visits just how scary last year was for everybody. Remember, we were down. I don't know what the number was but...

Thomas Randal Coleman
Executive VP & CFO

15%.

James S. Hagedorn
Chairman & CEO

Roughly 15% at the end of April. That scared the heck out of a lot of people on the merchandising side of our biggest retailers. And they were all really happy that the year ended as well as it did. We'll just call it more or less flat. While we were pretty disappointed in that, and I think it was -- making those visits was -- part of it was saying, "Dude, you guys really helped us get through and made the best of '18." And so I think people are looking to sort of put '18 behind us and really make '19 kind of a banner year. So I think that lawn and -- look, and I'd also say that in regard to online competitors to kind of brick-and-mortar retailers -- retailers, I think they view lawn and garden as an area that's a lot harder for people like Amazon to really play hard, both in sort of bulky lower-margin items and live goods, and that this is an area where there is none in the sort of advantage at the risk of smaller packages that you see online. And so I think they're viewing this strategically as an important focus area where they can win, and that's, I think, helping us as well. So I don't know. I don't know if that makes any sense. But...

Joseph Nicholas Altobello
Raymond James & Associates, Inc., Research Division
No, it does, it does. And it leads to my follow-up, which is, do you guys still think that you'll see some modest inventory reductions this year? Or do you think that the inventory build that you're seeing early in the year could continue throughout the year?

James S. Hagedorn  
Chairman & CEO

Look, I still think this is an industry -- and I don't want to talk against ourselves. I still think this is a industry where off-season overwintered inventory is not a great idea. But I think right now, retailers are very interested in winning and not losing sales in lawn and garden, and they're -- and I think -- this is my impression, is the commitment to winning is more important than [ giving ] right now and that I think that'll moderate sort of what I think is just a normal view of sort of managing your assets of saying, "I don't need a lot of product for sort of that 5 months that season is over." So I think naturally, there should be continued look at saying, how do you take inventory out of the store over the winter? And we want to work closely with our retailers to help with that because I think we can do it better than anybody else can. But that said, I think they're so competitive right now that, that takes a backseat to sort of market share, to be honest.

Operator

Our next question comes from Bill Chappell from SunTrust.

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

Just to follow up, kind of as you look -- I mean, your comment was you were disappointed with last year being flat. I think the goal for this year volume is to be flat. And just trying to understand, it does seem like Miracle-Gro organic can add up as much as a percentage point by itself. So is that right? Maybe you can give a little more color about that launch, what you're seeing -- the opportunity, how much it will cannibalize and if that implies that the rest of business would actually be down without that launch. And I'm just trying to understand that.

James S. Hagedorn  
Chairman & CEO

Yes. I would -- maybe Randy can have a fancier answer than I could. I would say don't try. We're not really going to call our sort of POS data up just because it -- I don't think we want to overpromise. We say this every year, is that we don't want to overpromise, and I don't want to now. How do we all feel? We all feel pretty positive. Part of the prep for this call is saying, "Don't overpromise to these guys," meaning you all. And so I would say, don't try to make everything connect. We have -- it's very early in the season. It's like literally 0 out here right now, and we have been like sort of -- I was going to use bad profanity, but I won't. We've been screwed pretty hard the last, seems like, 4 or 5 years in what's just been like crappy weather seasons. And so I think when we see the positiveness we're seeing, we don't want to say, "We're going to up our numbers." But I think we do feel good about it, and Randy and I are kind of trying to guard the gate against being too enthusiastic this early in the season. I think we'll know a lot more at the end of next quarter, to be honest. And I just kind of chuckle when Randy says, "We'll be really positive for the first half and then -- but don't count -- so you'll probably hear this from us next quarter, too. So what do I think? I think that the Performance Organics and GroundClear are going to be -- and the Triple Action, we got a lot of good stuff going on this year. And they're all being listed. We're going to be spending pretty heavily behind all the products, including our media spend for Roundup is going to be up significantly. So we're going to have a lot of spend. I mean, look, at the end of the day, what have I learned coming out of last year, which is -- I should know this because I've been doing this for too damn long. Look out the window if you want to know how we're going to do. And so we are very weather related. I think if we have a good weather season, we'll probably beat our numbers. But I think we can't say that now. And so all we can say is the season is stepping out really well. Hawthorne is -- if you basically say -- I was going to again use a bad language, the F bomb. But darn, if we -- it'll be just nice if we can beat some numbers here, and we're starting to beat numbers. And so I think when -- Randy called it a trend or something or
maybe it’s a trend, but it’s feeling like we’re not completely looking down the barrel of a shotgun right now. And so we feel pretty good about it.

**Thomas Randal Coleman**  
*Executive VP & CFO*

Bill, the other thing I’d add is, if you recall, last year, March and April were such a struggle that we're going to have really good results. We'll be posting really positive numbers in March and April. We're going to sit down and talk to you again in 90 days in early May, and things will be looking really good. But also recall, last year, it was the best May we've ever had. So I think it -- as in -- as is every year, it'll be mid-June before we really have a handle on what the whole year looks like from POS and what that means for shipments.

**James S. Hagedorn**  
*Chairman & CEO*

But again, it's exactly what we're trying to sort of bring across in this call. And it's the tone we sort of designed into the script, is that if you look at how things are coming together for the year, retailer engagement, proper programs set up, really interesting advertising and marketing programs, including a really new approach to digital, I think that it's just -- Hawthorne sort of starting to beat numbers, it just -- it's starting to feel like pretty darn good. And therefore, I think we're -- now it -- you know what it comes down to now: execution. That's it. So we're in execution mode.

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

And I wasn't asking if you were sandbagging your numbers, though I appreciate the response. It was more of, is there any reason why organics -- Miracle-Gro organics can't be a $30 million to $40 million business this year?

**James S. Hagedorn**  
*Chairman & CEO*

Look, it's -- no. Maybe that's the story in short.

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

Okay. That was -- that's just...

**James S. Hagedorn**  
*Chairman & CEO*

But I want to just -- I just want to -- like I want to put out just sort of my words that I've had the same conversation with our retail partners on. Organic products that can outperform or perform as well as synthetic products are really, really unique and really important to the future of lawn and garden, in my opinion, okay? The same with GroundClear, okay? This is a OMRI-certified or OMRI-listed herbicide that's really effective that can be used in organic gardens, too, okay? We've got to figure out how to say to people, "This stuff can really work, and it's organic." And I hope we get that right. I do. But what I'm trying to tell people is this is so unique in the marketplace, what we're doing, that if we don't get it right, it is not that we failed. It's just we failed at figuring how to communicate to people. And I try to use this whole thing of you have -- for those people of you guys, there must be some of you who live in New York City who maybe have had cockroaches in your apartment. If somebody said you could use an organic product, I think people would say, "No, forget that. I want something that really works." So we're having to figure out how to communicate that something really works and it's organic. And I hope we get that right this year. But I'm -- what I'm trying to get to the retailers is, if we stumble at that because nobody has really figured that out yet, just think about what I said about cockroaches. We're going to continue trying to refine our marketing so we can get through to the consumer, "It's organic and it works." And so I think that, to some extent, limits our ability to sort of step out on the forecast. But do I think there's any reason it couldn't be a major -- each one of these could be major products? No. I think there's no reason it
couldn't be. I just -- I'm not guaranteeing in the first year because we got to figure out how to market this stuff.

Operator

The next question comes from Jeff Zekauskas from JPMorgan.

Jeffrey John Zekauskas
JP Morgan Chase & Co, Research Division

Over the past year, organic volumes at Hawthorne has been down quite a lot. Can you talk about the present dynamic in the individual product lines at Hawthorne, whether it's lights or growth media or air handling systems? And what was the price change in the current quarter year-over-year?

Thomas Randal Coleman
Executive VP & CFO

Jeff, this is Randy. Yes, I would say from an overall pricing, as we head into 2019, this is the one area of the business that's being most impacted by tariffs. So we will be taking some pricing off the tariffs, and that really won't start hitting until January or February or March. So we didn't see any of that in the quarter. But what we are also seeing is we have been aggressive with some promotions in the first quarter, and we believe as a result, we're taking market share. When you fast forward past Q1 into January, we're seeing a lot more momentum. So we're not planning on slowing that down at any point right now. We think recovery from the bottom line. So not leaving a hole on the bottom line, and we think we're doing the right thing. When times are tough, and I think our competitors are scrambling a little bit, we'll try to take advantage of that and make sure that we're grabbing as much market share as we can. So that's the plan and we're going to keep driving that plan for the time being.

James S. Hagedorn
Chairman & CEO

And the only thing I would add to that is that, we bought these businesses to win. We think that what we are putting together that we're in the process of, so not only in the last year, we've been integrating like crazy. But we're building out to our strategy. And this gets back to the conversation that my team had at the beginning of the month of, like, did we screw this up? What are we doing? What do we got to do better? And we built this to be the finest supplier to greenhouse operators, and that would include indoor, outdoor, et cetera, in the cannabis space the world has ever seen. And we're doing that. But we are also -- it's not like there's no competitors. So we're out there competing, and we're warring right now, and we intend to win. And so it is not just that really California got all messed up, which was painful. Because that's -- I think that was like 54% of our business last year was California. So California, going through what it's gone through, which I completely blame politicians on, is -- so we're dealing with that. We're dealing with integration, and we're dealing with the fact that we intend to win. And we're not going to give room to our competitors, and that just means on top of everything else we spent a lot of time looking to Randy to say, look, we intend to focus on top line and share. And are you cool with that? And so I have a great partner, and I'll say it just because it needs to be said. Randy is an excellent operating partner on the finance side, and that's one of the reasons I gave him the strategy group to oversee as well. So he gets it, and I'm really happy. And I think Mike is, too, is that Randy is a good conspirator with us on saying we're going to grow this business, and so I'm pretty happy about that. But on spite of everything that is going in the market and all the integration and California, we also are warring and that -- I think we're doing the right thing here, but other people can have an opinion, I guess.

Thomas Randal Coleman
Executive VP & CFO

And Jeff, to answer your question specifically on the price impact on the quarter, it was about 1 point or so, nothing dramatic. I guess for more color, too, when you look at the states where we're doing well, California is approaching getting flat, to look at numbers through January year-over-year. But Michigan is now up a lot. Washington is up double digits. Florida is on fire. Massachusetts is up almost 40%. Ohio is up hugely. So we're seeing a lot of progress across the country, not just in a particular geography.
Jeffrey John Zekauskas  
*JP Morgan Chase & Co, Research Division*

Then for my follow-up, is the Northwest recreational marijuana market oversupplied? And that my understanding was maybe 3x as much cannabis was produced in Oregon as the Oregonians could consumed. And there has been other sort of very, very good marijuana crops. So can you sort of assess the supply and demand for recreational cannabis in the Northwest business?

Thomas Randal Coleman  
*Executive VP & CFO*

Sure, Jeff. So you’re right. When you look at the -- and balance state-by-state, Oregon was actually the worst. California obviously was a big problem. Ramping up before January 1 of ’18, and we saw what happened there. Things are getting better. It wasn’t just a Northwest phenomenon. If you look across the country, there were price decreases. Then you have -- look at particular geographies where there's actually shortages in the [ down East ] market. So California running a little bit low. Canada right now, from what I understand in the [ down East ] market, is running a little bit low on supply. So there's a lot of imbalances. It's very much a local business. And I don’t -- really interesting business, too, because of all of that.

James S. Hagedorn  
*Chairman & CEO*

Well, I think -- Chris Hagedorn, I think is -- he just got back from a trip out West at like midnight or something, last night. But I think he's on the call. Any comment, Chris, on that?

Chris Hagedorn

Sure, yes. So what Randy said is largely correct. So to address, yes, the Pacific Northwest, Oregon and Washington have gone through oversupply issues. What we're seeing is Washington largely has emerged from that phase of their business. So the business there is stabilized. For us, the results are positive. They're up about 14% for us. Oregon is still in a bit of an oversupply due to just, I think, a over issuance of permits. Really, the only hurdle to get a permit there was if you had kind of $3,500 to complete the application. They issued a lot of permits, and they continue to see some oversupply. And the results there are not quite as good. So we're still working hard in Oregon to recover that market and waiting for the oversupply to run out, and Washington that has already reached that point.

James S. Hagedorn  
*Chairman & CEO*

Chris, what about California?

Chris Hagedorn

California is a bit of a different beast just -- it's such a large market. I think the -- California went through a pretty radical oversupply earlier in the year in '18. They largely ran through that, and they went through, I think, a bit of an undersupply issue. And they bounced back and forth a little bit. The California market, I think, there -- is largely being driven -- or maybe not largely, but partially being driven back towards the black market, which is an interesting dynamic for the hydroponic industry overall. So as they continue to sort through their Prop 64 rollout, which is not nearly complete, we're continuing to see the business evolve there. Right now, we saw a flat December year-over-year. January, so far, we've tracked up versus prior year's. We continue to calculate those numbers. So California has recovered, not to the extent that Washington has yet.

Operator

The next question comes from Jon Andersen from William Blair.

Jon Robert Andersen  
*William Blair & Company L.L.C., Research Division*
I wanted to ask -- go back to the question on the -- some of the new products for 2019, specifically performance, I guess Performance Organics. I know you've been talking about that for a couple of years now. At least, you've been working on it diligently. It does sound like a real step, kind of step change in terms of the efficacy of an organic product versus a synthetic charge. How do you think about that business, organics in general? Is that business designed to bring an incremental, a new user into the category? Is it more about switching on existing consumer from conventional to organic? And is there a price or margin benefit or upsell associated with that, with getting people to use organics versus traditional products?

James S. Hagedorn  
*Chairman & CEO*

All right. I'll start by asking -- I'd look at food and say, is organics in food designed to sort of increase the size of the -- it's probably everything. Designed to increase, but also designed to sort of satisfy people who are increasingly saying, I'd rather use a natural product if I could. I think that a lot of what I'm working on now -- and let's start with sort of marketing, but it will get back to the same question you asked, which is this issue of -- one of my boys, my youngest son, he doesn't have a cable box in his house. And he has a house. He has a garden. How do we communicate with new people? And I'm not talking 18 year olds. I'm talking about, call it, 30 year olds who live in a home or own a home, who are interested in gardening, but they don't watch commercial television. They watch subscription only. And I think the same issue has to do with, like, that group of, call it, mid-30-year-old people who are entering the market who, I think, you have different sensibilities than people who are in sort of their 50s and are comfortable with the products. And so I think that, that, I do view as an evolution of the sort of craft is that for us to -- it would be nice to say who we really care about, like 18 year olds. But that's an expensive group to chase, and they're not really our customers. And a lot of them live in apartments and do other things until they have children. And then they'll want home and some space and a yard and all the things that are really good for us and our retail partners. And I do think the sensibility of those younger people buying homes matter. Just around the table here, as I'm talking, Randy's wife, my wife, Chris's wife, I think Jim King's wife, they care about this stuff, too. So what do I think? I think there is a trend happening where people would like to have choices. I think younger people coming in would like to have choices. I think younger people coming in would like to have choices, and I think that 50-year-old gray-haired dudes like a lot of us sitting around this table, we're probably a little more comfortable with existing, sort of legacy products.

On pricing these products that are not selling at a discount to conventional products, I don't know. I'd ask -- sort of look to Randy or Mike and say, I don't know what the margins are.

Thomas Randal Coleman  
*Executive VP & CFO*

Segment profit's, better. Margin rate is slightly better. And as a result, the price at retail is higher because the cost to manufacture, given the relative infancy of this is going to be...

James S. Hagedorn  
*Chairman & CEO*

Yes, I think that's the next trend of all this is try to figure out how to not only charge more for premium product, which I think you do in grocery, but also have costs that are similar to kind of legacy products and, therefore, are higher margin. But I think we're not making less money on these.

James S. Hagedorn  
*Chairman & CEO*

More.

James S. Hagedorn  
*Chairman & CEO*

Making more.

Jon Robert Andersen
Okay. And as a follow-up, I think you mentioned earlier, so with U.S. hydroponics started to grow again late in the year and in January, can you talk a little bit about your expectations for that business maybe in aggregate for fiscal '19? I mean, what do you think the -- kind of a satisfactory in your mind, kind of run rate growth rate is for Hawthorne going forward? And the business, that segment lost money in 2018. And I know you had some thoughts in the past on the profitability of that segment where it may go. Those have changed. But can you talk a little bit about your profit expectations for that segment as well? So kind of top line run rate growth, what would be satisfactory? And then your expectations for the profitability of that segment as you get synergies from Sunlight and, hopefully, some volume productivity.

Thomas Randal Coleman
Executive VP & CFO

Sure, Jon. This is Randy again. On the top line, in the quarter, we're only down about 10% on apples-to-apples, but a little bit behind where we thought we'd be. But we've made that up in January, so again, the momentum is good. Our outlook for the full year was to be mid-single digits for U.S. hydro business, be higher than that given we expected better results in Europe in the ProHort market and better growth at AeroGrow as well. So not quite approaching double digits all in, but really good growth. No need or reason to change that at this point.

And then on the bottom line, our profit target this year is to be somewhere about $60 million of EBITDA for the business, which is going to be better by $65 million or so year-over-year. And again, given what we've seen so far, we're encouraged. By no reason that we'll change our target on that until we have a lot more clarity later in the year.

James S. Hagedorn
Chairman & CEO

Again, I don't want to, like, get into this like being accused of sandbagging, but it is true, okay. Which is that Randy and I sort of run the corporate kind of books. Mike is running the operating side of the business. And Mike has a much different set of numbers that he's using on the operating side. It's just that Randy and I aren't translating that over to the corporate side because we -- we're comfortable with where we said we going to be for the year. We don't want to change that number yet. I think it will be lame, to be honest, for us to up the number based on a couple of months of positive numbers.

But that said, I think Mike and Chris are running to a higher set of numbers than Randy and I are, and that will be great if it happens. But remember, we've been in sort of a drought of good news for kind of the last year or so with Hawthorne. And so again, this is one of those things where it's not exactly the same where it's freezing outside. But in Hawthorne, it has been freezing outside, and I just don't think there's any point in sort of getting into a T-shirt yet. Mike, go ahead.

Michael C. Lukemire
President & COO

No, I -- all our plans are more aggressive, and I would even go back and say the recovery last year, I thought our plan was really good. So -- but we got a bad start but we did recover to be at least a bit flat. I think our plans are more aggressive this year, but you got to show it, you got to deliver it on the bottom line to actually talk about it. So -- but we are much -- we got more aggressive plans in every area.

Operator

The next question comes from Jason Rodgers from Great Lakes Review.

Jason Andrew Rodgers
Great Lakes Review

I wonder if you could provide an update on developing the technical sales force at Hawthorne. If it's where you need it to be currently in terms of the training? Are you adding to it to address new markets in the U.S.? Just an update there.
Michael C. Lukemire  
*President & COO*

Yes, this is Mike. We've added 4 electrical engineers. I would turn tell you we're starting to see the outcomes of benefits of that, especially up in Canada. And we've added for nutrients, so that capability has been -- we got about 10 people in that technical group right now, including using -- utilizing Scotts R&D, and we'll continue to build that out.

James S. Hagedorn  
*Chairman & CEO*

Just a second. Chris, anything you'd want to add on your technical sales force and tech support?

Chris Hagedorn

No, I think Mike covered it pretty well. As he said we've built it out. We still have a couple more positions that we're working to fill. Those positions are pretty unique skill sets, so it has taken us some time to find the right people. But it's a team that we want to make sure we build for the long run. As Mike said, we are starting to see some good results and good customer outcomes by deploying that team. So I'd say we're -- I'm satisfied with the results, but we have not built the team out to the extent that we intend to.

Jason Andrew Rodgers  
*Great Lakes Review*

All right. That's helpful. And I'm assuming no changes in the expected impact on tariffs, commodities and freight that you detailed last quarter.

Thomas Randal Coleman  
*Executive VP & CFO*

Yes, this is Randy. No changes in our outlook on the tariffs. But when we look ahead to 2020, we did take some really prudent steps in '19 to mitigate the impact for the current year. So there'll be a few million dollars more that roll into '20. We accelerated some purchases and did a few other things to make '19 not as much of a headwind. But no real change from what we expected from what we last communicated a quarter ago.

Jason Andrew Rodgers  
*Great Lakes Review*

And any quantification you could provide around these increase investments to support the new products?

Thomas Randal Coleman  
*Executive VP & CFO*

Yes, the changes we're making, really nothing different from what we would've communicated a quarter ago that would make us need to change our guidance. We've been really tight with SG&A over a number of years and doing that again in '19. We found ways to be more productive and find ways to move money over the media marketing side. And we think that's going to be smart thing to do, given these new launches, and we expect a lot from them.

James S. Hagedorn  
*Chairman & CEO*

But what I would say of the investment and new launches is that Mike and I are very aligned. Randy is in agreement on the need for significant marketing support behind these new products. And so both Performance Organics and the GroundClear launch, in addition to supporting sort of I think the open issues that we don't know the answers to on Roundup, they're all going to be getting significantly more spend behind them. So those are all going to be double digit kind of spends behind them that are important and incremental.

Operator
The next question comes from Chris Carey from Bank of America Merrill Lynch.

Christopher Michael Carey  
BofA Merrill Lynch, Research Division

So I guess just first question to check the box on Hawthorne. What was the M&A contribution from the business in the quarter, throw some light into it?

Thomas Randal Coleman  
Executive VP & CFO

Yes, to be precise, it was $72 million.

Christopher Michael Carey  
BofA Merrill Lynch, Research Division

Okay, okay, got it. So when you say apples-to-apple -- or down 10%, organic sales were down 10%. And so when you say apples-to-apples, going forward, that's organic as well. Okay.

Thomas Randal Coleman  
Executive VP & CFO

Right.

Christopher Michael Carey  
BofA Merrill Lynch, Research Division

Understood. So I guess, connected that, right, and a broader-picture question, I feel like the P&L is maybe shaping out to be just a little bit different than what you had maybe previous expected, even if -- on an earnings basis. You're still maintaining the outlook, right. So you had 8 points of contribution from M&A. Gross margin is kind of flat. Sounds like with the inflation, with more -- you said more engagement for branded vaults. There's the potential that maybe gross margins could actually be down this year, offset by maybe a lower tax rate. Then I don't know where you're shaking out on M&A contribution from Sunlight. But certainly, it would appear that on a run rate basis, it's trending a little bit low, lower than where you're at. So I wonder if you could just provide some perspective on just like the shape of the P&L inclusive of some of those items.

Thomas Randal Coleman  
Executive VP & CFO

Sure. Well, again it's January, so too early to change our guidance for the year. Come May, we'll know a lot more. Come mid-June, we'll know a whole lot more beyond that. But I'd say that there probably is on the mulch end a little more upside on the sales volume than what we would have thought. I'd say that puts a little pressure on the margin line. But there's puts and takes every day that we keep tracking around here.

James S. Hagedorn  
Chairman & CEO

The gross margin was down, so you're here.

Thomas Randal Coleman  
Executive VP & CFO

No. I think we're comfortable with the range that we outlined outlet before. There's puts and takes every day, and we do a really nice job here of keeping track of that and making sure we can deliver. So we'll maybe provide an update in May if it's changed. But at this point, I'm really comfortable with what we laid out 100 days ago.

James S. Hagedorn  
Chairman & CEO

Yes, so we're not calling that gross margin, okay.
Christopher Michael Carey  
*BofA Merrill Lynch, Research Division*  
Okay, yes. So -- and then I guess I could only -- I get it that it's really early in the season, and we shouldn't be extrapolating that forward. But at the same time, I'm also hearing some optimism that the good start is potentially indeed of -- or excuse me, indicative of a broader trend going into the season, right, specifically on retailer engagement. So I mean, do you think thing that you're getting disproportionate engagement from retailers relative to your competitors? Or is there just a broader reengagement with the category relative to last year?

James S. Hagedorn  
*Chairman & CEO*  
I think I said that visiting with folks -- and I'm talking especially senior merchandising people, I think they were super, super happy with how we helped complete the year last year. And I think they view that as unique, to be honest. And I think if you look and say, 3 out of 4 of the top 4 retailers made us vendor of the year, I think that is at least partially about the support we gave them completing the year. And I think that did effect their support going into this current lawn and garden season. So I think we are relatively running a -- in a very positive and partnership way, which I say that guardedly because I hate the word mostly. Is -- I think maybe beyond that, I think friends. I think we're going into the season with our top retailers, all 4 of them, viewing us as a friend, and we feel the same way. And so yes, I think that it is unique and in part, they recognize us for what we are. And I think I said that in my script. It's -- we're bringing innovation. We're bringing increased marketing support. We're bringing new products. We're executing in the store. And again, I'm repeating this. I know King wants to get this call over with. But I think that given how bad April was, the mid-end of April, which is -- we would generally say it's unrecoverable at that point, like last year, I think what I recognized meeting with them is they were, like, thank you so much for helping us recapture as much as we did. And I think that's affected purchasing decisions, to be honest.

Christopher Michael Carey  
*BofA Merrill Lynch, Research Division*  
Okay. Got it. And hopefully -- and apologies to Jim King, one last hopefully easy question. So obviously, there is some dis-synergies associated with Sunlight, as you were not selling into some of the competitive distributors. In this quarter, does that $72 million number still reflect that? Or are we now on a clean base, I guess? Does that make sense? Like, are you still seeing that impact? Or are we now running out of a more -- just the go-forward run rate that we should be thinking about?

Thomas Randal Coleman  
*Executive VP & CFO*  
Yes, Chris, we'll continue to -- have to do this apples-to-apples comparison until we get to the close date, which isn't until June of '18. So we'll keep bridging that for you until we get to that point. But again, really encouraged by the momentum so far, and we'll know a lot more in 90 days when we talk to everybody again.

Operator  
The next question comes from William Reuter from Bank of America.

William Michael Reuter  
*BofA Merrill Lynch, Research Division*  
I just have one. It's been a couple of quarters, but since you’ve talked about capital allocation, the last time, we had heard you had a leverage target of 3.5x. You were focused on this and were going to allocate capital to debt reduction until you got there as opposed to additional M&A or share repurchases. Do you guys still kind of expected that share capital allocation plan?
Yes, absolutely. No change there.

**William Michael Reuter**  
*BofA Merrill Lynch, Research Division*

Okay. And then, I guess just one more. As you guys think about your customers or retail customers in general, the allocation that they have put towards private label versus branded products, do you think that there has been much of a change when you look at the coming garden season versus 2018?

**Michael C. Lukemire**  
*President & COO*

I would say it's about the same. In fact, we're participating in private label as well. And we're seeing more leading with brands on the promotional activity, which is part of getting ready for it.

**Operator**

The next question will come from Eric Bosshard from Cleveland Research Company.

**Eric Bosshard**  
*Cleveland Research Company*

I'm curious. In Hawthorne you described how the market is evolving, and it sounds like on the East-ish Coast, it's different. That it's going to be more consolidated and perhaps disciplined than it was out West. My question is, the gross margin opportunity for you in that type of scenario, lest you characterize it as sort of a craft market you were serving, what is the gross margin opportunity in a more consolidated market? And especially as you see the type of customers and consolidated players in the space are evolving, what does that look like for you?

**James S. Hagedorn**  
*Chairman & CEO*

I mean, I'll -- better. Because we intend to sell -- we have a kind of a multistep program, which we're using to sort of deal with U.S. federal law and keep the lawyers and bankers happy. But I think it's a much more direct sort of process than when you're selling to the sort of craft-type growers on the West Coast. So I don't -- I think that the larger growers will expect a lower price, but I think that can be accomplished.

And we've done this with major retailers, that Scotts was very much a two-step company when you look at sort of Miracle-Gro, Ortho, Roundup. Scotts was more -- Scotts brand itself was more of a direct brand. But retailers basically said, we're not buying through two-step distribution in the United States, big retailers. And we ultimately complied with their request. But that resulted in higher margin for us and higher margin for them. So I think that this is not very different than that, even if we are using these resellers to kind of handle paper for it. So I think you'll see more sort of what looks like direct sales, although we'll be running it through resellers on these consolidated growing operations on the East. And I think that I sort of said this before and Chris kind of mentioned it, is that I think the California rollout of adult use was so bad that you're seeing actually, I think, more people going back to independent hydro retailers to make their purchases as people have said, like, this legal stuff is too hard and too expensive and the taxes are too high. And so we understand the margin there, too, but it's -- I think that's what's happening, and it could change and look more like the West, put the East Coast on the West Coast. But I think that the way it's working right now is it's pretty much a failed -- I think California screwed it up, and that's helping retailers. And they're our friends, and we'll -- we're going to work with them. So those margins, we understand. I think you're not going to see reduced margins by us. I think they'll make more money, and we'll make more money on the East.

**Eric Bosshard**  
*Cleveland Research Company*

And then -- and that's a helpful comparison to the core business. I guess the follow-up question is, historically, you have done less well in the lawn and garden business selling to the pro market than you have to the consumer market. And now your comment is that it becomes more of a consolidated
commercial business in the East. Why will you have more success in this consolidated commercial business when you didn't in the lawn and garden business?

**James S. Hagedorn**  
*Chairman & CEO*

Dude, I have a ton of respect for you, but I think that's total b*******. This is a pro business, okay. And our ProHort and ProTurf businesses were the best businesses for those markets in the world, okay. Both of those business we sold, okay. And our ProHort business, which I view as similar to this, is a business that was really good for us. We just viewed it as kind of a nonconsumer business and it wasn't core to us. And that business, we sold to the Israelis for, I think, really good money, which I think we distributed to our shareholders.

But I think we very much understand how the professional business works. The -- if what you're saying is professionals in lawn and garden, meaning like landscapers, I think if you look at our business at Depot, I think that's -- a lot of that is pro people. And if you look at trucks, pickup trucks being filled up in the morning, they're buying our products, I think, at great prices. And it's not just Depot, but I think other people are doing that. And farm and fleet are really good businesses for us. So I would not say, it is a little bit of a harder business for us to describe, which is the professional side of lawn and garden, which I think must mean landscapers. But I think on the greenhouse supply business, it's a business we very much understand, and we're the best in the world at. And I think my view is, Hawthorne is going to be better than our ProHort business was at supplying a very unique specialized market, which is cannabis growers. And we know how to do that, and I think we've taken those learnings.

A lot of the people, if you look and say the, whatever, the cann biz, whatever it's called, the show that was in Vegas, the big show. I was really proud of like -- we talk about this stuff on these calls, and it's all kind of abstract. And maybe you all think the business is all screwed up and stuff. And to some extent, we weren't making the numbers. Fair enough. But when I looked at the people in the booth, especially on sort of the supply chain side, the R&D side, the technical services side, dude, there's a lot of Scotts people who are in Hawthorne shirts these days, okay. And these are people who are, like, made dudes and ladies in their space, and the stuff we're talking about, we're doing. And so when you go to a show like that and we -- and our force is on display, and they're not wearing Scotts shirts. They're wearing Hawthorne shirts. What you're recognize is that we, at Scotts, have a lot that we know about how to run this business. And we're putting it -- and I think we're going to do it better than we did ProHort, and that was a business that I'm sure the Israelis like a lot today, too. Sorry for using my bad word there.

**Operator**

Our final question comes from Carla Casella from JPMorgan.

**Carla Casella**  
*JP Morgan Chase & Co, Research Division*

Did you ever give what the Sunlight sales were in the quarter? And I'm just curious. The seasonality on that business, should it differ from the other -- the Hawthorne business?

**Thomas Randal Coleman**  
*Executive VP & CFO*

So again, the sales from Sunlight that we added in our Q1 was $72 million. And the seasonality, if you look at Hawthorne in general. It's a lot less seasonal than what you'd see in a U.S. Consumer business. But you'll still see a bit of a peak in the late spring, not nearly as violent as what you'd see April, May of U.S. Consumer. But there is a bit of a peak, and then it kind of moderates over the balance of the year. So you would expect that April, May, June quarter is typically a bit higher than the rest of the year, but relatively so.

**Carla Casella**  
*JP Morgan Chase & Co, Research Division*
Okay, great. And the savings that you expect from Sunlight is still $35 million. But do you -- have you given more sense of timing of that? When will that be completed? How much of it's been done so far?

**Thomas Randal Coleman**
*Executive VP & CFO*

Yes, we had a few million in fiscal 2018, and our target for fiscal '19 is another $30 million. And we think we're very much on track to hit that number right now.

**Carla Casella**
*JPMorgan Chase & Co, Research Division*

Okay. Great. And then there was some talk really about the exited businesses or the -- that 10%. Is that mostly from Sunlight? Or is that Hawthorne, the 10% of the distributors that you were -- that would go away?

**Thomas Randal Coleman**
*Executive VP & CFO*

Okay, I think I understand, Carla. So yes, what we're saying is historically, we spoke to 3 distributors. We acquired one. We're selling through that distributor Sunlight exclusively now direct to retailers. So there is an impact where we're not selling through the other 2 at this point, and we're trying to normalized for that when we look at numbers year-over-year and quarter by quarter. So not a big number, but a little bit of the art in trying to figure out what a real comparable number would look like. And then [indiscernible].

And the other aspect of that is, we were paying the other distributors 20%, 25% distributor margins. But now we're putting it in our pocket. We're keeping that. And in a lot of cases, we're really aggressive in the quarter. We're using that for promotions to turn around and give some of that money back to retailers and take market share. And that's been part of our plan all quarter, and it appears like we're gaining even more traction by doing that.

**Carla Casella**
*JPMorgan Chase & Co, Research Division*

Okay, great. So when you originally bought Sunlight, I think you were targeting, like, $460 million of total revenue. Does that already adjust for that 10% or no?

**Thomas Randal Coleman**
*Executive VP & CFO*

The $460 million would have been a number that would have been 2017. You have to think about $100 million or so of that out for what we used to sell into Sunlight. And if you think about what we used to sell into the other folks, it was probably another $40 million to $50 million over the balance of the year.

**Operator**

That concludes today's question-and-answer session. Mr. King, at this time, I'll turn the conference back to you for any additional or closing remarks.

**Jim King**
*Chief Communications Officer and Senior VP of Investor Relations & Corporate Affairs*

Thank you, Allison. I know there are some people that were in the queue I understand that we didn't get to. So please feel free, for those folks or anybody else, to give me a call directly over the balance of the week. You can reach me at (937) 578-5622. Otherwise, that concludes our call today. As a reminder, Randy and I will be at the Raymond James conference on March 4 and provide more of an update on that day as well. Thanks for joining us today, and have a great day.

**Operator**

Ladies and gentlemen, this concludes today's call. Thank you for your participation. You may now disconnect.