

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

CENT.OQ - Central Garden & Pet Co at Bank of America Consumer & Retail Technology Conference

EVENT DATE/TIME: MARCH 08, 2022 / 3:30PM GMT

CORPORATE PARTICIPANTS

Nicholas Lahanas *Central Garden & Pet Company - CFO*

CONFERENCE CALL PARTICIPANTS

James Forristall Kayler *BofA Securities, Research Division - MD*

PRESENTATION

James Forristall Kayler - *BofA Securities, Research Division - MD*

All right. Good morning, everyone. For those of you who don't know me, I am James Kayler. I'm a research analyst in the higher research group at Bank of America. I am standing in for Bill Reuter today. So thank you all for joining us, and very happy to be hosting Central Garden here. We have the CFO, Niko Lahanas, and thank you for coming today.

Nicholas Lahanas - *Central Garden & Pet Company - CFO*

Thank you.

QUESTIONS AND ANSWERS

James Forristall Kayler - *BofA Securities, Research Division - MD*

So we -- I have a whole set of questions here and there's -- there will be some time at the end for questions from the audience if they're interested. But maybe just jumping right in, the last 2-plus years have been a crazy time for the economy and for all sorts of businesses. And one of the interesting outcome I think has been that the pet ownership rate has increased meaningfully. I guess I wanted to start off just talking about your -- sort of your outlook for where you think that trend might be going in the future.

Nicholas Lahanas - *Central Garden & Pet Company - CFO*

Yes. So I mean you're absolutely right. The pet ownership trend has really, really taken off over the last 2 years, and I think we can thank to some extent, being a beneficiary of COVID and the sheltering in place. I think folks really felt the need to have a companion during that time of great stress. And so you saw really folks go into all the shelters, adopt dogs, go to breeders, adopting dogs, cats and even other animals, aquatics, reptile, small animal, all really took off.

So in a sense, that really creates sort of a foundation of consumption for the pet industry, having those live animals and what we call sort of the installed base has increased significantly. And we refer to it, and I think some others in the industry refer to it as the furry annuities that are out there because those pets all now are going to be part of that consumption cycle. So we're very bullish on the industry.

I think as you look at the last 2 years, you had the installed base go up. I think the one area in Pet and Pet is \$117 billion category, services really suffered during those 2 years. I think going forward, as we now normalize, you're going to see that services industry really take off. But as a whole, the category has just grown so much. And I think the trend of humanization is still with us. And so you're seeing this premiumization continue. You really saw it in food. We're seeing it in treats.

Overall, dogs are getting smaller, so folks don't mind spending more on their dogs because they are smaller and they don't consume as much. And so we're really testing the limits of elasticity in some ways. And again, I think that humanization trend is going to continue. And so we feel very good about the growth rate going forward for the next few years.

James Forristall Kayler - BofA Securities, Research Division - MD

Very good. I'm curious, I mean probably it's obviously different pets. But what does -- do you have a sense of what like the spending pattern looks like through the lifecycle of a pet, meaning like is there more spending early on, midlife, later in life? And I mean, obviously, I would presume once families have pets, they then are more likely to continue having pets.

Nicholas Lahanas - Central Garden & Pet Company - CFO

Yes. I think that's true. And any time you buy a pet, that initial purchase is going to be pretty big, almost irrespective of the pet. So even if you're buying a guinea pig, you've got to buy that enclosure when you first get the animal. And then you get more into kind of a consumable type of cycle where you're buying for dogs and cats. It's food. It's supplements. It's lately something that's taken off is calming type of products. So you're going to be buying those on a regular basis.

When you buy a small animal, it's going to be the bedding in the cage as well as the food for fish. It's going to be filtration and food. But that initial purchase will be the enclosure as well as all the other ancillary products that you need like a leash for a dog, things like that. As dogs get older, of course, the vet bills start to go up. And so that's why nutrition is so important and having good food and good treats for that pet and making sure it's exercising to keep it as healthy as possible and maybe cut down on those vet bills going forward.

James Forristall Kayler - BofA Securities, Research Division - MD

Very good. Obviously, the growth trajectory has been strong, and it seems like the outlook is good. Is there any concern or how do you think about some potential that there was maybe some demand pulled forward because of sort of the things you laid out about COVID and people staying at home for longer? And is that a risk that maybe there was something pulled forward? Or is it more of these bigger picture premiumization and humanization trends that are driving pet ownership?

Nicholas Lahanas - Central Garden & Pet Company - CFO

I don't know if it's necessarily a pull forward. I think you've just had this explosion in pet ownership. So I think the growth rate really spiked in those 2 years. And I think what we'll see going forward is the category is going to grow, it's going to be probably \$200 billion in 5 years or so. But I think the growth rate will moderate. So I think you can count on sort of a regression to the mean of maybe 2% to 4% growth. But I wouldn't necessarily call the pull forward because it's just more of a moderation is sort of how I'd characterize it.

James Forristall Kayler - BofA Securities, Research Division - MD

Very good. So I think you guys had talked about -- sticking on the Pet segment, I think you had talked about product availability holding back the results a little bit. I think you mentioned low tens of millions of dollars. Curious, maybe you could touch on sort of what items those were and sort of what the outlook is on that front?

Nicholas Lahanas - Central Garden & Pet Company - CFO

Yes. So it's been rough. I mean it's a high-quality problem when demand outstrips supply. So it's been a bit of an embarrassment of riches, but still, you want to make sure that you're servicing the customer. You want to make sure the consumer has the opportunity to buy the product.

I would say our issues have been pretty much across the board. I think our dog treat and toy business was particularly hard-hit. That's an area where we're investing a lot of CapEx to get our capacities up so that we can service those orders. But it's been across the board. It's been really tough for

various reasons, everything from not having enough capacity to not having folks show up for a shift because they've opted to stay home because they've been getting stimulus. So we're seeing kind of pain points in different parts of the business and not being able to fill for those reasons.

But we're -- we spent \$80 million in CapEx last year. We're going to spend north of that this year around automation and capacity so that we can service those customers. And we're seeing steady increases. On the Garden side, our fill rates are now up into the mid-90%. We talked about that in our Q1 earnings call, and we think it will be high 90% by the time we get into Q3. Pet overall was at 72% in Q1, which was really low, and we're hoping to get that up into the 90% by Q3. So it's really priority 1, 2 and 3 for us across the board.

James Forristall Kayler - BofA Securities, Research Division - MD

I think we've seen sort of throughout many segments of the economy, freight, both inbound ocean freight as well as domestic freight have been major bottlenecks. How's freight impacted your business? And I guess what's the outlook? Have you seen -- are there any green shoots of improvement as we head into '22?

Nicholas Lahanas - Central Garden & Pet Company - CFO

Well, I mean, I think in ocean freight, we've seen a little bit of stabilization. It's still at record highs. We're very fortunate, only about 8% of our cost of goods comes from, say, Asia, from overseas. So we're largely domestic, but we have had challenges with trucking in the last few quarters. It's just difficult to get the trucks to show up when they need to show up. So that's remained a challenge.

And then the cost obviously has gone up. And then now with what's going on in Europe and oil spiking, we think freight will continue to go up as well as the labor. The drivers are commanding bigger salaries. There's a shortage of drivers and then couple that with the spike in oil, we think it will continue to be challenged. But ocean freight I would say has moderated a bit.

James Forristall Kayler - BofA Securities, Research Division - MD

That's -- I guess it's like a bit of it came a whack, right?

Nicholas Lahanas - Central Garden & Pet Company - CFO

Yes. Exactly.

James Forristall Kayler - BofA Securities, Research Division - MD

One issue gets better.

Nicholas Lahanas - Central Garden & Pet Company - CFO

Yes.

James Forristall Kayler - BofA Securities, Research Division - MD

So I guess that does lead to probably one of the most topical things kind of in the market now just the inflationary environment. And so with costs rising, maybe you can talk a little bit about your pricing strategy and your pricing mechanisms. I know in Pet in particular, your buyer base is a little more fragmented. And I don't know if that sort of changes how you price one way or the other, or like the frequency of pricing you can take?

Nicholas Lahanas - Central Garden & Pet Company - CFO

Yes. I mean the way we look at it is more of from an input standpoint. So we tend to price to cover a lot of the spikes in commodities and input costs. We don't price to expand margin or take margin. We rely on our low-cost producer initiatives as well as our innovation and product mix to manage margin a little bit better. But it's been just largely dependent -- it's on a case-by-case basis. Each BU will look at their input costs and then make a decision around pricing.

We're also cognizant of what's going on in the marketplace, our competitors taking pricing. And then we try to look at elasticity, how is the consumer going to react to a price increase. Is there going to be a precipitous drop in units, we want to be sensitive to that. So all those things are considered before we go into a customer with a price increase.

James Forristall Kayler - BofA Securities, Research Division - MD

Good. I guess on that elasticity front, I mean, probably hard to quantify, but what is the -- generally how elastic is demand for pricing? Presumably the product, it's different.

Nicholas Lahanas - Central Garden & Pet Company - CFO

Yes. I think it's category-dependent. It was pretty interesting. So last year, highly discretionary category, wild bird food, right? And we started to see some cost increases there. We took some pretty aggressive pricing last year. Secretly, we were hoping that demand would slow down because we needed to catch up. Our fill rates were not great. And we were hoping that we could catch up. That didn't play out.

Last year, the consumer was almost impervious to pricing, and it was very inelastic, and we started -- we continue to see demand across the board. Now since then we've had to take more price increases, and we'll have to see how that consumer reacts to that.

Early signs are we've seen sort of the premium segment in the category, and I'm only speaking about wild bird now. We've seen a little bit of softness, meaning the consumer is trading down to kind of more middle tier type product. But nothing that would signal any kind of major pullback. So so far, so good.

James Forristall Kayler - BofA Securities, Research Division - MD

Interesting.

Nicholas Lahanas - Central Garden & Pet Company - CFO

Yes.

James Forristall Kayler - BofA Securities, Research Division - MD

Maybe changing gears to 2 other segments of the Home and Garden segment. I think similarly, they've been very strong growth throughout the pandemic. Maybe you can just talk about -- I think Bill had left to note for me that there's an estimate of 18 million new gardeners in 2020. Maybe you could just talk a little bit about the underlying trends there and what you're seeing?

Nicholas Lahanas - Central Garden & Pet Company - CFO

Yes. I mean we're bullish on that business as well. If you look at the pandemic, again, nice tailwind. And we're really following kind of that macro trend of increased homeownership, folks leaving urban areas, buying suburban homes that invariably have gardens. And then getting in touch with that gardening aspect and kind of getting your hands in the dirt gardening with your family, I think people have really kind of gravitated to that as well as the hobby of feeding wild birds. So it's been kind of a reconnection there. And we found it to be fairly sticky.

If you look at our -- Q1 is a very small quarter for us on the Garden side, but we did over 30% growth a year ago in Q1 and then this quarter, it was flat, which we were encouraged by having a quarter that's growing 30% and then to comp that was flat. There was really no give back there. So that would imply a nice level of stickiness there.

The other thing I would say that we're very encouraged by is the younger demographic. So we're seeing a lot more millennials by homes. Millennials are getting into gardening, as well as pet ownership. So we're very encouraged by that. If you had asked me 2 years ago how I felt about it, if we looked at our wild bird food business, that consumer typically was a little bit older, and we were really concerned about folks aging out of that. But now we have a younger consumer in the hobby and there seems to be some really nice stickiness there. So we're very encouraged by that.

James Forristall Kayler - BofA Securities, Research Division - MD

Yes. I'm curious if you have done any work or have a view in terms of -- so I follow the homebuilding industry. And years ago, there was this thesis that millennials were -- maybe they'd want to move to the suburbs, they wanted to be urban. And really, it turns out that it was more of just a delay. So I'm curious, are you seeing participation rate similar to like millennials parent generation.

Nicholas Lahanas - Central Garden & Pet Company - CFO

Yes. I mean it's getting that high just because that generation is so big. And yes, I mean, even on the Pet side, I think 2/3 of pet owners are millennials and Gen Z. So there's a real gravitation of a younger generation getting into both of these hobbies. So it's pretty encouraging really.

James Forristall Kayler - BofA Securities, Research Division - MD

Yes. So I guess, given the strength that you've seen in Home and Garden, have you seen retailers increasing their shelf space for that category and for your products? Or has been relatively stable?

Nicholas Lahanas - Central Garden & Pet Company - CFO

It's been stable. I wouldn't say there's been an increase there. I think one of the areas that we've been able to leverage is our live plant business. And so the way that business works is we merchandise that entire outdoor area. And so in some cases, we're able to pick up some extra facings in the live plant section of those home improvement stores.

The other thing we want to get to is really selling the whole experience in the basket of goods. So not only the plant, but the fertilizer, all the things that go with it -- that go with raising that live plant, the soil, things like that. So we think there's a real opportunity there. That's a category we're very, very excited about over on the Garden side.

James Forristall Kayler - BofA Securities, Research Division - MD

Yes. Similar to Pet, I'm curious from an input cost perspective in Home and Garden, sort of what are the major input costs? And sort of what's the outlook -- what's the outlook for pricing or for input cost pricing, and I guess then the add-on would be, what's your outlook for pricing?

Nicholas Lahanas - Central Garden & Pet Company - CFO

Yes. Well, we thought we were in pretty good shape going into '22. But now with what's going on in Europe, I think that's going to have added implications to -- as I look at the Garden side, Ukraine is a big exporter of sunflower seed that goes in the wild bird food as well as fertilizing. Now we don't source from that area, but clearly, it's going to have an impact on the world market and supply and demand. So I would expect prices to continue to go up. Just like oil, that area is going to impact oil prices as well. We're seeing that real time.

Wheat, wheat is up 154% in the last 52 weeks. Again, Ukraine is a big wheat producer. So that's another input into wild bird food. So I think commodities are going to continue to run. We're going to have to really watch carefully how much price we can take and what the implications are there on elasticity with the consumer. Also on the Pet side, we're seeing cost run-ups there as well in several key commodities.

James Forristall Kayler - BofA Securities, Research Division - MD

Yes. So it sounds like in terms of direct exposure to Ukraine or Russia is quite low, but obviously your commodities are rating on a global.

Nicholas Lahanas - Central Garden & Pet Company - CFO

The commodities are funding, right? Yes.

James Forristall Kayler - BofA Securities, Research Division - MD

So as prices go up. And are you able to -- do you hedge any of your commodity costs on.

Nicholas Lahanas - Central Garden & Pet Company - CFO

We do a little bit as much as we can. A lot of these commodities are not traded on exchanges. So it makes hedging a little bit more difficult. We do try to get creative from time to time. But I would say there's very little hedging, in the grand scheme of things where there's very little hedging going on in our business. We have inputs like sunflower, milo, millet, thistle. Those are all things that are quite different.

James Forristall Kayler - BofA Securities, Research Division - MD

No liquid market for fiscal seeds.

Nicholas Lahanas - Central Garden & Pet Company - CFO

No. Unfortunately.

James Forristall Kayler - BofA Securities, Research Division - MD

Understood. And I'm not sure that we -- I -- we talked about price earlier, but historically -- sorry, you did answer that you -- sort of pricing was in reaction to input costs, but what has been the cadence of sort of price increases? Historically, you have a more sort of regularized once a year or twice a year. And have you changed that strategy? Is it something that ...?

Nicholas Lahanas - Central Garden & Pet Company - CFO

We've had to. As you pointed out, in a normal cadence you go in for your line reviews and you understand how much shelf space you're getting and then at that point, you have the pricing discussion. I would say in the last, call it, 12 to 18 months, it's been very different where we have more meetings with the retailers almost every meeting is a pricing discussion. It's a good news, bad news thing.

The good news is the retailers are really fluent in that not because all of their vendors are coming to them with pricing needs. We're no different. So it's become, again, a very regular discussion, and we're going in 3 times a year now, sometimes 4 because of what's going on out there. And I think everyone is aware of it. It's just -- it's everywhere in the economy. And so it's on the table and you just have the discussion. And then normally, you want to give 60- to 90-day lead -- give the retailer heads up. Here's what's coming and then you just -- you work out that plan.

James Forristall Kayler - BofA Securities, Research Division - MD

Yes. That makes sense.

Nicholas Lahanas - Central Garden & Pet Company - CFO

Yes.

James Forristall Kayler - BofA Securities, Research Division - MD

You touched -- we touched on service levels in both segments. But -- and it sounds like Pet, the hope is that service levels can improve? And then in Home and Garden Central Garden...

Nicholas Lahanas - Central Garden & Pet Company - CFO

Have improved.

James Forristall Kayler - BofA Securities, Research Division - MD

Have improved.

Nicholas Lahanas - Central Garden & Pet Company - CFO

Yes.

James Forristall Kayler - BofA Securities, Research Division - MD

And so Pet, I think what you said was like in the 70s, right?

Nicholas Lahanas - Central Garden & Pet Company - CFO

72% in Q1, it's steadily improving.

James Forristall Kayler - BofA Securities, Research Division - MD

Yes.

Nicholas Lahanas - Central Garden & Pet Company - CFO

Yes.

James Forristall Kayler - BofA Securities, Research Division - MD

And like what was the -- what's kind of like the longer term target? Like when do you think you can get there?

Nicholas Lahanas - Central Garden & Pet Company - CFO

We'd love to be in the 90s by our Q3, so in the next 6 weeks or so maybe 2 months, we would love to see that service level increase. A lot of that depends on getting some added capacity online, which a lot of folks don't realize supply chain issues are not just around raw materials coming in. When you order a machine from, say, China or another country or Italy, getting that over here on time and in full is also a supply chain issue. So we've had some hiccups on some capacity expansion projects that have taken a little bit longer than we would have liked, cost overruns, things like that.

So again, the whole notion of supply chain disruption has really hit every kind of credit that you can think of, including capacity expansion. So -- and then hopefully, we'll see a little bit of slowdown in terms of COVID cases and things like that. It's crazy. But if we look back at just as early as January of this year was actually our company's highest spike in COVID cases, as Omicron kind of rolled through our company as well as the whole country.

James Forristall Kayler - BofA Securities, Research Division - MD

Sure. And a lot of absenteeism ...

Nicholas Lahanas - Central Garden & Pet Company - CFO

Yes. Exactly.

James Forristall Kayler - BofA Securities, Research Division - MD

...work through all that.

Nicholas Lahanas - Central Garden & Pet Company - CFO

Exactly.

James Forristall Kayler - BofA Securities, Research Division - MD

Yes, it does. It feels like, I mean, even in New York and even at BofA this -- things finally seem to be about as normal as they have been in a couple of years, much more like sort of middle of last summer.

Nicholas Lahanas - Central Garden & Pet Company - CFO

Yes.

James Forristall Kayler - BofA Securities, Research Division - MD

So that is encouraging. I guess, private label is about 15%, 20% of sales. And I'm curious if that's kind of the right percentage? Or if it's some area you look to grow and sort of what the outlook for that part of the business is.

Nicholas Lahanas - Central Garden & Pet Company - CFO

Yes. It's -- private label has been interesting. And actually, ours is probably not more than 10% to 15%, not quite north of 15%. It's been interesting because if you look at it to pre-pandemic, private label was -- there was a real strong retail tailwind there. The retailers wanted it. It was a way for them to build margin. The consumer was embracing it to some extent. I think they saw value in private label. And then the pandemic hit and what we noticed was the branded products outpaced sort of the private label. And we were having debates internally in terms of why that was. And as a school of thought that people had more money via stimulus, and they figured this was their chance to trade up, and that's what they were going to do and try to embrace a little more quality. And then another school of thought would be that they wanted to go to things that they could trust, a brand that they knew and that they could trust, and that's why it outpaced private label.

I think in the long run, as we go back to a more normal type of cadence in our daily lives, I think private label is going to be there. I think the retailers are continuing -- are going to continue to push it. And then we have to see what happens with pricing. Does the consumer trade down to private label because with commodity increases, the branded products may become too high? We have to see how all that plays out. But I think private label is here to stay. And it's really part of our DNA.

We've been doing private label at Central Garden for a long, long time. We feel like we can make money at it, particularly when we're the low-cost producer. It's a great way to absorb extra overhead. It's a great way to go in and get an extra placement on the shelf with a retailer. We know that they're going to bid out the private label. It's just a fact. And we figure we may as well do it rather than having a competitor do it and then also get our branded product on that shelf as well. And so we can get that kind of dual facing.

James Forristall Kayler - BofA Securities, Research Division - MD

How -- like within a category, how big would the gross margin difference between private label and...

Nicholas Lahanas - Central Garden & Pet Company - CFO

The gross margin can be large, the delta there. But again, if you're that low-cost producer, the operating margin can be fairly comparable. But the gross margin is always going to be pretty -- it can be sometimes 2x.

James Forristall Kayler - BofA Securities, Research Division - MD

Interesting. Maybe changing gears to sort of strategy, capital allocation. What's the sort of M&A landscape look like currently? We had seen a fair number of deals starting to happen. I had in other sectors. Last year, I'm curious if you're seeing more opportunities come up and sort of where your strategic focus is there?

Nicholas Lahanas - *Central Garden & Pet Company - CFO*

Well, we're definitely still looking. We've got a great M&A team of 4 people. And you can see even last year, we did 4 deals. We spent about \$830 million. So not only a very active pipeline, but execution on deals.

The pipeline continues to be robust. I would say things have slowed a little bit. We're not seeing the level of activity that we saw last year. I think that has to do with kind of what's going on in the market right now in Europe. I think folks are kind of standing down a little bit and taking a more wait-and-see attitude. But again, we've got a really good team, and it's something we want to continue to do.

As I look at the company's capital allocation, I've kind of 3 priorities, the top being M&A, the second being internal investments around CapEx as well as demand creation on the consumer side. That's another area you're going to see us invest in around brand building, e-commerce, digital, things like that. And then third would be stock buybacks. And we've even started to do some of that as our stock trades at what we think is a very attractive multiple. And we sort of put our money where our mouth is by buying stock back at these levels.

James Forristall Kayler - *BofA Securities, Research Division - MD*

Just piggyback on M&A, you mentioned that maybe things have slowed down a little bit. What have you seen from a valuation perspective, like from sellers sort of expectations for -- from a valuation perspective?

Nicholas Lahanas - *Central Garden & Pet Company - CFO*

It depends. Garden tends to be a little bit lower in what we would call more reasonable. We view ourselves as value buyers of growth companies. So you won't see us leaning in. I think last year, we looked at several businesses on the Pet side, and they were all commanding north of 20x EBITDA multiples. We struggled with that a little bit. A lot has to go right for quite a while for that to work for us economically. So we passed on a few deals.

I think as of late, I think the private markets sort of mirror the public markets, and you're seeing that multiple come down in the S&P right now. So I think the conversation is changing a little bit in the private markets as well. And I think the expectation, if it hasn't happened, probably needs to come down a little bit, at least in my opinion.

James Forristall Kayler - *BofA Securities, Research Division - MD*

For sure. And then sort of kind of putting the M&A and the capital allocation together sort of how do you think about like size? I know you've done -- you said you did over \$800 million of transactions last year. How do you think about sort of the balance sheet and leverage tolerance? And I guess, maybe sort of related is, are you mostly looking at things that are additive to your existing business? Or would you consider entire different -- entirely different category if an M&A opportunity came up.

Nicholas Lahanas - *Central Garden & Pet Company - CFO*

Yes. I mean we're going to look at everything. Right now, as we go into M&A, we really have 3 priorities. One would be to strengthen our core. Second would be to go after adjacencies. And then the third would be to go after capabilities. And I think you saw all 3 happen this last year. We bought D&D, the wild bird company that strengthens our core. An adjacency example would be Green Garden where we bought a really highly profitable seed packet business.

And then we bought DMO, DoMyOwn, which is a direct-to-consumer controls business. And that was really -- we love the core business. So it's profitable, nicely run business, but we love the capability as much as we love the business there where they had proprietary software and business process around shipping direct-to-consumer. We know that we need to get better in that area. And rather than reinvent that wheel, we decided to buy a company that could help us distribute that capability across Central in a more effective way. And we feel like they're one of the best-in-class in their area. And so we made that acquisition, too.

So that's sort of how we look at it. I would say as far as Pet and Garden go, we feel like there's a lot of work to be done there. There are a lot of acquisitions ahead of us there. We have looked at kind of what we call third legs in the past. I suppose if the right opportunity came up, we could look at it. But I think in the near term, we're probably going to focus more on Pet and Garden for now.

James Forristall Kayler - BofA Securities, Research Division - MD

And in terms of balance sheet, have you guys talked about sort of what your -- the upper limit of ...?

Nicholas Lahanas - Central Garden & Pet Company - CFO

Yes. Leverage, our comfort zone is 3 to 3.5x for a large deal for the right deal. We could lean into something over 4x and then quickly delever back to that 3, 3.5 comfort zone. But that's kind of where we like to have the business, I think investors like it there. The rating agencies like it there. So we like it there.

James Forristall Kayler - BofA Securities, Research Division - MD

Yes. Very good. So you mentioned that DoMyOwn as well as direct-to-consumer briefly. How -- and you mentioned that actually in the capital allocation discussion. How big a priority is it? How big a part of your business is it today? How much can it grow?

Nicholas Lahanas - Central Garden & Pet Company - CFO

I mean, it's tiny right now. We're not doing a lot of it. We are doing some fulfillment for some of our big retail partners. So we knew on the fulfillment side, we just needed to get better. But I think -- and if you ask Tim Cofer, our CEO, he'd tell you the same thing. It's really where kind of the puck is going. Every company needs to build that capability, and we're out there doing it. I would say we're probably a little behind a lot of others, and that's why we made the acquisition to sort of accelerate that capability across the company. But I think you're going to see a lot of growth in that area going forward.

James Forristall Kayler - BofA Securities, Research Division - MD

Yes. Makes sense. I guess beyond that, the last couple of years have been obviously transformative for a lot of companies and for -- I don't know, the economy and for society maybe. But -- what do you think the major sort of takeaways that you or the company has coming out of COVID. But like what have you learned? How is it going to change going forward? And I guess maybe what opportunities do you think it's sort of uncovered?

Nicholas Lahanas - Central Garden & Pet Company - CFO

Well, if anything, I think as much flexibility as you can have in your supply chain. I think for me, that was a big lesson. You want to have nimble, agile operators out there, folks that are committed to sort of the cause in the company. But I think you've got to have a plan B when it comes to supply chain almost every time, that was a big lesson for me and then don't ever underestimate the power of the consumer. To be honest.

James Forristall Kayler - BofA Securities, Research Division - MD

Yes. That's a good takeaway. We have a couple of minutes if there are any questions in the audience. I don't know if there's -- the audience -- do have questions from the webcast. No questions. No.

Well, Niko, thank you very much. Thank you for joining us.

Nicholas Lahanas - *Central Garden & Pet Company - CFO*

Yes.

James Forristall Kayler - *BofA Securities, Research Division - MD*

Have a good day.

Nicholas Lahanas - *Central Garden & Pet Company - CFO*

Thank you.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2022, Refinitiv. All Rights Reserved.