

# Q4 & FY 2023

## Investor Presentation

11.20.2023





## **Key Messages**

*Beth Springer, Interim CEO and Lead Director*

## **Q4 & FY23 Financials, FY24 Outlook**

*Niko Lahanas, CFO*

## **Management Q&A**

*Beth Springer, Niko Lahanas,  
J.D. Walker, John Hanson*

# Forward-looking Statements

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

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this presentation, which are described in Central’s filings with the SEC. Central undertakes no obligation to publicly update these forward-looking statements to reflect new information, subsequent events or otherwise, except as required by law.

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



# Three Key Takeaways

1

## FY23 Achievements in a Challenging Environment

- Delivered fiscal '23 non-GAAP EPS within revised guidance
- Turned inventories into cash
- Generated record cash flow
- Grew market share broadly across Pet and Garden

2

## Progressed Cost and Simplicity Program

- Closed dog bed facility in Athens, TX related to exit of low margin private label product lines
- Sold complex independent garden channel distribution business that was dilutive to operating margin
- Acquired dog treats and chews company TDBBS to add scale and capabilities

3

## FY24 Non-GAAP EPS of \$2.50 or Better

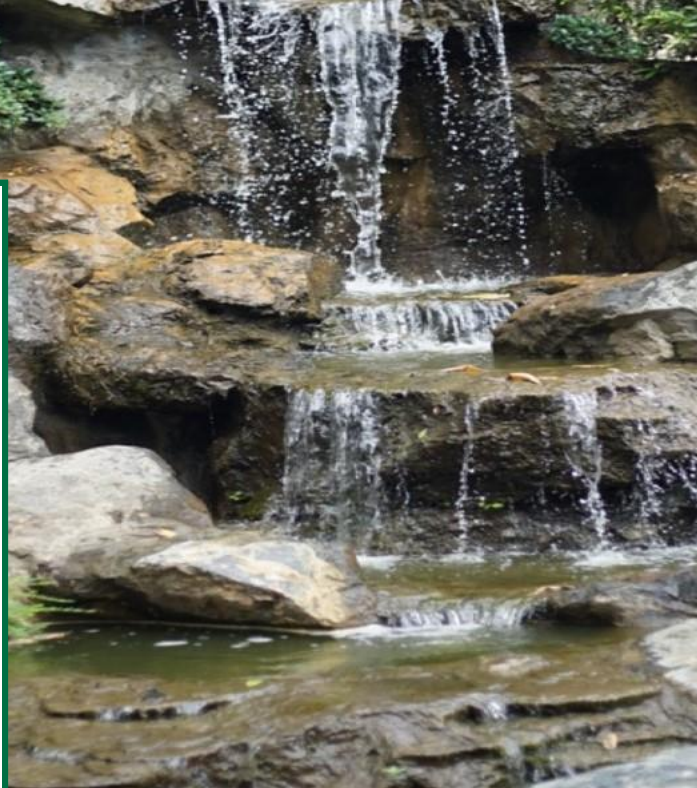
- Challenging external environment
- Confident in long-term health of our business and categories
- Favorable trends: younger generations spending more money on pets and enjoying gardening





**Beth Springer**

Interim CEO and Lead Director



**Niko Lahanas**

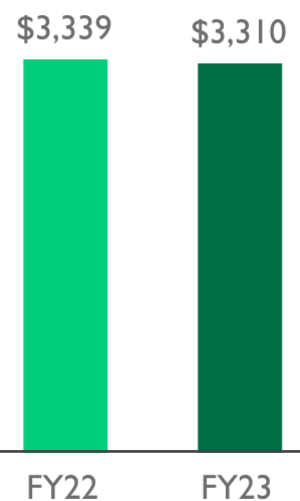
CFO

# FY23 Financial Results

## Net Sales

(in \$ millions)

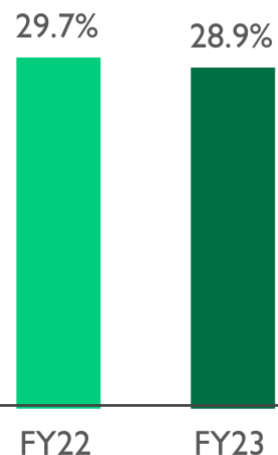
(1)%



## Non-GAAP Gross Margin

(as a percentage of Net Sales)

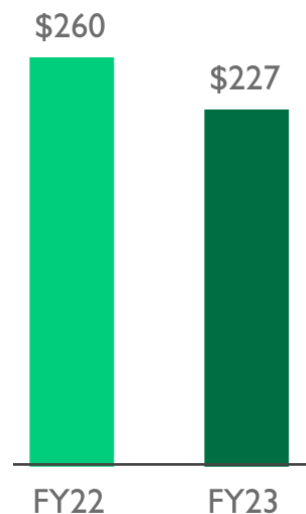
(80)bps



## Non-GAAP Operating Income

(in \$ millions)

(13)%



## GAAP EPS

(in \$)

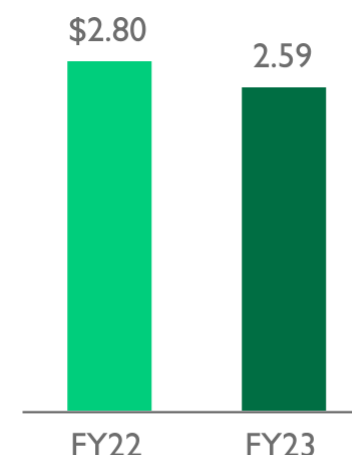
\$(0.45)



## Non-GAAP EPS

(in \$)

\$(0.21)





# Pet Segment: \$1.9B Net Sales

## Tailwinds & Successes

- Benefit of extra week
- Strong consumer demand in consumables
- Record quarter for Dog & Cat
- Market share gains in most categories
- Gained total distribution points, or TDP
- eCommerce and market share growth
- Brands outperform private label

## Headwinds & Challenges

- Pet ownership has dipped in recent periods, except for reptile
- In line with softening pet adoptions, durables declined high single digits



# Garden Segment: \$1.4B Net Sales

## Tailwind & Successes

- Increased market share in two anchor categories: Grass Seed and Wild Bird
- eCommerce represents 6% of Garden sales
- Sold distribution business into independent garden center channel to reduce complexity and improve margins

## Headwinds & Challenges

- Softness across most of Garden portfolio
- Retailers continue to manage inventory closely, shifting to just in time ordering
- Foot traffic at retail declined
- Extreme weather impacted garden segment for the second year in a row



# Improved Cash & Liquidity

## Adj. EBITDA

(in \$ millions)

(7)%

\$367

\$343

FY22

FY23

## Cash & Cash Equivalents

(in \$ millions)

+175%

\$177

\$489

FY22

FY23

## Long-Term Debt

(in \$ millions)

+/- 0%

\$1,186

\$1,188

FY22

FY23

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

2.9x

3.1x

FY22

FY23

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

## PRINCIPLES

Simplify our business, focus our portfolio and supply chain

Improve our efficiency across everything we do

Execute in market with excellence

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

## FOCUS AREAS



Procurement



Manufacturing



Logistics



Portfolio



Administration

## OUTCOMES

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

Lower COGS through lower logistics costs, better procurement

Greater focus on higher margin consumer product Pet and Garden businesses

Lower administrative costs through scale leverage and efficiency



# Recent Examples of our Cost and Simplicity Program in Action

## Manufacturing

- Continuous improvement mindset by measuring cost and productivity resulting in reductions in costs per unit
- Closed manufacturing and warehouse facility in Amarillo, TX, consolidating all manufacturing in a centrally located facility

## Logistics

- Closing of distribution facilities in Kansas and Illinois
- Aligning transportation management system for scale and centralizing load planning
- Standardizing warehouse operations, reapplying internal best practices, deploying technology solutions to reduce waste, implementing Voice Directed Picking

## Portfolio Optimization

- Closed a distribution facility in Corsicana, TX, and a manufacturing and distribution facility in Athens, TX, as a result of exiting private label pet bed product line
- Sold fragmented independent garden distribution business and plan to close Portland, OR, Garden distribution facility





# FY24 Outlook

## External environment remains challenging

- Unfavorable retailer inventory dynamics and changing consumer spending
- Existing higher value inventory puts pressure on our margins

## Belief in long-term health of our business

- Favorable trends support long-term growth in Pet and Garden
- Central remains strong, well capitalized and well positioned

## FY24 non-GAAP EPS expected to be \$2.50 or better

- Committed to Central to Home strategy and Cost and Simplicity program
- CapEx of approximately \$70 million



# Question & Answer Session

Please reach out to us with any comments or questions.

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# Appendix



# Notes & Disclosures

## Use of Non-GAAP Financial Measures

We report our financial results in accordance with GAAP. However, to supplement the financial results prepared in accordance with GAAP, we use non-GAAP financial measures including adjusted EBITDA, non-GAAP operating income, and non-GAAP net income and diluted net income per share. Management believes these non-GAAP financial measures that exclude the impact of specific items (described below) may be useful to investors in their assessment of our ongoing operating performance and provide additional meaningful comparisons between current results and results in prior operating periods.

Adjusted EBITDA is defined by us as income before income tax, net other expense, net interest expense and depreciation and amortization and stock-based compensation expense (or operating income plus depreciation and amortization expense and stock-based compensation expense). Adjusted EBITDA further excludes one-time charges related to facility closures, the gain from the sale of our independent garden center distribution business and intangible asset impairment charges. We present adjusted EBITDA because we believe that adjusted EBITDA is a useful supplemental measure in evaluating the cash flows and performance of our business and provides greater transparency into our results of operations. Adjusted EBITDA is used by our management to perform such evaluations. Adjusted EBITDA should not be considered in isolation or as a substitute for cash flow from operations, income from operations or other income statement measures prepared in accordance with GAAP. We believe that adjusted EBITDA is frequently used by investors, securities analysts and other interested parties in their evaluation of companies, many of which present adjusted EBITDA when reporting their results. Other companies may calculate adjusted EBITDA differently and it may not be comparable.

The reconciliations of these non-GAAP measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are shown in the tables below. We believe that the non-GAAP financial measures provide useful information to investors and other users of our financial statements, by allowing for greater transparency in the review of our financial and operating performance. Management also uses these non-GAAP financial measures in making financial, operating and planning decisions and in evaluating our performance, and we believe these measures similarly may be useful to investors in evaluating our financial and operating performance and the trends in our business from management's point of view. While our management believes that non-GAAP measurements are useful supplemental information, such adjusted results are not intended to replace our GAAP financial results and should be read in conjunction with those GAAP results.

# Notes & Disclosures

## Use of Non-GAAP Financial Measures

Non-GAAP financial measures reflect adjustments based on the following items:

- Facility closures: we exclude the impact of the closure of facilities as they represent infrequent transactions that occur in limited circumstances that impact the comparability between operating periods. We believe the adjustment of closure costs supplements the GAAP information with a measure that may be used to assess the performance of our ongoing operations.
- Gain on sale of a business or service line: we exclude the impact of the gain on the sale of a business as it represents an infrequent transaction that occurs in limited circumstances that impacts the comparability between operating periods. We believe the adjustment of this gain supplements the GAAP information with a measure that may be used to assess the performance of our ongoing operations.
- Asset impairment charges: we exclude the impact of asset impairments on intangible assets as such non-cash amounts are inconsistent in amount and frequency. We believe that the adjustment of these charges supplements the GAAP information with a measure that can be used to assess the performance of our ongoing operations.
- Tax impact: adjustment represents the impact of the tax effect of the pre-tax non-GAAP adjustments excluded from non-GAAP net income. The tax impact of the non-GAAP adjustments is calculated based on the consolidated effective tax rate on a GAAP basis, applied to the non-GAAP adjustments, unless the underlying item has a materially different tax treatment.

From time to time in the future, there may be other items that we may exclude if we believe that doing so is consistent with the goal of providing useful information to investors and management.

The non-GAAP adjustments made reflect the following:

1. During the third quarter of fiscal 2023, we recognized incremental expense of \$13.9 million in our Pet segment in the consolidated statement of operations, from the closure of a leased manufacturing and distribution facility in Athens, Texas. During the fourth quarter of fiscal 2023, we recognized incremental expense of \$1.8 million in our Pet segment in the consolidated statement of operations, from the closure of a leased manufacturing and distribution facility in Amarillo, Texas.
2. During the fourth quarter of fiscal 2023, we recognized a gain of \$5.8 million from the sale of our independent garden center distribution business, which includes the impact of associated facility closure costs. The gain is included in selling, general and administrative expense in the consolidated statements of operations.
3. During the fourth quarter of fiscal 2023, we recognized a non-cash impairment charge in our Pet segment of \$2.8 million related to the impairment of intangible assets caused by the loss of a significant customer in our live fish business. Also, during the fourth quarter of fiscal 2023, we recognized a non-cash impairment charge in our Garden segment of \$3.9 million related to the impairment of intangible assets due to reduced demand for products we sold under an acquired trade name. The impairments were recorded as part of selling, general and administrative costs.



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

Net Income & Diluted Net Income Per Share Reconciliation			
		September 30, 2023	September 24, 2022
GAAP net income attributable to Central Garden & Pet Company	\$	125,643	\$ 152,152
Pet facilities closures	(1)	15,672	—
Independent garden channel distribution sale and related facility closure	(2)	(5,844)	—
Intangible impairments	(3)	6,731	—
Tax effect of adjustments		(3,705)	—
Non-GAAP net income attributable to Central Garden & Pet Company		138,497	152,152
GAAP diluted net income per share	\$	2.35	\$ 2.80
Non-GAAP diluted net income per share	\$	2.59	\$ 2.80
<b>Shares used in GAAP and non-GAAP diluted net income per share calculation</b>		<b>53,427</b>	<b>54,425</b>

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

**Adjusted EBITDA Reconciliation**

	September 30, 2023	September 24, 2022
Net income attributable to Central Garden & Pet Company	\$ 125,643	\$ 152,152
Interest expense, net	49,663	57,534
Other (income) expense	(1,462)	3,596
Income tax benefit	36,348	46,234
Net income attributable to noncontrolling interest	454	520
Income from operations	210,646	260,036
Depreciation & amortization	87,700	80,948
Noncash stock-based compensation	27,990	25,817
Non-GAAP adjustments (1)(2)(3)	16,559	—
Adjusted EBITDA	\$ 342,895	\$ 366,801



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

**Operating Income Reconciliation**

	Three Months Ended September 30, 2023			
	GAAP	Adjustments <sup>(1)(2)(3)</sup>		Non-GAAP
Net sales	\$ 750,147	\$ —	\$	750,147
Cost of goods sold and occupancy	552,694	1,751		550,943
Gross profit	197,453	(1,751)		199,204
Selling, general and administrative expenses	188,084	887		187,197
Income from operations	\$ 9,369	\$ (2,638)	\$	12,007

**Pet Segment Operating Income Reconciliation**

	The Three Months Ended	
	September 30, 2023	September 24, 2022
GAAP operating income	\$ 43,225	\$ 40,412
Facility closure and intangible asset impairment <sup>(2)(3)</sup>	4,536	—
Non-GAAP operating income	<u>\$ 47,761</u>	<u>\$ 40,412</u>

**Garden Segment Operating Income Reconciliation**

	The Three Months Ended	
	September 30, 2023	September 24, 2022
GAAP operating income (loss)	\$ (3,432)	\$ 1,824
Garden independent distribution sale and intangible asset impairment <sup>(2)(3)</sup>	(1,898)	—
Non-GAAP operating income (loss)	<u>\$ (5,330)</u>	<u>\$ 1,824</u>