07-Feb-2018

Central Garden & Pet Co. (CENT)

Q1 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to Central Garden & Pet's First Quarter Fiscal Year 2018 Financial Results Conference Call. My name is Darren, 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 Steven Zenker, Vice President of Investor Relations, FP&A and Communications. Please go ahead.

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

Thank you, Darren. Good afternoon, everyone. Thank you for joining us. With me on the call today are George Roeth, Central's President and Chief Executive Officer; Niko Lahanas, Chief Financial Officer; Howard Machek, SVP, Finance and Chief Accounting Officer; J.D. Walker, President, Garden Branded Business; and Rodolfo Spielmann, President, Pet Consumer Products. A press release providing results for our first quarter ended December 30, 2017 is available on our website at www.central.com, and contains the GAAP to non-GAAP reconciliation for the non-GAAP measures discussed on this call.

Before I turn the call over to George, I would like to remind you that statements made during this conference call, which are not historical facts including adjusted EPS guidance for 2018, expectations for new product introductions, future acquisitions, and future revenue and profitability as well as the expected impact of the recent tax reform are forward-looking statements subject to risks and uncertainties that could cause actual results to differ materially from those implied by forward-looking statements.

These risks and others are described in Central's Securities and Exchange Commission filings, including our Annual Report on Form 10-K filed on November 29, 2017. Central undertakes no obligation to publicly update these forward-looking statements to reflect new information, subsequent events or otherwise.

Now I will turn the call over to our CEO, George Roeth. George?

George C. Roeth

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

Thank you, Steve. Good afternoon, everybody. The bottom line is that we are on track for the fiscal year and our long-term plans. Additionally, we expect to benefit from continued M&A related activity and changes to our tax situation. These catalysts give us even greater optimism going forward.

Both of Central's Garden & Pet segments continued to perform in line with expectations in the first quarter and are executing well against their growth objectives.

Together our Garden & Pet segments grew revenues by 5% in the first quarter with organic growth at 1%, despite difficult year ago comps and an unfavorable shipping calendar. Acquisitions, K&H and one month of Segrest, added another 4 percentage points of growth.

As you may recall in the first quarter of last year, we grew 7% organically. And the way the calendar fell was more favorable for the first quarter last year than it was this year. So we continue to grow organically despite those challenging comps. And we certainly wouldn't expect the 1% growth rate to be normative for the year.

Additionally, our growth investments were funded by our aggressive cost reduction program, which contributed to a 100 basis point increase in gross margin in Q1.

Our Pet segment during the quarter was led by strong growth in several of our businesses, including dog and cat treats, chews and toys, where we recently invested in increased capacity to handle the expected growth in the years ahead.

In addition, Central continues to keep pace with changes in consumer purchasing behavior in the Pet industry by increasing our capabilities in and focus on e-commerce channel, where rapid sales and share growth is more than offsetting declines in the Nielsen tracked channels.

In our Garden business we continue to grow share and capture incremental shelf space by rolling out new products, including a collaboration between our Garden and Pet segments to market mosquito control products for the consumer market.

Central has a long history in the professional mosquito control, and we are excited to be ramping up activity in the consumer markets with these new products under our AMDRO Quick Kill brand. We are optimistic about the upcoming garden season and believe we are well-positioned for success in the months ahead.

January has already started off as expected, and our analysis indicates retail inventories are where they should be at this time of the year. Having said that though, the garden season is still very much ahead of us.

Going forward for the total company, organic growth for the year is expected to be driven in large part by the continued rapid growth in the e-commerce channel, increased innovation, expanded distribution of both branded and private-label products across all channels, as well as the continued rollout of the store within a store concept in our Pet distribution business at a major grocery retailer.

In terms of e-commerce, we are growing share at Amazon in the majority of our categories. On the innovation front, we are launching an array of products across our segments.

In Pet, this includes a new line of our CADET dog treats, and the expansion of our NYLABONE Nubz to the mass market after its success in the club channel.

In Garden, new products include the reformulation of our successful SEVIN pesticide line, where SEVIN's product improvements include increased efficacy and longer lasting benefits.

And last but not least, we are continuing to expand our offerings across an array of private-label products from both our Garden and Pet segments.

Beyond the strong operating earnings growth of 13% in the first quarter, there were a number of other items that impacted the bottom line. These included a seasonal loss on a JV investment, higher interest costs due to the $300 million of notes issued in December that are intended to fund acquisitions, a favorable change to our federal statutory tax rate, and a tax benefit related to the remeasurement of our deferred tax assets and liabilities.

So putting it all together, we earned $0.50 a share for the quarter versus $0.15 a year ago on a GAAP basis. Adjusting for non-recurring items, non-GAAP earnings were $0.19 a share versus $0.12 a year ago, an increase of 58%. Niko will explain the non-GAAP items and their impact in detail in just a few minutes.

However, before I turn it over to Niko, I want to talk a little bit how Central's business is evolving, as we move forward that gives us even greater confidence and optimism regarding our future. We have been very clear that Central first and foremost is focused on growing its revenue and profitability organically. This means we are spending more to support demand creation, funded by cost savings of almost 2% of controllable costs a year.

We have seen the favorable impact of those savings in both sustained organic growth and improved margins. We are then using the cash flows generated by our core business to help fund value creating M&A. Recent events, tailwinds if you may have increased our confidence and capability to drive additional sales and profit growth and ultimately shareholder value.

M&A is one such area, through our recent note offering where we raised $300 million at a very attractive rate, we are well-positioned to continue to make thoughtful, impactful and strategic acquisitions and investments to drive growth in the years ahead. But we never can predict specific transactions, I can say we have an active and healthy pipeline and are optimistic about our opportunities to put funds to use towards accretive acquisitions going forward.

Additionally, the changes in the tax law that lower tax rates are a significant tailwind. Niko will explain the various changes, but suffice to say we will be paying a much lower rate than has been the case historically. This enables higher cash flow that can be utilized by a number of ways, including reinvesting into the business and its employees and increasing profitability, all driving significant gains and shareholder value in the years ahead.

Now, I'll turn it over to Niko to go deeper on the quarterly financials.

Nicholas Lahanas

Chief Financial Officer, Central Garden & Pet Co.

Thank you, George. Good afternoon, everyone. We issued our first quarter press release of our financial results earlier today. I'd like to now give you more detail on the results. As George mentioned earlier, Central's EPS on a GAAP basis was $0.50 for first quarter up from $0.15 over the same period a year ago.

Fiscal 2018 reflects a $16 million impact of the revaluation of our deferred tax accounts, necessitated by the change in federal tax law. Fiscal 2017 includes a $2 million sale of the distribution facility in the first quarter of last year. On a non-GAAP basis, excluding those two items, EPS was $0.19 versus $0.12 a year ago. There were numerous factors that play during the quarter that impacted the results.

So, I'll take you through them and give you some color on what transpired. Our first quarter sales rose 5% versus prior year to $442 million, principally driven by acquisitions. Our K&H business as well as the one remaining non-organic month of Segrest. Organic growth was 1% in both our Garden and Pet businesses. As George mentioned earlier, we were up against some tough organic comps versus a year ago. Keep in mind that the first quarter is typically our lowest in terms of sales and while on plan, we do not expect the 1% organic growth to be indicative of what we expect for the year.

Consolidated gross profit rose $11 million and our gross margin increased 100 basis points to 29.8%. Aided by cost savings and a positive impact from our K&H and Segrest acquisitions. SG&A expense for the quarter increased 9% or $9 million versus a year ago. And as a percent of sales, increased 70 basis points to 24.7%. Excluding the $2 million sale of the Garden distribution facility last year, SG&A as a percent of sales increased 20 basis points.

Operating income for the quarter increased 13% to $23 million on higher revenue and gross margin expansion. On a non-GAAP basis, the increase was 26%. Operating margin of 5.1% was up 30 basis points or up 80 basis points on a non-GAAP basis benefiting from the higher gross margin.

Turning now to the Pet segment. Pet segment sales for the quarter increased 7% or $21 million to $325 million. The company's latest acquisition Segrest and K&H made up the majority of the gain. Organic sales increased 1% with the higher sales of other manufactured products and behind the strength in our animal health, small animal, and dog and cat businesses, offsetting weaker wild bird feed and aquatics results.

The other manufacturers' Pet distribution business gains can be attributed to the continued rollout of its enhanced business model of running a store within a store concept at one large retailer and by strong sales in the e-commerce channel. We also saw sizable increases in e-commerce sales in several of our other Pet businesses. Wild bird was negatively impacted by warmer and less severe weather in the first quarter versus a year ago while aquatics has been impacted by the weaker sales in the pet specialty channel.

Pet segment operating income increased $3 million or 8% compared to the prior year. Strength in Animal Health and dog and cat was largely offset by weakness in aquatics and wild bird feed. Pet operating margin increased 10 basis points to 11.1% as an increase in gross margin was partially offset by facilities and warehouse costs incurred in ramping up our Pet distribution business to service the large retailer I mentioned earlier.

Now turning to Garden. For the quarter, Garden segment sales increased 1% or $1 million to $117 million, all of which was organic. Controls and fertilizer products exhibited strength versus a year ago benefiting in part from shipments of new products and expanded distribution while wild bird feed declined, due in part to unfavorable weather.

Garden's operating income declined slightly to $2 million from $3 million in the first quarter of last year due to facility sale a year ago. Excluding the facility sale, Garden operating income increased $2 million. Operating margin was down 30 basis points but rose 150 basis points from the prior year excluding the facility sale.

Higher gross margins across all categories except wild bird drove the increase, benefiting from our cost savings initiatives. Moving back to our consolidated results, in the first quarter, other expense increased to $3 million from $1 million a year ago. We've mentioned in previous earnings calls that the results from this line may vary significantly quarter to quarter in part due to the seasonal nature of our largest JV investment.

Net interest expense increased $383,000 to $7 million, primarily due to incremental interest expense on our new notes that we issued in December of 2017. We raised $300 million from the issuance of 10-year notes at an interest rate of 5.125%. We were happy to secure the funds at a very attractive cost of capital and be able to stagger our debt maturities across multiple years. We expect to utilize the funds for M&A opportunities.

The tax rate for our first quarter was positively impacted by the revaluation of our deferred tax accounts, which were impacted significantly by the recent reduction in federal corporate tax rates. The revaluation resulted in a negative GAAP tax rate for this quarter, which certainly is not indicative of what we believe our tax rate will be going forward.

On a non-GAAP basis, the rate for the quarter was 17.3%. This adjusted tax rate includes the reduction in the federal tax rate and the impact from the changes in the recent accounting standards around non-cash equity compensation expense. The impact of the latter is likely to vary quarter-to-quarter, depending among other things the market price of our stock and employee option exercise activity.

So for fiscal year 2018, we expect our effective tax rate to be 25% or less on a non-GAAP basis, which excludes the impact of the deferred tax liabilities and accounts for three-fourths of a year at the new lower federal tax rates.

Now looking at our balance sheet and cash flow statement. Cash at the end of the first quarter was $283 million, up from $7 million at the end of the first quarter last year. The increase reflects the proceeds of the debt offering I mentioned earlier. That offering also increased our total debt to $691 million from $395 million a year earlier.

Our leverage ratio at the end of the quarter was 3.3 times, compared to 2.1 times a year ago, well within our target range. We also had $330 million of availability on our credit line at the end of the quarter.

For the quarter, cash flow used by operations was $24 million, up from $13 million in the first quarter a year ago due primarily to changes in working capital and after taking into account the increase in our net income for the quarter, which was offset by the non-cash effects of the impact of the tax reform act.

CapEx was $8 million versus $13 million in the first quarter of 2017. The decrease is partly timing versus a year ago. And we still expect CapEx to be somewhere around $40 million for the year.

Depreciation and amortization for the quarter was $11 million, up from $10 million a year ago primarily due to recent acquisitions.

During the quarter, we did not repurchase any of our outstanding stock and approximately $35 million remains available under the board approved stock repurchase program.

Now I'll turn it back over to George.

George C. Roeth

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

Thank you, Niko. I will attempt to take all the complexity of the changes this year and incorporate them into our thoughts on guidance for the year. We're revising our guidance up for fiscal year 2018, reflecting a number of factors that were not present in our previous guidance of $1.62 or higher provided last quarter.

The largest factor in the revision is the change in the company's tax expense. We currently estimate our effective tax rate will be no higher than 25% for fiscal year 2018. This excludes the impact of the revaluation of our deferred tax accounts that very favorably impacted our tax rate in the first quarter. Additionally, the guidance reflects higher interest costs from the $300 million of fixed rate notes that we issued in December of 2017.

Taking all these factors into consideration, in addition to the current results of our operations coming in-line with our expectations, we are increasing our guidance for EPS for fiscal 2018 to $1.85 or higher. The gain won't be evenly spread across all quarters, reflecting the lumpiness of growth versus the prior year we have been foreshadowing.

Having said all that, we feel great about our start to the fiscal year, the added tailwinds. And we have confidence in the $1.85 or higher guidance we've put forward.

Now we'll open up the lines to questions.

QUESTION AND ANSWER SECTION

Operator: At this time, we will be conducting a question-and-answer session. [Operator Instructions] Our first question comes from Jason Gere of KeyBanc Capital Markets. Please proceed with your question.

Jason M. Gere
Analyst, KeyBanc Capital Markets, Inc.
Q

Good afternoon, guys.

George C. Roeth
President, Chief Executive Officer & Director, Central Garden & Pet Co.
A

Hi, Jason.

Nicholas Lahanas
Chief Financial Officer, Central Garden & Pet Co.
A

Hi, Jason.

Jason M. Gere
Analyst, KeyBanc Capital Markets, Inc.
Q

Hey. I guess the first question, if we could just talk about the organic sales. And honestly, I mean, I understand that it will build out as the year progresses. On a two-year stack rate, your organic sales actually improved versus the fourth quarter. So, I thought maybe you could talk a little bit just about the categories maybe from a – I guess from a de-stocking perspective at brick-and-mortar, the e-com what you saw that was maybe better than expected? And also, if you could talk a little bit about planogram resets and how you're thinking about 2018 that's a little bit more specific I think to the Garden business?

George C. Roeth
President, Chief Executive Officer & Director, Central Garden & Pet Co.
A

That's a mouthful, but we'll try. I'll have a J.D. give us a snippet on Garden and we'll have Rodolfo talk about the Pet. So J.D.

J.D. Walker
President of Garden Branded Business, Central Garden & Pet Co.
A

Sure. First of all with regard to organic sales, Jason, we – our two largest categories historically in Q1 are our wild bird feed and our grass seed categories. Typically, they account for over 50% of our POS in that quarter. Niko mentioned in his speech earlier if the weather really wasn't conducive for either one of those categories in Q1, so we saw some softness in those categories that impacted our organic growth rate.

That, plus the fact that we had a shift in the week that was also – shift in the quarter by one week, so we lost a week on the front end of that quarter moving from a 53-week year to a 52-week year and picked it up on the back end of the quarter. And net-net, what that means is we lost the last week of September and picked up the last week in December that week between Christmas and New Year's, which isn't a great week from a retail standpoint. Most retailers are not very interested in lawn and garden products at that time.

So, all of that had an impact on our quarter. Net-net we still had a 1% organic increase year-over-year. So, we felt good about that all things considered. Moving to 2018, you mentioned that we feel good about planograms right now. The stores are being set. The retailers are taking a – from what we can see and what they're telling us an aggressive approach to the season, so that they're ready for the season, they're building inventories as we would expect them to. We feel very good about our – on our side about execution of the season, so our products are ready to go and our people are setting the stores, working closely with the retailers and we feel like we have the level of support in store to ensure success for 2018. And I'll pass it over to Rodolfo.

Rodolfo Spielmann
President-Pet Consumer Products, Central Garden & Pet Co.
A

Perfect. Hi, Jason. In the case of Pet, as we have mentioned in the past, I would not overemphasize some quarter-over-quarter lumpiness of growth. We have, over the last several quarters we have been north of 3%, we have posted organic growth for over 3 years. So, as Niko said we need to account that Q1 is comping against the 6.1% growth a year ago. Having said all of that I'm going back to your question on e-commerce on how we're driving the share, we are growing share in all channels as a total, with e-commerce more than picking out just like that is coming down from that specialty.

Now, in the case of e-commerce while the secret recipe and how to grow share is something I would like to disclose in the call that what we can tell you is that we have been working on that for well over a year. We have run many tests in different categories and we now work, we now know what works and what doesn't. And we have been executing more and more on that and the growth has come.

Jason M. Gere
Analyst, KeyBanc Capital Markets, Inc.
Q

Okay, great. Thank you. And I guess my second question before passing it off, I mean if you can – and thank you for the color on the proceeds from the tax benefit that comes through. I mean really beyond the free cash flow that you guys do and the new debt offering, M&A obviously is at the top of the list, a priority, but can you talk about maybe as we look at SG&A for this year, are you also using that tax benefit as a way to kind of increase some of your investments or capabilities to kind of drive longer term kind of organic opportunities for you. So, if that's more on e-commerce or other areas, so I was just wondering how we should think about SG&A as a percentage of sales this year, are we going to see more of a step-up this year because of the tax benefit as that comes through?

George C. Roeth
President, Chief Executive Officer & Director, Central Garden & Pet Co.
A

Well, first Jason, I'd say, when you look at our SG&A, it doesn't break it out in granularity for non-working versus working, I'll call it. So, a lot of what you're talking about is working investment to drive growth. We didn't wait for any tax savings to do that. So, we're looking to drive that number up in the absolute and as a percent of sales, I will call it the working portion of SG&A to drive growth.

Having said that, there is additional cash flow from the tax savings, that's all very recent, and I'll just say that we're looking at opportunities to invest in both the business and our people to drive long-term sustainable growth and news to follow I'll tell you our forecast sets aside money to do that if we find the right opportunity, but no specifics yet.

Jason M. Gere
Analyst, KeyBanc Capital Markets, Inc.
Q

Okay. Great. Thank you guys. I'll pass onto the next caller.

Operator: Our next question comes from Brian Nagel of Oppenheimer. Please proceed with your question.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.
Q

Hi. Good afternoon.

George C. Roeth
President, Chief Executive Officer & Director, Central Garden & Pet Co.
A

Hi, Brian.

Nicholas Lahanas
Chief Financal Officer, Central Garden & Pet Co.
A

Hey, Brian.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.
Q

Nice quarter. So, maybe some bigger – I guess maybe some bigger picture questions to George. I'm in the Pet category, it seems though you're talking more about weakness in the Pet specialty channel. So, I guess first question I have there is, are you seeing [ph] another some sort of write-down (23:26) within that channel. Then the second question is, as we think about online and at the same time, you're talking more about pushing online in your success – doing so, so far.

Will there be – is the Central model prepared for that or is there a tweaking that needs to happen over time to allow you to even better perform online? Thanks.

George C. Roeth
President, Chief Executive Officer & Director, Central Garden & Pet Co.
A

Well, I heard two things and the first one was actually quite garbled. So we didn't get the first part of your question.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.
Q

Yeah, let me – I'm sorry, let me ask that again. So just in the Pet specialty channel.

George C. Roeth
President, Chief Executive Officer & Director, Central Garden & Pet Co.
A

Yes.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.
Q

Is the weakness you're seeing, has there been another leg of weakness there or is it more of the same?

George C. Roeth
President, Chief Executive Officer & Director, Central Garden & Pet Co.

A

Has there been more weakness? I would say that, if I'm hearing your question right, have things gotten worse in the Pet specialty channel? I would say – go ahead.

Rodolfo Spielmann
President-Pet Consumer Products, Central Garden & Pet Co.

A

I will take that, Brian, this is Rodolfo. The answer is yes, if you compare the growth in specialty channel this year, against a year ago or against two years ago, the answer is yes. The main Pet specialty channel retailers are having worse comps this year than what we're used to do.

Now, while we do have exposure to Pet specialty, we have – again we have seen this coming for a long time. And you asked about us tweaking our model for e-commerce. We have been doing that for e-commerce [ph] for mass, for class (25:03) and also for Pet specialty, figuring out ways of working with the customers to drive traffic. All those processes are enabling us to continue this organic growth despite the Pet specialty channel issues.

George C. Roeth
President, Chief Executive Officer & Director, Central Garden & Pet Co.

A

Yeah. And the only other thing I'll add, if I heard your question right, are we having to tweak our model to drive online? I would say everybody has. So the types of marketing things that we think about today like reputation management, search engine optimization, are different for sure than what I did 10 years ago.

We're getting smarter about that every day. And the interesting thing about online, I'm sure you hear this from a lot of manufacturers, is what you know today and what's working today may not be relevant 18 months from now. And that's very different.

So what drives online sales I would argue is a continuous learning process. And our company has put in place mechanisms to drive that continuous learning and day-to-day change, which is new for us. There's probably issues also around the supply chain to increase the efficiency of delivery to online customers. And I would say that's work in progress.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

Got it. Thank you very much.

Operator: Our next question comes from Bill Chappell of SunTrust Robinson Humphrey. Please proceed with your question.

William B. Chappell
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thanks. Good afternoon.

George C. Roeth
President, Chief Executive Officer & Director, Central Garden & Pet Co.

A

Hey, Bill.

Nicholas Lahanas
Chief Financial Officer, Central Garden & Pet Co.

A

Hey, Bill.

William B. Chappell
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Hey, I guess three kind of specific questions, one on gross margin. I was looking back. This is the highest first quarter gross margin that you've had in seven years. And so just trying to understand if that's mix related? Or if there were some projects that they've done over the past year that have really driven that? And how sustainable, not obviously this type of improvement, but sustainable kind of the gross margin improvement is this year?

Nicholas Lahanas
Chief Financial Officer, Central Garden & Pet Co.

A

I'll answer it from a corporate standpoint, and I'll let J.D. and Rodolfo comment on their respective segments.

I would tell you that there is some mix there, because of the weather factors that we outlined. So this quarter does have a little bit of a different mix. The other part I would tell you is, it's really a testament to a lot of our low cost producer savings projects that we've got in terms of our long-term cost savings initiatives that we're seeing coming to fruition.

And so it's just an ongoing continuous improvement that we have here at the company. And then the other piece again I would just say it's mix. But I'll let J.D. and Rodolfo give more color.

J.D. Walker
President of Garden Branded Business, Central Garden & Pet Co.

A

Sure. So just building off of what Niko said, Bill, the low cost producer initiatives, that's something we use to describe anything that lowers our cost of goods, improves our operating efficiencies, improves plant utilization, reduces the complexity or simplifies our business model.

And each one of our business units, literally each one, has not just a robust pipeline, but a three-year line of sight on initiatives that they're currently working on to drive cost out. We have plenty of opportunities. I'm often asked, is that going to run dry at some point? We see a lot of runway still in front of us.

But what you're seeing is the fruits of labor over the last couple of years, against these low cost producer initiatives.

Nicholas Lahanas
Chief Financial Officer, Central Garden & Pet Co.

A

And, Bill, I think you've heard me talk about this before, but the cost savings is an important growth driver for the company. So got to do three things, help us avoid taking pricing our competition is not taking; invest back in growth, so I talked, I think when Brian asked his question around growth spending that we're taking that up; and it also needs to expand margins. So I would expect our margins to expand over time, as we continue to drive cost savings.

Rodolfo Spielmann
President-Pet Consumer Products, Central Garden & Pet Co.

A

Perfect. So, just to add a little bit from the pest side, the margins are coming up as expected and the drivers are not the short-term drivers, it's all coming from the this low cost producer. I can tell you that even the mix for pet business was not positive for margins in the first quarter. So despite this imperfect mix, we did increase margin.

William B. Chappell
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Got it. That helps. And then second, maybe a little more color on the store within a store concept, number of doors maybe that you're doing this – can this expand to other places and also in the quarter did you get a revenue benefit from that, from the sell in or is it just incurred some cost as you set that up?

Rodolfo Spielmann
President-Pet Consumer Products, Central Garden & Pet Co.

A

Okay so, the stores is in the – the number of doors it's in the 1,000, but this is over a year long process to get those 100s or more than 1,000 stores.

Revenue in the quarter, yes, we did get some pickup not major, remember where we set up division-by-division. But, in terms of expansion from this, the model is a model that has worked for the customer. We've tested with this customer for years, and it drove growth for them, growth for us and margin expansion for both.

George C. Roeth
President, Chief Executive Officer & Director, Central Garden & Pet Co.

A

The way I think about Bill, is it's a phased rollout over the year. We have upfront spending to set that up that right now is more significant than the cost, and you'll see that flip toward the end of the year.

William B. Chappell
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. And then last one for me just on your EPS guidance. Just by my math it looks like the debt raise in the near-term. Well, I was assuming you don't do anything with the cash is about a $0.14 hit to EPS this year just kind of the $3 million to $4 million of interest expense per quarter? And then the tax benefits of $0.27 so I'm just trying to couple that with your at least EPS guidance raise?

Nicholas Lahanas
Chief Financal Officer, Central Garden & Pet Co.

A

I can't walk through all the reconciliation. The way I would think about it is we are giving a $1.62 or higher and our business performed as expected in the first quarter. I wouldn't have expected us to revise our guidance based on the first quarter, we almost never do as you know. And then when we look at the multiple tax benefits and why this gets a little bit confusing because you have the federal statutory rate, you have the impact from the stock accounting and then you also have the interest expense that hits three of the four quarters you come up with the $1.85 or higher.

William B. Chappell
Analyst, SunTrust Robinson Humphrey, Inc.

Q

But, I'm referencing – Interest should be negative $0.14 is that the right range?

Nicholas Lahanas
Chief Financal Officer, Central Garden & Pet Co.

A

It's a good ballpark, yeah.

William B. Chappell
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. No, it makes sense. That's all. All positive. I just want to double check. Thanks so much.

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

Jim A. Chartier
Analyst, Monness, Crespi, Hardt & Co., Inc.

Q

Good afternoon. Thanks for taking my question.

George C. Roeth
President, Chief Executive Officer & Director, Central Garden & Pet Co.

A

Hi.

Jim A. Chartier
Analyst, Monness, Crespi, Hardt & Co., Inc.

Q

Hi. So, I just wanted to ask about the facilities in New Jersey where you consolidated those last year for the dog and cat business; how are they – how is that new facility running, what kind of benefits did you see from the sales or margin perspective in this quarter? Thanks.

George C. Roeth
President, Chief Executive Officer & Director, Central Garden & Pet Co.

A

So, I would say simply those facilities are up and running and running well, we're seeing it already drive lower costs and improve margins and it has given us the capacity to meet a growing demand and it's one of the – those businesses were one of the contributors to the Pet growth in the first quarter.

Jim A. Chartier
Analyst, Monness, Crespi, Hardt & Co., Inc.

Q

Right. And then the lower tax rate, have you made any changes to your thinking in terms of capital deployment. You have $300 million from the debt raise to make – to do M&A. I know you've got some additional tax savings, any thoughts on maybe share repurchases?

George C. Roeth
President, Chief Executive Officer & Director, Central Garden & Pet Co.

A

As of right now, no, we still like our – the M&A opportunities as well as our internal cost savings and growth opportunities both internally and externally. So, I would say, repurchase would be a distance third right now. We feel we can put all that money to work at a much higher IRR with the things that I just outlined.

Jim A. Chartier
Analyst, Monness, Crespi, Hardt & Co., Inc.

Q

Great. Thank you.

Operator: [Operator Instructions]

[Operator Instructions] There are no further questions. I'd like to turn the call back to George Roeth for closing comments.

George C. Roeth

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

I just want to thank everybody for joining us today and have a great day. Bye.

Operator: This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.