UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended July 2, 2022

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to
Commission File Number: 001-11593

The Scotts Miracle-Gro Company

(Exact name of registrant as specified in its charter)

Ohio	**31-1414921**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

14111 Scottslawn Road, Marysville, Ohio 43041
(Address of principal executive offices) (Zip Code)

(937) 644-0011
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Shares, $0.01 stated value	SMG	NYSE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of August 5, 2022, there were 55,405,649 Common Shares outstanding.

THE SCOTTS MIRACLE-GRO COMPANY
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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidated Statements of Operations
(In millions, except per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
Net sales	$ 1,186.1	$ 1,609.7	$ 3,430.4	$ 4,187.2
Cost of sales	883.7	1,114.3	2,415.6	2,822.2
Cost of sales—impairment, restructuring and other	65.8	0.8	71.1	22.2
Gross profit	236.6	494.6	943.7	1,342.8
Operating expenses:				
Selling, general and administrative	135.8	194.1	494.6	582.3
Impairment, restructuring and other	658.4	0.5	660.2	3.7
Other (income) expense, net	4.9	(2.1)	(1.0)	(3.4)
Income (loss) from operations	(562.5)	302.1	(210.1)	760.2
Equity in income of unconsolidated affiliates	(15.1)	(21.5)	(1.3)	(20.0)
Interest expense	31.0	21.9	83.1	57.3
Other non-operating income, net	(1.7)	(1.2)	(5.4)	(17.3)
Income (loss) from continuing operations before income taxes	(576.7)	302.9	(286.5)	740.2
Income tax expense (benefit) from continuing operations	(132.8)	73.1	(69.0)	174.2
Income (loss) from continuing operations	(443.9)	229.8	(217.5)	566.0
Loss from discontinued operations, net of tax	—	(3.9)	—	(4.7)
Net income (loss)	$ (443.9)	$ 225.9	$ (217.5)	$ 561.3
Net income attributable to noncontrolling interest	—	—	—	(0.9)
Net income (loss) attributable to controlling interest	$ (443.9)	$ 225.9	$ (217.5)	$ 560.4
Basic income (loss) per common share:				
Income (loss) from continuing operations	$ (8.01)	$ 4.12	$ (3.91)	$ 10.15
Loss from discontinued operations	—	(0.07)	—	(0.09)
Basic net income (loss) per common share	$ (8.01)	$ 4.05	$ (3.91)	$ 10.06
Weighted-average common shares outstanding during the period	55.4	55.8	55.6	55.7
Diluted income (loss) per common share:				
Income (loss) from continuing operations	$ (8.01)	$ 4.00	$ (3.91)	$ 9.90
Loss from discontinued operations	—	(0.06)	—	(0.09)
Diluted net income (loss) per common share	$ (8.01)	$ 3.94	$ (3.91)	$ 9.81
Weighted-average common shares outstanding during the period plus dilutive potential common shares	55.4	57.4	55.6	57.1

See Notes to Condensed Consolidated Financial Statements.

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidated Statements of Comprehensive Income (Loss)
(In millions)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
Net income (loss)	$ (443.9)	$ 225.9	$ (217.5)	$ 561.3
Other comprehensive income (loss):				
Net foreign currency translation adjustment	(12.3)	2.4	(17.9)	10.5
Net unrealized gains (losses) on derivative instruments, net of tax	(9.0)	1.6	16.8	11.5
Reclassification of net unrealized (gains) losses on derivative instruments to net income, net of tax	1.4	0.5	(3.0)	4.4
Net unrealized losses on securities, net of tax	(60.0)	—	(59.8)	—
Pension and other post-retirement benefit adjustments, net of tax	3.6	(0.4)	5.6	(1.2)
Total other comprehensive income (loss)	(76.3)	4.1	(58.3)	25.2
Comprehensive income (loss)	(520.2)	230.0	(275.8)	586.5
Comprehensive income attributable to noncontrolling interest	—	—	—	(0.9)
Comprehensive income (loss) attributable to controlling interest	$ (520.2)	$ 230.0	$ (275.8)	$ 585.6

See Notes to Condensed Consolidated Financial Statements.

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidated Statements of Cash Flows
(In millions)
(Unaudited)

	Nine Months Ended	
	July 2, 2022	**July 3, 2021**
OPERATING ACTIVITIES		
Net income (loss)	$ (217.5)	$ 561.3
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Impairment, restructuring and other	641.8	—
Deferred taxes	(162.7)	7.6
Share-based compensation expense	28.6	34.0
Depreciation	50.3	47.0
Amortization	28.5	23.0
Equity in income of unconsolidated affiliates	(1.3)	(20.0)
Other, net	0.5	(11.4)
Changes in assets and liabilities, net of acquired businesses:		
Accounts receivable	(467.7)	(558.1)
Inventories	(256.6)	(337.2)
Prepaid and other assets	(36.1)	(62.5)
Accounts payable	(288.3)	87.9
Other current liabilities	(50.1)	24.7
Restructuring and other	33.7	(1.9)
Other non-current items	20.6	(2.3)
Other, net	(3.3)	0.8
Net cash used in operating activities	(679.6)	(207.1)
INVESTING ACTIVITIES		
Proceeds from sale of long-lived assets	9.4	0.1
Investments in property, plant and equipment	(99.0)	(77.9)
Investments in unconsolidated affiliates	—	(102.3)
Payment for acquisitions, net of cash acquired	(237.3)	(21.8)
Purchase of convertible debt investments	(25.0)	—
Other investing, net	17.4	(10.0)
Net cash used in investing activities	(334.5)	(211.9)
FINANCING ACTIVITIES		
Borrowings under revolving and bank lines of credit and term loans	3,440.0	1,231.9
Repayments under revolving and bank lines of credit and term loans	(2,253.3)	(1,064.9)
Proceeds from issuance of 4.000% Senior Notes	—	500.0
Financing and issuance fees	(9.7)	(7.2)
Dividends paid	(129.6)	(106.1)
Purchase of Common Shares	(257.7)	(91.0)
Cash received from exercise of stock options	2.6	14.3
Acquisition of noncontrolling interests	—	(17.4)
Other financing, net	5.6	—
Net cash provided by financing activities	797.9	459.6
Effect of exchange rate changes on cash	(0.1)	1.1
Net increase (decrease) in cash and cash equivalents	(216.3)	41.7
Cash and cash equivalents at beginning of period	244.1	16.6
Cash and cash equivalents at end of period	$ 27.8	$ 58.3

See Notes to Condensed Consolidated Financial Statements.

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidated Balance Sheets
(In millions, except per share data)
(Unaudited)

	July 2, 2022	July 3, 2021	September 30, 2021
ASSETS			
Current assets:			
Cash and cash equivalents	$ 27.8	$ 58.3	$ 244.1
Accounts receivable, less allowances of $16.8, $10.9 and $16.8, respectively	674.7	1,058.0	483.4
Accounts receivable pledged	277.8	—	—
Inventories	1,407.6	962.8	1,126.6
Prepaid and other current assets	200.8	146.9	169.9
Total current assets	2,588.7	2,226.0	2,024.0
Investment in unconsolidated affiliates	208.3	224.5	207.0
Property, plant and equipment, net of accumulated depreciation of $778.4, $727.0 and $737.4, respectively	625.2	582.6	622.2
Goodwill	254.7	547.1	605.2
Intangible assets, net	627.1	677.8	709.6
Other assets	689.7	363.1	632.0
Total assets	$ 4,993.7	$ 4,621.1	$ 4,800.0
LIABILITIES AND EQUITY			
Current liabilities:			
Current portion of debt	$ 322.0	$ 53.7	$ 57.8
Accounts payable	291.0	467.9	609.4
Other current liabilities	458.9	515.2	473.2
Total current liabilities	1,071.9	1,036.8	1,140.4
Long-term debt	3,155.6	2,132.0	2,236.7
Other liabilities	348.1	329.9	409.6
Total liabilities	4,575.6	3,498.7	3,786.7
Commitments and contingencies (Note 13)			
Equity:			
Common shares and capital in excess of $0.01 stated value per share; shares outstanding of 55.4, 55.8 and 55.6, respectively	362.0	471.4	477.0
Retained earnings	1,276.9	1,691.0	1,605.1
Treasury shares, at cost; 12.8, 12.4 and 12.6 shares, respectively	(1,096.1)	(966.1)	(1,002.4)
Accumulated other comprehensive loss	(124.7)	(73.9)	(66.4)
Total equity	418.1	1,122.4	1,013.3
Total liabilities and equity	$ 4,993.7	$ 4,621.1	$ 4,800.0

See Notes to Condensed Consolidated Financial Statements.

(Dollars in millions, except per share data)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Scotts Miracle-Gro Company ("Scotts Miracle-Gro") and its subsidiaries (collectively, together with Scotts Miracle-Gro, the "Company") are engaged in the manufacturing, marketing and sale of products for lawn and garden care and indoor and hydroponic gardening. The Company's products are sold in North America, Europe and Asia.

The Company's North America consumer lawn and garden business is highly seasonal, with more than 75% of its annual net sales occurring in the second and third fiscal quarters.

Organization and Basis of Presentation

The Company's unaudited condensed consolidated financial statements for the three and nine months ended July 2, 2022 and July 3, 2021 are presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The condensed consolidated financial statements include the accounts of Scotts Miracle-Gro and its subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation. The Company's consolidation criteria are based on majority ownership (as evidenced by a majority voting interest in the entity) and an objective evaluation and determination of effective management control. On February 26, 2021, the Company acquired the remaining outstanding shares of AeroGrow International, Inc. ("AeroGrow"). Prior to this date, the equity owned by other shareholders was shown as noncontrolling interest in the Condensed Consolidated Balance Sheets, and the other shareholders' portion of net earnings and other comprehensive income was shown as net (income) loss or comprehensive (income) loss attributable to noncontrolling interest in the Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Comprehensive Income (Loss), respectively. The results of businesses acquired or disposed of are included in the condensed consolidated financial statements from the date of each acquisition or up to the date of disposal, respectively. In the opinion of management, interim results reflect all normal and recurring adjustments and are not necessarily indicative of results for a full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted or condensed pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, this Quarterly Report on Form 10-Q for the fiscal quarter ended July 2, 2022 (this "Form 10-Q") should be read in conjunction with Scotts Miracle-Gro's Annual Report on Form 10-K for the fiscal year ended September 30, 2021 (the "2021 Annual Report"), which includes a complete set of footnote disclosures, including the Company's significant accounting policies.

The Company's Condensed Consolidated Balance Sheet at September 30, 2021 has been derived from the Company's audited Consolidated Balance Sheet at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

Long-Lived Assets

The Company had non-cash investing activities of $13.3 and $13.8 during the nine months ended July 2, 2022 and July 3, 2021, respectively, representing unpaid liabilities to acquire property, plant and equipment.

Statements of Cash Flows

Supplemental cash flow information was as follows:

	Nine Months Ended	
	July 2, 2022	July 3, 2021
Interest paid	$ 87.8	$ 56.6
Income tax payments	26.9	165.9

Recently Adopted Accounting Pronouncements

In December 2019, the Financial Accounting Standards Board issued Accounting Standards Update No. 2019-12, "Income taxes (Topic 740): Simplifying the Accounting for Income Taxes," which simplifies the accounting for income taxes by removing certain exceptions to the general principles in Accounting Standards Codification 740 and also clarifies and amends existing guidance to improve consistent application. The Company adopted this guidance on October 1, 2021. The adoption of this guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

NOTE 2. DISCONTINUED OPERATIONS

International Business

Prior to August 31, 2017, the Company operated consumer lawn and garden businesses located in Australia, Austria, Belgium, Luxembourg, Czech Republic, France, Germany, Poland and the United Kingdom (the "International Business"). On August 31, 2017, the Company completed the sale of the International Business. As a result, effective in its fourth quarter of fiscal 2017, the Company classified its results of operations for all periods presented to reflect the International Business as a discontinued operation. The transaction included contingent consideration with a maximum payout of $23.8 and an initial fair value of $18.2, the payment of which depended on the achievement of certain performance criteria by the International Business following the closing of the transaction through fiscal 2020. During the third quarter of fiscal 2021, the Company agreed to accept a contingent consideration payout of $6.0 and recorded a pre-tax charge of $12.2 in the "Income (loss) from discontinued operations, net of tax" line in the Condensed Consolidated Statements of Operations during the third quarter of fiscal 2021 to write down the contingent consideration receivable to the agreed upon payout amount. During the three months ended April 2, 2022, the Company received the contingent consideration payment and this amount was classified as a financing activity in the "Other financing, net" line in the Condensed Consolidated Statements of Cash Flows.

NOTE 3. ACQUISITIONS AND INVESTMENTS

Cyco

On April 28, 2022, the Company's Hawthorne segment completed the acquisition of substantially all of the assets of S.J. Enterprises PTY LTD, d.b.a. Cyco, an Australia-based provider of premium nutrients, additives and growing media products for indoor growing, for an estimated purchase price of $37.4. The purchase price includes contingent consideration, a non-cash investing activity, with an initial fair value of $3.1 and a maximum payout of $10.0, which will be paid by the Company based on the achievement of certain performance metrics through December 31, 2024. Prior to the transaction, the Company served as the exclusive distributor of Cyco's products in the United States. The valuation of the acquired assets included (i) $1.3 of inventory, (ii) $10.5 of finite-lived identifiable intangible assets and (iii) $25.6 of tax-deductible goodwill. Identifiable intangible assets included trade names, customer relationships and non-compete agreements with useful lives ranging between 5 and 25 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate discount rate.

Luxx Lighting

On December 30, 2021, the Company's Hawthorne segment completed the acquisition of substantially all of the assets of Luxx Lighting, Inc., a leading provider of lighting products for indoor growing. The purchase price was $213.2, a portion of which was paid by the issuance of 0.1 million of the common shares, $0.01 par value per share, of Scotts Miracle-Gro ("Common Shares"), a non-cash investing and financing activity, with a fair value of $21.0 based on the share price at the time of payment. During the second quarter of fiscal 2022, the Company identified quality issues with certain Luxx products sold prior to the closing of the acquisition. As of July 2, 2022, the accrual for product return refund liabilities and warranty claims associated with these quality issues was $8.9, which was recognized as a measurement-period adjustment. During the third quarter of fiscal 2022, the preliminary valuation of the acquired assets was revised to reflect updated acquisition-date assumptions including the longer duration and increased significance of lower sales volumes and cost increases. The Company recognized the resulting impact as a measurement-period adjustment. The revised valuation resulted in a decrease in the value of finite-lived identifiable intangible assets of $59.5 and a corresponding increase in goodwill. The revised valuation of the acquired assets included (i) $32.8 of inventory and accounts receivable, (ii) $5.7 of current assets, (iii) $24.2 of current liabilities, (iv) $47.3 of finite-lived identifiable intangible assets and (v) $151.6 of tax-deductible goodwill. Identifiable intangible assets included trade names, customer relationships and non-compete agreements with useful lives ranging between 5 and 25 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate discount rate.

True Liberty Bags

On December 23, 2021, the Company's Hawthorne segment completed the acquisition of substantially all of the assets of True Liberty Bags, a leading provider of liners and storage solutions to dry and cure plant products, for $10.1. The valuation of the acquired assets included (i) $1.1 of inventory, (ii) $5.8 of finite-lived identifiable intangible assets and (iii) $3.2 of tax-deductible goodwill. Identifiable intangible assets included trade names and customer relationships with useful lives of 15 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate discount rate.

Hydro-Logic

On August 27, 2021, the Company's Hawthorne segment completed the acquisition of substantially all of the assets of Hydro-Logic Purification Systems, Inc., a leading provider of products, accessories and systems for water filtration and purification, for $65.3. The valuation of the acquired assets included (i) $4.5 of inventory and accounts receivable, (ii) $1.6 of noncurrent assets, (iii) $2.6 of other liabilities, (iv) $23.1 of finite-lived identifiable intangible assets and (v) $38.7 of tax-deductible goodwill. Identifiable intangible assets included trade names, customer relationships and non-compete agreements with useful lives ranging between 5 and 15 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate discount rate.

The Hawthorne Collective

On August 24, 2021, the Company's wholly-owned subsidiary, The Hawthorne Collective, Inc. ("THC"), made its initial investment under the Company's strategic minority non-equity investment initiative in the form of a $150.0 six-year convertible note issued to the Company by Toronto-based RIV Capital Inc. ("RIV Capital") (CSE: RIV) (OTC: CNPOF), a cannabis investment and acquisition firm listed on the Canadian Securities Exchange. The note accrues interest at 2 percent annually for the first two years and provides additional follow-on investment rights. Accrued interest will be payable to THC at maturity or will be included in the conversion value of the note at the time of conversion. The conversion feature is based upon the RIV Capital closing stock price on August 9, 2021. In connection with the Company's investment, RIV Capital increased the size of its board of directors from four to seven members and added three nominees of the Company to the board of directors of RIV Capital. On April 22, 2022, pursuant to its follow-on investment rights, the Company made an additional investment in RIV Capital in the form of a $25.0 convertible note. The note accrues interest at 2 percent annually for the first two years and matures on August 24, 2027. Accrued interest will be payable to THC at maturity or will be included in the conversion value of the note at the time of conversion. The conversion feature is based upon the RIV Capital closing stock price on March 29, 2022. Additionally, RIV Capital is expected to increase the size of its board of directors to nine members, which is expected to include four nominees of the Company. The initial and follow-on investments would provide the Company with approximately 42 percent ownership of RIV Capital if it exercises the conversion features of both investments.

The Company will not have control of or an active day-to-day role in RIV Capital or any of the companies in which RIV Capital invests. RIV Capital has agreed to use the funds it receives from the Company for general corporate and other lawful purposes, which could include acquisitions, and has agreed that the funds will not be used in connection with or for any cannabis or cannabis-related operations in the U.S. unless and until such operations comply with all applicable U.S. federal laws.

During the fourth quarter of fiscal 2021, THC made minority non-equity investments of $43.1 in other entities focused on branded cannabis and high quality genetics. These additional investments also include conversion features that would provide the Company with minority ownership interests if it exercises the conversion features, as well as restrictions that the funds will not be used in connection with or for any cannabis or cannabis-related operations in the U.S. unless and until such operations comply with all applicable U.S. federal laws.

Rhizoflora

On August 13, 2021, the Company's Hawthorne segment completed the acquisition of substantially all of the assets of Rhizoflora, Inc., the manufacturer of terpene enhancing nutrient products Terpinator® and Purpinator®, for $33.7. The valuation of the acquired assets included (i) $0.6 of inventory, (ii) $10.9 of finite-lived identifiable intangible assets and (iii) $22.2 of tax-deductible goodwill. Identifiable intangible assets included trade names, customer relationships and non-compete agreements with useful lives ranging between 5 and 25 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate discount rate.

(Dollars in millions, except per share data)

AeroGrow

On November 11, 2020, the Company entered into an agreement and plan of merger to acquire the remaining outstanding shares of AeroGrow for cash consideration of $3.00 per share, or approximately $20.1. The merger closed on February 26, 2021. SMG Growing Media, Inc., a wholly-owned subsidiary of Scotts Miracle-Gro, was the holder of 80.5% of the outstanding shares of AeroGrow prior to the closing and now holds 100% of the outstanding shares of AeroGrow. The closing date carrying value of the noncontrolling interest was $6.7 and the $13.4 difference between the purchase price and carrying value was recognized in the “Common shares and capital in excess of $0.01 stated value per share” line within “Total equity” in the Condensed Consolidated Balance Sheets.

NOTE 4. GOODWILL AND INTANGIBLE ASSETS

The following table displays a rollforward of the carrying amount of goodwill by reportable segment:

	U.S. Consumer	Hawthorne	Other	Total
Goodwill	$ 245.7	$ 444.8	$ 11.1	$ 701.6
Accumulated impairment losses	(1.8)	(94.6)	—	(96.4)
Balance at September 30, 2021	243.9	350.2	11.1	605.2
Acquisitions and measurement-period adjustments	—	180.8	—	180.8
Foreign currency translation	—	(8.6)	(0.3)	(8.9)
Impairment	—	(522.4)	—	(522.4)
Goodwill	$ 245.7	$ 617.0	$ 10.8	$ 873.5
Accumulated impairment losses	(1.8)	(617.0)	—	(618.8)
Balance at July 2, 2022	$ 243.9	$ —	$ 10.8	$ 254.7

The following table presents intangible assets, net of accumulated amortization and impairment charges:

	July 2, 2022			September 30, 2021		
	Gross Carrying Amount	Accumulated Amortization/ Impairment Charges	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization/ Impairment Charges	Net Carrying Amount
Finite-lived intangible assets:						
Trade names	$ 322.1	$ (151.0)	$ 171.1	$ 293.4	$ (73.3)	$ 220.1
Customer relationships	252.9	(143.1)	109.8	228.3	(91.7)	136.6
Technology	49.2	(43.0)	6.2	49.2	(41.3)	7.9
Other	35.6	(19.5)	16.1	35.3	(14.2)	21.1
Total finite-lived intangible assets, net			303.2			385.7
Indefinite-lived intangible assets:						
Indefinite-lived trade names			168.2			168.2
Roundup® marketing agreement amendment			155.7			155.7
Total indefinite-lived intangible assets			323.9			323.9
Total intangible assets, net			$ 627.1			$ 709.6

During the third quarter of fiscal 2022, the Company’s Hawthorne reporting unit continued to experience adverse financial results driven by an oversupply of cannabis, which has slowed down indoor and outdoor cultivation, and higher transportation and warehousing costs. As a result, the Company made further revisions to its internal forecasts relating to its Hawthorne reporting unit. The Company concluded that the changes in circumstances in this reporting unit and the decline in the Company’s market capitalization triggered the need for an interim impairment review of its goodwill. These changes in circumstances also indicated that the carrying amounts of Hawthorne’s long-lived assets, including trade names and customer relationships, may not be recoverable. Accordingly, the Company performed a recoverability test for long-lived assets as of July 2, 2022. The Company concluded that the carrying value of long-lived assets exceeded their estimated fair value and recorded impairment charges of $69.0 related to trade names and $41.0 related to customer relationships in the “Impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations. The fair values of long-lived assets were determined using income-based approaches, including the relief-from-royalty method for trade names, that include market participant expectations of cash flows that the assets will generate over the remaining useful life discounted to present value using an appropriate discount rate. These fair value estimates utilize significant unobservable inputs and thus represent Level 3 fair value measurements.

After adjusting the carrying values of the finite-lived intangible assets, the Company completed an interim quantitative impairment test for goodwill. This quantitative test resulted in a non-cash, pre-tax goodwill impairment charge of $522.4 related to the Hawthorne reporting unit, which was recorded in the “Impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations. The carrying value of goodwill of the Hawthorne reporting unit, after recognizing the impairment, is zero. The estimated fair value of the Hawthorne reporting unit was based upon an equal weighting of the income-based and market-based approaches, utilizing estimated cash flows and a terminal value, discounted at a rate of return that reflects the relative risk of the cash flows, as well as valuation multiples derived from comparable publicly traded companies that are applied to operating performance of the reporting unit. The fair value estimate utilizes significant unobservable inputs and thus represents a Level 3 fair value measurement.

NOTE 5. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

On December 31, 2020, pursuant to the terms of the Contribution and Unit Purchase Agreement between the Company and Alabama Farmers Cooperative, Inc. (“AFC”), the Company acquired a 50% equity interest in the Bonnie Plants business of planting, growing, developing, distributing, marketing and selling live plants through a newly formed joint venture with AFC (“Bonnie Plants, LLC”) in exchange for cash payments of $102.3, as well as non-cash investing activities that included forgiveness of the Company’s outstanding loan receivable with AFC and surrender of the Company’s options to increase its economic interest in the Bonnie Plants business. The Company’s loan receivable with AFC, which was previously recognized in the “Other assets” line in the Condensed Consolidated Balance Sheets, had a carrying value of $66.4 on December 31, 2020 and the Company recognized a gain of $12.5 during the three months ended January 2, 2021 to write-up the value of the loan to its closing date fair value of $78.9 in the “Other non-operating income, net” line in the Condensed Consolidated Statements of Operations. The Company’s options to increase its economic interest in the Bonnie Plants business were previously recognized in the “Other assets” line in the Condensed Consolidated Balance Sheets and had an estimated fair value of $23.3 on December 31, 2020. The Company’s interest in Bonnie Plants, LLC had an initial fair value of $202.9 and is recorded in the “Investment in unconsolidated affiliates” line in the Condensed Consolidated Balance Sheets. The Company’s interest is accounted for using the equity method of accounting, with the Company’s proportionate share of Bonnie Plants, LLC earnings subsequent to December 31, 2020 reflected in the Condensed Consolidated Statements of Operations. During the three and nine months ended July 2, 2022, the Company recorded equity in income of unconsolidated affiliates associated with Bonnie Plants, LLC of $15.1 and $1.3, respectively, as compared to $21.5 and $20.0 during the three and nine months ended July 3, 2021, respectively. The estimated fair value of the loan receivable with AFC was determined using an income-based approach, which includes market participant expectations of cash flows over the remaining useful life discounted to present value using an appropriate discount rate. The fair value estimate utilized significant unobservable inputs and thus represents a Level 3 nonrecurring fair value measurement.

(Dollars in millions, except per share data)

NOTE 6. IMPAIRMENT, RESTRUCTURING AND OTHER

Activity described herein is classified within the "Cost of sales—impairment, restructuring and other" and "Impairment, restructuring and other" lines in the Condensed Consolidated Statements of Operations. The following table details impairment, restructuring and other charges (recoveries) for each of the periods presented:

	Three Months Ended		Nine Months Ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
Cost of sales—impairment, restructuring and other:				
COVID-19 related costs	$ —	$ 1.5	$ —	$ 22.5
Restructuring and other charges (recoveries), net	58.8	(0.7)	61.3	(0.3)
Property, plant and equipment impairments	7.0	—	9.8	—
Operating expenses:				
COVID-19 related costs	—	0.4	—	3.6
Restructuring and other charges, net	25.3	0.1	27.1	0.1
Goodwill and intangible asset impairments	633.1	—	633.1	—
Impairment, restructuring and other charges from continuing operations	$ 724.2	$ 1.3	$ 731.3	$ 25.9

The following table summarizes the activity related to liabilities associated with restructuring and other during the nine months ended July 2, 2022:

Amounts accrued for restructuring and other at September 30, 2021	$ 1.9
Restructuring and other charges from continuing operations	40.0
Payments and other	(6.3)
Amounts accrued for restructuring and other at July 2, 2022	$ 35.6

Included in restructuring accruals, as of July 2, 2022, is $2.0 that is classified as long-term. The remaining amounts accrued will continue to be paid out over the course of the next twelve months.

During the three and nine months ended July 2, 2022, the Company recognized non-cash, pre-tax goodwill and intangible asset impairment charges of $632.4 related to its Hawthorne segment in the "Impairment, restructuring and other" line in the Condensed Consolidated Statements of Operations, comprised of $522.4 of goodwill impairment charges and $110.0 of finite-lived intangible asset impairment charges.

During the three and nine months ended July 2, 2022, the Company incurred inventory write-down charges of $45.9 in the "Cost of sales—impairment, restructuring and other" line in the Condensed Consolidated Statements of Operations associated with its decision to discontinue and exit the market for certain lighting products and brands.

During the three and nine months ended July 2, 2022, the Company began implementing an expanded series of organizational changes and initiatives intended to create operational and management-level efficiencies. As part of this restructuring program, the Company is reducing the size of its supply chain network, reducing staffing levels and implementing other cost-reduction initiatives. During the three and nine months ended July 2, 2022, the Company incurred costs of $40.7 and $46.1, respectively, associated with this restructuring initiative primarily related to employee termination benefits and impairment of property, plant and equipment. The Company incurred costs of $9.5 in its U.S. Consumer segment and $10.4 and $15.6 in its Hawthorne segment in the "Cost of sales—impairment, restructuring and other" line in the Condensed Consolidated Statements of Operations during the three and nine months ended July 2, 2022, respectively. The Company incurred costs of $7.4 in its U.S. Consumer segment, $7.1 in its Hawthorne segment and $6.3 at Corporate in the "Impairment, restructuring and other" line in the Condensed Consolidated Statements of Operations during the three and nine months ended July 2, 2022, respectively.

The COVID-19 pandemic has had, and continues to have, an impact on financial markets, economic conditions, and portions of the Company's business and industry. The Company has actively addressed the pandemic's ongoing impact on its employees, operations, customers, consumers, and communities, by, among other things, implementing contingency plans, making operational adjustments where necessary, and providing assistance to organizations that support front-line workers. The first priority of the Company's pandemic response has been and remains the health, safety and well-being of its employees. In addition to implementing measures to help ensure the health and safety of its employees, the Company implemented an interim premium pay allowance for certain associates in its field sales force and its manufacturing and distribution centers. Costs incurred during the three and nine months ended July 2, 2022 related to COVID-19 were immaterial. During the three and nine months ended July 3, 2021, the Company incurred costs of $1.9 and $26.1, respectively, associated with the COVID-19 pandemic primarily related to premium pay. The Company incurred costs of $0.8 and $19.8 in its U.S. Consumer segment, $0.5 and $2.4 in its Hawthorne segment and $0.2 and $0.3 in its Other segment in the "Cost of sales—impairment, restructuring and other" line in the Condensed Consolidated Statements of Operations during the three and nine months ended July 3, 2021, respectively. The Company incurred costs of $0.3 and $3.5 in its U.S. Consumer segment and $0.1 in its Other segment in the "Impairment, restructuring and other" line in the Condensed Consolidated Statements of Operations during the three and nine months ended July 3, 2021, respectively.

(Dollars in millions, except per share data)

NOTE 7. INVENTORIES

Inventories consisted of the following for each of the periods presented:

	July 2, 2022	July 3, 2021	September 30, 2021
Finished goods	$ 988.0	$ 665.8	$ 793.7
Raw materials	310.4	220.1	242.8
Work-in-process	109.2	76.9	90.1
Total inventories	$ 1,407.6	$ 962.8	$ 1,126.6

Adjustments to reflect inventories at net realizable values were $69.3 at July 2, 2022, $21.3 at July 3, 2021 and $22.5 at September 30, 2021. Refer to "NOTE 6. IMPAIRMENT, RESTRUCTURING AND OTHER" for more information.

NOTE 8. MARKETING AGREEMENT

The Scotts Company LLC ("Scotts LLC") is the exclusive agent of Monsanto Company, a subsidiary of Bayer AG ("Monsanto"), for the marketing and distribution of certain of Monsanto's consumer Roundup® branded products in the United States and certain other specified countries. Effective August 1, 2019, the Company entered into the Third Amended and Restated Exclusive Agency and Marketing Agreement (the "Third Restated Agreement") which amended, among other things, the provisions of the Second Amended and Restated Exclusive Agency and Marketing Agreement (the "Restated Marketing Agreement") relating to commissions, contributions, noncompetition, and termination. The annual commission payable under the Third Restated Agreement is equal to 50% of the actual earnings before interest and income taxes of Monsanto's consumer Roundup® business for each program year in the markets covered by the Third Restated Agreement ("Program EBIT"). The Third Restated Agreement also requires the Company to make annual payments of $18.0 to Monsanto as a contribution against the overall expenses of its consumer Roundup® business, subject to reduction pursuant to the Third Restated Agreement for any program year in which the Program EBIT does not equal or exceed $36.0.

Unless Monsanto terminates the Third Restated Agreement due to an event of default by the Company, termination rights under the Third Restated Agreement include the following:

- The Company may terminate the Third Restated Agreement upon the insolvency or bankruptcy of Monsanto;
- Monsanto may terminate the Third Restated Agreement in the event that Monsanto decides to decommission the permits, licenses and registrations needed for, and the trademarks, trade names, packages, copyrights and designs used in, the sale of the Roundup® products in the lawn and garden market (a "Brand Decommissioning Termination"); and
- Each party may terminate the Third Restated Agreement if Program EBIT falls below $50.0 and, in such case, no termination fee would be payable to either party.

The termination fee structure requires Monsanto to pay a termination fee to the Company in an amount equal to (i) $375.0 upon a Brand Decommissioning Termination, and (ii) the greater of $175.0 or four times an amount equal to the average of the Program EBIT for the three program years before the year of termination, minus $186.4, if Monsanto or its successor terminates the Third Restated Agreement as a result of a Roundup Sale or Change of Control of Monsanto (each, as defined in the Third Restated Agreement).

(Dollars in millions, except per share data)

The elements of the net commission and reimbursements earned under the Third Restated Agreement and included in the "Net sales" line in the Condensed Consolidated Statements of Operations are as follows:

	Three Months Ended		Nine Months Ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
Gross commission	$ 20.9	$ 34.7	$ 73.4	$ 84.9
Contribution expenses	(4.5)	(4.5)	(13.5)	(13.5)
Net commission	16.4	30.2	59.9	71.4
Reimbursements associated with Roundup® marketing agreement	14.8	17.7	56.4	58.4
Total net sales associated with Roundup® marketing agreement	$ 31.2	$ 47.9	$ 116.3	$ 129.8

NOTE 9. DEBT

The components of debt are as follows:

	July 2, 2022	July 3, 2021	September 30, 2021
Credit Facilities:			
Revolving loans	$ 617.4	$ 278.8	$ —
Term loans	987.5	680.0	670.0
Senior Notes due 2031 – 4.000%	500.0	500.0	500.0
Senior Notes due 2032 – 4.375%	400.0	—	400.0
Senior Notes due 2029 – 4.500%	450.0	450.0	450.0
Senior Notes due 2026 – 5.250%	250.0	250.0	250.0
Receivables facility	250.0	—	—
Finance lease obligations	29.3	34.5	33.4
Other	15.9	7.9	11.9
Total debt	3,500.1	2,201.2	2,315.3
Less current portions	322.0	53.7	57.8
Less unamortized debt issuance costs	22.5	15.5	20.8
Long-term debt	$ 3,155.6	$ 2,132.0	$ 2,236.7

Credit Facilities

On July 5, 2018, the Company entered into a fifth amended and restated credit agreement (the "Fifth A&R Credit Agreement"), which provided the Company and certain of its subsidiaries with five-year senior secured loan facilities in the aggregate principal amount of $2,300.0, comprised of a revolving credit facility of $1,500.0 and a term loan in the original principal amount of $800.0 (the "Fifth A&R Credit Facilities"). Under the Fifth A&R Credit Facilities, the Company had the ability to obtain letters of credit up to $75.0.

On April 8, 2022, the Company entered into a sixth amended and restated credit agreement (the "Sixth A&R Credit Agreement"), providing the Company and certain of its subsidiaries with five-year senior secured loan facilities in the aggregate principal amount of $2,500.0, comprised of a revolving credit facility of $1,500.0 and a term loan in the original principal amount of $1,000.0 (the "Sixth A&R Credit Facilities"). The Sixth A&R Credit Agreement also provides the Company with the right to seek additional committed credit under the agreement in an aggregate amount of up to $500.0 plus an unlimited additional amount, subject to certain specified financial and other conditions. The Sixth A&R Credit Agreement replaces the Fifth A&R Credit Agreement and will terminate on April 8, 2027. The Sixth A&R Credit Facilities are available for issuance of letters of credit up to $100.0. The terms of the Sixth A&R Credit Agreement include customary representations and warranties, affirmative and negative covenants, financial covenants, and events of default.

At July 2, 2022, the Company had letters of credit outstanding in the aggregate principal amount of $14.1 and had $868.5 of borrowing availability under the Sixth A&R Credit Agreement. The weighted average interest rates on average borrowings under the Fifth A&R Credit Agreement and Sixth A&R Credit Agreement were 2.1% and 1.8% for the nine months ended July 2, 2022 and July 3, 2021, respectively.

Under the terms of the Sixth A&R Credit Agreement, loans bear interest, at the Company's election, at a rate per annum equal to either (i) the Alternate Base Rate plus the Applicable Spread (each, as defined in the Sixth A&R Credit Agreement) or (ii) the Adjusted Term SOFR Rate for the Interest Period in effect for such borrowing plus the Applicable Spread (all as defined in the Sixth A&R Credit Agreement). Swingline Loans bear interest at the applicable Swingline Rate set forth in the Sixth A&R Credit Agreement. Further, interest rates for other select non-U.S. dollar borrowings, including borrowings denominated in euro, Pounds Sterling and Canadian Dollars, are based on separate interest rate indices, as set forth in the Sixth A&R Credit Agreement. The Sixth A&R Credit Agreement is secured by (i) a perfected first priority security interest in all of the accounts receivable, inventory and equipment of Scotts Miracle-Gro and certain of its domestic subsidiaries and (ii) the pledge of all of the capital stock of certain of Scotts Miracle-Gro's domestic subsidiaries and a portion of the capital stock of certain of its foreign subsidiaries. The collateral does not include any of the Company's intellectual property.

On June 8, 2022, the Company entered into Amendment No. 1 (the "Amendment") to the Sixth A&R Credit Agreement. The Amendment increased the maximum permitted leverage ratio for the quarterly leverage covenant effective for the third quarter of fiscal 2022 until the earlier of (i) April 1, 2024 and (ii) subject to certain conditions specified in the Amendment, the termination by the Company of such increase (such period, the "Leverage Adjustment Period"). The Amendment also increases the interest rate applicable to borrowings under the revolving credit facility by 35 bps and the term loan facility by 50 bps, and increases the annual facility fee rate on the revolving credit facility by 15 bps, in each case, when the Company's quarterly-tested leverage ratio exceeds 4.75. Additionally, the Amendment limits the Company's ability to declare or pay any discretionary dividends, distributions or other restricted payments during the Leverage Adjustment Period to only the payment of (i) regularly scheduled cash dividends to holders of its common stock in an aggregate amount not to exceed $225.0 per fiscal year and (ii) other dividends, distributions or other restricted payments in an aggregate amount not to exceed $25.0; and requires pro forma compliance with certain leverage levels specified in the Amendment with respect to the Company's ability to consummate certain acquisitions and incur debt.

The Sixth A&R Credit Agreement contains, among other obligations, an affirmative covenant regarding the Company's leverage ratio determined as of the end of each of its fiscal quarters calculated as average total indebtedness, divided by the Company's earnings before interest, taxes, depreciation and amortization, as adjusted pursuant to the terms of the Sixth A&R Credit Agreement ("Adjusted EBITDA"). Pursuant to the Amendment, the maximum permitted leverage ratio is (i) 6.25 for the third quarter of fiscal 2022 through the first quarter of fiscal 2023, (ii) 6.50 for the second and third quarters of fiscal 2023, (iii) 6.25 for the fourth quarter of fiscal 2023 and the first quarter of fiscal 2024, (iv) 5.50 for the second quarter of fiscal 2024, and (v) 4.50 for the third quarter of fiscal 2024 and thereafter. The Company's leverage ratio was 5.10 at July 2, 2022. The Sixth A&R Credit Agreement also contains an affirmative covenant regarding the Company's interest coverage ratio determined as of the end of each of its fiscal quarters. The interest coverage ratio is calculated as Adjusted EBITDA divided by interest expense, as described in the Sixth A&R Credit Agreement, and excludes costs related to refinancings. The minimum required interest coverage ratio is 3.00, which is unchanged from the Fifth A&R Credit Agreement. The Company's interest coverage ratio was 5.89 for the twelve months ended July 2, 2022.

Senior Notes

On December 15, 2016, Scotts Miracle-Gro issued $250.0 aggregate principal amount of 5.250% Senior Notes due 2026 (the "5.250% Senior Notes"). The 5.250% Senior Notes represent general unsecured senior obligations and rank equal in right of payment with the Company's existing and future unsecured senior debt. The 5.250% Senior Notes have interest payment dates of June 15 and December 15 of each year.

On October 22, 2019, Scotts Miracle-Gro issued $450.0 aggregate principal amount of 4.500% Senior Notes due 2029 (the "4.500% Senior Notes"). The 4.500% Senior Notes represent general unsecured senior obligations and rank equal in right of payment with the Company's existing and future unsecured senior debt. The 4.500% Senior Notes have interest payment dates of April 15 and October 15 of each year.

On March 17, 2021, Scotts Miracle-Gro issued $500.0 aggregate principal amount of 4.000% Senior Notes due 2031 (the "4.000% Senior Notes"). The 4.000% Senior Notes represent general unsecured senior obligations and rank equal in right of payment with the Company's existing and future unsecured senior debt. The 4.000% Senior Notes have interest payment dates of April 1 and October 1 of each year.

On August 13, 2021, Scotts Miracle-Gro issued $400.0 aggregate principal amount of 4.375% Senior Notes due 2032 (the "4.375% Senior Notes"). The 4.375% Senior Notes represent general unsecured senior obligations and rank equal in right of payment with the Company's existing and future unsecured senior debt. The 4.375% Senior Notes have interest payment dates of February 1 and August 1 of each year.

(Dollars in millions, except per share data)

Substantially all of Scotts Miracle-Gro's directly and indirectly owned domestic subsidiaries serve as guarantors of the 5.250% Senior Notes, the 4.500% Senior Notes, the 4.000% Senior Notes and the 4.375% Senior Notes.

Receivables Facility

On April 7, 2017, the Company entered into a Master Repurchase Agreement (including the annexes thereto, the "Repurchase Agreement") and a Master Framework Agreement, as amended (the "Framework Agreement" and, together with the Repurchase Agreement, the "Receivables Facility"). Under the Receivables Facility, the Company may sell a portfolio of available and eligible outstanding customer accounts receivable to the purchasers and simultaneously agree to repurchase the receivables on a weekly basis. The eligible accounts receivable consist of accounts receivable generated by sales to three specified customers. The eligible amount of customer accounts receivables which may be sold under the Receivables Facility is $400.0 and the commitment amount during the seasonal commitment period that began on February 25, 2022 and ended on June 17, 2022 was $160.0. The Receivables Facility expires on August 19, 2022.

The Company accounts for the sale of receivables under the Receivables Facility as short-term debt and continues to carry the receivables on its Condensed Consolidated Balance Sheets, primarily as a result of the Company's requirement to repurchase receivables sold. As of July 2, 2022 and July 3, 2021, there were $250.0 and $0.0, respectively, in borrowings on receivables pledged as collateral under the Receivables Facility, and the carrying value of the receivables pledged as collateral was $277.8 and $0.0, respectively.

Interest Rate Swap Agreements

The Company enters into interest rate swap agreements with major financial institutions that effectively convert a portion of the Company's variable-rate debt to a fixed rate. Interest payments made between the effective date and expiration date are hedged by the swap agreements. Swap agreements that were hedging interest payments as of July 2, 2022, July 3, 2021 and September 30, 2021 had a maximum total U.S. dollar equivalent notional amount of $800.0, $700.0 and $600.0, respectively. The notional amount, effective date, expiration date and rate of each of the swap agreements outstanding at July 2, 2022 are shown in the table below:

Notional Amount	Effective Date (a)	Expiration Date	Fixed Rate
100	12/21/2020	6/20/2023	1.36 %
300 (b)	1/7/2021	6/7/2023	1.34 %
200	10/7/2021	6/7/2023	1.37 %
200 (b)	1/20/2022	6/20/2024	0.58 %
200	6/7/2023	6/8/2026	0.85 %

(a) The effective date refers to the date on which interest payments are first hedged by the applicable swap agreement.
(b) Notional amount adjusts in accordance with a specified seasonal schedule. This represents the maximum notional amount at any point in time.

Weighted Average Interest Rate

The weighted average interest rates on the Company's debt were 3.4% and 3.6% for the nine months ended July 2, 2022 and July 3, 2021, respectively.

(Dollars in millions, except per share data)

NOTE 10. EQUITY

The following tables provide a summary of the changes in total equity, equity attributable to controlling interest, and equity attributable to noncontrolling interests for each of the periods indicated:

	Common Shares and Capital in Excess of Stated Value	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Loss	Total Equity - Controlling Interest	Noncontrolling Interest	Total Equity
Balance at September 30, 2021	$ 477.0	$ 1,605.1	$ (1,002.4)	$ (66.4)	$ 1,013.3	$ —	$ 1,013.3
Net income (loss)	—	(50.0)	—	—	(50.0)	—	(50.0)
Other comprehensive income (loss)	—	—	—	5.7	5.7	—	5.7
Share-based compensation	7.3	—	—	—	7.3	—	7.3
Dividends declared ($0.66 per share)	—	(37.3)	—	—	(37.3)	—	(37.3)
Treasury share purchases	—	—	(129.5)	—	(129.5)	—	(129.5)
Treasury share issuances	2.6	—	19.5	—	22.1	—	22.1
Balance at January 1, 2022	$ 486.9	$ 1,517.8	$ (1,112.4)	$ (60.7)	$ 831.6	$ —	$ 831.6
Net income (loss)	—	276.5	—	—	276.5	—	276.5
Other comprehensive income (loss)	—	—	—	12.3	12.3	—	12.3
Share-based compensation	15.9	—	—	—	15.9	—	15.9
Dividends declared ($0.66 per share)	—	(35.5)	—	—	(35.5)	—	(35.5)
Treasury share purchases	—	—	(128.1)	—	(128.1)	—	(128.1)
Treasury share issuances	(141.0)	—	143.3	—	2.3	—	2.3
Balance at April 2, 2022	$ 361.8	$ 1,758.8	$ (1,097.2)	$ (48.4)	$ 975.0	$ —	$ 975.0
Net income (loss)	—	(443.9)	—	—	(443.9)	—	(443.9)
Other comprehensive income (loss)	—	—	—	(76.3)	(76.3)	—	(76.3)
Share-based compensation	1.6	—	—	—	1.6	—	1.6
Dividends declared ($0.66 per share)	—	(38.0)	—	—	(38.0)	—	(38.0)
Treasury share purchases	—	—	(0.1)	—	(0.1)	—	(0.1)
Treasury share issuances	(1.4)	—	1.2	—	(0.2)	—	(0.2)
Balance at July 2, 2022	$ 362.0	$ 1,276.9	$ (1,096.1)	$ (124.7)	$ 418.1	$ —	$ 418.1

The sum of the components may not equal due to rounding.

(Dollars in millions, except per share data)

	Common Shares and Capital in Excess of Stated Value	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Loss	Total Equity - Controlling Interest	Noncontrolling Interest	Total Equity
Balance at September 30, 2020	$ 482.5	$ 1,235.6	$ (921.8)	$ (99.1)	$ 697.2	$ 5.7	$ 702.9
Net income (loss)	—	24.4	—	—	24.4	0.8	25.2
Other comprehensive income (loss)	—	—	—	15.6	15.6	—	15.6
Share-based compensation	8.2	—	—	—	8.2	—	8.2
Dividends declared ($0.62 per share)	—	(35.7)	—	—	(35.7)	—	(35.7)
Treasury share purchases	—	—	(38.4)	—	(38.4)	—	(38.4)
Treasury share issuances	(0.1)	—	1.3	—	1.2	—	1.2
Balance at January 2, 2021	$ 490.5	$ 1,224.4	$ (958.8)	$ (83.5)	$ 672.6	$ 6.4	$ 679.0
Net income (loss)	—	310.0	—	—	310.0	0.2	310.2
Other comprehensive income (loss)	—	—	—	5.5	5.5	—	5.5
Share-based compensation	17.7	—	—	—	17.7	—	17.7
Dividends declared ($0.62 per share)	—	(34.2)	—	—	(34.2)	—	(34.2)
Treasury share purchases	—	—	(23.8)	—	(23.8)	—	(23.8)
Treasury share issuances	(21.7)	—	28.3	—	6.6	—	6.6
Acquisition of noncontrolling interests	(13.4)	—	—	—	(13.4)	(6.7)	(20.1)
Balance at April 3, 2021	$ 473.0	$ 1,500.2	$ (954.3)	$ (78.0)	$ 940.9	$ —	$ 940.9
Net income (loss)	—	225.9	—	—	225.9	—	225.9
Other comprehensive income (loss)	—	—	—	4.1	4.1	—	4.1
Share-based compensation	8.1	—	—	—	8.1	—	8.1
Dividends declared ($0.62 per share)	—	(35.1)	—	—	(35.1)	—	(35.1)
Treasury share purchases	—	—	(28.8)	—	(28.8)	—	(28.8)
Treasury share issuances	(9.7)	—	17.0	—	7.3	—	7.3
Balance at July 3, 2021	$ 471.4	$ 1,691.0	$ (966.1)	$ (73.9)	$ 1,122.4	$ —	$ 1,122.4

The sum of the components may not equal due to rounding.

(Dollars in millions, except per share data)

Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss ("AOCL") by component were as follows for each of the periods indicated:

	Three Months Ended				
	Foreign Currency Translation Adjustments	Net Unrealized Gains (Losses) On Derivative Instruments	Net Unrealized Gains (Losses) On Securities	Pension and Other Post-Retirement Benefit Adjustments	Accumulated Other Comprehensive Income (Loss)
Balance at April 2, 2022	$ (7.3)	$ 31.5	$ (2.1)	$ (70.5)	$ (48.4)
Other comprehensive income (loss) before reclassifications	(12.3)	(12.2)	(79.2)	—	(103.7)
Amounts reclassified from accumulated other comprehensive net income (loss)	—	1.9	—	4.9	6.8
Income tax benefit (expense)	—	2.7	19.2	(1.3)	20.6
Net current period other comprehensive income (loss)	(12.3)	(7.6)	(60.0)	3.6	(76.3)
Balance at July 2, 2022	$ (19.6)	$ 23.9	$ (62.1)	$ (67.0)	$ (124.7)
Balance at April 3, 2021	$ 1.9	$ (1.3)	$ —	$ (78.6)	$ (78.0)
Other comprehensive income (loss) before reclassifications	2.4	2.2	—	—	4.6
Amounts reclassified from accumulated other comprehensive net income (loss)	—	0.7	—	(0.5)	0.2
Income tax benefit (expense)	—	(0.8)	—	0.1	(0.7)
Net current period other comprehensive income (loss)	2.4	2.1	—	(0.4)	4.1
Balance at July 3, 2021	$ 4.3	$ 0.8	$ —	$ (79.0)	$ (73.9)

The sum of the components may not equal due to rounding.

	Nine Months Ended				
	Foreign Currency Translation Adjustments	Net Unrealized Gains (Losses) On Derivative Instruments	Net Unrealized Gains (Losses) On Securities	Pension and Other Post-Retirement Benefit Adjustments	Accumulated Other Comprehensive Income (Loss)
Balance at September 30, 2021	$ (1.7)	$ 10.2	$ (2.3)	$ (72.5)	$ (66.4)
Other comprehensive income (loss) before reclassifications	(17.9)	22.7	(78.9)	—	(74.1)
Amounts reclassified from accumulated other comprehensive net income (loss)	—	(4.1)	—	7.6	3.5
Income tax benefit (expense)	—	(4.8)	19.1	(2.0)	12.3
Net current period other comprehensive income (loss)	(17.9)	13.8	(59.8)	5.6	(58.3)
Balance at July 2, 2022	$ (19.6)	$ 23.9	$ (62.1)	$ (67.0)	$ (124.7)
Balance at September 30, 2020	$ (6.2)	$ (15.1)	$ —	$ (77.8)	$ (99.1)
Other comprehensive income (loss) before reclassifications	10.5	15.5	—	—	26.0
Amounts reclassified from accumulated other comprehensive net income (loss)	—	5.9	—	(1.6)	4.3
Income tax benefit (expense)	—	(5.5)	—	0.4	(5.1)
Net current period other comprehensive income (loss)	10.5	15.9	—	(1.2)	25.2
Balance at July 3, 2021	$ 4.3	$ 0.8	$ —	$ (79.0)	$ (73.9)

The sum of the components may not equal due to rounding.

(Dollars in millions, except per share data)

Dividends

On July 27, 2020, the Scotts Miracle-Gro Board of Directors approved an increase in Scotts Miracle-Gro’s quarterly cash dividend from $0.58 to $0.62 per Common Share, which was first paid in the fourth quarter of fiscal 2020. On July 30, 2021, the Scotts Miracle-Gro Board of Directors approved an increase in Scotts Miracle-Gro’s quarterly cash dividend from $0.62 to $0.66 per Common Share, which was first paid in the fourth quarter of fiscal 2021.

Share Repurchases

On February 6, 2020, Scotts Miracle-Gro announced that its Board of Directors authorized the repurchase of up to $750.0 of Common Shares from April 30, 2020 through March 25, 2023. The authorization provides the Company with flexibility to purchase Common Shares from time to time in open market purchases or through privately negotiated transactions. All or part of the repurchases may be made under Rule 10b5-1 plans, which the Company may enter into from time to time and which enable the repurchases to occur on a more regular basis, or pursuant to accelerated share repurchases. The share repurchase authorization may be suspended or discontinued by the Board of Directors at any time, and there can be no guarantee as to the timing or amount of any repurchases. During the three and nine months ended July 2, 2022, Scotts Miracle-Gro repurchased 0.0 million and 1.1 million Common Shares under this share repurchase authorization for $0.0 and $175.0, respectively. During the three and nine months ended July 3, 2021, Scotts Miracle-Gro repurchased 0.1 million and 0.4 million Common Shares under this share repurchase authorization for $25.0 and $75.6, respectively. Treasury share purchases also include cash paid to tax authorities to satisfy statutory income tax withholding obligations related to share-based compensation of $0.1 and $82.7 for the three and nine months ended July 2, 2022, respectively, and $3.8 and $15.5 for the three and nine months ended July 3, 2021, respectively.

Share-Based Awards

The following is a summary of the share-based awards granted during each of the periods indicated:

	Nine Months Ended	
	July 2, 2022	July 3, 2021
Employees		
Options	—	183,553
Restricted stock units	144,814	69,758
Performance units	105,756	1,903
Non-Employee Directors		
Restricted and deferred stock units	19,701	8,518
Total share-based awards	270,271	263,732
Aggregate fair value at grant dates	$ 35.9	$ 29.9

Total share-based compensation was as follows for each of the periods indicated:

	Three Months Ended		Nine Months Ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
Share-based compensation	$ 1.6	$ 8.1	$ 24.8	$ 34.0
Related tax benefit recognized	0.3	2.1	3.8	6.0

(Dollars in millions, except per share data)

NOTE 11. EARNINGS PER COMMON SHARE

The following table presents information necessary to calculate basic and diluted income per Common Share.

	Three Months Ended		Nine Months Ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
Income (loss) from continuing operations	$ (443.9)	$ 229.8	$ (217.5)	$ 566.0
Net income attributable to noncontrolling interest	—	—	—	(0.9)
Income (loss) attributable to controlling interest from continuing operations	(443.9)	229.8	(217.5)	565.1
Loss from discontinued operations, net of tax	—	(3.9)	—	(4.7)
Net income (loss) attributable to controlling interest	$ (443.9)	$ 225.9	$ (217.5)	$ 560.4
Basic income (loss) per common share:				
Weighted-average common shares outstanding during the period	55.4	55.8	55.6	55.7
Income (loss) from continuing operations	$ (8.01)	$ 4.12	$ (3.91)	$ 10.15
Loss from discontinued operations	—	(0.07)	—	(0.09)
Basic net income (loss) per common share	$ (8.01)	$ 4.05	$ (3.91)	$ 10.06
Diluted income (loss) per common share:				
Weighted-average common shares outstanding during the period	55.4	55.8	55.6	55.7
Dilutive potential common shares	—	1.6	—	1.4
Weighted-average common shares outstanding during the period plus dilutive potential common shares	55.4	57.4	55.6	57.1
Income (loss) from continuing operations	$ (8.01)	$ 4.00	$ (3.91)	$ 9.90
Loss from discontinued operations	—	(0.06)	—	(0.09)
Diluted net income (loss) per common share	$ (8.01)	$ 3.94	$ (3.91)	$ 9.81

Diluted average common shares used in the diluted loss per common share calculation for the three and nine months ended July 2, 2022 were 55.4 million and 55.6 million, respectively, which excluded potential Common Shares of 0.4 million and 0.6 million, respectively, because the effect of their inclusion would be anti-dilutive as the Company incurred a net loss for the three and nine months ended July 2, 2022. Diluted average common shares used in the diluted loss per common share calculation for the three and nine months ended July 3, 2021 were 57.4 million and 57.1 million, respectively, which included dilutive potential Common Shares of 1.6 million and 1.4 million, respectively.

Stock options with exercise prices greater than the average market price of the underlying Common Shares are excluded from the computation of diluted income per Common Share because they are out-of-the-money and the effect of their inclusion would be anti-dilutive. For the three and nine months ended July 2, 2022, the average number of out-of-the-money options was 0.2 million. For the three and nine months ended July 3, 2021, the average number of out-of-the-money options was 0.2 million and 0.1 million, respectively.

NOTE 12. INCOME TAXES

The effective tax rates related to continuing operations for the nine months ended July 2, 2022 and July 3, 2021 were 24.1% and 23.5%, respectively. The effective tax rate used for interim reporting purposes is based on management’s best estimate of factors impacting the effective tax rate for the full fiscal year and includes the impact of discrete items recognized in the quarter. There can be no assurance that the effective tax rate estimated for interim financial reporting purposes will approximate the effective tax rate determined at fiscal year end.

During the three and nine months ended July 2, 2022, the Company recognized non-cash, pre-tax goodwill and intangible asset impairment charges of $632.4 related to its Hawthorne segment in the “Impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations. The tax impact of the impairment charges was a benefit of $138.0, which is net of the impact of non-deductible goodwill of $18.5, for the three and nine months ended July 2, 2022 and was recorded in the “Income tax expense (benefit) from continuing operations” line in the Condensed Consolidated Statements of Operations. The tax impact of non-deductible goodwill was considered a discrete item because the Company has no remaining non-deductible goodwill. This discrete item decreased the effective tax rate by approximately 640 bps for the nine months ended July 2, 2022 because the Company incurred a net loss during this period.

At July 2, 2022, net deferred tax assets were $114.9 and were recorded in the “Other assets” line in the Condensed Consolidated Balance Sheets. At July 3, 2021 and September 30, 2021, net deferred tax liabilities were $32.9 and $47.8, respectively, and were recorded in the “Other liabilities” line in the Condensed Consolidated Balance Sheets. The change was primarily driven by deferred tax assets recorded during the third quarter of fiscal 2022 associated with goodwill and intangible asset impairment charges and unrealized losses on convertible debt investments.

Scotts Miracle-Gro or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. Subject to the following exceptions, the Company is no longer subject to examination by these tax authorities for fiscal years prior to 2018. There are currently no ongoing audits with respect to the U.S. federal jurisdiction. With respect to the foreign jurisdictions, a German audit covering fiscal years 2014 through 2017 is in process with no known material impact to the financial statements. The Company is currently under examination by certain U.S. state and local tax authorities covering various periods from fiscal years 2017 through 2020. In addition to the aforementioned audits, certain other tax deficiency notices and refund claims for previous years remain unresolved.

The Company currently anticipates that few of its open and active audits will be resolved within the next twelve months. The Company is unable to make a reasonably reliable estimate as to when or if cash settlements with taxing authorities may occur. Although the outcomes of such examinations and the timing of any payments required upon the conclusion of such examinations are subject to significant uncertainty, the Company does not anticipate that the resolution of these tax matters or any events related thereto will result in a material change to its consolidated financial position, results of operations or cash flows.

NOTE 13. CONTINGENCIES

Management regularly evaluates the Company’s contingencies, including various judicial and administrative proceedings and claims arising in the ordinary course of business, including product and general liabilities, workers’ compensation, property losses and other liabilities for which the Company is self-insured or retains a high exposure limit. Self-insurance accruals are established based on actuarial loss estimates for specific individual claims plus actuarially estimated amounts for incurred but not reported claims and adverse development factors applied to existing claims. Legal costs incurred in connection with the resolution of claims, lawsuits and other contingencies generally are expensed as incurred. In the opinion of management, the assessment of contingencies is reasonable and related accruals, in the aggregate, are adequate; however, there can be no assurance that final resolution of these matters will not have a material effect on the Company’s financial condition, results of operations or cash flows.

Regulatory Matters

At July 2, 2022, $2.9 was accrued in the “Other liabilities” line in the Condensed Consolidated Balance Sheets for environmental actions, the majority of which are for site remediation. The Company believes that the amounts accrued are adequate to cover such known environmental exposures based on current facts and estimates of likely outcomes. Although it is reasonably possible that the costs to resolve such known environmental exposures will exceed the amounts accrued, any variation from accrued amounts is not expected to be material.

Other

The Company has been named as a defendant in a number of cases alleging injuries that the lawsuits claim resulted from exposure to asbestos-containing products, apparently based on the Company’s historic use of vermiculite in certain of its products. In many of these cases, the complaints are not specific about the plaintiffs’ contacts with the Company or its products. The cases vary, but complaints in these cases generally seek unspecified monetary damages (actual, compensatory, consequential and punitive) from multiple defendants. The Company believes that the claims against it are without merit and is vigorously defending against them. No accruals have been recorded in the Company’s consolidated financial statements as the likelihood of a loss is not probable at this time; and the Company does not believe a reasonably possible loss would be material to, nor does it expect the ultimate resolution of these cases will have a material adverse effect on, the Company’s financial condition, results of operations or cash flows. There can be no assurance that future developments related to pending claims or claims filed in the future, whether as a result of adverse outcomes or as a result of significant defense costs, will not have a material effect on the Company’s financial condition, results of operations or cash flows.

The Company is involved in other lawsuits and claims which arise in the normal course of business. These claims individually and in the aggregate are not expected to result in a material effect on the Company’s financial condition, results of operations or cash flows.

(Dollars in millions, except per share data)

NOTE 14. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to market risks, such as changes in interest rates, currency exchange rates and commodity prices. To manage a portion of the volatility related to these exposures, the Company enters into various financial transactions. The utilization of these financial transactions is governed by policies covering acceptable counterparty exposure, instrument types and other hedging practices. The Company does not hold or issue derivative financial instruments for speculative trading purposes.

Exchange Rate Risk Management

The Company uses currency forward contracts to manage the exchange rate risk associated with intercompany loans and certain other balances denominated in foreign currencies. Currency forward contracts are valued using observable forward rates in commonly quoted intervals for the full term of the contracts. The notional amount of outstanding currency forward contracts was $167.7, $162.8 and $180.3 at July 2, 2022, July 3, 2021 and September 30, 2021, respectively. Contracts outstanding at July 2, 2022 will mature over the next fiscal quarter.

Interest Rate Risk Management

The Company enters into interest rate swap agreements as a means to hedge its variable interest rate risk on debt instruments. Net amounts to be received or paid under the swap agreements are reflected as adjustments to interest expense. The Company has outstanding interest rate swap agreements with major financial institutions that effectively convert a portion of the Company’s variable-rate debt to a fixed rate. Interest rate swap agreements are valued based on the present value of the estimated future net cash flows using implied rates in the applicable yield curve as of the valuation date. Swap agreements that were hedging interest payments as of July 2, 2022, July 3, 2021 and September 30, 2021 had a maximum total U.S. dollar equivalent notional amount of $800.0, $700.0 and $600.0, respectively. Refer to “NOTE 9. DEBT” for the terms of the swap agreements outstanding at July 2, 2022. Included in the AOCL balance at July 2, 2022 was a gain of $6.2 related to interest rate swap agreements that is expected to be reclassified to earnings during the next twelve months, consistent with the timing of the underlying hedged transactions.

Commodity Price Risk Management

The Company enters into hedging arrangements designed to fix the price of a portion of its projected future urea and diesel requirements. Commodity contracts are valued using observable commodity exchange prices in active markets. Included in the AOCL balance at July 2, 2022 was a gain of $9.6 related to commodity hedges that is expected to be reclassified to earnings during the next twelve months, consistent with the timing of the underlying hedged transactions.

The Company had the following outstanding commodity contracts that were entered into to hedge forecasted purchases:

Commodity	July 2, 2022	July 3, 2021	September 30, 2021
Urea	79,500 tons	37,500 tons	94,500 tons
Diesel	4,074,000 gallons	4,746,000 gallons	5,880,000 gallons
Heating Oil	1,470,000 gallons	1,638,000 gallons	2,268,000 gallons

(Dollars in millions, except per share data)

Fair Values of Derivative Instruments

The fair values of the Company's derivative instruments, which represent Level 2 fair value measurements, were as follows:

		Assets / (Liabilities)		
Derivatives Designated as Hedging Instruments	**Balance Sheet Location**	**July 2, 2022**	**July 3, 2021**	**September 30, 2021**
Interest rate swap agreements	Prepaid and other current assets	$ 8.0	$ —	$ —
	Other assets	12.3	2.8	3.3
	Other current liabilities	—	(6.5)	(5.7)
	Other liabilities	—	(3.4)	(2.5)
Commodity hedging instruments	Prepaid and other current assets	1.7	4.5	13.9
	Other current liabilities	(2.4)	—	—
Total derivatives designated as hedging instruments		$ 19.6	$ (2.6)	$ 9.0
Derivatives Not Designated as Hedging Instruments	**Balance Sheet Location**			
Currency forward contracts	Prepaid and other current assets	$ 3.0	$ 1.4	$ 3.4
	Other current liabilities	—	(0.3)	(0.2)
Commodity hedging instruments	Prepaid and other current assets	3.1	1.1	1.3
Total derivatives not designated as hedging instruments		6.1	2.2	4.5
Total derivatives		$ 25.7	$ (0.4)	$ 13.5

The effect of derivative instruments on AOCL, net of tax, and the Condensed Consolidated Statements of Operations for each of the periods presented was as follows:

	Amount of Gain / (Loss) Recognized in AOCL			
	Three Months Ended		Nine Months Ended	
Derivatives in Cash Flow Hedging Relationships	**July 2, 2022**	**July 3, 2021**	**July 2, 2022**	**July 3, 2021**
Interest rate swap agreements	$ 1.3	$ (2.0)	$ 15.7	$ 3.2
Commodity hedging instruments	(10.3)	3.6	1.1	8.3
Total	$ (9.0)	$ 1.6	$ 16.8	$ 11.5

		Amount of Gain / (Loss)			
		Three Months Ended		Nine Months Ended	
Derivatives in Cash Flow Hedging Relationships	**Reclassified from AOCL into Statement of Operations**	**July 2, 2022**	**July 3, 2021**	**July 2, 2022**	**July 3, 2021**
Interest rate swap agreements	Interest expense	$ (0.4)	$ (2.3)	$ (2.6)	$ (6.4)
Commodity hedging instruments	Cost of sales	(1.0)	1.8	5.6	2.0
Total		$ (1.4)	$ (0.5)	$ 3.0	$ (4.4)

		Amount of Gain / (Loss)			
		Three Months Ended		Nine Months Ended	
Derivatives Not Designated as Hedging Instruments	**Recognized in Statement of Operations**	**July 2, 2022**	**July 3, 2021**	**July 2, 2022**	**July 3, 2021**
Currency forward contracts	Other income / expense, net	$ 11.3	$ (0.3)	$ 16.3	$ (7.4)
Commodity hedging instruments	Cost of sales	4.6	1.6	11.1	3.7
Total		$ 15.9	$ 1.3	$ 27.4	$ (3.7)

(Dollars in millions, except per share data)

NOTE 15. FAIR VALUE MEASUREMENTS

The following table summarizes the fair value of the Company’s assets and liabilities for which disclosure of fair value is required:

	Fair Value Hierarchy Level	July 2, 2022		July 3, 2021		September 30, 2021	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets							
Cash equivalents	Level 1	$ 13.4	$ 13.4	$ 3.2	$ 3.2	$ 222.5	$ 222.5
Other							
Investment securities in non-qualified retirement plan assets	Level 1	40.3	40.3	46.5	46.5	45.0	45.0
Convertible debt investments	Level 3	139.1	139.1	—	—	190.3	190.3
Liabilities							
Debt instruments							
Credit facilities – revolving loans	Level 2	617.4	617.4	278.8	278.8	—	—
Credit facilities – term loans	Level 2	987.5	987.5	680.0	680.0	670.0	670.0
Senior Notes due 2031 – 4.000%	Level 2	500.0	373.1	500.0	498.8	500.0	498.8
Senior Notes due 2032 – 4.375%	Level 2	400.0	302.0	—	—	400.0	402.0
Senior Notes due 2029 – 4.500%	Level 2	450.0	365.1	450.0	468.0	450.0	466.9
Senior Notes due 2026 – 5.250%	Level 2	250.0	232.5	250.0	260.6	250.0	258.1
Receivables facility	Level 2	250.0	250.0	—	—	—	—
Other debt	Level 2	15.9	15.9	7.9	7.9	11.9	11.9

The cost basis of convertible debt investments was $218.1 and $193.1 at July 2, 2022 and September 30, 2021, respectively. Purchases of convertible debt investments were $25.0 during the three and nine months ended July 2, 2022. During the three and nine months ended July 2, 2022, the Company recorded unrealized losses of $79.2 and $78.9 in AOCL, respectively, and investment income of $0.9 and $2.7, respectively, associated with its Level 3 convertible debt investments. The amortized cost basis of convertible debt investments was $221.1 and $193.4 at July 2, 2022 and September 30, 2021, respectively. The decline in fair value of the convertible debt investments is related to a decline in the value of the underlying conversion options and is not reflective of a credit risk associated with the notes.

NOTE 16. LEASES

The Company leases certain property and equipment from third parties under various non-cancelable lease agreements, including industrial, commercial and office properties and equipment that support the management, manufacturing, distribution and research and development of products marketed and sold by the Company. The lease agreements generally require that the Company pay taxes, insurance and maintenance expenses related to the leased assets. At July 2, 2022, the Company had entered into operating leases that were yet to commence with a combined total expected lease liability of $54.6. From time to time, the Company will sublease portions of its facilities, resulting in sublease income. Sublease income and the related cash flows were not material to the condensed consolidated financial statements for the three and nine months ended July 2, 2022 and July 3, 2021.

The Company leases certain vehicles (primarily cars and light trucks) under agreements that are cancellable after the first year, but typically continue on a month-to-month basis until canceled by the Company. The vehicle leases and certain other non-cancelable operating leases contain residual value guarantees that create a contingent obligation on the part of the Company to compensate the lessor if the leased asset cannot be sold for an amount in excess of a specified minimum value at the conclusion of the lease term. If all such vehicle leases had been canceled as of July 2, 2022, the Company's residual value guarantee would have approximated $5.0.

(Dollars in millions, except per share data)

Supplemental balance sheet information related to the Company's leases was as follows:

	Balance Sheet Location	July 2, 2022	July 3, 2021	September 30, 2021
Operating leases:				
Right-of-use assets	Other assets	$ 280.1	$ 212.7	$ 293.0
Current lease liabilities	Other current liabilities	71.8	62.3	66.4
Non-current lease liabilities	Other liabilities	217.7	157.7	234.4
Total operating lease liabilities		$ 289.5	$ 220.0	$ 300.8
Finance leases:				
Right-of-use assets	Property, plant and equipment, net	$ 26.9	$ 32.6	$ 31.3
Current lease liabilities	Current portion of debt	6.1	5.8	5.9
Non-current lease liabilities	Long-term debt	23.2	28.7	27.5
Total finance lease liabilities		$ 29.3	$ 34.5	$ 33.4

Components of lease cost were as follows:

	Three Months Ended		Nine Months Ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
Operating lease cost [(a)]	$ 21.4	$ 18.8	$ 63.8	$ 50.3
Variable lease cost	9.5	8.8	30.4	24.0
Finance lease cost				
Amortization of right-of-use assets	1.6	1.5	4.8	4.5
Interest on lease liabilities	0.3	0.3	0.9	1.0
Total finance lease cost	$ 1.9	$ 1.8	$ 5.7	$ 5.5

(a) Operating lease cost includes amortization of right-of-use assets of $18.5 and $55.4 for the three and nine months ended July 2, 2022, respectively, and $16.7 and $44.6 for the three and nine months ended July 3, 2021, respectively. Short-term lease expense is excluded from operating lease cost and is not material.

Supplemental cash flow information and non-cash activity related to the Company's leases were as follows:

	Nine Months Ended	
	July 2, 2022	July 3, 2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases, net	$ 62.3	$ 47.6
Operating cash flows from finance leases	0.9	1.0
Financing cash flows from finance leases	4.4	3.9
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 45.0	$ 100.1
Finance leases	0.4	2.3

(Dollars in millions, except per share data)

Weighted-average remaining lease term and discount rate for the Company’s leases were as follows:

	July 2, 2022
Weighted-average remaining lease term (in years):	
Operating leases	5.1
Finance leases	7.5
Weighted-average discount rate:	
Operating leases	3.3 %
Finance leases	4.3 %

Maturities of lease liabilities by fiscal year for the Company’s leases as of July 2, 2022 were as follows:

Year	Operating Leases	Finance Leases
2022 (remainder of the year)	$ 21.1	$ 1.8
2023	77.2	7.2
2024	69.0	7.2
2025	53.9	3.0
2026	36.9	1.9
Thereafter	56.2	13.6
Total lease payments	314.3	34.7
Less: Imputed interest	(24.8)	(5.4)
Total lease liabilities	$ 289.5	$ 29.3

NOTE 17. SEGMENT INFORMATION

The Company divides its operations into three reportable segments: U.S. Consumer, Hawthorne and Other. U.S. Consumer consists of the Company’s consumer lawn and garden business in the United States. Hawthorne consists of the Company’s indoor and hydroponic gardening business. Other primarily consists of the Company’s consumer lawn and garden business outside the United States. This identification of reportable segments is consistent with how the segments report to and are managed by the chief operating decision maker of the Company. In addition, Corporate consists of general and administrative expenses and certain other income and expense items not allocated to the reporting segments.

The performance of each reportable segment is evaluated based on several factors, including income (loss) from continuing operations before income taxes, amortization, impairment, restructuring and other charges (“Segment Profit (Loss)”). Senior management uses Segment Profit (Loss) to evaluate segment performance because the Company believes this measure is indicative of performance trends and the overall earnings potential of each segment.

(Dollars in millions, except per share data)

The following table presents financial information for the Company's reportable segments for the periods indicated:

	Three Months Ended		Nine Months Ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
Net Sales:				
U.S. Consumer	$ 904.5	$ 1,046.2	$ 2,626.7	$ 2,828.4
Hawthorne	154.5	421.9	547.7	1,095.1
Other	127.1	141.6	256.0	263.7
Consolidated	$ 1,186.1	$ 1,609.7	$ 3,430.4	$ 4,187.2
Segment Profit:				
U.S. Consumer	$ 181.1	$ 264.4	$ 620.7	$ 745.6
Hawthorne	4.1	51.9	2.0	133.7
Other	10.9	26.8	22.7	44.4
Total Segment Profit	196.1	343.1	645.4	923.7
Corporate	(25.2)	(31.9)	(95.7)	(114.6)
Intangible asset amortization	(9.2)	(7.8)	(28.5)	(23.0)
Impairment, restructuring and other	(724.2)	(1.3)	(731.3)	(25.9)
Equity in income of unconsolidated affiliates	15.1	21.5	1.3	20.0
Interest expense	(31.0)	(21.9)	(83.1)	(57.3)
Other non-operating income, net	1.7	1.2	5.4	17.3
Income (loss) from continuing operations before income taxes	$ (576.7)	$ 302.9	$ (286.5)	$ 740.2

The following table presents net sales by product category for the periods indicated:

	Three Months Ended		Nine Months Ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
U.S. Consumer:				
Growing media and mulch	$ 488.7	$ 573.9	$ 1,110.7	$ 1,196.3
Lawn care	219.0	224.6	878.9	920.9
Controls	102.2	115.1	298.9	319.8
Roundup® marketing agreement	30.8	46.9	115.5	128.0
Other	63.8	85.7	222.7	263.4
Hawthorne:				
Lighting	37.5	126.7	128.9	350.5
Nutrients	37.6	104.5	118.6	245.7
Growing environments	27.9	78.8	116.3	200.1
Growing media	25.6	57.9	96.3	151.9
Other, primarily hardware	25.9	54.0	87.6	146.9
Other:				
Growing media	45.9	57.3	88.8	102.0
Lawn care	46.6	48.5	85.8	87.7
Other, primarily gardening and controls	34.6	35.8	81.4	74.0
Total net sales	$ 1,186.1	$ 1,609.7	$ 3,430.4	$ 4,187.2

(Dollars in millions, except per share data)

The following table presents net sales by geographic area for the periods indicated:

	Three Months Ended		Nine Months Ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
Net sales:				
United States	$ 1,051.0	$ 1,446.9	$ 3,133.2	$ 3,838.6
International	135.1	162.8	297.2	348.6
	$ 1,186.1	$ 1,609.7	$ 3,430.4	$ 4,187.2

(Dollars in millions, except per share data)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The purpose of this Management's Discussion and Analysis ("MD&A") is to provide an understanding of our financial condition and results of operations by focusing on changes in certain key measures from year-to-year. This MD&A is divided into the following sections:

- Executive summary
- Results of operations
- Segment results
- Liquidity and capital resources
- Regulatory matters
- Critical accounting policies and estimates

This MD&A should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Scotts Miracle-Gro's Annual Report on Form 10-K for the fiscal year ended September 30, 2021 (the "2021 Annual Report") and our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

EXECUTIVE SUMMARY

Our operations are divided into three reportable segments: U.S. Consumer, Hawthorne and Other. U.S. Consumer consists of our consumer lawn and garden business in the United States. Hawthorne consists of our indoor and hydroponic gardening business. Other primarily consists of our consumer lawn and garden business outside the United States. This division of reportable segments is consistent with how the segments report to and are managed by our chief operating decision maker. In addition, Corporate consists of general and administrative expenses and certain other income and expense items not allocated to the reporting segments. See "SEGMENT RESULTS" below for additional information regarding our evaluation of segment performance.

Through our U.S. Consumer and Other segments, we are the leading manufacturer and marketer of branded consumer lawn and garden products in North America. Our products are marketed under some of the most recognized brand names in the industry. Our key consumer lawn and garden brands include Scotts® and Turf Builder® lawn and grass seed products; Miracle-Gro® soil, plant food and insecticide, LiquaFeed® plant food and Osmocote® gardening and landscape products; and Ortho®, Home Defense® and Tomcat® branded insect control, weed control and rodent control products. We are the exclusive agent of Monsanto for the marketing and distribution of certain of Monsanto's consumer Roundup® branded products within the United States and certain other specified countries. We also have a presence in similar branded consumer products in China. In addition, we own a 50% equity interest in Bonnie Plants, LLC, a joint venture with AFC, focused on planting, growing, developing, distributing, marketing and selling live plants.

Through our Hawthorne segment, we are the leading manufacturer, marketer and distributor of lighting, nutrients, growing media, growing environments and hardware products for indoor and hydroponic gardening in North America. Our key brands include General Hydroponics®, Gavita®, Botanicare®, Agrolux®, Can-Filters®, Gro Pro®, Mother Earth®, Hurricane®, Grower's Edge®, Hydro-Logic® and Luxx Lighting®.

Due to the seasonal nature of the consumer lawn and garden business, for our U.S. Consumer and Other segments, significant portions of our products ship to our retail customers during our second and third fiscal quarters, as noted in the following table. Our annual net sales are further concentrated in the second and third fiscal quarters by retailers who rely on our ability to deliver products closer to when consumers buy our products, thereby reducing retailers' pre-season inventories. For our Hawthorne segment, sales are also impacted by seasonal patterns for certain product categories due to the timing of outdoor growing in North America during our second and third fiscal quarters, and the timing of certain controlled agricultural lighting project sales during our third and fourth fiscal quarters.

	Percent of Net Sales from Continuing Operations by Quarter		
	2021	2020	2019
First Quarter	15.2 %	8.9 %	9.4 %
Second Quarter	37.1 %	33.5 %	37.7 %
Third Quarter	32.7 %	36.1 %	37.1 %
Fourth Quarter	15.0 %	21.5 %	15.8 %

Recent Events

Our Hawthorne segment profit has been negatively impacted by an oversupply of cannabis, which has slowed down indoor and outdoor cultivation, and higher transportation and warehousing costs during the three and nine months ended July 2, 2022. Due to the risks and uncertainties related to these impacts, we performed interim impairment testing for Hawthorne long-lived assets and goodwill during the third quarter of fiscal 2022, which resulted in non-cash, pre-tax goodwill and intangible asset impairment charges of $632.4 recorded in the “Impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations. The tax impact of the impairment charges was a benefit of $138.0 for the three and nine months ended July 2, 2022 and was recorded in the “Income tax expense (benefit) from continuing operations” line in the Condensed Consolidated Statements of Operations. Refer to the “CRITICAL ACCOUNTING POLICIES AND ESTIMATES” section of this MD&A and “NOTE 4. GOODWILL AND INTANGIBLE ASSETS” for more information. We expect that the oversupply of cannabis and cost increases will continue to adversely impact our Hawthorne segment. In response, we are taking actions intended to mitigate the impact, including reducing the size of our supply chain network, reducing staffing levels and implementing other cost-reduction initiatives. If the oversupply of cannabis and cost increases persist longer, or are more significant than we expect or we are unable to mitigate their impact, our results of operations could be adversely impacted for a longer period and to a greater extent than we currently anticipate.

On April 8, 2022, we entered into the Sixth A&R Credit Agreement, providing us with five-year senior secured loan facilities in the aggregate principal amount of $2,500.0, comprised of a revolving credit facility of $1,500.0 and a term loan in the original principal amount of $1,000.0. The Sixth A&R Credit Agreement contains, among other obligations, an affirmative covenant regarding our leverage ratio determined as of the end of each of our fiscal quarters. The maximum permitted leverage ratio originally established in the Sixth A&R Credit Agreement was 4.50. During the third quarter of fiscal 2022, we experienced an unexpected shortfall in earnings that affected our ability to remain in compliance with the leverage ratio covenant of the Sixth A&R Credit Agreement. On June 8, 2022, we entered into Amendment No. 1 (the “Amendment”) to the Sixth A&R Credit Agreement which increased the maximum permitted leverage ratio for the quarterly leverage covenant effective for the third quarter of fiscal 2022 until the earlier of (i) April 1, 2024 and (ii) subject to certain conditions specified in the Amendment, the termination by us of such increase (such period, the “Leverage Adjustment Period”). Refer to the “LIQUIDITY AND CAPITAL RESOURCES” section of this MD&A for more information regarding the Amendment.

On December 30, 2021, our Hawthorne segment completed the acquisition of substantially all of the assets of Luxx Lighting, Inc., a leading provider of lighting products for indoor growing, for a purchase price of $213.2. On April 28, 2022, our Hawthorne segment completed the acquisition of substantially all of the assets of Cyco, an Australia-based provider of premium nutrients, additives and growing media products for indoor growing, for a purchase price of $37.4.

During fiscal 2021, we announced the creation of a newly formed subsidiary, THC, to focus on strategic minority non-equity investments in areas of the cannabis industry not currently pursued by our Hawthorne segment. This initiative is designed to allow us, in the future, to participate directly in a larger marketplace as the legal environment changes over time. On August 24, 2021, we made our initial investment under this initiative in the form of a $150.0 six-year convertible note issued to us by RIV Capital, a cannabis investment and acquisition firm listed on the Canadian Securities Exchange. On April 22, 2022, pursuant to our follow-on investment rights, we made an additional investment in RIV Capital in the form of a $25.0 convertible note. During the fourth quarter of fiscal 2021, we made minority non-equity investments of $43.1 in other entities focused on branded cannabis and high quality genetics. These investments include conversion features that would provide us with minority ownership interests in these entities if we exercise the conversion features. Refer to “NOTE 3. ACQUISITIONS AND INVESTMENTS” for more information regarding these investments.

On February 6, 2020, Scotts Miracle-Gro announced that its Board of Directors authorized the repurchase of up to $750.0 of Common Shares from April 30, 2020 through March 25, 2023. During the three and nine months ended July 2, 2022, Scotts Miracle-Gro repurchased 0.0 million and 1.1 million Common Shares under this share repurchase authorization for $0.0 and $175.0, respectively. During the three and nine months ended July 3, 2021, Scotts Miracle-Gro repurchased 0.1 million and 0.4 million Common Shares under this share repurchase authorization for $25.0 and $75.6, respectively.

On July 27, 2020, the Scotts Miracle-Gro Board of Directors approved an increase in Scott Miracle-Gro’s quarterly cash dividend from $0.58 to $0.62 per Common Share, which was first paid in the fourth quarter of fiscal 2020. On July 30, 2021, the Scotts Miracle-Gro Board of Directors approved an increase in Scott Miracle-Gro’s quarterly cash dividend from $0.62 to $0.66 per Common Share, which was first paid in the fourth quarter of fiscal 2021.

(Dollars in millions, except per share data)

We have experienced higher transportation and materials costs, including fertilizer inputs such as urea, due in part to the negative impact of the war in Ukraine on the global economy. We expect a continuing inflationary environment that is heightened by this conflict, and we are continuing to address these impacts to our operations. We have no operations in Russia or Ukraine.

COVID-19

The COVID-19 pandemic has had, and continues to have, an impact on financial markets, economic conditions, and portions of our business and industry. We have actively addressed the pandemic's ongoing impact on our employees, operations, customers, consumers, and communities, by, among other things, implementing contingency plans, making operational adjustments where necessary, and providing assistance to organizations that support front-line workers. The first priority of our pandemic response has been and remains the health, safety and well-being of our employees. In addition to implementing measures to help ensure the health and safety of our employees, we implemented an interim premium pay allowance during fiscal 2020 and 2021 for certain associates in our field sales force and our manufacturing and distribution centers, which paid out nearly $50.0 in aggregate during those two years.

The extent to which the COVID-19 pandemic will impact our business, results of operations, financial condition and cash flows in the future will depend on future developments, including the duration, spread and intensity of the pandemic, our continued ability to manufacture and distribute our products, as well as any future government actions affecting consumers and the economy generally, all of which are uncertain and difficult to predict considering the rapidly evolving landscape. We are not able to predict the impact, if any, that the COVID-19 pandemic may have on the seasonality of our business.

Although we currently expect to be able to continue operating our business as described above and we intend to continue to work with government authorities and to follow the necessary protocols to maintain the health and safety of our employees, the COVID-19 pandemic could result in additional disruptions to our business, including our global supply chain and retailer network, and/or require us to incur additional operational costs. For additional information on the impacts of, and our response to, the COVID-19 pandemic, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of the 2021 Annual Report.

RESULTS OF OPERATIONS

The following table sets forth the components of earnings as a percentage of net sales for the three months ended July 2, 2022 and July 3, 2021:

	July 2, 2022	% Of Net Sales	July 3, 2021	% Of Net Sales
Net sales	$ 1,186.1	100.0 %	$ 1,609.7	100.0 %
Cost of sales	883.7	74.5	1,114.3	69.2
Cost of sales—impairment, restructuring and other	65.8	5.5	0.8	—
Gross profit	236.6	19.9	494.6	30.7
Operating expenses:				
Selling, general and administrative	135.8	11.4	194.1	12.1
Impairment, restructuring and other	658.4	55.5	0.5	—
Other (income) expense, net	4.9	0.4	(2.1)	(0.1)
Income (loss) from operations	(562.5)	(47.4)	302.1	18.8
Equity in income of unconsolidated affiliates	(15.1)	(1.3)	(21.5)	(1.3)
Interest expense	31.0	2.6	21.9	1.4
Other non-operating income, net	(1.7)	(0.1)	(1.2)	(0.1)
Income (loss) from continuing operations before income taxes	(576.7)	(48.6)	302.9	18.8
Income tax expense (benefit) from continuing operations	(132.8)	(11.2)	73.1	4.5
Income (loss) from continuing operations	(443.9)	(37.4)	229.8	14.3
Loss from discontinued operations, net of tax	—	—	(3.9)	(0.2)
Net income (loss)	$ (443.9)	(37.4)%	$ 225.9	14.0 %

The sum of the components may not equal due to rounding.

(Dollars in millions, except per share data)

The following table sets forth the components of earnings as a percentage of net sales for the nine months ended July 2, 2022 and July 3, 2021:

	July 2, 2022	% Of Net Sales	July 3, 2021	% Of Net Sales
Net sales	$ 3,430.4	100.0 %	$ 4,187.2	100.0 %
Cost of sales	2,415.6	70.4	2,822.2	67.4
Cost of sales—impairment, restructuring and other	71.1	2.1	22.2	0.5
Gross profit	943.7	27.5	1,342.8	32.1
Operating expenses:				
Selling, general and administrative	494.6	14.4	582.3	13.9
Impairment, restructuring and other	660.2	19.2	3.7	0.1
Other (income) expense, net	(1.0)	—	(3.4)	(0.1)
Income (loss) from operations	(210.1)	(6.1)	760.2	18.2
Equity in income of unconsolidated affiliates	(1.3)	—	(20.0)	(0.5)
Interest expense	83.1	2.4	57.3	1.4
Other non-operating income, net	(5.4)	(0.2)	(17.3)	(0.4)
Income (loss) from continuing operations before income taxes	(286.5)	(8.4)	740.2	17.7
Income tax expense (benefit) from continuing operations	(69.0)	(2.0)	174.2	4.2
Income (loss) from continuing operations	(217.5)	(6.3)	566.0	13.5
Loss from discontinued operations, net of tax	—	—	(4.7)	(0.1)
Net income (loss)	$ (217.5)	(6.3)%	$ 561.3	13.4 %

The sum of the components may not equal due to rounding.

Net Sales

Net sales for the three months ended July 2, 2022 were $1,186.1, a decrease of 26.3% from net sales of $1,609.7 for the three months ended July 3, 2021. Net sales for the nine months ended July 2, 2022 were $3,430.4, a decrease of 18.1% from net sales of $4,187.2 for the nine months ended July 3, 2021. These changes in net sales were attributable to the following:

	Three Months Ended July 2, 2022	Nine Months Ended July 2, 2022
Volume	(33.6)%	(25.1)%
Foreign exchange rates	(0.4)	(0.2)
Pricing	6.6	6.3
Acquisitions	1.1	0.9
Change in net sales	(26.3)%	(18.1)%

The decrease in net sales for the three and nine months ended July 2, 2022 as compared to the three and nine months ended July 3, 2021 was primarily driven by:

- decreased sales volume driven by lighting, nutrients, growing media, hardware and growing environments products in our Hawthorne segment; and lawn care, soils, controls, plant food and mulch products in our U.S. Consumer segment;
- decreased net sales associated with the Roundup® marketing agreement; and
- the unfavorable impact of foreign exchange rates as a result of the strengthening of the U.S. dollar relative to the euro and the Canadian dollar;
- partially offset by increased pricing in our U.S. Consumer, Hawthorne and Other segments; and
- the addition of net sales from acquisitions in our Hawthorne segment.

(Dollars in millions, except per share data)

Cost of Sales

The following table shows the major components of cost of sales for the periods indicated:

	Three Months Ended		Nine Months Ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
Materials	$ 495.2	$ 622.1	$ 1,356.2	$ 1,617.1
Distribution and warehousing	199.1	228.0	549.4	552.3
Manufacturing labor and overhead	174.6	246.5	453.6	594.4
Costs associated with Roundup® marketing agreement	14.8	17.7	56.4	58.4
Cost of sales	883.7	1,114.3	2,415.6	2,822.2
Cost of sales—impairment, restructuring and other	65.8	0.8	71.1	22.2
	$ 949.5	$ 1,115.1	$ 2,486.7	$ 2,844.4

Factors contributing to the change in cost of sales are outlined in the following table:

	Three Months Ended July 2, 2022	Nine Months Ended July 2, 2022
Volume, product mix and other	$ (274.6)	$ (497.4)
Foreign exchange rates	(6.0)	(6.3)
Costs associated with Roundup® marketing agreement	(2.9)	(2.0)
Material cost changes	52.9	99.1
	(230.6)	(406.6)
Impairment, restructuring and other	65.0	48.9
Change in cost of sales	$ (165.6)	$ (357.7)

The decrease in cost of sales for the three and nine months ended July 2, 2022 as compared to the three and nine months ended July 3, 2021 was primarily driven by:

- lower sales volume in our U.S. Consumer, Hawthorne and Other segments;
- the favorable impact of foreign exchange rates as a result of the strengthening of the U.S. dollar relative to the euro and the Canadian dollar; and
- a decrease in costs associated with the Roundup® marketing agreement;
- partially offset by higher material costs in our U.S. Consumer and Other segments;
- higher transportation and warehousing costs included within "volume, product mix and other" in our U.S. Consumer, Hawthorne and Other segments; and
- an increase in impairment, restructuring and other charges.

(Dollars in millions, except per share data)

Gross Profit

As a percentage of net sales, our gross profit rate was 19.9% and 30.7% for the three months ended July 2, 2022 and July 3, 2021, respectively. As a percentage of net sales, our gross profit rate was 27.5% and 32.1% for the nine months ended July 2, 2022 and July 3, 2021, respectively. Factors contributing to the change in gross profit rate are outlined in the following table:

	Three Months Ended July 2, 2022	Nine Months Ended July 2, 2022
Volume, product mix and other	(6.9)%	(5.4)%
Material costs	(4.9)	(3.1)
Roundup® commissions and reimbursements	(0.9)	(0.2)
Acquisitions	(0.2)	(0.2)
Pricing	7.6	5.9
	(5.3)%	(3.0)%
Impairment, restructuring and other	(5.5)	(1.6)
Change in gross profit rate	(10.8)%	(4.6)%

The decrease in gross profit rate for the three and nine months ended July 2, 2022 as compared to the three and nine months ended July 3, 2021 was primarily driven by:

- higher material costs in our U.S. Consumer and Other segments;
- higher transportation and warehousing costs of 250 bps and 300 bps for the three and nine months ended July 2, 2022, respectively, included within "volume, product mix and other" associated with our U.S. Consumer, Hawthorne and Other segments;
- unfavorable leverage of fixed costs driven by lower sales volume in our U.S. Consumer, Hawthorne and Other segments;
- decreased net sales associated with the Roundup® marketing agreement;
- an unfavorable net impact from acquisitions in our Hawthorne segment; and
- an increase in impairment, restructuring and other charges;
- partially offset by increased pricing in our U.S. Consumer, Hawthorne and Other segments.

Selling, General and Administrative Expenses

The following table sets forth the components of selling, general and administrative expenses ("SG&A") for the periods indicated:

	Three Months Ended		Nine Months Ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
Advertising	$ 30.0	$ 44.6	$ 97.4	$ 140.1
Research and development	10.4	11.4	35.3	32.0
Amortization of intangibles	7.7	7.3	24.0	21.8
Share-based compensation	5.5	8.1	28.6	34.0
Other selling, general and administrative	82.2	122.7	309.3	354.4
	$ 135.8	$ 194.1	$ 494.6	$ 582.3

SG&A decreased $58.3, or 30.0%, during the three months ended July 2, 2022 compared to the three months ended July 3, 2021. Advertising expense decreased $14.6, or 32.7%, during the three months ended July 2, 2022 driven by decreased media spending in our U.S. Consumer segment. Other SG&A decreased $40.5, or 33.0%, during the three months ended July 2, 2022 driven by a decrease in short-term variable cash incentive compensation expense, reductions in staffing levels and other cost-reduction initiatives.

(Dollars in millions, except per share data)

SG&A decreased $87.7, or 15.1%, during the nine months ended July 2, 2022 compared to the nine months ended July 3, 2021. Advertising expense decreased $42.7, or 30.5%, during the nine months ended July 2, 2022 driven by decreased media spending in our U.S. Consumer segment. Other SG&A decreased $45.1, or 12.7%, during the nine months ended July 2, 2022 driven by a decrease in short-term variable cash incentive compensation expense, reductions in staffing levels and other cost-reduction initiatives.

Impairment, Restructuring and Other

Activity described herein is classified within the “Cost of sales—impairment, restructuring and other” and “Impairment, restructuring and other” lines in the Condensed Consolidated Statements of Operations. The following table details impairment, restructuring and other charges for each of the periods presented:

	Three Months Ended		Nine Months Ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
Cost of sales—impairment, restructuring and other:				
COVID-19 related costs	$ —	$ 1.5	$ —	$ 22.5
Restructuring and other charges (recoveries), net	58.8	(0.7)	61.3	(0.3)
Property, plant and equipment impairments	7.0	—	9.8	—
Operating expenses:				
COVID-19 related costs	—	0.4	—	3.6
Restructuring and other charges, net	25.3	0.1	27.1	0.1
Goodwill and intangible asset impairments	633.1	—	633.1	—
Impairment, restructuring and other charges from continuing operations	$ 724.2	$ 1.3	$ 731.3	$ 25.9

During the three and nine months ended July 2, 2022, we recognized non-cash, pre-tax goodwill and intangible asset impairment charges of $632.4 related to our Hawthorne segment in the “Impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations, comprised of $522.4 of goodwill impairment charges and $110.0 of finite-lived intangible asset impairment charges.

During the three and nine months ended July 2, 2022, we incurred inventory write-down charges of $45.9 in the “Cost of sales—impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations associated with our decision to discontinue and exit the market for certain lighting products and brands.

During the three and nine months ended July 2, 2022, we began implementing an expanded series of organizational changes and initiatives intended to create operational and management-level efficiencies. As part of this restructuring program, we are reducing the size of our supply chain network, reducing staffing levels and implementing other cost-reduction initiatives. During the three and nine months ended July 2, 2022, we incurred costs of $40.7 and $46.1, respectively, associated with this restructuring initiative primarily related to employee termination benefits and impairment of property, plant and equipment. We incurred costs of $9.5 in our U.S. Consumer segment and $10.4 and $15.6 in our Hawthorne segment in the “Cost of sales—impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations during the three and nine months ended July 2, 2022, respectively. We incurred costs of $7.4 in our U.S. Consumer segment, $7.1 in our Hawthorne segment and $6.3 at Corporate in the “Impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations during the three and nine months ended July 2, 2022, respectively. We continue to evaluate additional network and organizational changes, which, if executed, may result in additional restructuring charges in future periods.

In response to the COVID-19 pandemic, we implemented measures intended to protect the health and safety of our employees and maintain our ability to provide products to our customers. Costs incurred during the three and nine months ended July 2, 2022 related to COVID-19 were immaterial. During the three and nine months ended July 3, 2021, we incurred costs of $1.9 and $26.1, respectively, associated with the COVID-19 pandemic primarily related to premium pay. We incurred costs of $0.8 and $19.8 in our U.S. Consumer segment, $0.5 and $2.4 in our Hawthorne segment and $0.2 and $0.3 in our Other segment in the “Cost of sales—impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations during the three and nine months ended July 3, 2021, respectively. We incurred costs of $0.3 and $3.5 in our U.S. Consumer segment and $0.1 in our Other segment in the “Impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations during the three and nine months ended July 3, 2021, respectively.

Other (Income) Expense, net

Other (income) expense is comprised of activities such as royalty income from the licensing of certain of our brand names, foreign exchange transaction gains and losses and gains and losses from the disposition of non-inventory assets. Other (income) expense was $4.9 and $(2.1) for the three months ended July 2, 2022 and July 3, 2021, respectively; and was $(1.0) and $(3.4) for the nine months ended July 2, 2022 and July 3, 2021, respectively. The change for the three and nine months ended July 2, 2022 was primarily due to foreign exchange transaction gains and losses.

Income (Loss) from Operations

Income (loss) from operations was $(562.5) for the three months ended July 2, 2022, a decrease of 286.2% compared to $302.1 for the three months ended July 3, 2021; and was $(210.1) for the nine months ended July 2, 2022, a decrease of 127.6% compared to $760.2 for the nine months ended July 3, 2021. For the three and nine months ended July 2, 2022, the decrease was driven by lower net sales, a decrease in gross profit rate, higher impairment, restructuring and other charges and lower other income, partially offset by lower SG&A.

Equity in Income of Unconsolidated Affiliates

We acquired a 50% equity interest in Bonnie Plants, LLC on December 31, 2020. Our interest is accounted for using the equity method of accounting, with our proportionate share of Bonnie Plants, LLC earnings subsequent to December 31, 2020 reflected in the Condensed Consolidated Statements of Operations. We recorded equity in income of unconsolidated affiliates associated with Bonnie Plants, LLC of $15.1 and $1.3 during the three and nine months ended July 2, 2022, respectively, as compared to $21.5 and $20.0 during the three and nine months ended July 3, 2021, respectively.

Interest Expense

Interest expense was $31.0 for the three months ended July 2, 2022, an increase of 41.6% compared to $21.9 for the three months ended July 3, 2021. The increase was driven by higher average borrowings of $1,307.4 due to higher inventory production, capital expenditures, acquisition activity and repurchases of our Common Shares.

Interest expense was $83.1 for the nine months ended July 2, 2022, an increase of 45.0% compared to $57.3 for the nine months ended July 3, 2021. The increase was driven by higher average borrowings of $1,131.4 due to higher inventory production, capital expenditures, acquisition activity and repurchases of our Common Shares.

Other Non-Operating Income, Net

Other non-operating income was $1.7 and $1.2 for the three months ended July 2, 2022 and July 3, 2021, respectively, and was $5.4 and $17.3 for the nine months ended July 2, 2022 and July 3, 2021, respectively. On December 31, 2020, we acquired a 50% equity interest in Bonnie Plants, LLC in exchange for cash payments of $102.3, forgiveness of our outstanding loan receivable with AFC and surrender of our options to increase our economic interest in the Bonnie Plants business. Our loan receivable with AFC, which was previously recognized in the “Other assets” line in the Condensed Consolidated Balance Sheets, had a carrying value of $66.4 on December 31, 2020 and we recognized a gain of $12.5 during the three months ended January 2, 2021 to write-up the value of the loan to its closing date fair value of $78.9.

Income Tax Expense (Benefit) from Continuing Operations

The effective tax rates related to continuing operations for the nine months ended July 2, 2022 and July 3, 2021 were 24.1% and 23.5%, respectively. The effective tax rate used for interim purposes is based on our best estimate of factors impacting the effective tax rate for the full fiscal year. Factors affecting the estimated effective tax rate include assumptions as to income by jurisdiction (domestic and foreign), the availability and utilization of tax credits and the existence of elements of income and expense that may not be taxable or deductible. The estimated effective tax rate is subject to revision in later interim periods and at fiscal year-end as facts and circumstances change during the course of the fiscal year. There can be no assurance that the effective tax rate estimated for interim financial reporting purposes will approximate the effective tax rate determined at fiscal year-end.

During the three and nine months ended July 2, 2022, we recognized non-cash, pre-tax goodwill and intangible asset impairment charges of $632.4 related to our Hawthorne segment in the “Impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations. The tax impact of the impairment charges was a benefit of $138.0, which is net of the impact of non-deductible goodwill of $18.5, for the three and nine months ended July 2, 2022 and was recorded in the “Income tax expense (benefit) from continuing operations” line in the Condensed Consolidated Statements of Operations. The tax impact of non-deductible goodwill was considered a discrete item because we have no remaining non-deductible goodwill.

(Dollars in millions, except per share data)

This discrete item decreased the effective tax rate by approximately 640 bps for the nine months ended July 2, 2022 because we incurred a net loss during this period.

Income (Loss) from Continuing Operations

Income (loss) from continuing operations was $(443.9), or $(8.01) per diluted share, for the three months ended July 2, 2022 compared to $229.8, or $4.00 per diluted share, for the three months ended July 3, 2021. The decrease was driven by lower net sales, a decrease in gross profit rate, higher impairment, restructuring and other charges, lower other income, lower equity in income of unconsolidated affiliates and higher interest expense, partially offset by lower SG&A.

Diluted average common shares used in the diluted loss per common share calculation for the three months ended July 2, 2022 were 55.4 million, which excluded potential Common Shares of 0.4 million because the effect of their inclusion would be anti-dilutive as we incurred a net loss for the three months ended July 2, 2022. Diluted average common shares used in the diluted income per common share calculation for the three months ended July 3, 2021 were 57.4 million, which included dilutive potential Common Shares of 1.6 million.

Income (loss) from continuing operations was $(217.5), or $(3.91) per diluted share, for the nine months ended July 2, 2022 compared to $566.0, or $9.90 per diluted share, for the nine months ended July 3, 2021. The decrease was driven by lower net sales, a decrease in gross profit rate, higher impairment, restructuring and other charges, lower other income, lower equity in income of unconsolidated affiliates, higher interest expense and lower other non-operating income, partially offset by lower SG&A.

Diluted average common shares used in the diluted loss per common share calculation for the nine months ended July 2, 2022 were 55.6 million, which excluded potential Common Shares of 0.6 million because the effect of their inclusion would be anti-dilutive as we incurred a net loss for the nine months ended July 2, 2022. Diluted average common shares used in the diluted income per common share calculation for the nine months ended July 3, 2021 were 57.1 million, which included dilutive potential Common Shares of 1.4 million.

SEGMENT RESULTS

The following table sets forth net sales by segment:

	Three Months Ended		Nine Months Ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
U.S. Consumer	$ 904.5	$ 1,046.2	$ 2,626.7	$ 2,828.4
Hawthorne	154.5	421.9	547.7	1,095.1
Other	127.1	141.6	256.0	263.7
Consolidated	$ 1,186.1	$ 1,609.7	$ 3,430.4	$ 4,187.2

(Dollars in millions, except per share data)

The performance of each reportable segment is evaluated based on several factors, including income (loss) from continuing operations before income taxes, amortization, impairment, restructuring and other charges (“Segment Profit (Loss)”), which is a non-GAAP financial measure. Senior management uses Segment Profit (Loss) to evaluate segment performance because they believe this measure is indicative of performance trends and the overall earnings potential of each segment. The following table sets forth Segment Profit (Loss) as well as a reconciliation to income from continuing operations before income taxes, the most directly comparable GAAP measure:

	Three Months Ended		Nine Months Ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
U.S. Consumer	$ 181.1	$ 264.4	$ 620.7	$ 745.6
Hawthorne	4.1	51.9	2.0	133.7
Other	10.9	26.8	22.7	44.4
Total Segment Profit (Non-GAAP)	196.1	343.1	645.4	923.7
Corporate	(25.2)	(31.9)	(95.7)	(114.6)
Intangible asset amortization	(9.2)	(7.8)	(28.5)	(23.0)
Impairment, restructuring and other	(724.2)	(1.3)	(731.3)	(25.9)
Equity in income of unconsolidated affiliates	15.1	21.5	1.3	20.0
Interest expense	(31.0)	(21.9)	(83.1)	(57.3)
Other non-operating income, net	1.7	1.2	5.4	17.3
Income (loss) from continuing operations before income taxes (GAAP)	$ (576.7)	$ 302.9	$ (286.5)	$ 740.2

U.S. Consumer

U.S. Consumer segment net sales were $904.5 in the third quarter of fiscal 2022, a decrease of 13.5% from third quarter of fiscal 2021 net sales of $1,046.2; and were $2,626.7 for the first nine months of fiscal 2022, a decrease of 7.1% from the first nine months of fiscal 2021 net sales of $2,828.4. For the third quarter of fiscal 2022, the decrease was driven by lower sales volume of 20.0%, partially offset by increased pricing of 6.5%. For the nine months ended July 2, 2022, the decrease was driven by lower sales volume of 14.1%, partially offset by increased pricing of 7.0%. The decrease in sales volume for the three and nine months ended July 2, 2022 was driven by lawn care, soils, controls, plant food and mulch products.

U.S. Consumer Segment Profit was $181.1 in the third quarter of fiscal 2022, a decrease of 31.5% from the third quarter of fiscal 2021 Segment Profit of $264.4; and Segment Profit was $620.7 for the first nine months of fiscal 2022, a decrease of 16.8% from the first nine months of fiscal 2021 Segment Profit of $745.6. For the three and nine months ended July 2, 2022, the decrease was primarily due to lower net sales and a lower gross profit rate, partially offset by lower SG&A.

Hawthorne

Hawthorne segment net sales were $154.5 in the third quarter of fiscal 2022, a decrease of 63.4% from third quarter of fiscal 2021 net sales of $421.9; and were $547.7 for the first nine months of fiscal 2022, a decrease of 50.0% from the first nine months of fiscal 2021 net sales of $1,095.1. For the third quarter of fiscal 2022, the decrease was driven by lower sales volume and unfavorable foreign exchange rates of 73.2% and 0.3%, respectively, partially offset by increased pricing and acquisitions of 5.7% and 4.4%, respectively. For the nine months ended July 2, 2022, the decrease was driven by lower sales volume and unfavorable foreign exchange rates of 57.2% and 0.2%, respectively, partially offset by increased pricing and acquisitions of 4.1% and 3.3%, respectively. The decrease in sales volume for the three and nine months ended July 2, 2022 was driven by lighting, nutrients, growing media, hardware and growing environments products.

Hawthorne Segment Profit was $4.1 in the third quarter of fiscal 2022, a decrease of 92.1% from the third quarter of fiscal 2021 Segment Profit of $51.9; and Segment Profit was $2.0 for the first nine months of fiscal 2022, a decrease of 98.5% from the first nine months of fiscal 2021 Segment Profit of $133.7. For the three and nine months ended July 2, 2022, the decrease was driven by lower net sales and a lower gross profit rate, partially offset by lower SG&A.

Other

Other segment net sales were $127.1 in the third quarter of fiscal 2022, a decrease of 10.2% from the third quarter of fiscal 2021 net sales of $141.6; and were $256.0 for the first nine months of fiscal 2022, a decrease of 2.9% from the first nine months of fiscal 2021 net sales of $263.7. For the third quarter of fiscal 2022, the decrease was driven by lower sales volume and unfavorable foreign exchange rates of 16.1% and 4.0%, respectively, partially offset by increased pricing of 9.9%. For the nine months ended July 2, 2022, the decrease was driven by lower sales volume and unfavorable foreign exchange rates of 8.9% and 1.8%, respectively, partially offset by increased pricing of 7.8%.

(Dollars in millions, except per share data)

Other Segment Profit was $10.9 in the third quarter of fiscal 2022, a decrease of 59.3% from the third quarter of fiscal 2021 Segment Profit of $26.8; and Segment Profit was $22.7 for the first nine months of fiscal 2022, a decrease of 48.9% from the first nine months of fiscal 2021 Segment Profit of $44.4. For the three and nine months ended July 2, 2022, the decrease was driven by lower net sales and a lower gross profit rate, partially offset by lower SG&A.

Corporate

Corporate expenses were $25.2 in the third quarter of fiscal 2022, a decrease of 21.0% from the third quarter of fiscal 2021 expenses of $31.9; and were $95.7 for the first nine months of fiscal 2022, a decrease of 16.5% from the first nine months of fiscal 2021 expenses of $114.6. For the three and nine months ended July 2, 2022, the decrease was driven by lower short-term variable cash incentive compensation expense, reductions in staffing levels and other cost-reduction initiatives.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes cash activities:

	Nine Months Ended	
	July 2, 2022	July 3, 2021
Net cash used in operating activities	$ (679.6)	$ (207.1)
Net cash used in investing activities	(334.5)	(211.9)
Net cash provided by financing activities	797.9	459.6

Operating Activities

Cash used in operating activities totaled $679.6 for the nine months ended July 2, 2022, an increase of $472.5 as compared to $207.1 for the nine months ended July 3, 2021. This increase was driven by higher inventory, lower net income and higher interest payments, partially offset by lower tax payments and lower short-term variable cash incentive compensation payouts. Higher inventory was driven by higher production and higher input costs. The nine months ended July 2, 2022 was also impacted by extended payment terms with several of our major vendors across the U.S. Consumer and Hawthorne segments, as well as Monsanto, for payments originally due in the final weeks of fiscal 2021 that were paid in the first quarter of fiscal 2022.

Investing Activities

Cash used in investing activities totaled $334.5 for the nine months ended July 2, 2022, an increase of $122.6 as compared to $211.9 for the nine months ended July 3, 2021. Cash used for investments in property, plant and equipment during the first nine months of fiscal 2022 and 2021 was $99.0 and $77.9, respectively. We also completed the acquisitions of Luxx Lighting, Inc., True Liberty Bags and Cyco during the nine months ended July 2, 2022 in exchange for cash payments of $237.3, as well as the issuance of 0.1 million Common Shares, a non-cash investing and financing activity, with a fair value of $21.0 based on the share price at the time of payment. In addition, during the nine months ended July 2, 2022, we made payments of $25.0 in connection with a minority non-equity convertible debt investment, received proceeds from the sale of long-lived assets of $9.4 and received $17.4 associated with currency forward contracts. During the nine months ended July 3, 2021, we acquired a 50% equity interest in Bonnie Plants, LLC in exchange for cash payments of $102.3, as well as non-cash investing activities that included forgiveness of our outstanding loan receivable with AFC and surrender of our options to increase our economic interest in the Bonnie Plants business. In addition, during the nine months ended July 3, 2021, we acquired contract and license rights within our U.S. Consumer segment for $20.0 and we paid cash of $10.0 associated with currency forward contracts.

Financing Activities

Cash provided by financing activities totaled $797.9 for the nine months ended July 2, 2022 as compared $459.6 for the nine months ended July 3, 2021. This change was driven by an increase in net borrowings under our Fifth A&R Credit Facilities of $1,019.7 during the nine months ended July 2, 2022, partially offset by the issuance of $500.0 aggregate principal amount of 4.00% Senior Notes during the nine months ended July 3, 2021, an increase in repurchases of our Common Shares of $166.7, an increase in dividends paid of $23.5 and a decrease in cash received from exercise of stock options of $11.7. In addition, we paid financing and issuance fees of $9.7 and $7.2 for the nine months ended July 2, 2022 and July 3, 2021, respectively. We also made payments of $17.4 associated with the acquisition of the remaining outstanding shares of AeroGrow during the nine months ended July 3, 2021.

Cash and Cash Equivalents

Our cash and cash equivalents were held in cash depository accounts with major financial institutions around the world or invested in high-quality, short-term liquid investments having original maturities of three months or less. The cash and cash equivalents balances of $27.8, $58.3 and $244.1 as of July 2, 2022, July 3, 2021 and September 30, 2021, respectively, included $4.0, $52.1 and $15.9, respectively, held by controlled foreign corporations. As of July 2, 2022, we maintain our assertion of indefinite reinvestment of the earnings of all material foreign subsidiaries.

Borrowing Agreements

Credit Facilities

Our primary sources of liquidity are cash generated by operations and borrowings under our credit facilities, which are guaranteed by substantially all of Scotts Miracle-Gro's domestic subsidiaries. On July 5, 2018, we entered into a fifth amended and restated credit agreement (the "Fifth A&R Credit Agreement"), which provided us with five-year senior secured loan facilities in the aggregate principal amount of $2,300.0, comprised of a revolving credit facility of $1,500.0 and a term loan in the original principal amount of $800.0 (the "Fifth A&R Credit Facilities"). Under the Fifth A&R Credit Facilities, we had the ability to obtain letters of credit up to $75.0.

On April 8, 2022, we entered into a sixth amended and restated credit agreement (the "Sixth A&R Credit Agreement"), providing us with five-year senior secured loan facilities in the aggregate principal amount of $2,500.0, comprised of a revolving credit facility of $1,500.0 and a term loan in the original principal amount of $1,000.0 (the "Sixth A&R Credit Facilities"). The Sixth A&R Credit Agreement also provides us with the right to seek additional committed credit under the agreement in an aggregate amount of up to $500.0 plus an unlimited additional amount, subject to certain specified financial and other conditions. The Sixth A&R Credit Agreement replaces the Fifth A&R Credit Agreement and will terminate on April 8, 2027. The Sixth A&R Credit Facilities are available for issuance of letters of credit up to $100.0. The terms of the Sixth A&R Credit Agreement include customary representations and warranties, affirmative and negative covenants, financial covenants, and events of default.

At July 2, 2022, we had letters of credit outstanding in the aggregate principal amount of $14.1 and had $868.5 of borrowing availability under the Sixth A&R Credit Agreement. The weighted average interest rates on average borrowings under the Fifth A&R Credit Agreement and Sixth A&R Credit Agreement were 2.1% and 1.8% for the nine months ended July 2, 2022 and July 3, 2021, respectively.

Under the terms of the Sixth A&R Credit Agreement, loans bear interest, at our election, at a rate per annum equal to either (i) the Alternate Base Rate plus the Applicable Spread (each, as defined in the Sixth A&R Credit Agreement) or (ii) the Adjusted Term SOFR Rate for the Interest Period in effect for such borrowing plus the Applicable Spread (all as defined in the Sixth A&R Credit Agreement). Swingline Loans bear interest at the applicable Swingline Rate set forth in the Sixth A&R Credit Agreement. Further, interest rates for other select non-U.S. dollar borrowings, including borrowings denominated in euro, Pounds Sterling and Canadian Dollars, are based on separate interest rate indices, as set forth in the Sixth A&R Credit Agreement. The Sixth A&R Credit Agreement is secured by (i) a perfected first priority security interest in all of the accounts receivable, inventory and equipment of Scotts Miracle-Gro and certain of its domestic subsidiaries and (ii) the pledge of all of the capital stock of certain of Scotts Miracle-Gro's domestic subsidiaries and a portion of the capital stock of certain of its foreign subsidiaries. The collateral does not include any of our intellectual property.

On June 8, 2022, we entered into Amendment No. 1 (the "Amendment") to the Sixth A&R Credit Agreement. The Amendment increased the maximum permitted leverage ratio for the quarterly leverage covenant effective for the third quarter of fiscal 2022 until the earlier of (i) April 1, 2024 and (ii) subject to certain conditions specified in the Amendment, the termination by us of such increase (such period, the "Leverage Adjustment Period"). The Amendment also increases the interest rate applicable to borrowings under the revolving credit facility by 35 bps and the term loan facility by 50 bps, and increases the annual facility fee rate on the revolving credit facility by 15 bps, in each case, when our quarterly-tested leverage ratio exceeds 4.75. Additionally, the Amendment limits our ability to declare or pay any discretionary dividends, distributions or other restricted payments during the Leverage Adjustment Period to only the payment of (i) regularly scheduled cash dividends to holders of our Common Shares in an aggregate amount not to exceed $225.0 per fiscal year and (ii) other dividends, distributions or other restricted payments in an aggregate amount not to exceed $25.0; and requires pro forma compliance with certain leverage levels specified in the Amendment with respect to our ability to consummate certain acquisitions and incur debt.

The Sixth A&R Credit Agreement contains, among other obligations, an affirmative covenant regarding our leverage ratio determined as of the end of each of our fiscal quarters calculated as average total indebtedness, divided by our earnings before interest, taxes, depreciation and amortization, as adjusted pursuant to the terms of the Sixth A&R Credit Agreement (“Adjusted EBITDA”). Pursuant to the Amendment, the maximum permitted leverage ratio is (i) 6.25 for the third quarter of fiscal 2022 through the first quarter of fiscal 2023, (ii) 6.50 for the second and third quarters of fiscal 2023, (iii) 6.25 for the fourth quarter of fiscal 2023 and the first quarter of fiscal 2024, (iv) 5.50 for the second quarter of fiscal 2024, and (v) 4.50 for the third quarter of fiscal 2024 and thereafter. Our leverage ratio was 5.10 at July 2, 2022. The Sixth A&R Credit Agreement also contains an affirmative covenant regarding our interest coverage ratio determined as of the end of each of our fiscal quarters. The interest coverage ratio is calculated as Adjusted EBITDA divided by interest expense, as described in the Sixth A&R Credit Agreement, and excludes costs related to refinancings. The minimum required interest coverage ratio is 3.00, which is unchanged from the Fifth A&R Credit Agreement. Our interest coverage ratio was 5.89 for the twelve months ended July 2, 2022. As of July 2, 2022, we were in compliance with these financial covenants.

We continue to monitor our compliance with the leverage ratio, interest coverage ratio and other covenants contained in the Sixth A&R Credit Agreement and, based upon our current operating assumptions, we expect to remain in compliance with the permissible leverage ratio and interest coverage ratio throughout fiscal 2022. However, an unanticipated shortfall in earnings, an increase in net indebtedness or other factors could materially affect our ability to remain in compliance with the financial or other covenants of the Sixth A&R Credit Agreement, potentially causing us to have to seek an amendment or waiver from our lending group which could result in, among other things, repricing of the Sixth A&R Credit Agreement and/or immediate repayment of outstanding borrowings. While we believe we have good relationships with our lending group, we can provide no assurance that such a request would result in a modified or replacement credit agreement on reasonable terms, if at all.

Senior Notes

On December 15, 2016, Scotts Miracle-Gro issued $250.0 aggregate principal amount of 5.250% Senior Notes due 2026. The 5.250% Senior Notes represent general unsecured senior obligations and rank equal in right of payment with our existing and future unsecured senior debt. The 5.250% Senior Notes have interest payment dates of June 15 and December 15 of each year.

On October 22, 2019, Scotts Miracle-Gro issued $450.0 aggregate principal amount of 4.500% Senior Notes due 2029. The 4.500% Senior Notes represent general unsecured senior obligations and rank equal in right of payment with our existing and future unsecured senior debt. The 4.500% Senior Notes have interest payment dates of April 15 and October 15 of each year.

On March 17, 2021, Scotts Miracle-Gro issued $500.0 aggregate principal amount of 4.000% Senior Notes due 2031. The 4.000% Senior Notes represent general unsecured senior obligations and rank equal in right of payment with our existing and future unsecured senior debt. The 4.000% Senior Notes have interest payment dates of April 1 and October 1 of each year.

On August 13, 2021, Scotts Miracle-Gro issued $400.0 aggregate principal amount of 4.375% Senior Notes due 2032. The 4.375% Senior Notes represent general unsecured senior obligations and rank equal in right of payment with our existing and future unsecured senior debt. The 4.375% Senior Notes have interest payment dates of February 1 and August 1 of each year.

Substantially all of Scotts Miracle-Gro’s directly and indirectly owned domestic subsidiaries serve as guarantors of the 5.250% Senior Notes, the 4.500% Senior Notes, the 4.000% Senior Notes and the 4.375% Senior Notes.

Receivables Facility

We also maintain a Receivables Facility, under which we may sell a portfolio of available and eligible outstanding customer accounts receivable to the purchasers and simultaneously agree to repurchase the receivables on a weekly basis. The eligible accounts receivable consist of accounts receivable generated by sales to three specified customers. The eligible amount of customer accounts receivables which may be sold under the Receivables Facility is $400.0 and the commitment amount during the seasonal commitment period that began on February 25, 2022 and ended on June 17, 2022 was $160.0. The Receivables Facility expires on August 19, 2022 but is expected to be renewed prior to its expiration.

We account for the sale of receivables under the Receivables Facility as short-term debt and continue to carry the receivables on our Condensed Consolidated Balance Sheets, primarily as a result of our requirement to repurchase receivables sold. As of July 2, 2022 and July 3, 2021, there were $250.0 and $0.0, respectively, in borrowings on receivables pledged as collateral under the Receivables Facility, and the carrying value of the receivables pledged as collateral was $277.8 and $0.0, respectively.

(Dollars in millions, except per share data)

Interest Rate Swap Agreements

We enter into interest rate swap agreements with major financial institutions that effectively convert a portion of our variable rate debt to a fixed rate. Interest payments made between the effective date and expiration date are hedged by the swap agreements. Swap agreements that were hedging interest payments as of July 2, 2022, July 3, 2021 and September 30, 2021 had a maximum total U.S. dollar equivalent notional amount of $800.0, $700.0 and $600.0, respectively. The notional amount, effective date, expiration date and rate of each of the swap agreements outstanding at July 2, 2022 are shown in the table below:

Notional Amount	Effective Date (a)	Expiration Date	Fixed Rate
100	12/21/2020	6/20/2023	1.36 %
300 [(b)]	1/7/2021	6/7/2023	1.34 %
200	10/7/2021	6/7/2023	1.37 %
200 [(b)]	1/20/2022	6/20/2024	0.58 %
200	6/7/2023	6/8/2026	0.85 %

(a) The effective date refers to the date on which interest payments are first hedged by the applicable swap agreement.
(b) Notional amount adjusts in accordance with a specified seasonal schedule. This represents the maximum notional amount at any point in time.

Availability and Use of Cash

We believe that our cash flows from operations and borrowings under our agreements described herein will be sufficient to meet debt service, capital expenditures and working capital needs for the foreseeable future. However, we cannot ensure that our business will generate sufficient cash flow from operations or that future borrowings will be available under our borrowing agreements in amounts sufficient to pay indebtedness or fund other liquidity needs. Additionally, the extent to which the COVID-19 pandemic will ultimately impact our business, results of operations, financial condition and cash flows depends on future developments that are uncertain and difficult to predict. Actual results of operations will depend on numerous factors, many of which are beyond our control as further discussed in the 2021 Annual Report, under “ITEM 1A. RISK FACTORS — Risks Related to Our M&A, Lending and Financing Activities — Our indebtedness could limit our flexibility and adversely affect our financial condition” and “ITEM 1A. RISK FACTORS — Risks Related to Our Business — The effects of the ongoing coronavirus (COVID-19) pandemic and any possible recurrence of other similar types of pandemics, or any other widespread public health emergencies, could have a material adverse effect on our business, results of operations, financial condition and/or cash flows.”

Financial Disclosures About Guarantors and Issuers of Guaranteed Securities

The 5.250% Senior Notes, 4.500% Senior Notes, 4.000% Senior Notes and 4.375% Senior Notes (collectively, the “Senior Notes”) were issued by Scotts Miracle-Gro on December 15, 2016, October 22, 2019, March 17, 2021 and August 13, 2021, respectively. The Senior Notes are guaranteed by certain consolidated domestic subsidiaries of Scotts Miracle-Gro (collectively, the “Guarantors”) and, therefore, we report summarized financial information in accordance with SEC Regulation S-X, Rule 13-01, “Guarantors and Issuers of Guaranteed Securities Registered or Being Registered.”

The guarantees are “full and unconditional,” as those terms are used in Regulation S-X, Rule 3-10(b)(3), except that a Guarantor’s guarantee will be released in certain circumstances set forth in the indentures governing the Senior Notes, such as: (i) upon any sale or other disposition of all or substantially all of the assets of the Guarantor (including by way of merger or consolidation) to any person other than Scotts Miracle-Gro or any “restricted subsidiary” under the applicable indenture; (ii) if the Guarantor merges with and into Scotts Miracle-Gro, with Scotts Miracle-Gro surviving such merger; (iii) if the Guarantor is designated an “unrestricted subsidiary” in accordance with the applicable indenture or otherwise ceases to be a “restricted subsidiary” (including by way of liquidation or dissolution) in a transaction permitted by such indenture; (iv) upon legal or covenant defeasance; (v) at the election of Scotts Miracle-Gro following the Guarantor’s release as a guarantor under the Sixth A&R Credit Agreement, except a release by or as a result of the repayment of the Sixth A&R Credit Agreement; or (vi) if the Guarantor ceases to be a “restricted subsidiary” and the Guarantor is not otherwise required to provide a guarantee of the Senior Notes pursuant to the applicable indenture.

Our foreign subsidiaries and certain of our domestic subsidiaries are not guarantors (collectively, the “Non-Guarantors”) on the Senior Notes. Payments on the Senior Notes are only required to be made by Scotts Miracle-Gro and the Guarantors. As a result, no payments are required to be made from the assets of the Non-Guarantors, unless those assets are transferred by dividend or otherwise to Scotts Miracle-Gro or a Guarantor. In the event of a bankruptcy, insolvency, liquidation or reorganization of any of the Non-Guarantors, holders of their indebtedness, including their trade creditors and other obligations, will be entitled to payment of their claims from the assets of the Non-Guarantors before any assets are made available for distribution to Scotts Miracle-Gro or the Guarantors. As a result, the Senior Notes are effectively subordinated to all the liabilities of the Non-Guarantors.

(Dollars in millions, except per share data)

The guarantees may be subject to review under federal bankruptcy laws or relevant state fraudulent conveyance or fraudulent transfer laws. In certain circumstances, the court could void the guarantee, subordinate the amounts owing under the guarantee, or take other actions detrimental to the holders of the Senior Notes.

As a general matter, value is given for a transfer or an obligation if, in exchange for the transfer or obligation, property is transferred or a valid antecedent debt is satisfied. A court would likely find that a Guarantor did not receive reasonably equivalent value or fair consideration for its guarantee to the extent such Guarantor did not obtain a reasonably equivalent benefit from the issuance of the Senior Notes.

The measure of insolvency varies depending upon the law of the jurisdiction that is being applied. Regardless of the measure being applied, a court could determine that a Guarantor was insolvent on the date the guarantee was issued, so that payments to the holders of the Senior Notes would constitute a preference, fraudulent transfer or conveyances on other grounds. If a guarantee is voided as a fraudulent conveyance or is found to be unenforceable for any other reason, the holders of the Senior Notes will not have a claim against the Guarantor.

Each guarantee contains a provision intended to limit the Guarantor's liability to the maximum amount that it could incur without causing the incurrence of obligations under its guarantee to be a fraudulent conveyance. However, there can be no assurance as to what standard a court will apply in making a determination of the maximum liability of each Guarantor. Moreover, this provision may not be effective to protect the guarantees from being voided under fraudulent conveyance laws. There is a possibility that the entire guarantee may be set aside, in which case the entire liability may be extinguished.

The following tables present summarized financial information on a combined basis for Scotts Miracle-Gro and the Guarantors. Transactions between Scotts Miracle-Gro and the Guarantors have been eliminated and the summarized financial information does not reflect investments of the Scotts Miracle-Gro and the Guarantors in the Non-Guarantor subsidiaries.

	July 2, 2022	September 30, 2021
Current assets	$ 2,305.2	$ 1,834.8
Noncurrent assets [(a)]	2,251.4	2,484.5
Current liabilities	959.5	1,038.1
Noncurrent liabilities	3,393.0	2,611.8

(a) Includes amounts due from Non-Guarantor subsidiaries of $54.3 and $39.8, respectively.

	Nine Months Ended	Year Ended
	July 2, 2022	September 30, 2021
Net sales	$ 3,139.2	$ 4,507.6
Gross profit	898.6	1,380.6
Income (loss) from continuing operations [(a)]	(124.5)	510.9
Net income (loss)	(124.5)	510.8
Net income (loss) attributable to controlling interest	(124.5)	509.9

(a) Includes intercompany income from Non-Guarantor subsidiaries of $17.8 and $26.3, respectively.

Judicial and Administrative Proceedings

We are party to various pending judicial and administrative proceedings arising in the ordinary course of business, including, among others, proceedings based on accidents or product liability claims and alleged violations of environmental laws. We have reviewed these pending judicial and administrative proceedings, including the probable outcomes, reasonably anticipated costs and expenses, and the availability and limits of our insurance coverage, and have established what we believe to be appropriate accruals. We believe that our assessment of contingencies is reasonable and that the related accruals, in the aggregate, are adequate; however, there can be no assurance that future quarterly or annual operating results will not be materially affected by these proceedings, whether as a result of adverse outcomes or as a result of significant defense costs.

REGULATORY MATTERS

We are subject to local, state, federal and foreign environmental protection laws and regulations with respect to our business operations and believe we are operating in substantial compliance with, or taking actions aimed at ensuring compliance with, such laws and regulations. We are involved in several legal actions with various governmental agencies related to environmental matters. While it is difficult to quantify the potential financial impact of actions involving these environmental matters, particularly remediation costs at waste disposal sites and future capital expenditures for environmental control equipment, in the opinion of management, the ultimate liability arising from such environmental matters, taking into account established accruals, is not expected to have a material effect on our financial condition, results of operations or cash flows. However, there can be no assurance that the resolution of these matters will not materially affect our future quarterly or annual results of operations, financial condition or cash flows. Additional information on environmental matters affecting us is provided in the 2021 Annual Report, under “ITEM 1. BUSINESS — Regulatory Considerations” and “ITEM 3. LEGAL PROCEEDINGS.”

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements requires management to use judgment and make estimates that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. We evaluate our estimates on an ongoing basis. By their nature, these judgments are subject to uncertainty. We base our estimates on historical experience and on various other sources that we believe to be reasonable under the circumstances. Certain accounting policies are particularly significant, including those related to revenue recognition, income taxes and goodwill and intangible assets. Our critical accounting policies are reviewed periodically with the Audit Committee of the Board of Directors of Scotts Miracle-Gro. Our critical accounting policies and estimates have not changed materially from those disclosed in the 2021 Annual Report, with the exception of the item discussed below.

During the third quarter of fiscal 2022, our Hawthorne reporting unit continued to experience adverse financial results driven by an oversupply of cannabis, which has slowed down indoor and outdoor cultivation, and higher transportation and warehousing costs. As a result, we made further revisions to our internal forecasts relating to our Hawthorne reporting unit. We concluded that the changes in circumstances in this reporting unit and the decline in the Company’s market capitalization triggered the need for an interim impairment review of its goodwill. We elected to bypass the qualitative assessment and perform quantitative interim goodwill impairment testing for our Hawthorne reporting unit. We updated our assumptions from prior periods to include the longer duration and increased significance of lower sales volumes and cost increases. This quantitative test resulted in a non-cash, pre-tax goodwill impairment charge of $522.4 related to our Hawthorne reporting unit, which was recorded in the “Impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations. The carrying value of goodwill of our Hawthorne reporting unit, after recognizing the impairment, is zero. The estimated fair value of our Hawthorne reporting unit was based upon an equal weighting of the income-based and market-based approaches, utilizing estimated cash flows and a terminal value, discounted at a rate of return that reflects the relative risk of the cash flows, as well as valuation multiples derived from comparable publicly traded companies that are applied to operating performance of the reporting unit. The fair value estimate utilizes significant unobservable inputs and thus represents a Level 3 fair value measurement. While we consider our assumptions to be reasonable and appropriate, they are complex and subjective. Refer to “NOTE 4. GOODWILL AND INTANGIBLE ASSETS” for more information.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks have not changed materially from those disclosed in the 2021 Annual Report.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Scotts Miracle-Gro Company (the “Registrant”) maintains “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e), under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), that are designed to ensure that information required to be disclosed in the Registrant’s Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the Registrant’s management, including its principal executive officer and its principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, the Registrant’s management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, the Registrant’s management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

With the participation of the principal executive officer and principal financial officer of the Registrant, the Registrant's management has evaluated the effectiveness of the Registrant's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, the Registrant's principal executive officer and principal financial officer have concluded that the Registrant's disclosure controls and procedures were effective as of July 2, 2022.

Changes in Internal Control Over Financial Reporting

In addition, there were no changes in the Registrant's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the Registrant's fiscal quarter ended July 2, 2022 that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Reference is made to the legal proceedings that have been previously disclosed in Part I, Item 3 of the 2021 Annual Report. There have been no material developments to the pending legal proceedings set forth therein.

We are involved in other lawsuits and claims which arise in the normal course of our business including the initiation and defense of proceedings to protect intellectual property rights, advertising claims and employment disputes. In our opinion, these claims individually and in the aggregate are not expected to have a material adverse effect on our financial condition, results of operations or cash flows.

ITEM 1A. RISK FACTORS

The Company's risk factors, as of July 2, 2022, have not materially changed from those described in Part I, Item 1A of the 2021 Annual Report as updated in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended April 2, 2022 filed on May 11, 2022.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, including the exhibits hereto and the information incorporated by reference herein, contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act, as amended, which are subject to risks and uncertainties. Information regarding activities, events and developments that we expect or anticipate will or may occur in the future, including, but not limited to, information relating to our future growth and profitability targets and strategies designed to increase total shareholder value, are forward-looking statements based on management's estimates, assumptions and projections. Forward-looking statements also include, but are not limited to, statements regarding our future economic and financial condition and results of operations, the plans and objectives of management and our assumptions regarding our performance and such plans and objectives, as well as the amount and timing of repurchases of our Common Shares or other uses of cash flows. Forward-looking statements generally can be identified through the use of words such as "guidance," "outlook," "projected," "believe," "target," "predict," "estimate," "forecast," "strategy," "may," "goal," "expect," "anticipate," "intend," "plan," "foresee," "likely," "will," "should" and other similar words and variations.

Forward-looking statements contained in this Quarterly Report on Form 10-Q are predictions only and actual results could differ materially from management's expectations due to a variety of factors, including those described in "ITEM 1A. RISK FACTORS" in the 2021 Annual Report. All forward-looking statements attributable to us or persons working on our behalf are expressly qualified in their entirety by such risk factors.

The forward-looking statements that we make in this Quarterly Report on Form 10-Q are based on management's current views and assumptions regarding future events and speak only as of their dates. We disclaim any obligation to update developments of these risk factors or to announce publicly any revisions to any of the forward-looking statements that we make, or to make corrections to reflect future events or developments, except as required by the federal securities laws.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The payment of future dividends, if any, on the Common Shares will be determined by the Board of Directors in light of conditions then existing, including the Company's earnings, financial condition and capital requirements, restrictions in financing agreements, business conditions and other factors. The Amendment to the Sixth A&R Credit Agreement limits the Company's ability to declare or pay any discretionary dividends, distributions or other restricted payments (as defined in the Sixth A&R Credit Agreement) during the Leverage Adjustment Period to only the payment of (i) regularly scheduled cash dividends to holders of its common stock in an aggregate amount not to exceed $225.0 million per fiscal year and (ii) other dividends, distributions or other restricted payments in an aggregate amount not to exceed $25.0 million.

The following table shows the purchases of Common Shares made by or on behalf of Scotts Miracle-Gro or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) of Scotts Miracle-Gro for each of the three fiscal months in the quarter ended July 2, 2022:

Period	Total Number of Common Shares Purchased(1)	Average Price Paid per Common Share(2)	Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs(3)	Approximate Dollar Value of Common Shares That May Yet be Purchased Under the Plans or Programs(3)
April 3, 2022 through April 30, 2022	946	$ 104.04	—	$ 461,912,353
May 1, 2022 through May 28, 2022	1,087	$ 96.05	—	$ 461,912,353
May 29, 2022 through July 2, 2022	2,569	$ 87.99	—	$ 461,912,353
Total	4,602	$ 93.20	—	

(1) All of the Common Shares purchased during the third quarter of fiscal 2022 were purchased in open market transactions. The total number of Common Shares purchased during the quarter includes 4,602 Common Shares purchased by the trustee of the rabbi trust established by the Company as permitted pursuant to the terms of The Scotts Company LLC Executive Retirement Plan (the "ERP").

(2) The average price paid per Common Share is calculated on a settlement basis and includes commissions.

(3) On February 6, 2020, the Company announced a new repurchase program allowing for repurchases of up to $750.0 million of Common Shares from April 30, 2020 through March 25, 2023.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

Not Applicable.

ITEM 6. EXHIBITS

See Index to Exhibits at page 48 for a list of the exhibits included herewith.

THE SCOTTS MIRACLE-GRO COMPANY
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JULY 2, 2022

INDEX TO EXHIBITS

Exhibit No.	Description	Incorporated by Reference			Filed Herewith
		Form	Exhibit	Filing Date	
10.1	Sixth Amended and Restated Credit Agreement, dated as of April 8, 2022, by and among The Scotts Miracle-Gro Company, as a Borrower; the Subsidiary Borrowers (as defined therein); JPMorgan Chase Bank, N.A., as Administrative Agent; Wells Fargo Bank, National Association, Mizuho Bank, Ltd. and Bank of America, N.A., as Co- Syndication Agents; CoBank, ACB, Fifth Third Bank, National Association, Coöperatieve Rabobank U.A., New York Branch, Sumitomo Mitsui Banking Corporation, TD Bank N.A. and Truist Bank, as Co-Documentation Agents; and the several other banks and other financial institutions from time to time parties thereto	8-K	10.1	April 14, 2022	
10.2	Sixth Amended and Restated Guarantee and Collateral Agreement, dated as of April 8, 2022, made by The Scotts Miracle-Gro Company, each domestic Subsidiary Borrower under the Sixth Amended and Restated Credit Agreement, and certain of its and their domestic subsidiaries, in favor of JPMorgan Chase Bank, N.A., as Administrative Agent	8-K	10.2	April 14, 2022	
10.3	Amendment No. 1 to Sixth Amended and Restated Credit Agreement, dated as June 8, 2022, by and between The Scotts Miracle-Gro Company, The Scotts Company LLC, Scotts Canada Ltd., as Borrowers, the other Loan Parties party thereto, the Lenders party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent	8-K	10.1	June 8, 2022	
21	Subsidiaries of The Scotts Miracle-Gro Company				X
22	Guarantor Subsidiaries				X
31.1	Rule 13a-14(a)/15d-14(a) Certifications (Principal Executive Officer)				X
31.2	Rule 13a-14(a)/15d-14(a) Certifications (Principal Financial Officer)				X
32	Section 1350 Certifications (Principal Executive Officer and Principal Financial Officer)				X
101.SCH	XBRL Taxonomy Extension Schema				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase				X
101.DEF	XBRL Taxonomy Extension Definition Linkbase				X
101.LAB	XBRL Taxonomy Extension Label Linkbase				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase				X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				X

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE SCOTTS MIRACLE-GRO COMPANY

Date: August 10, 2022

/s/ CORY J. MILLER

Printed Name: Cory J. Miller

Title: Executive Vice President and Chief Financial Officer

Exhibit 21

DIRECT AND INDIRECT SUBSIDIARIES OF
THE SCOTTS MIRACLE-GRO COMPANY

Directly owned subsidiaries, as of July 2, 2022, are located at the left margin, each subsidiary tier thereunder is indented. Subsidiaries are listed under the names of their respective parent entities. Unless otherwise noted, the subsidiaries are wholly-owned.

NAME	**JURISDICTION OF FORMATION**
1868 Ventures LLC	Ohio
Swiss Farms Products, Inc.	Delaware
GenSource, Inc.	Ohio
OMS Investments, Inc.	Delaware
Scotts Temecula Operations, LLC	Delaware
Sanford Scientific, Inc.	New York
Scotts Global Services, Inc.	Ohio
Scotts Live Goods Holdings, Inc.	Ohio
Bonnie Plants, LLC[1]	Delaware
Scotts Manufacturing Company	Delaware
Miracle-Gro Lawn Products, Inc.	New York
Scotts Oregon Research Station LLC	Ohio
Scotts Products Co.	Ohio
Scotts Servicios, S.A. de C.V.[2]	Mexico
Scotts Professional Products Co.	Ohio
Scotts Servicios, S.A. de C.V.2[2]	Mexico
SMG Growing Media, Inc.	Ohio
AeroGrow International, Inc.	Nevada
Hyponex Corporation	Delaware
Rod McLellan Company	California
The Hawthorne Gardening Company	Delaware
Hawthorne Hydroponics LLC	Delaware
Hawthorne Gardening B.V.	Netherlands
Gavita International B.V.	Netherlands
Hawthorne Lighting B.V.	Netherlands
Agrolux Canada Limited	Canada
Agrolux Nederland B.V.	Netherlands
Hawthorne Canada Limited	Canada
HGCI, Inc.	Nevada

[1] Scotts Live Goods Holdings, Inc.'s ownership is 50.0%.
[2] Scotts Professional Products Co. owns 50% and Scotts Products Co. owns 50.0%.

SMGM LLC	Ohio
Scotts-Sierra Investments LLC	Delaware
Scotts Sierra (China) Co., Ltd.	China
Scotts Canada Ltd.	Canada
Laketon Peat Moss Inc.[3]	Canada
Scotts de Mexico SA de CV[4]	Mexico
SMG Germany GmbH	Germany
SMG Gardening (UK) Limited	United Kingdom
The Hawthorne Collective, Inc.	Ohio
The Scotts Company LLC	Ohio
The Scotts Miracle-Gro Foundation[5]	Ohio

[3] Scotts Canada Ltd.'s ownership is 50.0%.
[4] The Scotts Company LLC owns 0.5% and Scotts-Sierra Investments LLC owns the remaining 99.5%.
[5] The Scotts Miracle-Gro Foundation is a 501(c)(3) corporation.

Exhibit 22

LIST OF GUARANTOR SUBSIDIARIES

The following subsidiaries of The Scotts Miracle-Gro Company (the "Company") were, as of July 2, 2022, guarantors of the Company's 5.250% Senior Notes due 2026, 4.500% Senior Notes due 2029, 4.000% Senior Notes due 2031 and 4.375% Senior Notes due 2032:

NAME OF GUARANTOR SUBSIDIARY	JURISDICTION OF FORMATION
1868 Ventures LLC	Ohio
AeroGrow International, Inc.	Nevada
GenSource, Inc.	Ohio
Hawthorne Hydroponics LLC	Delaware
HGCI, Inc.	Nevada
Hyponex Corporation	Delaware
Miracle-Gro Lawn Products, Inc.	New York
OMS Investments, Inc.	Delaware
Rod McLellan Company	California
Sanford Scientific, Inc.	New York
Scotts Live Goods Holdings, Inc.	Ohio
Scotts Manufacturing Company	Delaware
Scotts Products Co.	Ohio
Scotts Professional Products Co.	Ohio
Scotts-Sierra Investments LLC	Delaware
Scotts Temecula Operations, LLC	Delaware
SMG Growing Media, Inc.	Ohio
SMGM LLC	Ohio
Swiss Farms Products, Inc.	Delaware
The Hawthorne Collective, Inc.	Ohio
The Hawthorne Gardening Company	Delaware
The Scotts Company LLC	Ohio

Exhibit 31.1

Rule 13a-14(a)/15d-14(a) Certifications
(Principal Executive Officer)
CERTIFICATIONS

I, James Hagedorn, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Scotts Miracle-Gro Company for the fiscal quarter ended July 2, 2022;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2022	By:	/s/ JAMES HAGEDORN
		Printed Name: James Hagedorn
		Title: Chief Executive Officer and Chairman of the Board

Exhibit 31.2

Rule 13a-14(a)/15d-14(a) Certifications
(Principal Financial Officer)
CERTIFICATIONS

I, Cory J. Miller, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Scotts Miracle-Gro Company for the fiscal quarter ended July 2, 2022;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2022	By:	/s/ CORY J. MILLER
		Printed Name: Cory J. Miller
		Title: Executive Vice President and Chief Financial Officer

Exhibit 32

SECTION 1350 CERTIFICATIONS*

In connection with the Quarterly Report on Form 10-Q of The Scotts Miracle-Gro Company (the “Company”) for the fiscal quarter ended July 2, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned James Hagedorn, Chief Executive Officer and Chairman of the Board of the Company, and Cory J. Miller, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of their knowledge:

1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company and its subsidiaries.

/s/ JAMES HAGEDORN	/s/ CORY J. MILLER
Printed Name: James Hagedorn	Printed Name: Cory J. Miller
Title: Chief Executive Officer and Chairman of the Board	Title: Executive Vice President and Chief Financial Officer
August 10, 2022	August 10, 2022

* THESE CERTIFICATIONS ARE BEING FURNISHED AS REQUIRED BY RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT OF 1934 (THE “EXCHANGE ACT”) AND SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE, AND SHALL NOT BE DEEMED “FILED” FOR PURPOSES OF SECTION 18 OF THE EXCHANGE ACT OR OTHERWISE SUBJECT TO THE LIABILITY OF THAT SECTION. THESE CERTIFICATIONS SHALL NOT BE DEEMED TO BE INCORPORATED BY REFERENCE INTO ANY FILING UNDER THE SECURITIES ACT OF 1933 OR THE EXCHANGE ACT, EXCEPT TO THE EXTENT THAT THE COMPANY SPECIFICALLY INCORPORATES THESE CERTIFICATIONS BY REFERENCE.