

# Q3 FY2023

## Investor Presentation

8.2.2023





## **Business & Industry Update**

*Tim Cofer, CEO*

## **Q3 FY23 Financials, FY23 Outlook**

*Niko Lahanas, CFO*

## **Management Q&A**

*Tim Cofer, Niko Lahanas,  
J.D. Walker, John Hanson*

# Forward-looking Statements

This presentation includes “forward-looking statements.” Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, plans or intentions relating to acquisitions, our competitive strengths and weaknesses, our business strategy and the trends we anticipate in the industries in which we operate and other information that is not historical information.

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 presentation, which are described in Central’s filings with the SEC. Central undertakes no obligation to publicly update these forward-looking statements to reflect new information, subsequent events or otherwise, except as required by law.

This presentation contains certain non-GAAP financial measures. For a reconciliation of GAAP to non-GAAP financial measures, please see the Reconciliation of GAAP to non-GAAP in the Appendix of this presentation or in our most recent Form 10-K and Form 10-Q.



**CENTRAL**

GARDEN & PET



# Three Key Messages

1

## Delivered Record Q3 Performance

- Delivered growth on all key measures: Net sales, gross margin, operating income, and EPS
- Record operating income and EPS, both GAAP and non-GAAP
- Strong cash flow generation
- Short term actions to cut costs bearing fruit

2

## Advanced Cost & Simplicity Program

- Multi-year journey to simplify business, improve efficiency, rationalize footprint and streamline portfolio
- Closed Athens, TX pet bed facility
- Sold independent garden center distribution business to BFG

3

## Raising Full-year Outlook

- Fiscal 2023 fourth quarter is off to a good start
- Focus on cost and cash expected to continue to yield benefits
- Confident in delivering FY23 non-GAAP EPS of \$2.55 or better



# Pet: \$503 million Q3 FY23 Net Sales

## Tailwinds & Successes

- Solid growth in consumables, incl. Dog & Cat, Bird, Small Animal and Equine
- Share growth across most pet categories
- Branded products outperformed private label
- Double digit eCommerce growth; now represents 25% of Pet branded sales; broad online market share growth
- Normalizing retail inventory dynamics

## Headwinds & Challenges

- Continued downward pressure on durable pet supplies
- Slight decline in pet ownership post the COVID spike



# Garden: \$520 million Q3 FY23 Net Sales

## Tailwinds & Successes

- Strong performance in May and early June
- Continued to grow market share in Wild Bird, held share in Grass Seed and overall Garden category
- eCommerce grew double digits, representing over 5% of Garden sales
- Branded products outperformed private label

## Headwinds & Challenges

- Retailers continue to reduce their inventory, shifting to just-in-time replenishment
- Retailers decreased lawn & garden off-shelf display activity for the season
- Lower foot traffic at home centers and mass channel



# Multi-year Journey to Reduce Cost and Simplify our Business

## PRINCIPLES

Simplify our business, focus our portfolio and supply chain

Improve our efficiency across everything we do

Execute in market with excellence

Take a disciplined and phased approach, avoid a “big bang”

## FOCUS AREAS



**Procurement**



**Manufacturing**



**Logistics**



**Portfolio**



**Administration**

## OUTCOMES

Significantly reduced complexity: fewer SKUs, fewer plants, fewer distribution centers

Lower COGS through lower logistics costs, better procurement

Lower administrative costs through scale leverage and efficiency

Greater focus on higher margin, branded consumer product Pet & Garden businesses



# Two Examples of our Cost and Simplicity Program in Action

## Closure of Private Label Pet Bed Facility

- Closure of manufacturing and distribution facility in Athens, TX, on plan and on budget
- Pet bed manufacturing ramped up and shipping all customers from Arden outdoor cushion facility
- Cash-on-cash payback in less than two years
- Drive meaningful step up in operating income in streamlined pet bed business

## Sale of Independent Garden Distribution Business

- Sold fragmented independent garden distribution business to BFG Supply
- Represents less than 5% of total Garden sales, dilutive to Garden operating margin
- BFG to distribute Central's branded products
- Central continues to serve largest three retail partners and select national accounts
- Partnership allows both companies to focus on their core strength
- Plan to close Portland, OR, Garden distribution facility by calendar year end



**CENTRAL**

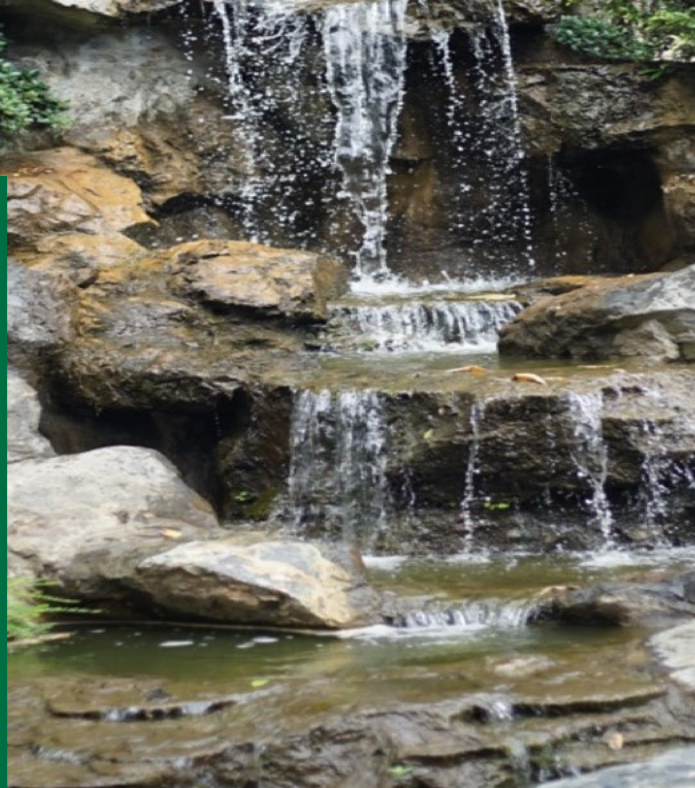
GARDEN & PET





**Tim Cofer**

CEO



**Niko Lahanas**

CFO

# FY23 Q3 Performance

## Net Sales

(in \$ millions)

+1%

1,015

1,023

Q3 FY22

Q3 FY23

## Non-GAAP Gross Margin

(as a percentage of Net Sales)

+160bps

30.3%

31.9%

Q3 FY22

Q3 FY23

## Non-GAAP Operating Income

(in \$ millions)

+20%

114

137

Q3 FY22

Q3 FY23

## GAAP EPS

(in \$)

+\$0.17

1.39

1.56

Q3 FY22

Q3 FY23

## Non-GAAP EPS

(in \$)

+\$0.36

1.39

1.75

Q3 FY22

Q3 FY23





**CENTRAL**

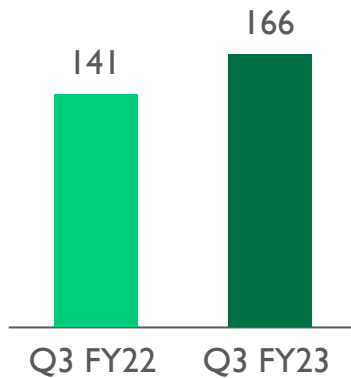
GARDEN & PET

# Solid Financial Metrics

## Adjusted EBITDA

(in \$ millions)

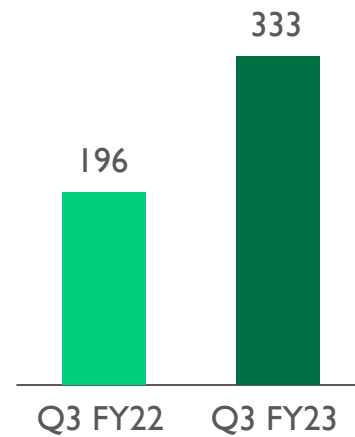
+17%



## Cash & Cash Equivalents

(in \$ millions)

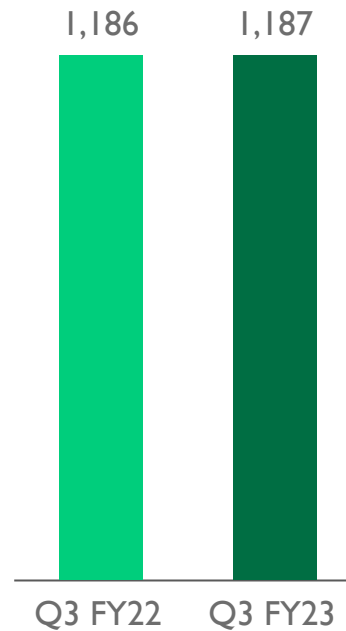
+70%



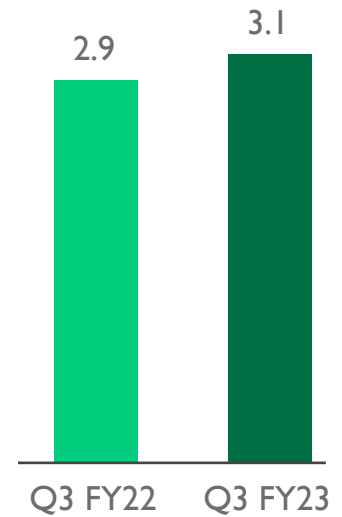
## Long-Term Debt

(in \$ millions)

+0.1%



## Total Leverage <sup>(1)</sup>





# FY23 Outlook

## Raising Outlook for FY23 Non-GAAP EPS of \$2.55 or better

- Record Q3 results
- Early visibility into July builds confidence
- Q4 is a small quarter, benefit of 53rd week

## Cost and Simplicity program to support long-term algorithm

- Closed private label pet bed facility in Athens, TX
- Sold independent garden center distribution business to improve margins
- Building pipeline of future projects, share more of FY24 plans in November

## Focus on cost and cash bears fruit

- Inventory for total company down vs PY
- Record Q3 net cash provided by operations
- Expect cost management to yield benefits in Q4



# Q&A

**Please reach out to us  
with any comments or  
questions:**

**IR@Central.com**

**(925) 412-6726**







# Appendix

# Notes & Disclosures

## 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, non-GAAP operating income and adjusted EBITDA. Management believes non-GAAP financial measures 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). Adjusted EBITDA further excludes one-time charges related to facility closures. 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.

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 variability and limited visibility of 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 measures in making financial, operating and planning decisions and in evaluating our performance, and we believe it 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:

- Facility closure: we have excluded the impact of the closure of our Athens, Texas pet bedding facility as it represents an infrequent transaction that occurs in limited circumstances that impacts the comparability between operating periods. We believe the adjustment of closure costs 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.

- (1) During the third quarter of fiscal 2023, we recognized incremental expense of \$13.9 million in the consolidated statement of operations, from the closure of a leased manufacturing and distribution facility in Athens, Texas.

**GAAP to Non-GAAP Reconciliation  
for the Fiscal Three Months Ended**  
*(in thousands, except for per share amounts)*

Net Income & Diluted Net Income Per Share Reconciliation			
		Three months ended	
		June 24, 2023	June 25, 2022
GAAP net income attributable to Central Garden & Pet Company	\$	83,126	\$ 75,420
Facility closure	(1)	13,921	—
Tax effect of facility closure		(3,373)	—
Non-GAAP net income attributable to Central Garden & Pet Company	\$	93,674	\$ 75,420
GAAP diluted net income per share	\$	1.56	\$ 1.39
Non-GAAP diluted net income per share	\$	1.75	\$ 1.39
<b>Shares used in GAAP and non-GAAP diluted net income per share calculation</b>		<b>53,380</b>	<b>54,329</b>

**GAAP to Non-GAAP Reconciliation**  
**for the Fiscal Three Months Ended**  
*(in thousands)*

Adjusted EBITDA Reconciliation		
	June 24, 2023	June 25, 2022
Net income attributable to Central Garden & Pet Company	\$ 83,126	\$ 75,420
Interest expense, net	13,134	14,335
Other (income) expense	(853)	759
Income tax expense	27,000	23,430
Net income attributable to noncontrolling interest	423	135
Income from operations	122,830	114,079
Depreciation & amortization	21,701	19,884
Noncash stock-based compensation	7,305	7,400
Facility closure	(1) 13,921	—
Adjusted EBITDA	\$ 165,757	\$ 141,363



**GAAP to Non-GAAP Reconciliation**  
for the Fiscal Three Months Ended  
(in thousands)

**Operating Income Reconciliation**

	For Three Months Ended June 24, 2023		
	GAAP	Facility Closure (I)	Non-GAAP
Net sales	\$ 1,023,269	\$ —	\$ 1,023,269
Cost of goods sold and occupancy	705,217	8,010	697,207
Gross profit	\$ 318,052	\$ (8,010)	\$ 326,062
Selling, general and administrative expenses	195,222	5,911	189,311
Income from operations	<u>\$ 122,830</u>	<u>\$ (13,921)</u>	<u>\$ 136,751</u>

**Pet Segment Operating Income Reconciliation**

	June 24, 2023	June 25, 2022
GAAP operating income	\$ 59,969	\$ 62,616
Intangible asset impairment	(I) 13,921	—
Non-GAAP operating income	<u>\$ 73,890</u>	<u>\$ 62,616</u>