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Central Garden & Pet Co. (CENT)

Q2 2022 Earnings Call

CORPORATE PARTICIPANTS

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Chief Financial Officer, Central Garden & Pet Co.

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to Central Garden & Pet's Fiscal 2022 Second Quarter Earnings Call. My name is [ph] Somaly, and I will be your conference operator for today. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Instructions will be given at that time. [Operator Instructions] As a reminder, this conference call is being recorded.

I would now like to turn the call over to Friederike Edelmann, Vice President-Investor Relations. Please go ahead.

Friederike Edelmann

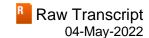
Vice President-Investor Relations, Central Garden & Pet Co.

Thank you, [ph] Somaly. Good afternoon, everyone. Thank you for joining us. With me on the call today are Tim Cofer, Chief Executive Officer; Niko Lahanas, Chief Financial Officer; J.D. Walker, President, Garden Consumer Products; and John Hanson, President, Pet Consumer Products. Tim will provide a business update, and Niko will discuss our financial 2022 Q2 results in more detail and revisit our outlook for the full year. Following the prepared remarks, J.D. and John will join us for the Q&A.

Our press release providing results for our fiscal 2022 second quarter ended March 26, 2022 and related materials are available at ir.central.com, and contains the GAAP to non-GAAP reconciliation for the non-GAAP measures discussed on this call. Lastly, unless otherwise stated, all growth comparisons made during this call are against the same period in the prior year.

Before I turn the call over to Tim, I would like to remind you that statements made during this call which are not historical facts, including the potential impact of COVID-19 on our business, earnings per share and other guidance for fiscal 2022, expectations for new capital investment, product launches, and future acquisitions are forward-looking statements subject to risk and uncertainties that could cause actual results to differ materially from those implied by forward-looking statements. These risks and others are described in our filings with the

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Securities and Exchange Commission, including our Annual Report on Form 10-K filed on November 23, 2021. Central undertakes no obligation to publicly update these forward-looking statements to reflect new information, subsequent events, or otherwise.

Now, I will turn over the call to our CEO, Tim Cofer. Tim?

Timothy P. Cofer

Chief Executive Officer & Director, Central Garden & Pet Co.

Thanks, Friederike, and good afternoon, everyone. I want to start the call by thanking our team at Central for their continued dedication and passion to serving our consumers and customers across both the Pet and Garden industries. Our solid financial performance in the second quarter is a direct result of how well they are executing. Thank you, Team Central.

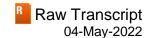
Let me share three key takeaways from this quarter. First, Central delivered another solid quarter. We grew sales and operating income and importantly, expanded gross margin in a challenging and highly inflationary environment. Second, although the Garden season experienced a slow start, weather has not been as favorable to-date and other risks like heightened inflation, geopolitical impacts and supply chain disruption continue, we remain committed to our full year guidance of \$3.10 or better, which represents 6% growth versus prior year non-GAAP EPS or 13% growth on a GAAP basis. And third, the fundamentals of the Pet and Garden industries are strong. And we expect the purposeful investments we are making now will drive long-term shareholder value.

Now turning to our results, in the second quarter, Central delivered net sales growth of 2% driven by our recent acquisitions. While organic sales declined 3.5%. It is important to note we are comping 23% sales growth in the prior year quarter. Shifting to gross margin, like most companies, inflation has impacted all areas of our business from commodities to packaging, labor rates, fuel costs, international ocean freight and more. Thanks to our carefully executed pricing, favorable product mix and productivity improvements, our gross margin expanded 100 basis points versus prior year. Our teams have done a good job controlling what we can control in this high inflation environment.

Our operating income improved 2% even as we continue purposeful investments in strategic areas, including capacity expansion and automation, innovation, brand building, consumer insights and e-commerce to drive long term growth. And finally, as we indicated in our last earnings call, we expected second quarter EPS to be below prior year. EPS came in at \$1.27 or \$0.05 below Q2 of 2021.

Now, let me provide you some color on the trends we're seeing across our customers and consumers in our two segments, starting with Pet. Today more than half significantly during the pandemic years Since 2019, an incremental 4 million households added pets to their families. Not surprisingly, household penetration and almost all of the Pet supply categories also improved as our furry, feathery and scaly friends benefit from the new normal. In addition to penetration gains, annual spend per household in the Pet category continues to increase, with significant gains in 2020 versus 2019 and steady growth in 2021. Consumers are buying more often and spending more per trip compared to pre-pandemic levels. In line with these trends, our Pet segment enjoyed sustained consumer demand across most Pet supplies categories on top of a record second quarter in the prior year. Notable contributions came from our dog and cat, outdoor cushions, professional and distribution businesses, offsetting softness in Pet beds. Our point of sale or POS was down slightly as we are lapping 30% POS growth in the prior year quarter. We've made progress improving fill rates in every Pet business, and as new capacity expansion projects are commissioned across our key businesses, we are working towards our goal of getting back to pre-pandemic service levels by year-end. We gain market share in several categories, including health and wellness, dog toys and treats, as well as equine. And last but not least, our investments in digital capabilities

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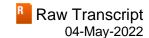
are beginning to pay-off. E-commerce grew almost 10% and now represents approximately 22% of our Pet branded sales. Shifting to many states and inflation, including rising gas prices, has led consumers to consolidate their trips to stores. Second, as we mentioned in our last earnings call, we experienced a bit of a pull forward of sales in the Q1. And finally, it is important to remember that we're lapping a robust 23% organic growth rate in the prior year quarter. As a result strengthened wild bird was more than offset by softness in chemicals, in fertilizer distribution, branding controls and grass seed for both organic sales and POS. While brick and mortar still dominate the garden channel landscape, e-commerce continues to become more relevant to consumers and our business. In Q2, our garden e-commerce business grew by more than 20%, representing low single digits of total garden sales.

Service levels in our garden businesses have improved over prior year and our teams are working hard to get fill rates back to historic levels by year end. Brands consumers love. We continue to elevate our capabilities, including significant new hires, new external partnerships, and a fresh focus on consumer insights to build our brands to new heights and create disruptive innovation platforms. This is inspiring new thinking and reinforcing a growth mindset. A critical goal for us is to step up product innovation, to drive incremental growth, expand margins, and enhance the distinctiveness of our brands. Here are some recent examples. While dogs and cats continue to reign supreme, the growth of the other pet space cannot be denied. In fact, pets other than dog and cat, although fewer in number recently experienced the greatest surge in ownership with the number of households increasing 12% versus prior year. KAYTEE, our leading brand for small animals is well-positioned to take advantage of this growth trend providing premium products including food and treats, hay, bedding, accessories and enclosures for pet birds, rabbits, guinea pigs and more. KAYTEE recently launched its NutriSoft line, which provides optimal nutrition for picky feathered eaters. Unlike almost all other bird food, which is hard KAYTEE NutriSoft pares a distinctive soft texture with naturally sweet flavors and no artificial colors to mimic the fresh fruits and vegetables found in a pet bird's native habitat.

We're excited about this disruptive food form and a strong marketing support behind it. To build and grow brands consumers love, we remain committed to invest in demand creation to accelerate organic growth. One example of our work is the recent FlipTheTurf campaign. So in February, just in time for Super Bowl, our Pennington Brand launched a bold campaign rallying together players, fans, athlete advocates and those fighting for a greener future to call upon the NFL to make a change for the better. While we've been keenly aware of the benefits of natural grass over turf when it comes to sustainability, Pennington also realized the safety issues turf presents to athletes. Thanks to our efforts, thousands of consumers signed our change.org petition and the movement caught fire. Half of the NFL teams currently play on artificial turf. And we made a pledge that if they put safety and sustainability first and flip the turf to grass, we will provide our winning Pennington Grass Seed. The results of this campaign were impressive. Pennington had the highest social media engagement rate across every category of any brand that did not run a Super Bowl ad. This was an important step in building our brand purpose and recognition. Now let's turn to the customer pillar, where we focus on strengthening the relationships with our customers and building a leading e-commerce platform. We're proud that Central has been recognized once again as Petco's companion Animal Vendor of the Year. We're pleased to receive this prestigious award for our continued commitment to championing the health and well-being of companion animals and expanding category sales.

In our efforts to build a leading e-commerce platform, we recently completed the implementation of DoMyOwn's Pick, Pack and Ship Solution for online fulfillment in our largest Arden Cushion plant. This investment will increase Arden's e-commerce fulfillment capacity by 40% and provide a runway for growth for years to come in the fastest growing channel. So to summarize my remarks, we feel good about the progress in both the second quarter and the first half of our fiscal year, and we're excited about the opportunities ahead of us. Nevertheless, fiscal Q3 is typically the largest quarter for Central and an unfavourable weather has caused a late start to the garden

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season. We expect continued inflation in commodities freight and labor and were monitoring consumer behavior and spending patterns as we execute further pricing actions across our pet and garden portfolios. We are also monitoring the impact of the Russia-Ukraine war on the global economy, including prices for certain grains and seeds, fertilizer and energy on an already challenged global supply chain. For the remainder of fiscal 2022, we remain focused on our top priorities that we laid out last quarter. First, successfully adding capacity and automation to restore customer service to historic levels. Next, managing through this inflationary period with a focus on pricing actions and cost control efforts. Third, making meaningful progress against our long-term strategy by investing in our capabilities, our brands, and our innovation agenda. And finally, continuing to recruit, retain and develop the top talent in our industries. Despite the continued headwinds, I'm confident in our team's ability to navigate in these challenging times.

With that, let me turn it over to Niko, who will share more details of our Q2 results and the outlook for the fiscal year. Niko?

Nicholas Lahanas

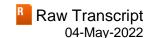
Chief Financial Officer, Central Garden & Pet Co.

Thank you, Tim. Good afternoon, everyone. We feel good about the solid performance of our business given the current environment, especially after record net sales growth of 33% and EPS growth of 69% in the prior year quarter. Second quarter net sales reached \$954 million. The increase of 2% was due to the \$52 million contribution from our recent acquisitions. Organic net sales declined 3.5%. However, looking at the growth over two-year period, organic sales grew at a 14% CAGR in the second guarter. Consolidated gross profit increased \$14 million to \$287 million. Gross margin improved 100 basis points to 30.1%, thanks primarily to our pricing actions to mitigate the significant cost inflation in commodities, freight and labor, as well as favorable product mix and productivity improvements. SG&A expense rose 7% to \$180 million, driven by our recent acquisitions, higher logistics costs, our purposeful investment spending and capacity expansion and automation, as well as in capabilities. SG&A as a percentage of net sales increased 100 basis points to 18.9%. Operating income grew by \$2 million to \$107 million and operating margin was 11.2%, in-line with prior year despite continued inflation and heightened investment spending. Net interest expense was \$15 million compared to \$10 million a year ago. The increase was due primarily to higher debt from the \$400 million of senior notes we issued last April. Net income was \$70 million compared to \$73 million a year ago. Diluted GAAP earnings per share was a \$1.27 or \$0.05 lower than in the prior year quarter. And adjusted EBITDA grew \$2 million or 2% to \$131 million. Our tax rate was 23.4% compared to 22.7% in the prior year quarter due to increased foreign earnings and higher tax rate jurisdictions. Now we'll provide some insights into the segments, starting with Pet. Pet segment, sales increased 1% to \$498 million, driven by dog and cat outdoor cushions, professional and distribution, offsetting lower sales in pet beds due to intentional SKU rationalization.

PET is up against strong comparables in the second quarter a year ago and when looking at growth over a two-year period, organic pet sales increased at a 12% CAGR. PET segment operating income was \$61 million, a decline of 2% compared to prior year, and operating margin declined 40 basis points to 12.2% due to inflationary headwinds in commodities, freight and labor, as well as purposeful investments in our growth initiatives to drive long-term growth. Pet segment, adjusted EBITDA decreased \$1 million or 1% to \$70 million.

Turning now to Garden. Garden segment, sales grew 3% or \$13 million to \$457 million. Excluding the contribution from acquisitions, organic sales decreased 9%, as growth in Wild Bird was more than offset by declines in chemicals and fertilizer distribution, branded controls and grass seed. As Tim mentioned, the decline was driven by three factors. First, unfavorable weather across the country, causing a late start to the garden season more than offsetting pricing action taken to cover inflation. Second, some pull forward into Q1. Third, our Garden

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segment is comping extraordinary growth in the prior year. And when looking at the growth over a two-year period, organic garden sales increased at a 17% CAGR.

Garden segment, operating income grew 7% to \$71 million. Garden segment operating margin increased 50 basis points to 15.4%, primarily driven by the benefits of our pricing actions and the contribution from acquisitions exceeding inflationary headwinds and our heightened investment spending. Garden segment, adjusted EBITDA increased \$3 million or 5% to \$78 million. Now moving to the balance sheet and cash flows Cash and cash equivalents at the end of the second quarter were \$54 million compared to \$40 million a year ago. Given our liquidity position, we remain on the lookout for high growth companies with accretive margins in both pet and garden to build scale in our core categories and our adjacent categories and add capabilities around e-commerce. Net cash used by operations was [ph] \$184 million compared to \$84 million a year ago. The increase was mainly driven by working capital requirements, in particular an increase in inventory resulting from an intentional buildup in inventory due to the increased demand for our products amid the continued global supply chain issues as well as higher input costs.

CapEx was \$51 million as we continue to lean in on capacity expansion and automation. Some examples of investments made in the quarter are new lines of production in dog and cat relocating to my own, to a larger, more efficient state-of-the-art facility and enhancing our manufacturing footprint and capabilities for branded controls in Missouri. Total debt was \$1.2 billion, up from \$1 billion at the same time last year. Our leverage ratio of 2.9 times at the end of the quarter compared to 2.5 times a year ago, well within our target range. We had no borrowings under our credit facility at the end of the second quarter.

Depreciation and amortization for the quarter was \$18 million compared to \$19 million the prior year quarter. During the quarter, we repurchased approximately 227,000 shares or \$9.4 million of our stock. There remains 100 million under the board's previously authorized share repurchase program, as well as additional shares under the board's equity dilution authorization.

And finally, turning to our fiscal 2022 outlook, we are certainly pleased with our solid results in the second quarter and the first half of fiscal 2022. We are now lapping two years of extraordinary growth, and while improving our supply chain remains stressed with outstrip capacity, we continue to experience labor shortages across many of our businesses and driven by the current geopolitical factors we expect costs for raw materials and freight to increase further while we have taken in plan to seek additional pricing where necessary, we may not be able to offset all the impact this fiscal year through pricing.

We continue to pursue our productivity cost agenda and drive favorable mix to mitigate the gap. We are monitoring customer dynamics and consumer spending as they adapt to this inflationary environment. Despite all of this, we are executing against our long-term strategy and continue to lean in with purposeful investment spending to drive profitable, sustainable growth. Considering all the above, we are maintaining our guidance of fiscal 2022 GAAP EPS of \$3.10 or better. Please keep in mind that this outlook excludes any impact from potential acquisitions that may be undertaken during the year.

And with that, we would like to open the line for questions.

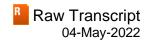
QUESTION AND ANSWER SECTION

Operator : Thank you. At this time, we will be conducting a question-and-answer session. [Operator Instructions] And our first question comes from the line of Bill Chappell with Truist Securities. Please proceed with your question.
Q
Thanks. Good afternoon.
A
Hey, Bill.
A
Hey, Bill.
Q
Hey just looking at the garden season, clearly from what you got said, it was a late start. Is there one any way to quantify what impact that had on the Garden segment this quarter and two, any kind of update of what you've been seeing as we move through April and early May?
A
I'll give a quick headline and turn over to JD, who knows it even better. I mean, no doubt this year, unlike the last two years, we characterize as an unfavorable weather season so far. If I had to dimensionalize it, I think we're probably three to four weeks behind where we've been in the last couple of years. Good weather years. And I mean, you know well, Bill, at some point you kind of run out of runway. May and June are great months for us and we'll need to be great months for us. And we're hopeful, especially after a really bad March and April that this thing can turn. So, I'd think about it kind of three to four weeks behind type in terms of dimensionalizing the impact of the garden season. JD, expand on that, if you would?
A
Hi, Bill. It's JD here. I think Tim summarized it well. I'd say that it's very difficult to pinpoint exactly the impact from unfavorable weather. There's so many cause of factors impacting the business. One of the more challenging

business environments that I've seen everything from retailers taking a very aggressive approach last year, they

took a more measured approach this year to their inventory build in the stores.

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Tim mentioned earlier in his script that the retailer foot traffic was down year-over-year. A lot of that due to the inflationary environment, one like we haven't seen in several decades. We're still battling with lingering supply chain challenges. We're working our way through that and we're seeing improvement in our service metrics. But that's still a challenge. And it was noted earlier as well that we had a pull forward into Q1. So with all of this noise, it's challenging to exactly pinpoint whether I should mention that we took some pretty sizable price increases, too. I think it's too early to tell the impact from those pricing great increases on elasticity. All those things said one encouraging sign is when the weather's been good and favorable, there is pent-up demand and we've seen strong consumption at a retail level. So that's an encouraging thing. We just need the weather to be a little more favorable going forward.

Q

Got it. Thank you. And then on the pet side, any impacts or way to one of the impacts of the kind of the China shutdowns? I can't remember how much of your business you source in terms of manufacturing from China and if that's going to have any impact over the next few months?

А

Bill, this is John. You know, the global supply chain has been, you know, challenge for quite some time now. We've not seen, you know, the latest, you know, what's going on in China have a more negative impact. But our supply chain does remain challenged. We are catching up. You know, certainly service in Q2 is better than it was in Q1. We've added a lot of capacity across the network and we, you know, plan to sequentially improve service in Q3 and Q4.

A

Yeah, Bill, I would just add just a reminder, we do a little bit less than 8% of our cost of goods coming out of China. And then the other thing I would point out is you'll notice our inventories were up quite a bit. And so we have forward bought inventories and some of that would be the stuff coming in from China because we've learned the hard way that the supply chains are really slow moving right now.

Q

Great. Thanks for the color.

Operator: Our next question comes from the line of Brad Thomas with KeyBanc Capital Markets. Please proceed with your question.

Bradley Thomas

Analyst, KeyBanc Capital Markets, Inc.

Hi. Good afternoon. Thanks for taking my question and off to a really good start here. Again, some very difficult comparisons. To that end, I was hoping to talk a little bit more about the outlook for organic sales in the two categories and maybe starting with Pet. Given we're now past what I believe not only the toughest kind of one year comparison, but also stacked comparison. I was wondering your level of optimism that perhaps the organic sales may even be able to accelerate from here just how you're thinking about? Thanks.

A

Sure I'll give a headline and then we can go into both categories. I think to your point, Brad, when you when you think about this year, you can simplify it maybe into two halves where front half the comps a lot more challenging than back half, a slightly more precise you would really think about it as the first seven months versus the last five. So, it's really at this point, May where we're getting into far more favorable comps year-over-year. And so you saw that in some of the commentary we've already provided, on Pet, we grew sales 1%, which we feel really good about because we're lap and 21% growth this quarter year ago and on garden on the organic sales line, we were down you know, kind of high-single digits, but again, lasting a 23% growth year ago. As you look at the last six months, these last couple of quarters particularly made a year to go on our fiscal you've got more favorable comps. I think on the pet side, we continue to feel very good about the consumer fundamentals. We feel good about the competitiveness of our franchises. You know, we noted a number of categories where we expanded market share in the quarter. We feel good about year to go initiatives. We've got a number of innovations hitting the market. We've got some new marketing campaigns and you'll hear more about that as we talk Q3 and Q4. So I think overall, on the pet side, feeling good about organic growth, you know, low singles type growth likely year to go. And then on the garden side, as J.D. said earlier in the call, we do need Mother Nature to help us here and break more favorably, the comps as you get the balance of the year a lot easier and with some favorable whether we should expect that to turn.

Q

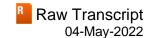
That's really helpful, Tim. And I was wondering if in the categories, you could also go into a little bit more detail about what's happening on pricing versus volume and how much that a factor in sales relative to volume trend?

A

You know, pricing is definitely the biggest driver of our overall sales performance. Order of magnitude, you know, we're pricing in the high-single digits, you know, 7%, 8% across the portfolio. That would be on both the garden and the pet side. So obviously, you know, do the simple math and say, well, price is up in that high singles. And then we quoted our total sales performance. Obviously, somewhere in the volume mix, you're looking at a negative number. Now, having said that, that's in aggregate, we have business units that and brands that are still growing volume. I mean, our dog and cat business unit, not only pricing, but it's growing volume. Our outdoor cushions, business, not only pricing, it's growing volume. Our health and wellness business is growing volume. So we you know, you really need to get down to the BU specifics and sometimes the SKU specifics, but the aggregate story is, I think, appropriate and very carefully executed pricing, quite honestly, at a customer channel SKU level, you know, to take into account competitive dynamics, et cetera, on the backdrop of a very aggressive inflationary envelope that we're working against, I think at the beginning of the year, I shared with you, Brad and others that we were expecting a couple hundred million of inflation on the year. We're seeing that number creep higher versus original expectations, and that's why we're responding with a little bit more pricing. So pricing is definitely impacting volume. But again, it differs BU by BU a business by business.

It's very helpful. Thank you, Tim.

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Operator: Our next question comes from the line of Jim Chartier with Monness, Crespi, and Hardt. Please proceed with your question.

James Andrew Chartier

Analyst, Monness, Crespi, Hardt & Co., Inc.

Good afternoon. Thanks for taking the questions. I guess just, you know, what is kind of the outlook for acquisitions at this point as the current environment, you know, produced more, more opportunities for you some color there would be great. Thanks.

Yeah. I mean, we're in several, you know, negotiations on deals right now. I would say, you know, certainly the deal flow is not what it was, you know, a year ago. You know, I think the private markets have sort of followed the public market. Valuations have sort of come down. And I think folks that we're thinking of selling maybe waiting a little bit till the volatility settles. So, overall deal flow is, is a little bit muted compared to a year ago. That said, our pipeline is still pretty active and we're in, you know, some pretty good discussions.

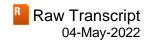
Great. Yeah. And then you mentioned the need for price increases later in the year. What magnitude of price increase it would be to kind of offset all of the additional inflation you're seeing today?

You know, it's the high-single-digits that I mentioned earlier is the plan here so called 70 type percent in aggregate, Jim. And I think between that, as you heard, both Niko and I say earlier in the prepared remarks between our pricing agenda, our cost out productivity agenda, relying on some, some favorable — continued favorable mix. And part of that's acquisition related as well, right. Some of these recent acquisitions are also favorable on a margin basis. Between all of that, we're hopeful that we can either offset or largely offset that that tsunami of inflation. That, as I said, is now well north of couple of hundred million on the year.

Okay. And then just lastly and a color in terms of kind of cadence of sales and earnings for third and fourth quarter, any meaningful differences between the two quarters?

I mean, you know, obviously, you know, you know as well, obviously a very different magnitude Q3 versus Q4. I think you're going to see we're hopeful you'll see an accelerated top-line relative to what we've seen in the front half show in the back half starting in Q3 and Q4. And you're going to see obviously earnings as well, right. And that's just simply doing the math for the 310 guide that we provided versus what we've actualized in the front half. I don't know what else you'd say, Niko on that.

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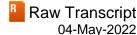


A

some Garden business maybe go into a Q4 that we normally would see in Q3, ass weather cooperates. But that's about the only, you know, dynamic that I can see refact that Q3 is our biggest quarter. I don't think that's going to change.	•
	A
Niku, I would add to that that last year we had some fairly heavy inventories at reta Q3 and the retailers sold through a lot of that inventory in Q4. So that too may lead little bit of a shift from Q3 into Q4	
	Q
Right.	
	A
somewhat.	
	Q
That's helpful. Thanks, and best of luck.	
Operator: Our next question comes from the line of William Reuter with Bank of A your question.	America. Please proceed with
	Q
Good afternoon. My first question on the high-single-digit price you mentioned and at this point, are we in a dynamic such that we'll continue to see gross margin expansion year like we did in the second quarter?	
	Α

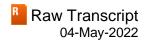
Well, it's a great question, and it – you know, we're going to continue – the answer is it depends as usual. We're going to have to see how inflation behaves into Q3 and then you've got the elasticities, you know how they behave. And then that will depend on really how much overhead we absorbed in that period. So all those things are going to have an effect on how margins play out. The other thing I would tell you is mix. You know, if you look at our portfolio, we've got a really wide range of margins and a favorable mix can really have a profound role on our margins. We've seen that play out really in the first half of the year where we've had very favorable mix that happened in Q2 with our acquisitions performing well and affecting margin there. So we're planning on it. But for

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us to tell you this is how it's going to play out. It's going to be TBD. It's a very fluid, dynamic process right now. And then also, given the late breaking garden season, kind of throws another wrench into it. So we're just going to have to see how the whole thing plays out. Okay. And then secondarily, I have heard such a range of consumer behavior with regard to our consumers trading down now that inflation is accelerating. Have you been seeing a mix shift in terms of your private label, which I think is about 15% to 20% of sales? Has that been either gaining or losing sales relative to your branded products? Yeah. William, we definitely monitor that closely. And as you said, I mean, one of the -I think good things about our portfolios is the majority of our portfolio is definitely branded, but we do have some limited exposure to private label as well. So, you know, we monitor this closely. There are many categories where we may have an offering both on the branded and the private label side. Looking at the data, including the most recent guarter of Q2, we are not seeing a shift from branded to private label in the categories in which we compete. In fact, I would tell you pretty consistently we're seeing our growth trends. Consistently we're seeing our growth trends on branded outstrip the growth trends on private label by a margin. So we're on top of it, I think, as the American consumer continues to be put under pressure with rising gas prices and overall inflation, they are going to be looking at trade-offs kind of category by category. But so far in both lawn and garden consumables and in pet, as it relates our business, we are seeing that as an unfavorable impact. Good color. Thanks a lot. Thank you. Operator: Our next question comes from the line of Hale Holden with Barclays. Please proceed with your question. Hi. This is [ph] Marianne on for Hale. Thank you for taking our question. On the back of Jim's question, we were wondering if higher financing rates in the market have changed your outlook at all for the M&A pipeline?

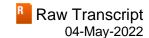
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No, not at all. We really are very value focused on the deal itself. And we don't really view financing rates having a huge impact on what we do. We look for great companies and we look to expand our portfolio. And if we make the right decision on M&A, the cost of capital is pretty much secondary. Okay, great. Thank you. Operator: And just as a – and our next question comes from the line of Carla Casella with JPMorgan. Proceed with your questions. I thought for a moment, so I apologize if this had already been asked, but have you talked about inventory at retail and your comfort level in each category with inventory at retail and how about purchasing versus last year, do you see them buying ahead more this year or trying to buy ahead? JD, you want to start on garden? Sure. Hi, Carla, this is JD. To answer your question, we see retail inventories up low double digits right now. But when you consider the pricing factor that we mentioned earlier and the fact that a year ago we were - we still had fairly widespread out of stocks due to demand for the product. So really, we don't consider this to be having an inventory at all. I mentioned earlier that retailers last year loaded their stores earlier and heavier for the season in anticipation of the season. And this year we're seeing them take a more measured approach. So we believe that as the weather improves and consumption improves, that should drive replenishment type orders, okay. And maybe [indiscernible]? Just one other point. Go ahead.

Your – when we look at total garden sales net revenue and we look at total garden POS, they're actually quite in line, which again, would mean, there's no kind of big overhang or dislocation for us to necessarily be worried about their track and more or less in line. Is that fair, JD? That's accurate. Yes. Okay, great. And I just want to follow up. Oh, sorry, sorry. On the pet side, I would say that there is increased inventory at retail, but it's needed, right. In our service level spend challenged in some proving and will continue to improve. But there's no nothing but there is no - nothing kind of other source. Okay. And then just one follow-up on how far [indiscernible] would break in? Can you just say whether it stand relative to like 2019 or 2020 if you're thinking differently? We do a combination of we go out, I think as much as six months. We also participate in the spot market. So we like to play that trade a little bit and orbit to some extent. Sometimes you see some dislocation between, you know, the forward rate in the spot. So it's a little bit of a mixed bag. The other thing I would tell you, a large part of our business actually is FOBR Doc. So it's the retailers are picking up and they're picking up that freight. In fact, we had a large customer transition to that over on the Garden side this year, which is why you kind of see our delivery expense come down a little bit. Wasn't that freight came down, it was just a different way of operating with that customer. Great. That's super helpful. Thanks. **Operator**: [Operator Instructions] Our next question comes from the line of Karru Martinson with Jefferies. Please proceed with your question.

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Good afternoon. In terms of the additional pricing actions that you have planned for this year, are those already been negotiated with your retailers or is this something that you need to go to them and request additional price?

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Yeah. It is largely if you look at our total fiscal 2022 pricing envelope, it is the vast majority is already either landed or communicated and locked in.

There is a small amount as inflation has, you know, accelerated in a few areas that were looking for additional pricing, you know, order of magnitude, call it around 15% that would fall into that bucket up. We're still in negotiation with our customer partners. And 85% is largely locked in.

Okay. So this will flow through. And then when you look at kind of the volume declines, you know, fully understanding that we're up against some tough comparisons and we do have the late start to the garden season. But, you know, I think as Bill had asked, you know, we've heard it from many, many people of the state of the consumer. You know, are you seeing the consumer kind of pushing back on pricing, whether it be for pet or for garden?

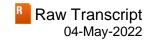
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You know, I would say broadly, no. Or, you know, maybe better said, not yet, at least. So, you know, when you look at as you say, I think when you look at our overall organic sales growth and you take into account the type of, you know, massive loss that we've got in the 20s and 30s in the prior year. And then certainly on the garden side, you overlay a true dynamic of a late break to the season. Overall, when you look at pricing versus volume mix, I would say it's largely in line with what we planned. You know, back at when we put our plan together and guided to the market, we aren't seeing the consumer walk away at these high prices, at least not yet. And to another caller, you know, we're not seeing a shift into private label, at least not as of yet in terms of any sort of meaningful way. The last kind of proof point, I would say, is the fact that we have a number of businesses that even on the back of that high pricing, are actually still growing volume. And I mentioned three or four earlier in this call. So touch was, I think the American consumers getting pushed and squeezed in a lot of areas. But so far I think the resilience on Garden and Pets is encouraging.

Thank you very much. Appreciate it.

Operator: And we have reached the end of the question-and-answer session. And I'll now turn the call back over to Tim Cofer for closing remarks.

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Timothy P. Cofer

Chief Executive Officer & Director, Central Garden & Pet Co.

Thank you. Thanks, everyone, for joining our call today and your continued interest in Central Garden and Pet. If you have further questions, please follow-up with Friederike and our Investor Relations team and we'll look forward to speaking with you again next quarter, if not before. Have a good day.

Operator: And this concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.

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