Corrected Transcript

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# Central Garden & Pet Co. (CENT)

Q3 2018 Earnings Call

# CORPORATE PARTICIPANTS

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Ladies and gentlemen, thank you for standing by. Welcome to Central Garden & Pet's Third Quarter Fiscal Year 2018 Financial Results Conference Call. My name is Kevin 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 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, sir.

## Steven Zenker
*Vice President-Finance, Investor Relations, FP&A and Corporate Communications, Central Garden & Pet Co.*

Thank you, Kevin. 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 third quarter ended June 30, 2018 is available on our website at www.central.com and contains the GAAP to non-GAAP reconciliation for any 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, long-term organic growth goals, future acquisitions and future revenue, cost savings and profitability as well as the expected impact of the recent tax reform act 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. Central Garden & Pet continued its strong growth trajectory in Q3 by increasing overall sales 15% and EPS by 27% to $0.79 per share versus $0.62 a year ago. The business remained on track to deliver our fiscal 2018 EPS guidance of $1.90 per share or higher on a non-GAAP basis.

Results for the quarter were driven by our recent acquisitions, particularly Bell Nursery which helped us overcome flattish overall company organic sales due to particularly challenging weather patterns and significant impact caused by calendar year shift in weeks that negatively impacted Q3 Garden sales versus a year ago. Importantly, we believe that we've built overall market share in Garden and fiscal year-to-date Garden organic sales are down just 0.6% versus a year ago and are trending ahead of her category estimates.

Strong organic Pet sales growth of plus 7% left organic sales for the total company virtually flat for the quarter. Despite the weather challenges, fiscal year-to-date organic sales for Central overall were up 2.5% versus a year ago, within our long-term goal range of 2% to 3%. And importantly, we continue to build market share in both the Garden and Pet segments, while making progress setting up our businesses for continued sustainable long-term growth.

Overall, our Garden net sales for Q3 were up 16% due to the acquisition of Bell Nursery business, which of course was not in last year's results. Because Bell competes in the live garden goods has extreme seasonality and, as expected, significantly contributed to our Q3 sales and profit results. Bell, along the very tight spending management and cost savings on the base business, allowed Garden deliver EBIT growth of $2.6 million or plus 7% over a year ago.

Our Pet business had a terrific Q3, up 13% net sales and 9% in EBIT versus a year ago. Organic sales grew a robust 7%, most notably in our legacy pet distribution business and dog and cat business, which were more than enough to offset softness in our animal health businesses.

We continue to build share overall in Pet with robust sales growth in both brick and mortar and e-commerce. Our overall Pet sales also benefited from the General Pet acquisition. General Pet filled a key missing piece in our pet distribution geographic footprint and we're excited about what that business can contribute to the company over time.

While we're on track for overall operating income and EPS goals, we continue to remain attentive to margin pressure on the business. The total company's gross margin declined 120 basis points, with operating margin down 90 basis points for the quarter. Low organic volumes in Garden were a key factor; however, we also faced mix issues in our Pet business. Rising input and logistics costs were also factors in both segments.

Importantly, our margins had benefited from low-cost producer initiatives and we are on track to deliver our cost savings target for the year. For example, we continue our expansion of our grafting enhancement activities which has helped drive product performance and margins in that business in the last several years.

Additionally, we have taken pricing on key pieces of our portfolio, including in the Garden segment, however, increases will not be evident until next year's season. In addition, we have near-term plans to take even broader pricing across the portfolio, including Pet, to offset higher costs including tariffs in order to protect our margins.

I am very proud of how the company has, shall we say, weathered the storm in Garden while integrating two meaningful acquisitions, managing the continuous transformation of the retail landscape in the pet industry, and in both segments building market share in the intense competitive environment we face.

I'll now turn it over to Niko to review some of the details of our financial results.

## Nicholas Lahanas

*Chief Financial Officer, Central Garden & Pet Co.*

Thank you, George. Good afternoon, everyone. We issued our third quarter press release with our financial results earlier today. I'll give you some more detail on the results and then turn it back to George for his closing remarks.

Central's earnings per share was $0.79 for our third quarter, up 27% from $0.62 over the same period a year ago. Third quarter sales rose 15% versus the prior year to $658 million, with our recent acquisitions of Bell and General Pet the primary drivers, along with strength in the Pet segment.

Organic growth was relatively flat as weakness in April due to the late start of the season impacted Garden results significantly, essentially negating strong organic growth in Pet. Keep in mind that in last year's third quarter, we had very strong organic growth of 8%. So, the comparison was difficult even without the unfavorable weather.

Consolidated gross profit rose $19 million and our gross margin decreased 120 basis points to 30.7% impacted by a number of factors, including low organic volumes in Garden, mix of revenue, and higher raw material and freight costs across both businesses.

SG&A expense for the quarter increased 13% or $16 million versus a year ago, but as a percent of sales was down 30 basis points at 21.5%. Company operating income for the quarter increased 5% to $61 million. Operating margin declined 90 basis points to 9.2%, primarily due to the lower gross margins as well as the negative impact of the General Pet acquisition. As you may recall, the distribution business typically carries a lower operating margin than our manufacturing businesses.

Turning now to the Pet segment, Pet segment sales for the quarter increased 13% or $41 million to $355 million, with organic sales rising 7%. The increase was driven by continued strength in the mass market, e-commerce and club channels. Our dog and cat segment continued to exhibit good growth and our legacy pet distribution business experienced strong sales from the national rollout for a large supermarket customer. Our animal health business saw a small decline in sales due in part to a lingering impact from unfavorable weather.

Pet segment operating income for the quarter increased by $3 million or 9% compared to the prior year to $39 million. Pet operating margin decreased 40 basis points to 11.1%, but on an organic basis was flat. While several businesses in the Pet segment saw higher margins, most notably wild bird, small animal, dog and cat, and pet distribution, the improvement in those businesses was offset by an unfavorable mix of sales versus last year and higher raw material, transportation and labor costs.

Turning to Garden, for the quarter, Garden segment sales increased 16% or $42 million to $303 million. Due to the acquisition of Bell Nursery, organic growth declined 8% as disappointing April consumer takeaway for the company and the industry as a whole and followed a weak March led to lower than expected re-orders from retailers. While May and June saw some solid POS gains, the higher than normal inventory levels at stores due to the lower demand in March and April absorbed much of this demand. There was also a shift in weeks during the quarter, essentially adding a week at the end of June and losing a week during the peak selling season at the end of March.

Keep in mind, we had reported organic garden growth of 6% last quarter which benefited from the shift in weeks. And in addition, we are comping against a very challenging 15% gain in the third quarter a year ago.

Garden's operating income rose to $41 million from $38 million in the third quarter of last year, but operating margin decreased 120 basis points to 13.5%. Bell Nursery in its largest quarter of the year was responsible for the gain in operating income, more than offsetting a decline due to lower volumes in the Garden organic business.

Much of the drop in Garden operating margin was due to the decline in volume which reduced production efficiencies. Also, higher cost including raw material in inbound freight charges also negatively impacted the operating margin. I should note that Bell's profit contributions this quarter were significant, as it is its largest quarter of the year. However, in the other three quarters, Bell typically has a loss. Since we acquired Bell in late March, our fiscal year 2018 will not include two full quarters of Bell losses. As we add Bell for the entire year, we estimate our annual EPS would likely be $0.10 lower, albeit still accretive for the full year.

One word about our acquisitions in general. In the case of both Bell and General Pet, on an annual basis, we expect they will have a negative impact on our operating margin, partly due to the amortization of results from purchase accounting. Consequently, when we look at making an acquisition, we are really looking at EBITDA and how the financials will be impacted on an EBITDA basis, as well as the return on invested capital relative to risk adjusted cost of capital. Going forward, you'll see us talking more about EBITDA, which will give investors a better sense of the contribution from our acquisitions.

Now, getting back to our consolidated results. In the second quarter, we had other income of $2 million, up $500,000 from a year ago. Net interest expense increased $3 million to $10 million, primarily due to incremental interest expense on our new notes that we issued in December of 2017.

Our tax rate for the quarter was 21.5% as compared to 37.2% in the second quarter a year ago. The decrease includes the reduction in the federal tax rate and the favorable impact from the changes in a recent accounting standard around non-cash equity compensation expense. The impact of the latter is likely to vary quarter-to-quarter, depending on among other things the market price of our stock and employee option exercise activity.

Turning to our balance sheet and cash flow statement. Cash at the end of the third quarter was $204 million, up from $14 million at the end of third quarter of last year. The increase reflects the inclusion of the proceeds of the debt offering we closed in December last year, partially offset by our Bell Nursery and General Pet acquisitions which together totaled $86 million.

Total debt was $692 million versus $435 million last year, up due to the December 2017 debt offering. Our leverage ratio at the end of the quarter was 3.2 times compared to 2.1 times a year ago, well within our target range. We also had $400 million of availability on our credit line at the end of the quarter.

For the quarter, cash flow provided by operations was $112 million, down from $139 million in the third quarter a year ago, due primarily to increase in working capital due to the acquisitions we had made. Additionally, we also had lower accruals for federal taxes due to the reduction in the tax rate.

CapEx was $9 million versus $10 million in the third quarter of 2017. Depreciation and amortization for the quarter was $13 million, up from $11 million a year ago, primarily due to recent acquisitions.

Now, I will turn it back over to George.

## George C. Roeth

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

Thanks, Niko. As I mentioned earlier, we remain on track to achieve our EPS guidance for the year of $1.90 or higher on a non-GAAP basis. Please note that the guidance does include the benefits from the most profitable time period on Bell's business in this fiscal year, while excluding almost two full quarters that typically exhibit losses.

Despite the timing and purchase accounting challenges that sometimes are associated with M&A transactions, we remain very bullish about the shareholder value creation of our M&A program. Both Bell and General Pet meet key strategic needs and were acquired at EBITDA multiples that we are very comfortable with.

The company is in an excellent operating rhythm and our acquisitions over the last several years have contributed to our growth, with collective revenues up 4% annually since becoming part of our portfolio. You can expect this to get even more aggressive in the quantity and size in our acquisition activity in the coming years. Having said that, I should note that you can never control deal timings and Central will continue to be prudent in the valuation of the companies.

In summary, we're pleased with the results of the quarter. Year-to-date, we are financially where we expected to be, with market share gains in both business segments and well-positioned for future organic and inorganic growth.

Now, we can turn it over for your questions.

# QUESTION AND ANSWER SECTION

**Operator**: Thank you. [Operator Instructions] Our first question today is coming from Bill Chappell from SunTrust. Your line is now live.

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 Financal Officer, Central Garden & Pet Co.*

A

Hey, Bill.

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

Q

Hey. George, just trying to understand and sorry if we're a little confused. Just how the quarter came in versus your expectations? When you last talked to us in May, we'd known kind of what April would look like, you obviously always knew about the week shift in the season. So, is it safe to say this was all kind of in line with what you were expecting, including kind of the gross margin degradation or what have you or were there some surprises that we didn't see?

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

A

I would say there is a lot of moving pieces in our company and we had signaled at the beginning of the year that the year would probably be bumpy because of all the moving pieces. You had tax changes, you have the garden season weather you can never predict, you have investments that we can gage the timing on depending how things are tracking, and we have the two acquisitions frankly which we've never held before. So, there are a lot of moving pieces. I would tell you, in aggregate, we came in, as I said, pretty much where we expected to be, every piece probably varied to some degree, but overall in line with expectations.

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

Q

And then – and I appreciate that. If I look at the Garden – I mean the Pet business, you talked about that the distribution business growing. I mean where are we on the Kroger rollout? Will that have a bigger impact going forward or are we seeing kind of the full impact in terms of expanded distribution this quarter?

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

A

Hey, Bill, this is Rodolfo. We are pretty much done in the roll out for Kroger.

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

Yes.

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

So, right now, the only think you would see is a wrap-around effect during next fiscal year.

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

Which...

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

Will affect mainly Q1 and Q2.

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

The only thing I'll add to that is, in the rollout of Kroger, there were some startup costs, I'll call it, in terms of you're putting people in place, you're spending to make sure your customer service level is as high as they possibly could be during the challenging time and I would say you'll see a more efficient operation going forward.

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

Yes, among the big ones, we need to add facilities to take care of Kroger.

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

Got you. And then last one for me. Just trying to understand maybe input costs and pricing as you go into next year, certainly, we've heard Scotts talk about needing to take some price for some inputs that you compete on private label, but also didn't know if there was a way to quantify kind of how tariffs are expected to impact you.

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

Yes. So Bill, this is Niko. I'll start with the tariffs. As we look at our business, we have about 10% of our costs coming in from China. So, we don't have a ton of exposure on that front. That said we have every intent to work with the vendors over there to see what kind of cost we can take out. We look at our own business every year as you know, taking costs out. And then the third move is obviously pricing and working with our retail partners around making sure that everyone is making a reasonable margin to get the product to the consumer.

As far as inputs go, we're going to probably echo a lot of what you're hearing from our competitors. Delivery trucking expenses are up. We're seeing labor going up, and then we're seeing some raw materials go up, particularly in the fertilizer area with respect to urea and potash. We have yet to see how the harvest plays out and see how the grains and our grass seed do. But that's, yes, we'll be taking some price along with our competitors.

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

Q

Got it. Thanks so much.

**Operator**: Thank you. Our next question is coming from David Westenberg from C.L. King. Your line is now live.

David Westenberg
*Analyst, C.L. King & Associates, Inc.*

Q

Hi. Thanks for taking the question. So just a quick one on tax rate. Do we have any clarity on what you would expect? I think before you gave around the 25%, is that still correct?

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

A

Are you talking about for the fiscal year or are you talking – what time period are you talking about?

David Westenberg
*Analyst, C.L. King & Associates, Inc.*

Q

Fiscal year, just generally speaking, where we should be, where you think your company is going to fall.

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

A

If you look at where we start – maybe this will be helpful. Our statutory rate is closer to 27%, 27.5%. You saw year-to-date we're at about 7%. That differential is about two thirds of it, is due to the revaluation of our deferreds and about one-third of that is the stock compensation that we had to – that the ASC we adopted. So, that gets you there?

David Westenberg
*Analyst, C.L. King & Associates, Inc.*

Q

Yes. Thank you very much. And then can you talk a little bit about where you are -- where your products are in terms of product segmentation and maybe some of the advantages and disadvantages you have for price increases relative to competitors? Now I know your cost inputs are going to be industry wide, so everybody's prices are going to go up, but just some way to think about how you're differentiated versus competitors when these prices go up.

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

A

Okay. So, David let me start -- this is Rodolfo again. Before I go into, hey which product can we take or which one we cannot take, what I can take, let me start at different – slightly different question is, hey why should I believe you can take the price.

The first piece is, we have done it before, we have done it this year already in several of our categories and we have not done that in many years before. So, it's clear for our customer partners that this is not us just [ph] trigging up (21:56) the P&L. The second one as you mentioned that was really the inflationary cost is obvious. So it's clear what's going on with trade, it's clear what's going on with labor. So the pressure is there. And related to that, we have seen movement in many of the categories where we compete.

Now you're right, our brands are very meaningful in the categories where we compete. And because of that we are very comfortable with the fact that we will have a clear conversation with our customers in where the cost is and where it needs to do what Niko mentioned and make sure that everyone can make good margin in these categories.

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**David Westenberg**
*Analyst, C.L. King & Associates, Inc.*

Q

Okay. Thank you. And then let me just on more on acquisitions here. Any change to what are you thinking about Pet versus Garden, and which one will be the focus. I know Garden, there's been more opportunities just given the fact that your competitors aren't necessarily there. Is that still where you see the most opportunity, or is that shifting at all? Thank you very much.

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

A

Well, just from a numbers standpoint, there's going to be more opportunities over in Pet, you've got 1,400 suppliers of pet products out there in the world to choose from. And over on the Garden side, it's a much more consolidated market from both the supplier and customer standpoint. So, pressing a little more target reach, you're going to see more opportunities, see more things around like Pet Tech kind of opportunities.

So I would just say from a numbers game, it's going to be more on the Pet side. That said, we just did one over on the Garden side, and we love the Garden business. We think there are some areas where we can really bolster that Garden business, it's got great momentum, it's got a great management team, so does our Pet side, but we just -- we love both segments. So we're going to be somewhat opportunistic and see which deals make the most sense, run the numbers and see where the best fit is.

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**David Westenberg**
*Analyst, C.L. King & Associates, Inc.*

Q

Thank you guys.

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**Operator**: Thank you. Our next question is coming from the Jim Chartier from Monness, Crespi & Hardt. Your line is now live. Jim your line is live, perhaps your phone is on mute. Hello Jim, perhaps your phone is on mute, your line is now live. Please return to the queue for a question.

Our next question is coming from Bradley Thomas from KeyBanc Capital Markets. Your line is now live. Hello Bradley, your line is now live. Perhaps your phone is on mute. Hello Mr. Thomas perhaps your phone is on mute. Please proceed with your question.

Our next question is coming from William Reuter. Please proceed with your question.

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Q

Hey guys, this is [ph] Mike (25:28) on for Bill. Just a couple of questions here.

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

A

Yes.

Q

Recently you guys introduced the new private label products for the specialty pet channel. We are just wondering how these introductions have gone and did they affect the mix in the quarter.

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

A

Okay. So, this is Rodolfo again. We have been participating in the private label for a long, long time and not only in the specialty channel, but actually in every major channel in which we compete. We believe private label makes sense when we have additional capacity, certain capabilities, certain customer partnerships that make sense.

In terms of margin, you're right in terms of private label obviously having a lower margin than our branded business on a gross profit level. But on operating margin, things are not that different, because the investment is also lower. What I can tell you is that, as of today and we started shipping it in Q4, we have private label businesses in every one of the major channels we compete, not only specialty but every one of them.

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

A

Yes, the only thing I would add is it's a little over 10% of our business in Pet and Garden and growing. And indeed pet channel, I would say there was no unique material moving launch; just the base business largely are growing.

Q

Great. And then just my last one, as you guys continue to grow revenue, is there a need to build any more distribution centers to increase capacity?

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

A

I wouldn't say there were any major inflection points on that front. Our distribution centers of both Garden and Pet have plenty of capacity to grow the businesses. We did have to add capacity on the Pet side to accommodate the major grocer rollout where we're providing basically rack jobber services to them. But that's behind us. And going forward, we don't see any major need changes.

Q

Great. Thanks

**Operator**: Thank you. Our next question is coming from Jim Chartier from Monness, Crespi, Hardt. Your line is now live.

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

Q

Sorry about that earlier.

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

Hi, Jim.

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

Hi. So, I just – on the raw material freight, just was wondering if you could quantify how much of an impact has higher raw materials and freight cost you in terms of gross margin this year versus your expectations initially back in September?

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

We don't give out those exact figures, but what I can tell you, freight had on – so, let me back up. When you look at the two segments, I'll start with Garden, which had the bigger drop in margin this quarter. That was primarily driven by volume. And I would say that's the overwhelming majority of it. Second, on the Garden side would be mix and then third would be input costs. On the Pet side, it's little bit of a different story where freight had a pretty big impact there. And then second would be input costs and then third would be labor.

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

And then, it's Niko, if I could add to that, on an organic basis, if you're looking at year to date, the garden margins are flat year-over-year.

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

Yes.

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

Okay. And then as you talk about price increases for the balance of this year and into next year, is that just a kind of recoup or kind of offset additional pressure you're seeing into next year or will you be able to kind of recapture some of what you lost this year?

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

Yes, so we priced to protect our margins and part of it to catch up on what's happened on cost to date, obviously. And then we look at how costs are projecting out on the year based on what we're seeing in the marketplace and, yes, we will price ahead to protect our margins.

We will not price to build margins. So we'll work hard to lower costs, we'll work hard to push back on suppliers. But all that can't necessarily be passed through, covered with your current activities in an inflationary environment, and we'll price to protect our margins going forward as well.

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

And then Niko, you mentioned earlier, your purchase accounting on the acquisitions.

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

A

Yes.

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

Q

How much of an impact did that have in third quarter and how much do you expect for all of FY 2018, and does any of that continue into next year for the acquisitions you've done this year?

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

A

Yes, I mean, we don't quantify exactly how much of an impact it had in the quarter. As I mentioned earlier, we're going to speak more in terms of EBITDA just to clean that up a little bit, so that you can see – have a clear view of the numbers as opposed to EBIT.

I would look – as a general rule, we're going to continue to be acquisitive. So the dollar is going to go up, which is why we want to start really talking more around EBITDA. So I would look for that to increase over time, particularly next year.

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

Q

Okay. And then, on the calendar shift, can you just quantify how much of an impact the calendar had as a benefit to second quarter and a detriment to third quarter for us?

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

A

So we won't break that out specifically. It was a significant contributor to the year-over-year change, particularly for Garden. As we said in the script, the week shift year-over-year was losing the last week of March and picking up the last week in June. Due to seasonality, that had pretty profound impact on the Garden business, both in Q2 where we reported very strong results and in Q3.

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

A

Yes, the only I'll add to that, there's a lot of assumptions when you go into the analysis. So I would say both the weather and the week shift were material.

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

A

Yes.

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

Q

Right. And then my last question, last quarter you mentioned that you're still selling some higher cost inventory in the Pet business. Have you started to sell the lower cost products from the new consolidated New Jersey facilities yet?

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

A

Yes, so those facilities are up and running. I have not specifically looked at that by item issue, but I know the margins apples-to-apples on those businesses are where we would expect them to be and pleased with the change.

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

Q

Okay, thanks. And best of luck.

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

A

Thank you.

**Operator**: Thank you. [Operator Instructions] Our next question is coming from Hale Holden from Barclays. Your line is now live.

Hale Holden
*Analyst, Barclays Capital, Inc.*

Q

Hi, thank you for taking the call. I just have two. We've talked about the cost inputs quite a bit. But I was wondering, are there any specific tariffs you guys are looking at in terms of inputs from China or elsewhere?

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

A

Well I would say the tariffs right now are concentrated in Pet and not significant yet. There are three ways of tariffs. The first one is rather small in one of our Pet businesses. The other two are to be decided. And as Niko pointed out, only 10% of our cost of goods come in from China. So we think however this plays out, given what we'll do, managing the costs with our suppliers, finding new suppliers, we will be able to manage our way through it effectively.

Hale Holden
*Analyst, Barclays Capital, Inc.*

Q

Okay. And then the second one is, you guys mentioned in the script that you managed through some of the disruptions in changes in channel on Pet retailing. I was wondering if you could just give us a sense of where you think we are in that level with the disruption? Do you see it continuing in the back half of the year just in terms of channel mixes and consumer changes, or is it sort of stabilized out?

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

A

Yes, so this Rodolfo taking that one. So, entering the transitional channel since -- is rapid in the last two years when you talk about e-commerce. But if you see the last couple of quarters, the growth has continued but not at the same pace. So do I expect e-commerce to continue gaining share? Yes. Do I expect Pet specialty and specialty is really one or two customers there to be having more challenge? The answer is yes.

Now the important thing for us is we have proven we can compete in every channel. We saw this coming a couple of years ago, and we changed our practices for doing two things. One is to make sure that we're there for our partners in Pet specialty and other channels that were being challenged, and because of that we have been able to grow share in every customer but one. And on the other side, we changed our capabilities to be able to take advantage of the growth in e-commerce, which we have done also pretty well, and that's how we got to a 7% organic growth.

Hale Holden
*Analyst, Barclays Capital, Inc.*

Q

Got it. Thank you. And I just had one follow-up on the private label side. We've talked on this call a little bit about your potential to take pricing later this year to focus on cost savings. Do you guys feel like you have the ability to take pricing on private label kind of organically without the brands equivalent moving or do you have to wait for the brand to move?

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

A

Well, the whole industry is facing the same cost pressures, so I'm fairly confident that brand and private label products will have to go up. On the private label side, we get into private label, we're at a low cost producer and where we have excess capacity.

We believe that we can take pricing in private label when input costs are going up, because we'll be faced by our competitors who are bidding with us. And the reality of it all, if we don't take pricing to cover costs going up in the industry, that's a long way to disaster. So our view is we have the competitive position to take pricing and we'll take pricing.

Hale Holden
*Analyst, Barclays Capital, Inc.*

Q

Great. Thank you very much for the time. I appreciate it.

**Operator**: Thank you. [Operator Instructions] We've reached the end of our question-and-answer session. I would like to turn the floor back over to George for any further or 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 good one.

**Operator**: Thank you. This does conclude today's teleconference. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.