

February 2, 2022



# Central Garden & Pet Announces Q1 Fiscal 2022 Results

**Q1 fiscal 2022 net sales increased 12% to \$661 million**

**Q1 fiscal 2022 diluted GAAP EPS grew \$0.06 to \$0.16**

**Maintains outlook for fiscal 2022 diluted GAAP EPS of \$3.10 or better**

WALNUT CREEK, Calif.--(BUSINESS WIRE)-- Central Garden & Pet Company (NASDAQ: CENT) (NASDAQ: CENTA) ("Central"), a market leader in the garden and pet industries, today announced financial results for its fiscal 2022 first quarter ended December 25, 2021.

This press release features multimedia. View the full release here:

<https://www.businesswire.com/news/home/20220202005708/en/>



Central Garden & Pet Q1 2022 Financial Results (Graphic: Business Wire)

"We delivered another solid quarter thanks to continued demand for our Pet and Garden brands and the perseverance of our employees," said Tim Cofer, CEO of Central Garden & Pet. "Our recent acquisitions exceeded our expectations for the quarter, and we remain encouraged by the fundamentals of our organic

business in light of the extraordinary growth in the prior year. We are confident in our team's ability to perform as we face the ongoing challenges associated with the pandemic."

## Fiscal 2022 First Quarter Financial Results

Net sales increased 12% to \$661 million compared to \$592 million a year ago, driven by recent acquisitions, which contributed \$70 million to the quarter. Organic sales were in line with the prior year quarter.

Gross margin was 30.0%, an increase of 210 basis points compared to a year ago, driven primarily by pricing and favorable product mix, partially offset by cost inflation in key commodities, freight and labor.

Operating income decreased 3% to \$26 million from \$27 million a year ago. Operating margin was 4.0% compared to 4.6% in the prior year. The margin decline was largely due to continued inflation and heightened investment spending.

Net interest expense was \$14 million compared to \$21 million a year ago primarily due to incremental interest expense related to recognizing the impacts of the call premium, unamortized debt issuance cost and double interest on the debt retired during the first quarter a year ago partially offset by higher debt outstanding.

The Company's net income increased 61% to \$9 million from \$6 million a year ago. Diluted GAAP earnings per share for the quarter was \$0.16, an increase of \$0.06 compared to the prior year quarter. Adjusted EBITDA increased 16% to \$52 million from \$45 million a year ago.

The Company's effective tax rate was 20.7% compared to 19.7% in the prior year quarter.

### **Garden Segment Fiscal 2022 First Quarter Results**

Net sales for the Garden segment increased 45% to \$225 million driven by a \$70 million contribution from recent acquisitions offsetting a modest decline in organic sales of 0.3%. Strength in wild bird, chemicals & fertilizer as well as live plants was more than offset by declines in garden distribution and grass seed.

Garden segment operating income increased 30% to \$6 million driven by the strong performance of recent acquisitions. Operating margin declined 30 basis points to 2.7%, mainly driven by inflationary pressures and heightened investment spending partially offset by contributions from acquisitions and improved pricing. Garden segment adjusted EBITDA increased 115% to \$16 million from \$7 million in the prior year quarter.

### **Pet Segment Fiscal 2022 First Quarter Results**

Net sales for the Pet segment were \$436 million, in line with the prior year with notable contributions from animal health, dog and cat and the Company's pet distribution businesses offset by declines in pet beds and small animal and aquatic supplies.

Pet segment operating income increased 4% to \$45 million, and operating margin grew 40 basis points to 10.4%. Pet segment adjusted EBITDA increased 4% to \$55 million from \$53 million a year ago, largely driven by improved pricing and favorable product mix partially offset by inflationary headwinds and heightened investment spending.

## **Additional Information**

The Company's cash balance at the end of the quarter was \$296 million compared to \$608 million a year ago. Cash used by operations during the quarter was \$92 million compared to \$36 million a year ago. The increase in cash used by operations was driven primarily by working capital requirements.

Total debt as of December 25, 2021 was \$1.2 billion compared to \$789 million at December 26, 2020. The Company's leverage ratio<sup>1)</sup> at the end of the first quarter was 2.9x compared to 2.3x at the end of the prior year quarter. The Company repurchased approximately 153,000 shares or \$6.7 million of its stock during the quarter.

## **Fiscal 2022 Guidance**

The Company continues to expect fiscal 2022 GAAP EPS to be \$3.10 or better. The outlook takes into account increasing costs for commodities, freight and labor, headwinds associated with a return to more normalized consumer demand patterns following extraordinary demand spanning two fiscal years and resuming more historical levels of promotional activity. This guidance further includes anticipated pricing actions across the Company's portfolio as well as investments in capacity expansion, brand building, consumer insights, innovation and eCommerce to drive sustainable growth. This outlook does not include the impact of acquisitions that may close during fiscal 2022.

## **Conference Call**

The Company's senior management will host a conference call today at 4:30 p.m. Eastern Time (1:30 p.m. Pacific Time) to discuss its first quarter fiscal 2022 results. The conference call and related materials can be accessed at <http://ir.central.com>.

Alternatively, to listen to the call by telephone, dial (201) 689-8345 (domestic and international) using confirmation #13726329.

<sup>1)</sup> Calculated using adjusted EBITDA as per the Company's ABL agreement, filed with the SEC on December 21, 2021.

## About Central Garden & Pet

Central Garden & Pet (NASDAQ: CENT) (NASDAQ: CENTA) understands that home is central to life and has proudly nurtured happy and healthy homes for over 40 years. With fiscal 2021 net sales of \$3.3 billion, Central is on a mission to lead the future of the pet and garden industries. The Company's innovative and trusted products are dedicated to helping lawns grow greener, gardens bloom bigger, pets live healthier and communities grow stronger. Central is home to a leading portfolio of more than 65 high-quality brands including Pennington, Nylabone, Kaytee, Amdro and Aqueon, strong manufacturing and distribution capabilities and a passionate, entrepreneurial growth culture. Central Garden & Pet is based in Walnut Creek, California and has over 7,000 employees across North America and Europe. For additional information about Central, please visit [www.central.com](http://www.central.com).

## Safe Harbor Statement

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: The statements contained in this release which are not historical facts, including expectations for increased levels of investment to drive capacity expansion, brand building and eCommerce, increases in labor and freight cost as well as key commodities, the accretive expectations for recent acquisitions, a return to more normalized consumer demand patterns, in addition to resuming more normal levels of travel and promotional activity and their impact on future growth, and earnings guidance for fiscal 2022, are forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those set forth in or implied by forward-looking statements. All forward-looking statements are based upon the Company's current expectations and various assumptions. There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this release including, but not limited to, the following factors:

- our ability to successfully manage the continuing impact of COVID-19 on our business, including but not limited to, the impact on our workforce, operations, fill rates, supply chain, demand for our products and services, and our financial results and condition;
- the potential for future reductions in demand for product categories that benefited from the COVID-19 pandemic;
- the success of our Central to Home strategy;
- risks associated with our acquisition strategy, including our ability to successfully integrate acquisitions and the impact of purchase accounting on our financial results;
- inflation and other adverse macro-economic conditions;
- fluctuations in market prices for seeds and grains and other raw materials;
- fluctuations in energy prices, fuel and related petrochemical costs;
- our inability to pass through cost increases in a timely manner;
- supply chain delays and disruptions resulting in lost sales, reduced fill rates and service levels and delays in expanding capacity and automating processes;
- adverse weather conditions;
- seasonality and fluctuations in our operating results and cash flow;
- supply shortages in pet birds, small animals and fish;
- dependence on a small number of customers for a significant portion of our business;
- impacts of tariffs or a trade war;
- consolidation trends in the retail industry;

- declines in consumer spending during economic downturns;
- risks associated with new product introductions, including the risk that our new products will not produce sufficient sales to recoup our investment;
- competition in our industries;
- continuing implementation of an enterprise resource planning information technology system;
- potential environmental liabilities;
- risk associated with international sourcing;
- access to and cost of additional capital;
- potential goodwill or intangible asset impairment;
- our dependence upon our key executives;
- our ability to recruit and retain new members of our management team to support our growing businesses and to hire and retain employees;
- our inability to protect our trademarks and other proprietary rights;
- litigation and product liability claims;
- regulatory issues;
- the impact of product recalls;
- potential costs and risks associated with actual or potential cyber attacks;
- potential dilution from issuance of authorized shares;
- the voting power associated with our Class B stock; and
- the impact of new accounting regulations and the possibility our effective tax rate will increase as a result of future changes in the corporate tax rate or other tax law changes.

These risks and others are described in the Company's Securities and Exchange Commission filings. The Company undertakes no obligation to publicly update these forward-looking statements to reflect new information, subsequent events or otherwise. The Company has not filed its Form 10-Q for the fiscal quarter ended December 25, 2021, so all financial results are preliminary and subject to change.

**CENTRAL GARDEN & PET COMPANY**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share and per share amounts, unaudited)

ASSETS	December 25, 2021	December 26, 2020	September 25, 2021
<b>Current assets:</b>			
Cash and cash equivalents	\$ 296,038	\$ 608,285	\$ 426,422
Restricted cash	12,913	13,670	13,100
Accounts receivable (less allowances of \$27,937, \$30,951 and \$29,219)	343,659	322,806	385,384
Inventories, net	844,899	574,878	685,237
Prepaid expenses and other	34,213	28,074	33,514
Total current assets	1,531,722	1,547,713	1,543,657
Plant, property and equipment, net	340,133	252,157	328,571
Goodwill	369,391	289,955	369,391
Other intangible assets, net	130,190	131,557	134,431
Operating lease right-of-use assets	169,709	115,833	165,602
Other assets	576,896	108,884	575,028
<b>Total</b>	<b>\$ 3,118,041</b>	<b>\$ 2,446,099</b>	<b>\$ 3,116,680</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Accounts payable	\$ 244,826	\$ 216,991	\$ 245,542
Accrued expenses	225,062	189,290	234,965
Current lease liabilities	43,051	34,834	40,731
Current portion of long-term debt	411	97	1,081
Total current liabilities	513,350	441,212	522,319
Long-term debt	1,185,057	788,921	1,184,683
Long-term lease liabilities	132,174	85,729	130,125
Deferred income taxes and other long-term obligations	58,560	43,224	56,012
<b>Equity:</b>			
Common stock, \$0.01 par value: 11,335,658, 11,336,358 and 11,335,658 shares outstanding at December 25, 2021, December 26, 2020 and September 25, 2021	113	113	113
Class A common stock, \$0.01 par value: 42,205,761, 42,171,329 and 42,282,922 shares outstanding at December 25, 2021, December 26, 2020 and September 25, 2021	422	422	423
Class B stock, \$0.01 par value: 1,612,374, 1,612,374 and 1,612,374 at December 25, 2021, December 26, 2020 and September 25, 2021	16	16	16
Additional paid-in capital	578,917	570,678	576,446
Retained earnings	650,032	516,394	646,082
Accumulated other comprehensive loss	(1,273)	(1,032)	(831)
Total Central Garden & Pet Company shareholders' equity	1,228,227	1,086,591	1,222,249
Noncontrolling interest	673	422	1,292
Total equity	1,228,900	1,087,013	1,223,541
<b>Total</b>	<b>\$ 3,118,041</b>	<b>\$ 2,446,099</b>	<b>\$ 3,116,680</b>

**CENTRAL GARDEN & PET COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share amounts, unaudited)

	Three Months Ended	
	December 25, 2021	December 26, 2020
Net sales	\$ 661,398	\$ 592,230
Cost of goods sold	463,202	426,811
Gross profit	198,196	165,419
Selling, general and administrative expenses	171,982	138,379
Operating income	26,214	27,040
Interest expense	(14,484)	(20,975)
Interest income	76	206
Other income (expense)	(209)	752
Income before income taxes and noncontrolling interest	11,597	7,023
Income tax expense	2,401	1,381
Income including noncontrolling interest	9,196	5,642
Net income attributable to noncontrolling interest	187	29
Net income attributable to Central Garden & Pet Company	<u>\$ 9,009</u>	<u>\$ 5,613</u>
Net income per share attributable to Central Garden & Pet Company:		
Basic	<u>\$ 0.17</u>	<u>\$ 0.10</u>
Diluted	<u>\$ 0.16</u>	<u>\$ 0.10</u>
Weighted average shares used in the computation of net income per share:		
Basic	53,491	53,734
Diluted	54,909	54,686

**CENTRAL GARDEN & PET COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands, unaudited)

	Three Months Ended	
	December 25, 2021	December 26, 2020
<b>Cash flows from operating activities:</b>		
Net income	\$ 9,196	\$ 5,642
<b>Adjustments to reconcile net income to net cash used by operating activities:</b>		
Depreciation and amortization	20,202	12,915
Amortization of deferred financing costs	640	475
Non-cash lease expense	11,405	9,087
Stock-based compensation	5,187	4,669
Debt extinguishment costs	169	8,577
Loss on sale of business	—	2,611
Deferred income taxes	2,737	973
Gain on sale of property and equipment	(88)	(664)
Other	18	210
<b>Change in assets and liabilities (excluding businesses acquired):</b>		
Accounts receivable	41,508	68,929
Inventories	(159,932)	(137,635)
Prepaid expenses and other assets	(3,635)	(1,362)
Accounts payable	1,150	10,134
Accrued expenses	(9,790)	(13,393)
Other long-term obligations	(53)	1,437
Operating lease liabilities	(11,172)	(8,720)
Net cash used by operating activities	(92,458)	(36,115)
<b>Cash flows from investing activities:</b>		
Additions to plant, property and equipment	(24,210)	(14,661)
Payments to acquire companies, net of cash acquired	—	(80,887)
Proceeds from the sale of business	—	2,400
Investments	(1,918)	—
Other investing activities	—	(223)
Net cash used in investing activities	(26,128)	(93,371)
<b>Cash flows from financing activities:</b>		
Repayments of long-term debt	(767)	(400,024)
Proceeds from issuance of long-term debt	—	500,000
Premium paid on extinguishment of debt	—	(6,124)
Repurchase of common stock, including shares surrendered for tax withholding	(7,775)	(871)
Payment of contingent consideration liability	(89)	(110)
Distribution to noncontrolling interest	(806)	(478)
Payment of financing costs	(2,153)	(8,031)
Net cash (used) provided by financing activities	(11,590)	84,362
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(395)	682
Net decrease in cash, cash equivalents and restricted cash	(130,571)	(44,442)
Cash, cash equivalents and restricted cash at beginning of period	439,522	666,397
Cash, cash equivalents and restricted cash at end of period	\$ 308,951	\$ 621,955
<b>Supplemental information:</b>		
Cash paid for interest	\$ 19,750	\$ 13,180
New operating lease right of use assets	\$ 15,616	\$ 9,281

## Use of Non-GAAP Financial Measures

We report our financial results in accordance with accounting principles generally accepted in the United States (GAAP). However, to supplement the financial results prepared in accordance with GAAP, we use non-GAAP financial measures including non-GAAP net income and diluted net income per share, adjusted EBITDA and organic sales. Management believes these non-GAAP financial measures that exclude the impact of specific items (described below) may be useful to investors in their assessment of our ongoing operating performance and provide additional meaningful comparisons between current results and results in prior operating periods.

Adjusted EBITDA is defined by us as income before income tax, net other expense, net interest expense, depreciation and amortization and stock-based compensation (or operating income plus depreciation and amortization and stock-based compensation expense). We present adjusted EBITDA because we believe that adjusted EBITDA is a useful supplemental measure in evaluating the cash flows and performance of our business and provides greater transparency into our results of operations. Adjusted EBITDA is used by our management to perform such evaluation. Adjusted EBITDA should not be considered in isolation or as a substitute for cash flow from operations, income from operations or other income statement measures prepared in accordance with GAAP. We believe that adjusted EBITDA is frequently used by investors, securities analysts and other interested parties in their evaluation of companies, many of which present adjusted EBITDA when reporting their results. Other companies may calculate adjusted EBITDA differently and it may not be comparable.

We have also provided organic net sales, a non-GAAP measure that excludes the impact of businesses purchased or exited in the prior 12 months, because we believe it permits investors to better understand the performance of our historical business without the impact of recent acquisitions or dispositions.

The reconciliations of these non-GAAP measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are shown in the tables below. We have not provided a reconciliation of non-GAAP guidance measures to the corresponding GAAP measures on a forward-looking basis due to the potential significant variability and limited visibility of the excluded items. We believe that the non-GAAP financial measures provide useful information to investors and other users of our financial statements by allowing for greater transparency in the review of our financial and operating performance. Management also uses these non-GAAP financial measures in making financial, operating and planning decisions and in evaluating our performance, and we believe these measures similarly may be useful to investors in evaluating our financial and operating performance and the trends in our business from management's point of view. While our management believes that non-GAAP measurements are useful supplemental information, such adjusted results are not intended to replace our GAAP financial results and should be read in conjunction with those GAAP results.

Non-GAAP financial measures reflect adjustments based on the following items:

- Incremental expenses from note redemption and issuance: we have excluded the impact of the incremental expenses incurred from the note redemption and issuance as they represent an infrequent transaction that occurs in limited circumstances that

impacts the comparability between operating periods. We believe the adjustment of these expenses supplements the GAAP information with a measure that may be used to assess the sustainability of our operating performance.

- Loss on sale of business: we have excluded the impact of the loss on the sale of a business as it represents an infrequent transaction that occurs in limited circumstances that impacts the comparability between operating periods. We believe the adjustment of this loss supplements the GAAP information with a measure that may be used to assess the sustainability of our operating performance.

From time to time in the future, there may be other items that we may exclude if we believe that doing so is consistent with the goal of providing useful information to investors and management.

The non-GAAP adjustments reflect the following:

- (1) During the first quarter of fiscal 2021, we issued \$500 million aggregate principal amount of 4.125% senior notes due October 2030. We used a portion of the proceeds to redeem all of our outstanding 6.125% senior notes due 2023. As a result of our redemption of the 2023 Notes, we incurred incremental expenses of approximately \$10.0 million, comprised of a call premium payment of \$6.1 million, overlapping interest expense of approximately \$1.4 million and a \$2.5 million non-cash charge for the write-off of unamortized financing costs. These amounts are included in Interest expense in the condensed consolidated statements of operations.
- (2) During the first quarter of fiscal 2021, we recognized a loss of \$2.6 million, included in selling, general and administrative expense in the consolidated statement of operations, from the sale of our Breeder's Choice business unit after concluding it was not a strategic business for our Pet segment.

Net Income and Diluted Net Income Per Share Reconciliation	GAAP to Non-GAAP Reconciliation For the Three Months Ended	
	December 25, 2021	December 26, 2020
	(in thousands, except per share amounts)	
GAAP net income attributable to Central Garden & Pet Company	\$ 9,009	\$ 5,613
Incremental expenses from note redemption and issuance	(1) —	9,952
Loss on sale of business	(2) —	2,611
Tax effect of incremental expenses, loss on sale and impairment	—	(2,470)
Non-GAAP net income attributable to Central Garden & Pet Company	\$ 9,009	\$ 15,706
GAAP diluted net income per share	\$ 0.16	\$ 0.10
Non-GAAP diluted net income per share	\$ 0.16	\$ 0.29
Shares used in GAAP and non-GAAP diluted net earnings per share calculation	54,909	54,686

## Organic Net Sales Reconciliation

We have provided organic net sales, a non-GAAP measure that excludes the impact of recent acquisitions and dispositions, because we believe it permits investors to better understand the performance of our historical business. We define organic net sales as net sales from our historical business derived by excluding the net sales from businesses acquired or exited in the preceding 12 months. After an acquired business has been part of our consolidated results for 12 months, the change in net sales thereafter is considered part of the increase or decrease in organic net sales.

Consolidated	GAAP to Non-GAAP Reconciliation For Three Months Ended December 25, 2021		
	Net sales (GAAP)	Effect of acquisition & divestitures on increase in net sales (in millions)	Net sales organic
	Q1 FY 22	\$ 661.4	\$ 70.0
Q1 FY 21	592.2	3.9	588.3
\$ increase	\$ 69.2	\$ 66.1	\$ 3.1
% increase	11.7%		0.5%

Pet	GAAP to Non-GAAP Reconciliation For Three Months Ended December 25, 2021		
	Net sales (GAAP)	Effect of acquisition & divestitures on increase in net sales (in millions)	Net sales organic
	Q1 FY 22	\$ 436.0	\$ —
Q1 FY 21	436.4	3.9	432.5
\$ increase (decrease)	\$ (0.4)	\$ (3.9)	\$ 3.5
% increase (decrease)	(0.1) %		0.8%

## Garden

GAAP to Non-GAAP Reconciliation			
For Three Months Ended December 25, 2021			
Net sales (GAAP)	Effect of acquisition & divestitures on increase in net sales		Net sales organic
(in millions)			
Q1 FY 22	\$ 225.4	\$ 70.0	\$ 155.4
Q1 FY 21	155.8	—	155.8
\$ increase (decrease)	\$ 69.6	\$ 70.0	\$ (0.4)
% increase (decrease)	44.7%		(0.3) %

## Adjusted EBITDA Reconciliation

GAAP to Non-GAAP Reconciliation				
For the Three Months Ended December 25, 2021				
Garden	Pet	Corp	Total	
(in thousands)				
Net income attributable to Central Garden & Pet Company	\$ —	\$ —	\$ —	\$ 9,009
Interest expense, net	—	—	—	14,408
Other expense	—	—	—	209
Income tax expense	—	—	—	2,401
Net income attributable to noncontrolling interest	—	—	—	187
Sum of items below operating income	—	—	—	17,205
Income (loss) from operations	\$ 6,057	\$ 45,251	\$ (25,094)	\$ 26,214
Depreciation & amortization	9,620	9,549	1,033	20,202
Noncash stock-based compensation	—	—	5,187	5,187
Adjusted EBITDA	\$ 15,677	\$ 54,800	\$ (18,874)	\$ 51,603

## Adjusted EBITDA Reconciliation

GAAP to Non-GAAP Reconciliation				
For the Three Months Ended December 26, 2020				
Garden	Pet	Corp	Total	
(in thousands)				
Net income attributable to Central Garden & Pet Company	\$ —	\$ —	\$ —	\$ 5,613
Interest expense, net	—	—	—	20,769
Other expense	—	—	—	(752)
Income tax expense	—	—	—	1,381
Net income attributable to noncontrolling interest	—	—	—	29
Sum of items below operating income	—	—	—	21,427
Income (loss) from operations	\$ 4,651	\$ 43,525	\$ (21,136)	\$ 27,040
Depreciation & amortization	2,638	9,085	1,192	12,915
Noncash stock-based compensation	—	—	4,669	4,669
Adjusted EBITDA	\$ 7,289	\$ 52,610	\$ (15,275)	\$ 44,624

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Source: Central Garden & Pet Company