

# Central Garden & Pet Company NasdaqGS:CENT FQ1 2024 Earnings Call Transcripts

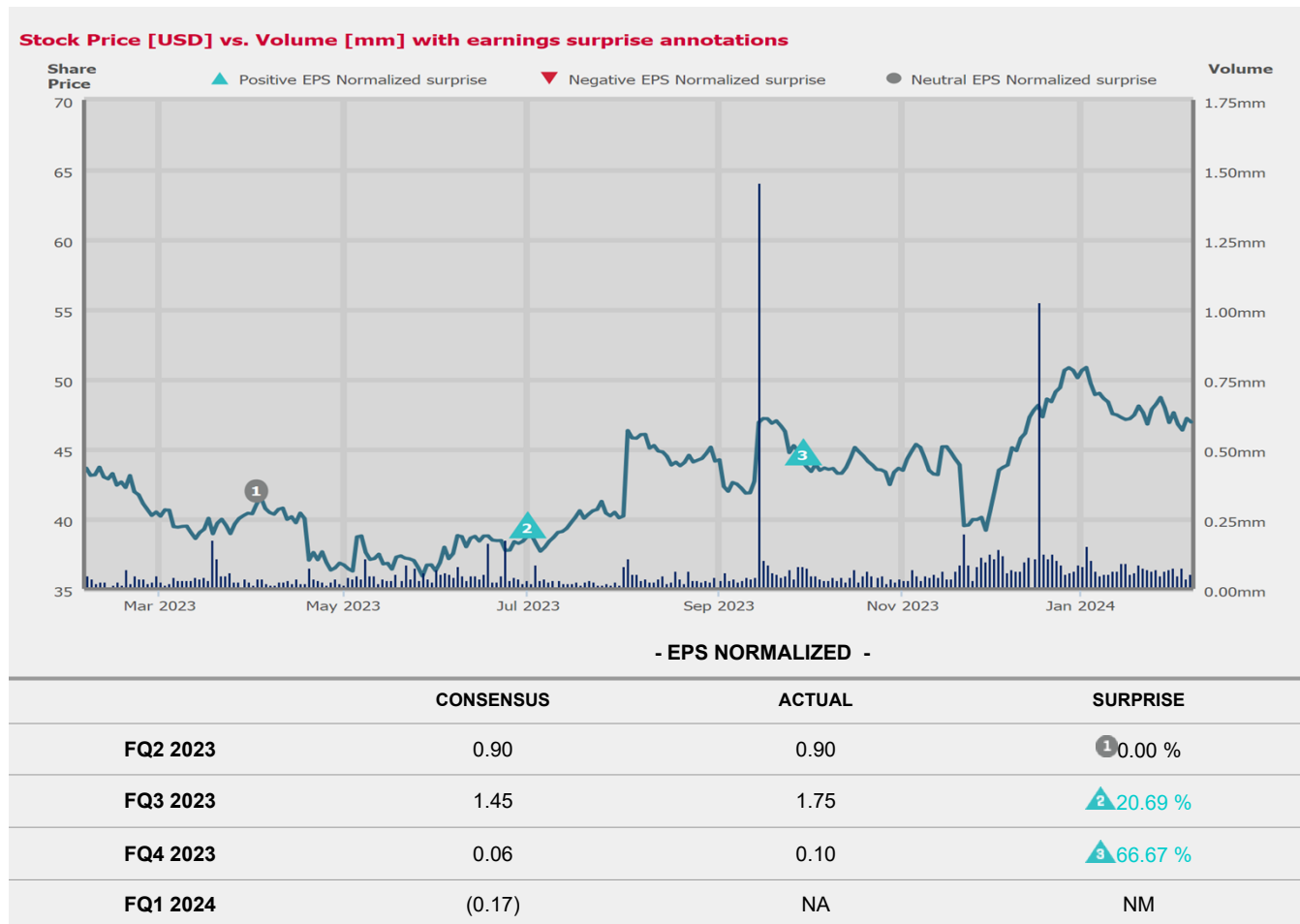
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S&P Global Market Intelligence Estimates

	-FQ1 2024-			-FQ2 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.17)	NA	NM	0.98	2.59	NA
Revenue (mm)	617.02	634.53	▲2.84	878.33	3225.52	NA

Currency: USD

Consensus as of Feb-08-2024 8:31 AM GMT



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# Call Participants

## EXECUTIVES

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*Vice President of Investor Relations*

**John D. Walker**

*President of Garden Consumer Products*

**John Edward Hanson**

*President of Pet Consumer Products*

**Mary Beth Springer**

*Interim CEO & Director*

**Nicholas Lahanas**

*Senior VP & CFO*

**William Bates Chappell**

*Truist Securities, Inc., Research Division*

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*BofA Securities, Research Division*

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**Hale Holden**

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**James Andrew Chartier**

*Monness, Crespi, Hardt & Co., Inc., Research Division*

**Karru Martinson**

*Jefferies LLC, Research Division*

**Unknown Analyst**

# Presentation

## Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Central Garden & Pet First Quarter Fiscal 2024 Earnings Call. My name is Paul, and I will be your conference operator for today. [Operator Instructions] I would now like to turn the call over to Friederike Edelmann, Vice President, Investor Relations and Corporate Sustainability. Please go ahead.

## Friederike Edelmann

*Vice President of Investor Relations*

Good afternoon, everyone. Thank you for joining Central's First Quarter Fiscal 2024 Earnings Call. With me on the call today are Beth Springer, Interim Chief Executive Officer; Nicholas Lahanas, Chief Financial Officer; John Hanson, President, Pet Consumer Products; and J.D. Walker, President, Garden Consumer Products. In a moment, Beth will provide our key messages and Niko will discuss these in more detail. After the prepared remarks, J.D. and John will join us for the Q&A. Before they begin, I would like to remind you that all forward-looking statements made during this call are subject to risks and uncertainties that could cause our actual results to differ materially from what we shared today.

We've described the range of risk factors in our annual report filed with the SEC. Central undertakes no obligation to publicly update these forward-looking statements to reflect new information, subsequent events or otherwise. Our press release and related materials are available at [ir.central.com](http://ir.central.com), and contains a GAAP reconciliation for the non-GAAP measures discussed on this call. Lastly, all growth comparisons made during this call are against the same period in the prior year, unless otherwise stated. If you have further questions after the call or any time during the quarter, please don't hesitate to reach out to me. And with that, I will now turn it over to Beth Springer. Beth?

## Mary Beth Springer

*Interim CEO & Director*

Thank you, Friederike, and good afternoon, everyone. Let me begin with the 3 themes I hope you'll take away from our call today. First, the fiscal year is off to a solid start. We delivered earnings per share of \$0.01 and modestly grew net sales. Most importantly, we saw margins improving, thanks to our cost management and moderating inflation. Our market shares and total distribution points were up across most of our pet and garden businesses in tracked channels. We're particularly pleased to see our continued strong growth in e-commerce. Second, we're making progress on our multiyear journey to simplify our business and improve efficiency across our organization by rationalizing our footprint, optimizing our portfolio and improving our cost structure. We are intensely focused on this cost and simplicity program and continue to reap benefits from initiatives we implemented previously as well as kick off new projects. Some examples of recent initiatives are the closure of a live plant facility and the implementation of an enhanced treasury management system.

And third, our outlook for the fiscal year is unchanged. The vast majority of our garden season is still in front of us, and we continue to expect a challenging external environment for the balance of the year. Rest assured that all 6,700 members of us on Team Central are working hard to meet or exceed that guidance. Looking beyond the first quarter, we remain confident in our Central to Home strategy, the long-term vibrancy of the pet and garden industries and the competitive strengths of our business, and we continue to make thoughtful investments for the future. With that, let me turn it over to Niko, who will share with you more details. Niko?

## Nicholas Lahanas

*Senior VP & CFO*

Thank you, Beth. Good afternoon, everyone. Expanding on Beth's key themes, I'll cover details of our first quarter results, the strides we are making on our cost and simplicity program and our outlook for the year. Let's start with our Q1 results. Net sales increased 1% to \$635 million. Organic net sales also grew 1%. Consolidated gross profit increased 4% to \$179 million. Gross margin improved 80 basis points to 28.2%, driven by our laser focus on cost management and moderating inflation. We've successfully controlled what we can control. SG&A expense of \$170 million was in line with prior year, and SG&A as a percentage of net sales decreased 40 basis points to 26.9%. The operating income increased by \$8 million to \$8.4 million, and operating margin increased 120 basis points to 1.3%. The increase was driven by improved gross margin and our focus on cost and cash, resulting in lower SG&A as a percentage of net sales.

Net interest expense was \$10 million compared to \$14 million in the prior year, driven by higher cash balances and higher interest rates. Net income was \$430,000 compared to a net loss of \$8 million a year ago. Our earnings per share were \$0.01 compared to a loss per share of \$0.16. Adjusted EBITDA was \$37 million compared to \$29 million.

From a tax standpoint, we realized an outsized tax benefit for the quarter, larger than our small loss due to stock compensation. For the year, we expect an effective tax rate in the range of 22% to 24%, similar to 2023. I'll now provide some color on our 2 segments, starting with Pet. Pet segment sales declined 2% to \$409 million as growth in health and wellness and aquatics and reptile was more than offset by double-digit declines in durables across pet beds, small animal and our distribution business.

In line with the softness in pet ownership after the COVID spike, we expect the headwinds for [ durables ] to continue. Organic net sales, which exclude the TDBBS acquisition declined 5%. Underscoring the health of our business, we grew market share in total distribution points or TDPs in the majority of our categories, including dog toys, small animal, pet bird and aquatics and health and wellness.

Our e-commerce business continues to grow and now represents approximately 26% of our pet sales. Pet segment operating income improved by 10% to \$43 million, and operating margin improved 110 basis points to 10.6%, driven by recently implemented initiatives under our Cost and Simplicity program and lower commercial spend. Pet segment adjusted EBITDA was \$54 million compared to \$50 million a year ago. Turning now to Garden, Garden segment sales grew 6% to \$225 million, driven by early season shipments in controls and fertilizer, grass and packet seeds. Unfavorable warmer weather negatively impacted sales of Wild Bird.

Recall that we recently sold the independent Garden channel distribution business, which represented approximately 5% of Garden sales and was margin dilutive. Organic net sales increased 11%. Garden segment operating loss was \$9 million compared to a loss of \$11 million a year ago. Garden segment operating margin improved to negative 3.9%, driven by improved gross margin and favorable overhead absorption, partially offset by higher commercial spend. Garden segment adjusted EBITDA was \$2 million compared to a breakeven a year ago.

While Garden performance was strong in the first quarter, it is not indicative for the year as our first quarter typically represents only 15% of annual Garden sales. The prior year quarter ended on Christmas Eve. This year, we had a more favorable timing with the quarter ending a week later. In addition, select retailers have been loading their stores earlier in anticipation of the season. We gained market share in grass, fertilizer and insecticides, thanks to our investments in consumer insights and brand building. And although it's still a small part of our Garden business, our e-commerce sales grew double digits versus prior year.

Now moving on to the balance sheet and cash flows. We are pleased with the strength of our balance sheet and the progress we made decreasing inventories by \$76 million despite the added inventory from the TDBBS acquisition. Cash and cash equivalents at the end of the first quarter were \$341 million compared to \$88 million a year ago, an increase of \$254 million after paying for the TDBBS acquisition and our usual Q1 working cap build. Net cash used by operations was \$70 million for the quarter compared to \$63 million a year ago. CapEx was \$10 million for the quarter, 43% below prior year.

This quarter, we invested in maintenance and productivity initiatives in dog and cat, small animal, bird, [ graph ] and live goods. Total debt of \$1.2 billion was in line with prior year. Our leverage ratio was 3 at the end of the quarter compared to 3.1x a year ago, well within our target range. We had no borrowings under our credit facility at the end of the first quarter. Depreciation and amortization for the quarter was \$23 million compared to \$22 million in the prior year quarter. During the quarter, we repurchased approximately 40,000 shares or 1.4 million of our stock. Now turning to some of the strides we are making on our Cost and Simplicity program. As a reminder, we've identified a series of projects across procurement, manufacturing, logistics, portfolio optimization and administrative costs.

Let me share a few highlights from the first quarter. We see procurement as one of the largest opportunities. We have projects underway to further centralize the purchasing of items such as pallets, corrugates and containers. We are improving our capabilities with training and best practices and are investing in software solutions to lay the groundwork for future savings in procurement. Following the closure of our outdoor cushion manufacturing and warehousing facility in Amarillo, Texas, we just closed a live goods greenhouse in Burtonsville, Maryland. In addition, we continue to reduce our SKU count across our Pet and Garden businesses and are deploying technology solutions to reduce waste and increase manufacturing yields. As a result of the recent sale of our independent garden center distribution business, we closed our Portland, Oregon Garden distribution facility. Additionally, we are in the initial stages of integrating our recent acquisition of the dog treat and chew company, TDBBS. We are pleased with their performance thus far.

Lastly, we are implementing an enhanced treasury management system to streamline our treasury process, reduce costs and complexity of bank connectivity, minimize interest expense and improve forecasting and cash returns. We remain focused on this

multiyear journey to reduce costs, simplify our business and improve efficiency and we'll continue to provide quarterly updates. Our pipeline of projects to leverage our scale and deploy our capabilities across the company is strong, and we will continue to prioritize business continuity and minimize disruption to our operations.

As in the past, our goal is to supplement organic growth with acquisitions, and we expect there will be plenty of opportunity ahead of us. As announced in December, our Board of Directors approved a stock dividend to increase the liquidity in our Class A common shares. We believe the enhanced liquidity will benefit our stockholders and provide Central with more flexibility to pursue our growth objectives. Tomorrow, at the close of business, each shareholder will receive one additional Class A common share for every 4 shares of any class of shares held on the record date on January 8.

Trading will begin on a dividend-adjusted basis the day after February 9th. And finally, turning to our fiscal '24 outlook, which is unchanged from the guidance we gave in November. We continue to expect non-GAAP EPS for the year of \$2.50 or better, translating to non-GAAP EPS of \$2 or better after the stock dividend. For the remainder of the fiscal year, we assume a challenging environment with deflationary cost pressures in certain commodity businesses, softer consumption in a number of categories and lower foot traffic in key retailers. Our outlook includes modest carryover pricing to help mitigate inflationary headwinds.

While we've done an excellent job managing inventories, higher value inventory continue to put pressure on margins. The benefit of the lower cost is taking more time to realize as we continue to work through on-hand high-cost inventory. Additionally, our expectation for CapEx remains unchanged at about \$70 million across both segments, driven mostly by maintenance and productivity initiatives. Our guidance reflects our belief in the competitive strength of Central, our Central to Home strategy and the long-term trends supporting growth in the pet and garden industries. In the near term, we will continue to focus on cost and cash, and we'll take a more deliberate approach to investments in our consumer growth agenda.

Thanks to our strong financial position and the amount available on our credit facility, we are always on the lookout for great growth and margin accretive acquisition targets in both Pet and Garden. This outlook excludes any impact from potential acquisitions or restructuring activities undertaken during the year, including any projects under the Cost and Simplicity program. The outlook also excludes the impact of our recent TDBBS acquisition given we're still in the initial stages of the integration process. And with that, we'd like to open the line for questions.

# Question and Answer

## Operator

[Operator Instructions] Our first question is from Bill Chappell with Truist Securities.

### **William Bates Chappell**

*Truist Securities, Inc., Research Division*

I just wanted to talk a little bit more on the garden side. I mean you said in the quarter, there was some earlier shipments of some garden categories, and that's kind of -- and I know December quarter is not indicative of the full year. But I thought the trend had largely been more just-in-time ordering for everything to the retailers, especially as we go into the season. So, is that any different? Or you expect even more tightening of orders closer to time of sale? Or is it loosening -- any kind of color you can give on that would be great.

### **John D. Walker**

*President of Garden Consumer Products*

Bill, it's J.D. I think it's too early to determine if this is a long-term trend or not. Last year, we definitely saw orders moving closer to consumption just in time. This year, we mentioned in the script that our quarter ended a week later. So last year, it ended -- just before Christmas this year, it was a week later, 12/30. That week after really helped with shipments, the retailers start to load the stores in anticipation of the season. We also saw a couple of select retailers decide to move their shipments forward. And I don't know that that's going to be a long-term trend or not. And not all retailers did that, but a couple of key retailers did, and it impacted our sales for the quarter.

### **William Bates Chappell**

*Truist Securities, Inc., Research Division*

Got it. So, in general, where would you say the enthusiasm -- we've heard kind of mixed results out of the DIY retailers right now to start the year anyways. How do you think they're set up or looking for the upcoming season?

### **Nicholas Lahanas**

*Senior VP & CFO*

Well, Bill, they're all saying the right things. I'd say that they're all signaling that they're eager for the season. Obviously, lawn and garden drives a lot of footsteps into the store during the spring, and they're in a much better inventory position this year than they were a year ago. So, I do believe that they're looking forward to the upcoming season to get back on track, if you will. Last year was a bit of an anomaly with heavier inventories and the weather never fully cooperated. This year they're saying that they're excited about the season. And I think their actions are backing that up. We're seeing a lot more promotional activity, a lot more engagement from the customer. And we're looking forward to the season as well. So, I think we're cautiously optimistic at this point.

### **William Bates Chappell**

*Truist Securities, Inc., Research Division*

Got it. And then switching just to Pet, you would sound the concern, Bill, about just overall pet trends, especially for durable as we move into '24, I mean, we certainly saw some of that on the durable in 1Q. Are you seeing that bleed over into any of the other segments of Pet in terms of just overall consumer demand or trade down or a bad term destocking of Pets?

### **John D. Walker**

*President of Garden Consumer Products*

Yes, Bill, this is John. The biggest place we're seeing is what we mentioned, and that's durables, double-digit declines in durables, softening pet ownership from the COVID highs. And keep in mind, in the category, approximately 75% of the category is consumables and 25% is durables. With our business, we run 80:20. And the good news for us is we're taking market share in both consumables and durables. So, we feel good about that. But the category does remain soft. We're seeing some moderating growth in consumables as well. But I wouldn't -- in the categories we compete, I wouldn't say we've seen a trade down per se.

## Operator

Our next question is from Brad Thomas with KeyBanc Capital Markets. Please proceed with your question.

**Bradley Bingham Thomas**

*KeyBanc Capital Markets Inc., Research Division*

I wanted to follow up with J.D., just about the all-important spring selling season here. And I was wondering if you could give us some color about how the promotional backdrop and competitive backdrop may be affecting things as you think about the months ahead here?

**John D. Walker**

*President of Garden Consumer Products*

Sure. Brad, I'd say that it's -- we don't have clarity in terms of some of the competitive -- the competitive environment for the future. I'd say that we feel good about the promotional aspect of it. So, I think what we're seeing is customers are going to be more promotional. We're getting our fair share there. They are bringing in inventory as we expected them to, so loading the stores, setting the stores, I think all the controllable aspects of that in front of us, we feel good about that, all the controllable causal factors, if you will. It's the uncontrollables that we don't know about, right? Weather and so on. But we've had 2 tough weather years. That's why we're taking a cautious approach, a more measured approach to the year.

But as I told Bill, the customers are very engaged our retail customers. Everything we can control in terms of product availability, promotional activity, we feel good about. I hear a lot of chatter about competitive environment, but we're not seeing it translate yet. I think that's still in front of us. And our approach will be -- we'll react to that as needed to defend share, to defend our share of shelf we'll certainly react. But right now, the season is still in front of us, and I don't think anyone is completely tipping their hand at this point in time. We do feel good about expanded distribution this year. So, our points of distribution have grown year-over-year. So, there's a lot to like about where we sit right now and with the season still in front of us.

**Bradley Bingham Thomas**

*KeyBanc Capital Markets Inc., Research Division*

That's great to hear. And a follow-up for Niko. Niko, you mentioned just the timing of selling through some of the higher cost inventory taking a little bit longer. But as we think about gross margin for the year, is there anything different to think about in terms of how you're thinking about gross margin for the year? Or is this just timing within the year?

**Nicholas Lahanas**

*Senior VP & CFO*

Yes, it's more timing. I think we're still feeling good about gross margin for the year overall. The other thing to take into account, we're going to continue along our Cost and Simplicity program, too. So, we're continuing to take cost out. And that should help. If you look at this last quarter, one of the biggest drivers was our cost-out initiatives in terms of expanding margin and then the moderating inflation definitely helped as well.

**Operator**

Our next question is from Jim Chartier with Monness Crespi & Hardt.

**James Andrew Chartier**

*Monness, Crespi, Hardt & Co., Inc., Research Division*

Could you just first talk about POS by business, how it trended and what are the key drivers behind them?

**John Edward Hanson**

*President of Pet Consumer Products*

Sure. I mean I can start. This is John, Jim. On the pet side, POS turned pretty similar to shipments. Our inventory is on the Pet side are in pretty good place. And again, the durable POS was significantly -- that's where the declines were, right? Consumables held pretty solid.

**John D. Walker**

*President of Garden Consumer Products*

And Jim, on the Garden side, POS was down slightly for the quarter. Now our portfolio is a little different than most of our competitors. We have a big wild bird business, wild bird feed, and that usually drives our business in Q1. The unfavorable weather that Niko referenced in the script impacted our wild bird business. So that POS or consumption was off. If you factor out wild bird, our POS was up mid to high single digits for the quarter on all of our other businesses.



**James Andrew Chartier**

*Monness, Crespi, Hardt & Co., Inc., Research Division*

Great. And then, Niko, just trying to understand kind of the impact of the cost-out initiatives this year, is there any way for you to kind of quantify the savings that are embedded in your guidance or what the expected savings are from initiatives that have already been implemented or kind of in the process of being implemented?

**Nicholas Lahanas**

*Senior VP & CFO*

No. We're going to stick with what we said before, Jim. We're going to give quarterly updates. I think in many cases, these things take time. So, we have to [ lapalize ] initiatives. So timing is going to play a role, too. So really hard for us to quantify all of these things going on at once. So, we're not going to focus on giving you a yearly forecast on cost out because I'm pretty sure we'd be wrong. Rather, we want to focus on what we're actually doing and sort of the costs behind those initiatives, similar to what we did a year ago.

**Operator**

Our next question is from Bob Labick with CJS Securities.

**Unknown Analyst**

It's [ Keith Lucas ] for Bob. You covered a lot of my questions here. Just sticking with the Garden business or going back to it here, are you -- what are you seeing or expecting this year in terms of pricing versus last year? And do you think a somewhat lower pricing could drive higher demand? Or kind of your thoughts on what you're thinking for the season?

**John D. Walker**

*President of Garden Consumer Products*

Yes. This is J.D. I will take that one as well. The -- so what we're seeing in some of our categories, we've seen some pricing -- we've made some pricing concessions where we have commodity-driven categories. Commodities have softened. We've made some concessions to the retailers, and they're in turn, passing that on to the consumers. But that's on some of the business. I'd say the bigger opportunity here is where we're passing on promotional savings to the consumer. We're being much more promotional. And I think that ultimately will drive more footsteps into the store more consumption in the categories. In general, across our categories, we're seeing fairly stable pricing, certainly not escalating like it was a year or 2 but not dramatic drops either.

**Unknown Analyst**

Very helpful. And then just one more for me. In terms of the M&A outlook, I think you mentioned in the prepared remarks seeing lots of opportunity. Is that something that you're still actively pursuing now? Or is that waiting for a new CEO? Or how should we kind of think about that for the near term?

**Nicholas Lahanas**

*Senior VP & CFO*

No. We're all in on M&A. In fact, we had some turnover in that group, and we're adding resources once again to really pursue that activity. And I think you have a proof point just a few months ago, we did the TDBBS acquisition and under best leadership as interim CEO. So, we're -- not having a CEO or a permanent CEO, call it what you want, will not slow us down. We're aggressively pursuing that initiative because it's important, as I mentioned in the prepared remarks, we want to grow organically and then supplement that growth with some robust M&A activity.

**Operator**

Our next question is from William Reuter with Bank of America.

**William Michael Reuter**

*BofA Securities, Research Division*

I have a couple. So first, in terms of the Wild Bird being down, do you think that was based upon weather on some level? Or do you think this is just based upon weak consumer spending and some consumers not being willing to feed birds when prices are really high.

**John D. Walker**

*President of Garden Consumer Products*

William, this is J.D. I'd say that it was almost completely driven by weather. So that business performs best when there's -- in the winter months when there's snow cover on the ground. It's one of the categories that performed best for us over the last couple of years when we saw the consumer in some categories, exiting the categories, our household penetration wasn't as great as it was during the pandemic. Wild Bird actually has been strong throughout that period of time. So, I don't think it's had to do with the economy. It had almost entirely -- it was a result of the unfavorable weather.

**Nicholas Lahanas**

*Senior VP & CFO*

On to JD's remarks, we had a soft first quarter in Wild bird. And then when we got the Arctic freeze in January, we saw the POS pick up right away. And so, you saw the snow on the ground and the consumer run in to buy the Wild Bird food.

**William Michael Reuter**

*BofA Securities, Research Division*

Got it. That's helpful. And then in terms of -- it wasn't entirely clear to me if there is any destocking that continues to happen in lawn and garden or pet in the categories in which you participate. Are there -- is there any more destocking that continues to go on or are inventories in good shape across all channels?

**John D. Walker**

*President of Garden Consumer Products*

Well, speaking for Garden, I'd say that overall, we're in good shape. Are there pockets where there will be some continued destocking pockets? It's a little bit lumpy. They can't get it perfect in all stores across the country. But I'd say, by and large, we feel good about where the inventory levels are now.

**Nicholas Lahanas**

*Senior VP & CFO*

Yes. And on the Pet side, very similar. We feel that retailer inventories are in very good shape. There may be some pockets, but it's very -- it's small. -- small scale.

**William Michael Reuter**

*BofA Securities, Research Division*

Got it. And then just lastly for me. I think given where public equities in the pet space have traded, I have heard that most private companies believe their valuations are hoping to achieve valuations in the sale of their businesses that are in excess of the public markets. Do you think that continues to be the case? Or are those expectations returning to reality?

**Nicholas Lahanas**

*Senior VP & CFO*

It's a mixed bag. It depends on the categories. So, it's like almost any business where you -- if you've got a lot more IP proprietary type of technology, higher barriers of entry, you're going to pay a higher premium on those. But yes, I mean, typically, what we've seen is the private market does follow the public -- so you always have that going on. And then when the public markets come down, you typically see the private markets follow. So, we've seen no slowdown in terms of higher multiples on the Pet side. That said, I think we did a nice job on our last acquisition in terms of valuation. We feel great about that. But yes, I think the pet multiples, particularly in the consumer space, dog and cat, I think you can expect those to be pretty high.

**Operator**

Our next question is from Andrea Teixeira with JPMorgan.

**Andrea Faria Teixeira**

*JPMorgan Chase & Co, Research Division*

Operator, I was hoping if you can elaborate a little bit more on the cost-out initiatives. I understand that you don't want to give precise numbers, but just to get some sense of what are the sources of buckets of those expenses? And if those will accelerate through the year or you're budgeting some reinvestment as they go through. I'm just thinking of your 80-basis point improvement in margin. I was trying to think if that's related to the TDBBS acquisition? And then on that, just as a fine print here, I believe if I did the math correctly, on that division, the acquisition contributed to about 3%, if we bridge organic, I guess, total sales, is that correct?

**Nicholas Lahanas**  
*Senior VP & CFO*

Well, first, let me start at the beginning. So, we've got the Cost and Simplicity program. We've got 5 primary drill sites. So, it's procurement, manufacturing, logistics, portfolio optimization and then admin costs. Last year, we kind of kicked that off. We talked about it. You've seen several initiatives happen over last year. And then we're going to continue with that here into '24 and '25. Again, we're going to give quarterly updates in terms of what we're doing. We talked this quarter about a greenhouse that we had shut down as well as a garden distribution facility that was sort of on the tail end of last year's sale of the independent garden distribution business.

So more to come there. In terms of the margin accretion or expansion this last quarter, largely driven by our cost initiatives as well as moderating inflation. I'd tell you, TDBBS was actually a drag on margin because we have to go through the purchase accounting there when we inherit that inventory, we have to mark it up. So, it actually did not help us much or at all. In fact, it was a drag. So, on margin. As far as top line, it had a de minimis effect on the top line as well. So, it was so far not a huge impact by the acquisition.

**Operator**

Our next question is from Hale Holden with Barclays. Please proceed with your question.

**Hale Holden**  
*Barclays Bank PLC, Research Division*

I had two. You mentioned that you gained distribution share in the Garden segment for the upcoming spring season. And that's actually what your primary public competitor said this morning. So, I was wondering if you think it's just different categories or potentially that your retail partners are expanding the category sets this spring or somebody is losing share, I guess, is the other alternative.

**John D. Walker**  
*President of Garden Consumer Products*

Yes. So Hale, this is J.D. I heard that as well. I did not hear them speak about specific categories, but I will tell you that we grew share in grass seed and fertilizers and insecticides. And while it's not tracked by syndicated data, we know that we also grew share in packet seeds. So, I didn't hear anyone else claim a category, but I will tell you that in those categories, we took share, we feel good about it.

**Hale Holden**  
*Barclays Bank PLC, Research Division*

Okay. The second question I had was at the risk of sounding like I'm asking a [ Fed watching ] question, your consumer outlook is pretty [ down ] and hasn't changed in a quarter or 2 in terms of how you're underwriting to the full fiscal year. And do you think there's some conservatism given how the consumers turned out? Or are you still sensing that there's some reluctance out there?

**Nicholas Lahanas**  
*Senior VP & CFO*

Well, we're taking more of a wait-and-see attitude. If you look at our last 2 years, we did miss our guide. And if you rewind to November, we talked about being a little bit more conservative in our outlook after missing guide 2 years in a row. So, I think we want to see how the weather plays out, how the garden season plays out. I think the early signs, we feel good. We feel great about the business. Q1 came into a solid start. I think we took market share in like 8 categories across Pet and Garden. We expanded margin. Balance sheet is in great shape. So, we feel really good about the business. We just need to see it play out kind of real time. And before that happens, we're a little remiss to get overly enthusiastic about the consumer.

**John D. Walker**  
*President of Garden Consumer Products*

And Niko, just building on that point. You said in the script, 15% of the garden season in Q1. So, 85% of the year in front of us, we're not going to celebrate too early, but we do feel good about where we are right now.

**Operator**

Yes. Our next question is from Karru Martinson with Jefferies.

**Karru Martinson**

*Jefferies LLC, Research Division*

And some of the headwinds that you referenced was working through that higher value inventory. How long do you feel that it would get -- will it take for us to get through that and kind of tying into that, what should we think about the working capital benefits this year on that front, given the benefit that we had this year?

**Nicholas Lahanas**  
*Senior VP & CFO*

Yes. So great question. We've got a few businesses that are extremely long on inventory, and we think that that's going to play out through this year and even into '25 a little bit. As far as working cap, we did a great job last year of converting that inventory into cash. We're going to continue to do that. Our work is not done as far as really working that aspect of the business. So, we're expecting a nice free cash flow number this year as well. So work is not done. I think anywhere from \$50 million to \$100 million of inventory that we can lower throughout this year.

**Operator**

Our next question is from [ Michael Kopla ] with JPMorgan.

**Unknown Analyst**

One thing that we wanted to ask about was that if you think that the fair share of promotions that you guys are getting is making some of your product may be priced pretty attractively and kind of how that stacks up versus the competitors that you see out there?

**John D. Walker**  
*President of Garden Consumer Products*

Michael, J.D. again here. So, I'd say from -- it's early to tell. We don't know what all they're going to do from a promotional standpoint. Like I said earlier, we feel very good about our promotional support that we've secured for the year. They've signaled a very strong second half of the year. So, I think a lot of that we'll have to react to as we get into the season. But they haven't tipped their hands fully in terms of promotional pricing, things like that. I'd say that going into it, just based on the way the market has been in the last couple of years, we feel like we're well positioned. We feel like we've got great promotional and display support and we'll have strong execution in the stores. But difficult to draw any conclusions. Here we are in early February with the season still, say, 60 days away.

**Operator**

There are no further questions at this time. I'd like to hand the floor back over to Friederike Edelmann for closing comments.

**Friederike Edelmann**  
*Vice President of Investor Relations*

Thanks, everyone, for joining our call today. Our IR team is available to answer any questions you may have. Thank you, and have a good rest of the day.

**Operator**

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

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