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SMG.N - Q1 2026 Scotts Miracle-Gro Co Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Brad Chelton - *Scotts Miracle-Gro Co - Vice President, Treasury, Tax and Investor Relations*

Good morning. Welcome to Scotts Miracle-Gro's first-quarter 2026 earnings webcast. I'm Brad Chelton, Head of Investor Relations. Speaking today are Chairman and CEO, Jim Hagedorn; President and Chief Operating Officer, Nate Baxter; and Chief Financial Officer and Chief Accounting Officer, Mark Scheiwer. Jim will provide a strategic overview.

Nate will provide a business update, and Mark will follow with a review of our financial results. In conjunction with our commentary today, please review our earnings release and supplemental financial presentation slides, which were published on our website at investor.scotts.com, prior to this webcast.

During our review, we will make forward-looking statements and discuss certain non-GAAP financial measures. Please be aware that our actual results could differ materially from what we share today. Please refer to our Form 10-Q filed with the SEC for details of the full range of risk factors that could impact our results.

Following the webcast, Executive Vice President and Chief of Staff, Chris Hagedorn, will join Jim, Nate and Mark for an audio-only Q&A session. To listen to the Q&A, simply remain on this webcast. To participate, please join by the audio link shared in our press release. As always, today's session will be recorded. An archived version will be published on our website.

For further discussion after the call, please email or call me directly. With that, let's get started with Jim's update.

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, President, Chief Executive Officer*

Good morning, everyone. I'm taking a slightly different approach with our call today. I'm going to focus on the strategies we're employing to drive more value for Scotts Miracle-Gro shareholders, along with the discussion around new longer-term financial priorities we've established through 2030. Nate will take us the progress on our plans, and Mark will close with this customary review of our first-quarter results. I'm really excited to share where the business is headed. There are a lot of great things happening at Scotts right now.

Our company has real superpowers, our brands, R&D, supply chain, and sales. And we're investing them to greater levels from innovation, advertising and digital marketing, to automation and technology. We have unique and strong retail relationships. We're working with these partners to put more marketing and consumer activation dollars into driving purchases of our high-margin branded products versus lower-margin commodities. These investments approaching $1 billion annually are absolutely critical to engaging core and emerging consumers.

We're delivering strong gross margin improvement through ongoing supply chain optimization and by bringing new innovation to consumers. And we're in a way better place with our capital structure. We're on a path to a leverage ratio between 3 and 3.5 times, which is our sweet spot. We're comfortable in this range because of our ability to generate strong free cash flow. Our cost of capital works really well at this level too.

Just as importantly, we're taking substantive shareholder-friendly actions that go well beyond our healthy dividend. In Q1, the Board of Directors approved a new multiyear $500 million share repurchase program that will begin later in '26 in a measured and disciplined manner. The ultimate goal is to get our share count to around 40 million shares. The bottom line is we are more focused than ever on being the best Scotts Miracle-Gro company that we can be. We're advancing this concept at every turn, and it's having a positive impact on our results.

We're on track with our key metrics and have full confidence that we'll achieve the fiscal '26 guidance and potentially then some. That guidance is a conservative outlook that we projected at the end of last year. And since then, we've developed more aggressive longer-term targets to put our company solidly on a multiyear growth trajectory. That's the bigger story I want to discuss. My comments are less about the performance in this quarter and more about the future.

I threw down a challenge to Nate earlier this year to deliver an incremental $1 billion in top-line sales and total EBITDA of $1 billion. I put no time frame on it. Nate came back with the framework of a plan that would have us reaching these targets around 2030 on the strength of a 5% annual top-line growth through innovation, pricing, volume, M&A, not crazy M&A, but modest tuck-ins to augment or fill in gaps in our lawn and garden portfolio.

We're now implementing these growth targets, and Nate and his operating team are putting together the building blocks that will unlock this level of growth. He'll be ready to share that plan in more detail later this fiscal year at our Investor Day that we're planning for the summer.

Mark and Nate are also anxious to meet with strategic shareholders who want to be part of this longer-term plan and hear more about it. Achieving these longer-term goals will require a growth rate that is more ambitious than the low single-digit gains we projected in our fiscal '26 guidance and midrange goal through '27. I can help reconcile this for you. We aren't changing our guidance. We do believe there's a good probability that we'll outperform it.

Nate's operating plan for '26 establishes a path to a more accelerated growth rate. The better our performance in 2016, the easier our long-term objectives will come together. We've also built our incentive program this year on Nate's '26 operating plan, which includes strong branded sales growth and gross margin improvement that will drive higher EBITDA and lower leverage. To get a 100% payout on the incentive plan, it will require us to outperform the guidance. I'm not only super excited by this.

I'm also energized by our commitment to significantly reduce our share count starting with the first tranche of $500 million. We believe our current share price does not reflect the true value of our business, which is why our commitment to shareholder repurchases reflects our strong view of the long-term value of our company. Nate, Mark, and our Board of Directors are fully supportive. In addition, early feedback from key investors also showed support for this initiative.

Upon full execution of the long-term objectives, we're looking at a potential shareholder return in excess of 50% with a share price well north of $100. Repurchases will begin in '26 as we get our leverage ratio comfortably below 4, reducing our share count to around 40 million shares over time will require an investment much greater than the $500 million. So this is a long-term commitment that will require future authorizations from the Board.

There is also flexibility in the plan. Mark is the gatekeeper Repurchases will be using free cash flow and modulated to ensure we stay within our leverage targets. If we fall short of our financial plan in any given year, we'll slow the pace of repurchases. The program is a win for shareholders all the way around.

Being the Best Scotts Miracle-Gro also requires us to be focused on lawn and garden, free of distractions. The divestiture of Hawthorne will do that. The pending sale of Hawthorne Tiberio growth is good for Scotts Miracle-Gro and Hawthorne. It will allow each of us to do what we do best.

While we expect to close the deal this quarter, we've already moved Hawthorne from our operating financials, classifying it as a discontinued operation as having an immediate positive effect. It has contributed to a 40 basis point improvement in gross margin and further strengthens our balance sheet. It will eliminate the impact of cannabis sector's volatility in our share price. There's a benefit to Hawthorne too. Vireo's CEO is a guy named John Mazarakis, a founder of the investment firm, Chicago Atlantic, who is running the same play Chris and I sought to build in the cannabis space.

He's driving much needed consolidation and Vireo is on track to becoming a top operator with a terrific multistate map. He's treating many of the people who are part of these acquisitions as partners and retaining their expertise. Vireo is well capitalized and acquiring Hawthorne will allow it to expand into cultivation supply and open up more growth potential for Hawthorne.

The sale of Hawthorne will be through an exchange of shares giving us a key investment in Vireo. Chris will also join the Board of Vireo, chairing a newly formed strategy committee and joining the comp, nominating and corporate governance committee. SMG will enter into customer agreements to continue providing manufacturing, R&D, transitional and other services.

Looking at the bigger picture, it's clear we found a good home for Hawthorne while further strengthening the most powerful lawn and garden franchise in a category that's growing. Despite our delivering consistent positive performance quarter after quarter, we've not seen it show up in the stock price. There is one upside to being undervalued. It gives us even greater opportunities to buy more shares back and deliver improved results for long-term investors.

We are not so much focused on quarterly results as we are on disciplined achievement of the milestones that will enable us to realize our financial goals. I hope everyone on this call is excited about what you're hearing today. We're at an inflection point. We're done looking in a rearview mirror. We have an aggressive offensively driven plan for the future. And we're very confident about that future, and it's absolutely on the side of creating more value for our shareholders.

Next up is Nate.

Nathan Baxter - *Scotts Miracle-Gro Co - Chief Operating Officer, Executive Vice President*

Welcome, everyone. Jim laid out our strategy and financial priorities. And when it comes to delivering them, I view this as a three-stage approach to execution. The first involves our work to achieve the fiscal 2026 guidance. The second is what we're doing to accomplish our midterm financial priorities through fiscal '27. And the third is the plan we're building for the longer-term goal of $1 billion in top line sales growth and $1 billion in EBITDA.

The message today is we're on track to deliver the 26% guidance and the midterm priorities. And as Jim said, we see opportunities to outperform. But as you know, our season is just getting started. As for the area longer-term priorities, my team and I are developing a comprehensive plan that we'll share by our next Investor Day.

This morning, I'm going to talk mostly about fiscal '26, which is the building block to our mid- and long-term plans. Our growth algorithm is focused on these key areas. First, incremental listings, including new product introductions across all our categories. Second, e-commerce gains across our retailer base. Third, growth in our high-margin branded products, and fourth, pricing. The path to achieving our targets is centered on the consumer period.

Despite being the lawn and garden market leader, we have a clear opportunity to grow household penetration. In some of our biggest categories, it's as low as 10%. At the same time our demographics are shifting. Our core consumer is the baby boomer and Gen X-er, but is evolving rapidly to the emerging millennial and Gen Z-ers. The best news is the lawn and garden consumer is healthy and engaged in the category.

Our products fit nicely in space of small, affordable projects around the home. Consumers are increasingly spending time on their lawns and in their gardens, not just for the aesthetics, but for their physical and mental well-being too. All of this speaks to our opportunity. We must engage with a broader and more diverse group consumers. You can expect us to increase household penetration and encourage greater frequency in the use of our products.

We'll focus on expanding the channels in which we reach consumers. We're going to drive product development to expand our portfolio and include more organic, natural and biological solutions. We're going to adapt our marketing to engage emerging consumers and enhance their experience, and we'll seek M&A through strategic tuck-in acquisitions that can fill gaps or build our portfolio. We're progressing in each of these areas. We have ramped up innovation across our categories.

In lawns, a new granular turf builder lawn food with a formulation emphasizing safety for kids and pets will launch this quarter. We're also bringing to market the 10-minute lawn care program, an updated line of ready-to-spray liquid fertilizers that feature a new applicator tailored for ease of use. Expansion of our successful Miracle-Gro organics line is also underway. And with Ortho, this month, we introduced an indoor late trap for flying insects and new ant trap products. This builds on the success of last summer's mosquito kill and prevent product launch.

Frequency of purchase is also critical. We are doing more to educate consumers on the value of multiple feedings for both lawns and gardens. We spoke in past calls how this effort boosted consumer takeaway with lawn fertilizers in 2025, and there is more to go get. We're taking a similar approach with indoor gardening to encourage gardening as a year-round activity. This is supported by our new green thumb indoor marketing campaign that launched in Q1 in conjunction with a new line of indoor guarding products.

We've seen positive results with this effort. As for M&A, we are intent on finding innovative, unique brands that resonate with consumers and our initial focus is on licensing or distribution agreements to explore partnerships and test product strategies. Any tuck-in M&A we complete will be margin accretive and have no negative impact on leverage.

Beginning in fiscal '27, we will be the exclusive national distributor, manufacturer and marketer of Black Kow products. This product line is led by Black Kow Manure and organic soils. It's going to augment our Miracle-Gro organic line by appealing to a whole new consumer. Black Kow is a premium soil amendment product used primarily by gardeners who like to curate their own soils. Line reviews start next month with retailers.

We have also entered into an agreement to become the primary representative for Murphy's Naturals. This partnership provides us access to a high-quality team focused on innovation in natural insect repellents and will help enhance the current R&D, brand work and products we offer in the natural and organic space.

Channel expansion continues to be a focus. Do-it-for-me as an opportunity here. We are not interested in what we did in the past with the Scotts lawn service. However, we have the potential to be a key supplier of the best and most effective products for small- and medium-sized professional lawn and garden service providers. We are testing this concept in two markets this spring to gauge our full potential in this space.

Looking at the online channel, more consumers across all age groups are turning to digital and e-commerce to learn about products, engage with companies and ultimately make purchases. In Q1, we launched a robust digital platform where we consolidated all brands under scottsmiraclegro.com with AI-driven consumer guidance, educational content, and e-commerce capabilities as well as the ability to offer loyalty programs in the future.

With this enhanced website, we are better able to partner with our retailers as they look to sell more of our products online. It's one of the many ways we're enhancing the consumer experience. Overlaying all our initiatives is our ongoing work to drive down operating costs and optimize our organization while increasing investments in our franchise.

This has contributed to the outstanding job the team has done on improving gross margin. We have budgeted an incremental $30 million in CapEx this year for a total of $130 million. We're planning Marysville plant upgrades to support fertilizer innovation. We're going to increase automation across our supply chain, expanding the capacity of our growing media network to stay ahead of growing demand in our branded soils business and implementing transformational AI and technology company-wide. On the brand side, we'll continue to increase investment to the tune of $25 million this year, focusing on key areas such as media, digital and R&D.

This incremental spend is enabled by the transformation work we completed last year, coupled with thoughtful reallocation of resources to focus on our priorities. Some of this will include authentic marketing campaigns geared towards the growing Hispanic population. In addition, we recently secured the naming rights to the Columbus Crew Stadium, providing great brand recognition for the major league soccer season and upcoming world cup events. Soccer is one of the fastest-growing sports, and its fans are a key demographic for us. As you can see, we are making progress on multiple fronts and are on track to our guidance.

Our '26 plan is solid and will serve as the steppingstone to the bigger financial goals. We have the best brands in a unique category, and we're looking forward to bringing more consumers into the wonderful world of lawns, gardens and green spaces. I'm most excited about the momentum we're building. I see many more good things happening for our company and shareholders as our season gets underway and the year unfolds.

Here's Mark with the financial details.

Mark Scheiwer - *Scotts Miracle-Gro Co - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Thank you, and hello, everyone. Jim and Nate provided a great overview of our strategy and all the work we are doing to successfully execute upon it. We are making strong and consistent progress as we focus on actions that drive long-term value creation. We are off to a good start and optimistic for the year. We continue to strengthen our capital structure, advance our financial priorities and invest in the growth of our core lawn and garden business.

The new multiyear share repurchase program demonstrates our commitment to shareholder-friendly actions that go beyond our robust quarterly dividend. The repurchases will be executed in a measured manner to ensure alignment with our capital allocation strategy, our focus on leverage reduction and the guidance we established for fiscal '26. We anticipate a phased approach with the repurchases expected to begin in late 2026 and increasing over time as we further reduce our leverage ratio be in line with our financial goal of below 3.5 times.

With this background, I'll move to our performance, starting with the divestiture of our Hawthorne business with our Board's commitment and a pending sale transaction, starting this first fiscal quarter, we are classifying Hawthorne as a discontinued operation. We have removed Hawthorne from our ongoing operations and are reporting it separately as a single line item in the P&L called Loss from discontinued operations net of tax.

The prior first quarter result of operations have been updated to reflect this as well. We plan to recast the financial results to reflect Hawthorne as a discontinued operation for each of the quarterly periods in fiscal '24 and '25. This will occur within the next few weeks and will help with your financial modeling and comparisons when you look at the performance of our consumer business for these past two years. As part of the transaction, Vireo Growth will acquire Hawthorne in exchange for its equity. And moving forward, this equity will be reported as a minority investment in our financial statements.

In connection with the classification of Hawthorne as discontinued operation, we took a pretax asset impairment charge of $105 million, recorded within the loss from discontinued operations, representing the excess of Hawthorne's carrying value over its estimated selling price.

Looking at our top-line sales this quarter, total company net sales, which exclude Hawthorne, were $354.4 million. US consumer sales of $328.5 million were ahead of expectations to changes in the timing of early season load-in with certain customers. Our first quarter represents around 10% of our full year sales and mostly reflects load-in activities tied to the upcoming spring and summer lawn and garden season.

We expect retailers to increase these load-in activities as we draw closer to the POS curve. And in fact, retailer shipments in January picked up at a record pace, making it one of the highest January shipment months ever.

Moving to POS. I want to call out an update this quarter to our reporting of U.S. consumer POS activity to align more closely with our go-forward focus of driving growth in our branded product sales, broadening our customer base and growing in e-commerce. We listened to your feedback and have taken steps to improve the clarity of our POS data that we will use consistently in the future.

Starting this quarter, we are providing a robust and comprehensive view of POS by expanding reporting from our previously reported three largest customers to include POS data from 15 of our largest customers, including e-commerce. Reported POS will be for branded products only, excluding mulch, private label and commodity items. In addition, POS by key business categories of lawns, gardens and controls has been added to our supplemental financial presentation slides posted on the website earlier this morning. This updated measure is more directionally aligned with our shipment activity and represents over 80% of our total US consumer sales activity.

Under this new reporting approach, our fiscal '25 POS dollars were up 2% and closely mirroring our plus 1% in US consumer sales. POS for the first quarter, which is less than 10% of our full fiscal year, was slightly down at 1% in both dollars and units compared to the first quarter of fiscal '25. For context, the first quarter we just reported was comping against one of our strongest first quarters on record last year.

Additionally, much of the fall season in calendar '25, was pulled forward due to favorable weather conditions and has showed up in our strong POS in August and September of fiscal '25.

Also, during the first quarter of fiscal '26, you're starting to see POS dollars and units move more in line with 1 another compared to recent years due to a shift in our mix strategy. We expect this trend to continue. Some of the POS bright spots in Q1 included Gardens and Roundup. Nate explained the opportunities we see in indoor gardening. And this began to play out in Q1.

POS and indoor gardening was up 7.7% in dollars and up 9% in units. In addition, Roundup saw strong consumer demand and was up 24% in dollars and 27% in units. We also saw good growth year over year in spreaders, weed and insect control products. E-commerce was again a strong growth area as we continue to drive substantial gains primarily through our retailer e-commerce sites. For the quarter, e-commerce POS dollars for our branded products were up 12% and units were up 17%.

Branded product e-commerce sales represented 14% and of our overall POS in Q1, a 150 basis point increase over prior year. Gross margin expansion is a financial priority. And for the quarter, we delivered a GAAP gross margin rate of 25%, up 90 basis points over prior year. The non-GAAP adjusted gross margin rate was 25.4%, compared with 24.5% a year ago. The improvement was primarily driven by ongoing supply chain cost efficiencies, coupled with our planned pricing actions.

Moving down the P&L. SG&A for the quarter decreased 7% to $106 million, the result of equity compensation decreases that were partially offset by an increase in media and marketing to support our brands.

Looking at the non-GAAP adjusted EBITDA for the quarter, it was $3 million, ahead of our expectations due to the timing shift of US consumer sales tied to seasonal loading activities of our retail partners. Below the line, interest expense continued to fall from lower debt balances and interest rates.

Interest expense was $27.2 million, down 20% from the first quarter of fiscal '25. We also reduced leverage nearly half turn, ending the quarter at 4.03 times net debt to adjusted EBITDA compared with 4.52 times in the first quarter of fiscal '25. This was a result of continued deployment of free cash flow to debt reduction and improved EBITDA.

Regarding free cash flow, it was favorable by $78 million in the quarter, due to timing of accruals and our continued focus on working capital management, including further supply chain optimization and automation, making us more nimble during the seasonal inventory build. As for the bottom line, we delivered improvement here, too.

We typically report a loss in our first fiscal quarter. This quarter, the GAAP net loss from continuing operations was $47.8 million, or $0.83 per share versus $66.1 million or $1.15 per share in prior year. The non-GAAP adjusted loss for the first quarter was $44.6 million or $0.77 per share versus $50.2 million or $0.88 per share in prior year.

Overall, we are pleased with our first quarter performance and have full confidence in our fiscal '26 financial guidance, which includes US consumer net sales growth of low single digits non-GAAP adjusted gross margin rate of at least 32% and non-GAAP adjusted earnings from continuing operations per share range of $4.15 to $4.35 per share.

Non-GAAP adjusted EBITDA growth of mid-single digits and free cash flow of $275 million, driving leverage ratio down to the high 3s. As we continue to deliver upon the key elements of our midrange plan through fiscal '27, we are shifting our sights to the long-term growth prospects for our company. Jim addressed the financial priorities through fiscal 2030, and you can expect us to share more details related to these priorities and the plan at an Investor Day event we are planning this summer.

Thank you, and I will now turn it over to the operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Peter Grom, UPS.

Peter Grom - *UBS AG - Analyst*

Maybe just going back to some of the original commentary around the work the team has been doing. And I know we're going to get a lot more details at the Investor Day this summer, but the high degree of confidence that you can outperform the guidance this year. Could you maybe just talk about what's driving that, or where you have increased confidence in visibility sales, margin, both, you sounded quite optimistic. So just any color, I think, would be helpful.

Mark Scheiwer - *Scotts Miracle-Gro Co - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Sure. Good to talk to you, Peter. This is Mark Scheiwer. I'll start with some of the bottom line confidence, and then I'll let Jim and Nate speak to some of the top line as they see it as they work with the operators. You'll see in the gross margin line, obviously, we announced the Hawthorne divestitures.

So that, as Jim alluded to, provided 40 basis points of benefit on a full year basis. In addition, given our track record and some of our planning as we've gotten further into the year, we feel comfortable as we navigate that, that we should be able to outperform 32% as a number. So I feel as we guide further in the year, we'll give our customary update after the second quarter, and we can provide a little more refined guidance around call it, margin.

You did also see some good performance on interest expense down below the line as folks are navigating and managing cash flow really well. So I feel really good about how the team is navigating free cash flow on that side.

And then just from my perspective on the finance side, on the top line, as far as consensus and where we landed versus sales and what we've talked about on the last quarter call, sales from retailers, it's a big load in quarter for the quarter, and we saw really good positive momentum there as we navigated the quarter, maybe that exceeded some of our expectations initially at year-end.

Nathan Baxter - *Scotts Miracle-Gro Co - Chief Operating Officer, Executive Vice President*

And I'll just add real quickly, Peter, between the innovation we're bringing to market and the focus that we have in partnership with our retailers on the branded products, there's a lot of bullishness about the season. So we're -- I think all those things together is what sort of gives us certain confidence.

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, President, Chief Executive Officer*

And look, I would just throw in there from my point of view that when we put sort of the guidance together, and this is not unusual for us. It's really before our business plans are being finalized and we're through the process of the work we do with our retailers. So I think that they were pretty conservative numbers. And I think that's what you guys would expect. I think everybody is saying under promise, overdeliver, but between the guidance we gave and Nate's operating numbers, there's quite a big difference.

And so Nate, I think, is feeling confident that we are at least better than the plan that Shire put together, which is kind of a safety plan. And so I think so far, so good. And again, the part which is the at the consensus, and this goes to, I think, mostly confidence in the numbers. We built an incentive plan that was approved by the board recently that is -- the guidance numbers would not pay out at 100%. And I think that's important to just know where the management team is because the incentive does matter.

And so I think there's a lot of confidence. I think if sales were -- who's here, but is not talking at the moment. But if they were talking, they would say we've got excellent programs in place for the year. And I think the operating part of the business is being very well managed.

Operator

Chris Carey, Wells Fargo Securities.

Chris Carey - *Wells Fargo Securities LLC - Analyst*

So I guess I sense some positive early signs of retailer shipments, both in the quarter and perhaps even quarter to date. I believe the year is set up to be a bit more back half weighted from a growth standpoint. Can you just give us a sense of whether the early activity has evolved your view about the easing through the year, the timing of inventory loads? Or are these just weeks too small to read too much into, and you're kind of still thinking the same thing.

Maybe just give us a sense of how your thought process on the cadence has evolved through the year. And I guess that's really about your ability to kind of ship the retailers or retailers receptivity?

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, President, Chief Executive Officer*

Chris, I would just throw out that it's no joke that the direction that I'm leading is going to be less focused on the quarters. And I think it's a really honestly shitty way to run a business is -- and I know -- I think everybody would probably say that knows our business and those just generally public companies would say, don't let the quarterly results drive you guys and make it nuts. And part of what I'm trying to get the operating team is to say, look, let's go for our milestones.

Let's -- and so I think the answer is -- Mark will answer it, but I think the -- because I think Mark has sort of said I think it will get to kind of 50-50. And I said that you see that really happening. And he said, well, kind of.

But I think the thing is we're looking for the fiscal year and making the sort of milestones that we need to get to, to make like, I'm going to say, our plan work. And so I think, generally, the answer is yes. But what I don't want to do is get all freaked out over the fact that there's just no doubt that you'll see deviation and a lot of it depending on weather.

Mark Scheiwer - *Scotts Miracle-Gro Co - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Chris, just as a follow-up to what Jim said, I think going into the year when we talked at year-end, we kind of had talked about effectively like a 2% shift in sales from, call it, first half to second half. And I'd say we don't have a ton more data. The first quarter is a small part of the quarter. But could I see it being a little bit less than that? Yes, I think it could be potentially like a 1% shift first to second half.

So it could be a little bit less than our expectation. Just again, we're trying to navigate a few years being out from COVID now and sales patterns, but the retailers are really supportive of us. We have strong shelf space and support. And so that is very much the case. And so it could be less than what we had talked about at year-end. I think it could be -- but I think there'll still be a little bit of a shift.

Nathan Baxter - *Scotts Miracle-Gro Co - Chief Operating Officer, Executive Vice President*

Yes. Just we ended last fiscal year in a really good place with retailer inventories, and where we were down, call it 5%, so I think this just signals a little bit of optimism from retailers making sure they have the inventory they need as we get ready for spring.

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, President, Chief Executive Officer*

I mean you talk to the retailers. You've been out there like how are they feeling about?

Nathan Baxter - *Scotts Miracle-Gro Co - Chief Operating Officer, Executive Vice President*

Good, good. And I think even some commented, we loaded in a little more than we thought we would. And I think it's because of the healthy inventory level and the optimism with the One Big Beautiful Bill, we're expecting some tax refunds. And I think retailers are bullish on the season.

Operator

Andrew Carter, Stifel.

W. Andrew Carter - *Stifel Nicolaus & Company Inc - Analyst*

So if I understand it correctly, if you want to add $1 billion from 2025 to the business, and you think about where '26 will land, which will be a good base of branded, I'm getting like kind of a 6% kind of CAGR from '27 through -- or '26 through '30, who knows my math is right. But am I right range and that would be kind of an acceleration or at least our performance at the high end of what you expect the branded business to do this year? And how reliant is that on M&A? How reliant is some of these initiatives to be successful, such as do for me and as well as the e-commerce initiative.

Nathan Baxter - *Scotts Miracle-Gro Co - Chief Operating Officer, Executive Vice President*

So I would look at it this way. So first of all, a lot of the initiatives we talked about really won't be accretive until '27 and beyond. So the M&A and some of the do-it-for-me and Pro. What we are leaning into now is e-commerce. And we saw -- Mark talked about it in his prepared remarks, but we saw, call it, sort of flat to negative 1% growth overall.

Most of that was brick-and-mortar, but we saw double-digit growth in e-com. And from a market share perspective, while we were flat in brick-and-mortar, we saw almost 2 points of gain in e-com. So Jim said it, it's about 5%, and that's really the path we have to get to. And I think the sum -- my operating plan for '26, as Jim said, is more aggressive. We can talk more when we do the Investor Day later this year, but we definitely have a plan. We're willing to talk through with you guys.

Mark Scheiwer - *Scotts Miracle-Gro Co - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Yeah. Andrew, as a follow-up, Mark Scheiwer here. You are right. You're in the ballpark as far as growth rates go. And on the finance side, as I kind of look at the building blocks, as we set up this year for '26, pricing is a building block.

Volume growth is a building block and then innovation or new product listings are a building block. So if I was to break down that, call it, 5%, 6% of incremental sales growth, those three would be big components of that. We are introducing the tuck-in M&A as well as part of that.

So that would be a part of that growth. I think some of the partnerships we're looking at, I think it's safe to assume they would add probably a point of sales growth in the future as we navigate those partnerships and really like those businesses in the future.

So those are probably the four biggest blocks every -- depending on the year. You may see some of them outperform, and then underlying it all, obviously, would be the e-com growth that you're starting to -- that you've been seeing in the past, call it, six quarters of our financial wells.

W. Andrew Carter - *Stifel Nicolaus & Company Inc - Analyst*

The second question, I know that getting back to share repurchase this year. You outlined 40 million shares would be down 30% from where you are right now. I want to make sure I understand that the commitment to that, and if that's flexible, like if you -- if the right M&A target came that, that would be off the table. And I assume -- I'm not sure how that will be treated given the trust ownership. But would the trust participate in that? I mean, it would -- it might hurt the dynamics here, the trust moved up to 37%. So how are you thinking about all those things?

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, President, Chief Executive Officer*

Yeah, I put 40 million in this. So it is a long-term commitment. I frankly had a bigger percentage reduction in share count in mind, but I thought this was a good sort of moderate to long-term target that I think people could get their head around, and it sounded good to me. I think the limited partnership, not a trust but the limited partnership, would probably run somewhere in the middle with probably a little bit of liquidity selling into it, but majority accreting through that. So I think that's what you're likely just to see.

And then I -- it's where I am in my career. I've got to look to my partner to sit in to my right side, Nate, and say, dude, I do not want you getting amnesia on the ship. I don't want you deciding, like to me, this is a really good strategy for us. if you look at the investment we're making in the business, it's like 3:1 investment in the business relative to the repurchase, okay? So I think a lot of people have said, are you sure you're investing sufficiently behind the business.

And the answer is absolutely Nate is comfortable with that. He's got to drive these numbers. I think Mark is comfortable with it. I'm comfortable with it. But I got to say, I have been the architect of a lot of the M&A activity.

And I think while putting Scotts together and sort of consolidating the United States lawn and garden market has been a good one for us. I think a lot of the other stuff, which would have would have been billions of dollars maybe would have been better spent doing this then. And I think for where we are right now, this is a super simple, easy to understand, not challenging. It's a big deal for me to tell Scheiwer, you got the keys on this. And if you become uncomfortable, you can delay or stop.

And I don't want people to sort of get just I'm not going to use the word distracted, but to become convinced that some giant M&A deal is going to be the answer to it. I think that we like this company, and I think we think investing in this company. And if we have to do M&A like big M&A, $1 billion-plus in M&A, we'll do it in this company. And there's no integration risk. We can do it.

We can maintain our leverage. So I'm not going to say never because I think in sort of Air Force Multiple choice test, the answer was, don't ever answer that one, that's definitely a trick. So I'm not sure the answer is never. But I did make Nate promise me like you're not going to forget this commitment. You agreed?

Nathan Baxter - *Scotts Miracle-Gro Co - Chief Operating Officer, Executive Vice President*

Yeah. No, look, I think when shared his thoughts on the strategy. I think my response was something the effect of hell yeah I'm all in in. I mean that's really why it came here, and we really believe in the business, and we think it's the best business around. So we'll just invest in ourselves.

And I am not worried about reinvestment in the business, like Jim said, 75% of that cash flow will be supporting growth in the business. So I'm really comfortable with the plan.

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, President, Chief Executive Officer*

And just by the way, like I called Nate at 5 in the morning at his home, and he lives in this loft thing in Columbus. So it's like a big room, and he was like in the dark. And I sort of said, here's what I'm thinking. And within 10 seconds, he said, I'm in. And so that really is kind of how this whole thing started is Colin getting his view, and it was just that quick. I'm in. And then we developed it, we started expanding it with the team, brought the Board in, and people are pretty happy with us. So my view is this is our plan, and we're sticking with it. Andrew, what do you think?

W. Andrew Carter - *Stifel Nicolaus & Company Inc - Analyst*

Well, I mean I think that it sounds like we've got a nice opportunity cost filter for M&A now with $1 billion share repurchase commitment. That's my first flush.

Nathan Baxter - *Scotts Miracle-Gro Co - Chief Operating Officer, Executive Vice President*

No, I think it forces us to be really careful. And I think I said in my prepared remarks, consumer-friendly tuck-ins that fill gaps are allowed us to expand adjacent and we will not allow them to be decretive in any way. So I think it's a really smart approach.

Operator

Joseph Altobello, Raymond James.

Joseph Altobello - *Hill River Capital Inc - Analyst*

A couple of questions on the e-com business. I think you mentioned was up nicely double digits this quarter. And I think you said it was 14% of overall POS. How big can that business be? And I guess, maybe more importantly, what's the margin delta between e-commerce and brick-and-mortar.

Nathan Baxter - *Scotts Miracle-Gro Co - Chief Operating Officer, Executive Vice President*

Well, look, I think the business can be huge. The lifts have occurred across all of our retailers. I think that's an important point to make, they're really leaning into it. Very little of it comes from direct-to-consumer. So I think, Joe, from a cost -- I mean, look, the retailers obviously are highly competitive and trying to figure out how to continue to lower their costs.

But we see less than 5 percentage point delta in some of the margins, and they're getting better every quarter. So as the big guys and you know who they are, sort of invest in their infrastructure, we're riding along. And I think we're just seeing explosive growth, and it's not in just exclusive e-com. It's also in our traditional brick-and-mortar partners. We see a lot of opportunity. It will be a big percentage of that $1 billion will come from e-comm from various retail partners.

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, President, Chief Executive Officer*

Look, I think that the -- if you look at I was at a top to top with Nate and e-commerce came up. And Nate said, we're underpenetrated. We've got a we've got to get to a level of market share in e-com that we have in brick-and-mortar. And nobody argued the point, but if you just use that and say our share is the same in e-commerce than it is in -- and this is true across retailer sites everywhere. It is a gigantic opportunity.

Mark Scheiwer - *Scotts Miracle-Gro Co - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

More than half of that number.

James Hagedorn - *Scotts Miracle-Gro Co - Chairman of the Board, President, Chief Executive Officer*

Yes. So I mean that's the part. Now what's the challenge to Nate and operating team, a lot of those SKUs are different. Their packaging is different. And so it's a lot of work.

I mean we've talked about -- I mean part of this is our own fault to some extent, which is where we're underpenetrated. That means other kind of hobos are over penetrated. And that's a little hard to take. And I think in a world where brick-and-mortar was growing fast enough that it just was not a -- listen, we're simpletons here, I think, in some ways. If you look at grocery, you look at e-commerce, we were doing incredible work in brick-and-mortar, and we have fabulous partnerships with big retailers.

And they are absolutely our best friends. And they're building out this stuff, too. But there's a lot of work for us to say we -- let's just say, deserve to have market shares in e-commerce that we have in conventional retail. And that's going to require change in Nate's organization and a level of entrepreneurship that says we're going to get quite a bit more scrappy because otherwise, it's just like everything else we've talked about, whether it's grocery or e-comm, like if you want to succeed there, you have to have products and market and talk to people who are shopping there.

Joseph Altobello - *Hill River Capital Inc - Analyst*

Very helpful. Maybe if I could follow up on that. Obviously, we're here in late January, but how are your retail partners thinking about the lawn and garden category this spring, given all the affordability issues and pressures on the consumer right now.

Nathan Baxter - *Scotts Miracle-Gro Co - Chief Operating Officer, Executive Vice President*

Well, look, I spent a lot of time with our retail partners. I think everybody is feeling bullish. And it's the same story. It's a big part of bringing consumers back into the stores. and online. And I think they absolutely see those investments is worth it. I don't know, Josh, do you want to make a comment on that?

Josh Meihls - *Scotts Miracle-Gro Co - Senior Vice President, Chief Growth Officer*

Yes, Josh Meihls, here. I would say retail partners are very bullish on lawn and garden. To reiterate Nate's point, they see it as a traffic driver into the store, as a traffic driver to their e-commerce in financial times like this, relatively unburdened by small projects, paint lawn and garden tend to overperform, and that's where our retailers are leaning in to drive that traffic and conversion for both in-store and online.

Operator

Jonathan Matuszewski, Jefferies.

Jonathan Matuszewski - *Jefferies LLC - Analyst*

My first one was on supply chain. You've outlined a multifaceted plan here, everything from automation to more capacity and SKU rationalization. Any way to rank order some of these things as we think about kind of the biggest opportunity for cost savings and gross margin ahead? That's my first question.

Nathan Baxter - *Scotts Miracle-Gro Co - Chief Operating Officer, Executive Vice President*

Jonathan. I think they're all important. I think if you look at the performance we delivered in the last year, I think our team pretty confident they can continue. As you recall, we overdelivered. I think we ended up with $100 million out of supply chain, including commodities last year.

We've got $50 million to go in my original challenge. There'll probably be another challenge coming. It's a little bit of everything, everywhere. So remember, the way we approach, for example, efficiency in our plants, a lot of these plants are 50 years old and the equipment is nearly that old. The way Josh sort of manages that is when we have to replace a line, a bagging line, it's going to be a more modern obviously line that has probably at least a 20% to 30% improvement in throughput.

So it's really the sum of a lot of small changes. Some of the bigger areas are automation in our distribution center. I think you know we've been on a journey. So we'll continue to deliver results there. And then our tech transformation.

I mean, we are in the process of completely reimagining all of our business processes. It's part of our ERP migration, but it's more than that. It's including that we reduce the number of touches on any given project, whether it's a finance project or a marketing one. So I don't know if I can rank order them for you, but what I can say is I have a lot of confidence that these initiatives are going to continue to drive the bottom line.

Mark Scheiwer - *Scotts Miracle-Gro Co - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

And Jonathan, this is Mark Scheiwer. The other components of improving gross margin at the COGS line are going to be -- continue to be fixed cost leverage as we automate and get more efficient in our factories, we should be able to push more product through those both distribution locations and factories. So we should get fixed cost leverage benefits going up and then innovation as we look to continue to do cost out in our products and continue to make them stronger, better, all that. So I would say those two things also are part of that journey.

Jonathan Matuszewski - *Jefferies LLC - Analyst*

That's helpful. And then just a quick follow-up here. Pro penetration continues to rise at your key retail partners. Just curious, what are you doing different to collaborate with the big retail partners of yours to move Scots to the consideration sets of more of their Pro customers versus DIY presumably, this would be something in addition to the DIFM efforts you're pursuing in those pilot markets you mentioned?

Nathan Baxter - *Scotts Miracle-Gro Co - Chief Operating Officer, Executive Vice President*

Yes. Jonathan, I mean I don't want to get into specifics, but clearly, our big retail partners have big Pro initiatives. And I would say the way we're addressing that is product development, looking at larger sizes, more value to bring to the Pro side of the market. But as you point out, it's a multipronged approach. We'll work with retail partners.

We'll also work directly with small and medium-sized businesses. But at the end of the day, again, we're agnostic on where they get our product. So we just want to make it available in channels that makes it easy for those pros and do it for me businesses to thrive. And so it will be pretty broad I think it there, we'll probably have more to talk about this summer when we do our Investor Day in that space.

Operator

William Reuter, Bank of America.

William Reuter - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

I just have two. The first, Mark, when you were discussing M&A, you mentioned 1% growth. So is that to say that, that 5% annual growth target includes about 1% annually.

Mark Scheiwer - *Scotts Miracle-Gro Co - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

That's correct. Yes, that would be out into -- not this year, but it'd be focused on '27 and beyond.

William Reuter - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Got it. And then when we've been discussing the incremental $50 million of cost savings in one of the most recent answers, we talked about the $50 million that we still have. It seems like some of those are investments that are in the CapEx line. Will CapEx remain elevated in future years, or is the elevated CapEx really related to the $50 million of cost savings that we're targeting this year, and then we'll move back towards maybe $100 million or lower.

Mark Scheiwer - *Scotts Miracle-Gro Co - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

We're still building out, I would say, like a 5-year road map as far as long-term plan, but I would expect our CapEx to remain elevated at, call it, $130 million in '27 and beyond. And b, as we look to automate not only our factories but also our back-office activities. But in the near term, as what I'm seeing in the business and what we're working on, I would say, for the next several years, that's correct.

Nathan Baxter - *Scotts Miracle-Gro Co - Chief Operating Officer, Executive Vice President*

Plus there's the ERP component over the next, call it, two, three years that will be part of that FX as well.

Operator

Yaakov Musheyev, JPMorgan.

Carla Casella - *JPMorgan Chase & Co - Analyst*

That's actually Carla Casella from JPMorgan. Just your thoughts in terms of longer-term capital structure, and you mentioned your leverage target, but you said are you going to address the 2026 maturity.

Mark Scheiwer - *Scotts Miracle-Gro Co - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Sure. Carla, this is Mark Scheiwer. So the 2026 maturities, we plan to -- you saw on our balance sheet, they moved to current. Our expectation is we would leverage our free cash flow generation that we generate over the summer that's built into our $275 million of free cash flow plan, along with access to our revolver to pay those off later this summer as they start to come due. So we'll do that in the summertime and leverage again, free cash flow and then access to our revolving revolver.

Carla Casella - *JPMorgan Chase & Co - Analyst*

Okay. Great. And then you mentioned you're going to post financials, excluding Hawthorne, but can you just give us a goalpost for what EBITDA was last year with Hawthorne, I'm kind of backing into like 100 -- or sorry, 530, does that sound like the right range?

Mark Scheiwer - *Scotts Miracle-Gro Co - Chief Financial Officer, Executive Vice President, Chief Accounting Officer*

Yeah. So last year, we had adjusted EBITDA with Hawthorne of $581 million. We're still working through the finalization of the recast, but I would expect it to probably decrease by approximately $11 million when you back out the Hawthorne call it, around $570 million from an EBITDA perspective for the '25 -- fiscal '25 recasted number. And we'll provide you the '24 number in those materials as well. That would be the '25 number.

Operator

Thank you. And at this time, we have our Q&A session. Ladies and gentlemen, this concludes today's conference call. Thank you for your participation, and you may now disconnect.
