

Central Garden & Pet Company NasdaqGS:CENT

FQ4 2023 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

	-FQ3 2023-			-FQ4 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.45	1.75	▲ 20.69	0.06	2.56	NA
Revenue (mm)	1025.83	1023.27	▼ (0.25 %)	735.08	3294.94	NA

Currency: USD

Consensus as of Oct-12-2023 10:31 AM GMT

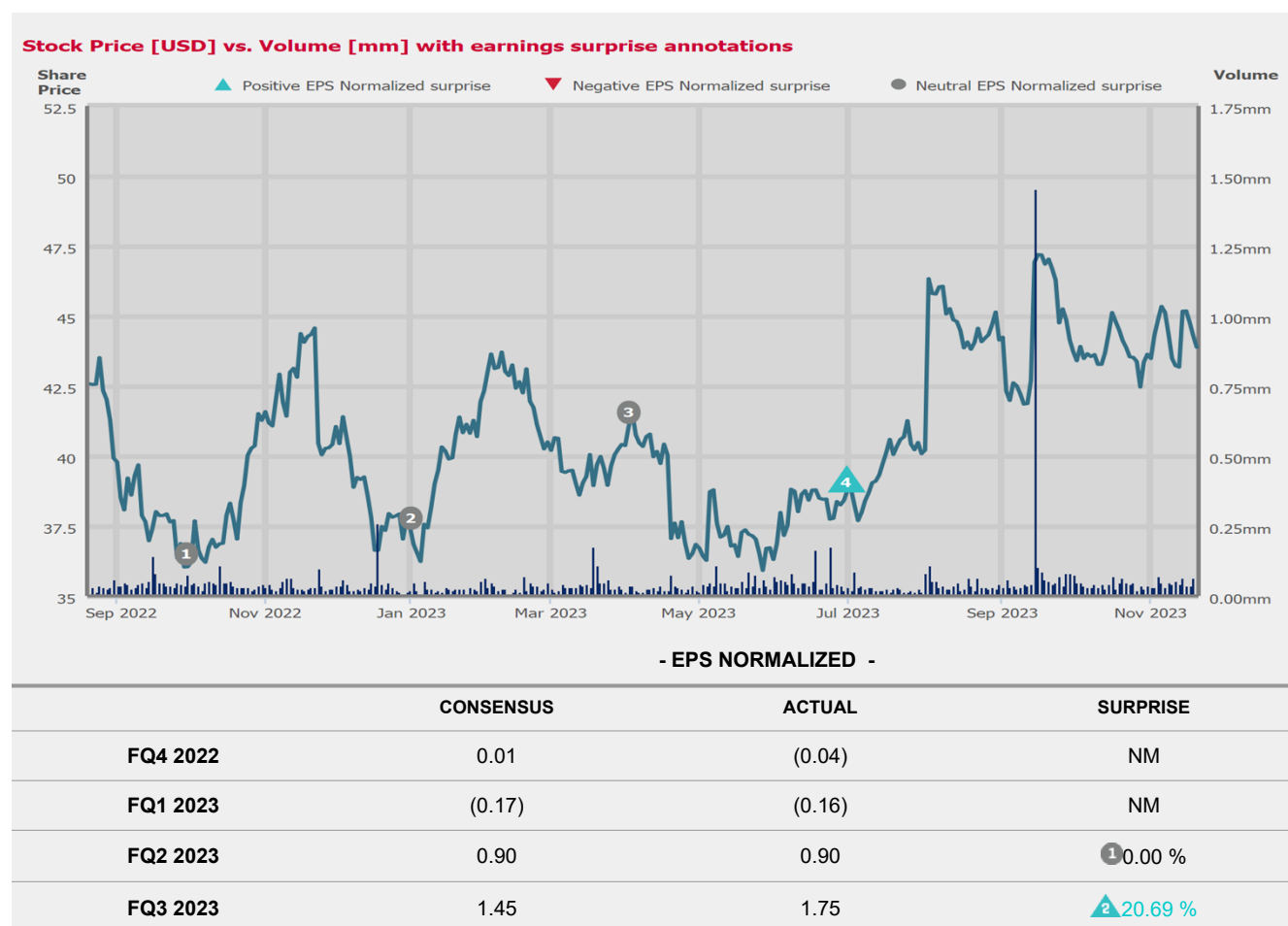


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Presentation

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Central Garden & Pet Fourth Quarter and Fiscal 2023 Earnings Call. My name is Shamali, and I will be your conference operator for today.

[Operator Instructions] As a reminder, this conference call is being recorded.

I would now like to turn the call over to Friederike Edelmann, Vice President, Investor Relations. Please go ahead.

Friederike Edelmann

Vice President of Investor Relations

Good afternoon, everyone. Thank you for joining Central's Fourth Quarter and Fiscal Year 2023 Earnings Call. With me on the call today are Beth Springer, Interim Chief Executive Officer and Lead Director; Niko Lahanas, Chief Financial Officer; J.D. Walker, President, Garden Consumer Products; and John Hanson, President, Pet Consumer Products.

In a moment, Beth will provide our key takeaways from the fiscal year, and Niko will discuss our financial results, our Cost and Simplicity Program as well as our outlook 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 share today. We described the range of risk factors in our annual report filed with the Securities and Exchange Commission. 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, and contain the 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. For further discussion after the call, please reach out to me.

And with that, I will turn it over to Beth.

Mary Beth Springer

Interim CEO & Director

Thanks, Friederike, and good afternoon, everyone. It's a pleasure to be here, and thank you for joining our call today.

Let's start with the 3 themes I'd like you to take away from this call. First, our fiscal year 2023 achievements. We are proud of what team Central was able to achieve in light of a challenging environment, an environment characterized by unfavorable consumer behavior, unfavorable retail dynamics, high inflation and some extreme weather. Most notably, we delivered fiscal year 2023 non-GAAP EPS within our revised guidance, generated record cash flow and grew market shares broadly across Pet and Garden. We're grateful to our 6,700 associates for their hard work driving these results.

Second, I want to speak to the strides we're making on our Cost and Simplicity program. As we've shared on prior calls, we've embarked on a journey to simplify our business and improve efficiency across our organization. We are doing this by rationalizing our footprint, optimizing our portfolio and improving our cost structure.

Today, we'll share some of the proof points we've accomplished in fiscal year '23, including the closure of our dog bed manufacturing and distribution facility in Texas as a result of exiting certain low-margin private label pet bed product lines and the successful sale of our distribution business to the fragmented independent garden center channel, a complex channel to serve that was dilutive to our Garden operating margin. We will also provide more color around our recently announced acquisition of TDBBS, a provider of premium natural dog chews and treats. The TDBBS acquisition add scale and e-commerce capabilities to our fast-growing dog and cat platform.

And third, fiscal year '24 guidance. We remain committed to our long-term Central to Home strategy. We are intensely focused on executing our cost and cash agenda and making thoughtful investments to fortify our foundation and to drive growth. We expect to continue to face a challenging external environment in fiscal year '24 and guide to non-GAAP EPS of \$2.50 or better. Importantly, we remain confident in the health of our business and our categories and are particularly encouraged by data showing younger households, spending more money on their pets and enjoying their time gardening.

Before I turn it over to Niko, I want to reiterate that our FY '23 achievements underscore our ability to execute in challenging times and the fundamental strength of Central Garden & Pet.

And with that, I'll now turn it over to Niko.

Nicholas Lahanas
Senior VP & CFO

Thank you, Beth. Good afternoon, everyone. Building on Beth's remarks, I'm pleased to walk you through our financial results and share details on our Cost and Simplicity program as well as our outlook for fiscal '24.

Let me start with our fiscal '23 results. Net sales were \$3.3 billion, in line with prior year. As a reminder, this year, we benefited from an additional 53rd week. Non-GAAP gross profit for the year was \$957 million compared to \$992 million, a non-GAAP gross margin was 28.9% compared to 29.7%. The decrease was due to inflation and lower volumes, resulting in an unfavorable overhead absorption, partially offset by improved pricing and productivity efforts throughout the year.

While commodity costs have continued to moderate, the benefit of the lower cost takes more time to be realized as we continue to work through older, higher cost inventory. Non-GAAP SG&A was \$729 million compared to \$732 million a year ago and was 22% as a percentage of net sales versus 21.9%. Non-GAAP onetime charges were approximately \$17 million for the year, which are net of a gain of approximately \$6 million on the sale of our distribution business into the independent garden center channel and related facility closures. The majority of which are part of our Cost and Simplicity program.

Non-GAAP operating income for the year was \$227 million compared to \$260 million in the prior year, and non-GAAP operating margin was 6.9% compared to 7.8%. The decrease was due to inflation and lower volumes, resulting in unfavorable overhead absorption, which was only partially offset by improved pricing and productivity efforts. Other income and expense was income of \$1.5 million compared to expense of \$3.6 million in the prior year.

Net interest expense was \$50 million compared to \$58 million a year ago, driven by higher cash balance and interest income. Non-GAAP net income was \$138 million compared to \$152 million a year ago, and non-GAAP EPS came in at \$2.59, in line with our revised guidance. GAAP EPS was \$2.35. Adjusted EBITDA for the year decreased 7% to \$343 million. Our tax rate for the year decreased by 80 basis points to 22.4% due to the impact of a lower blended state tax rate.

Now turning to the consolidated financials for the quarter. Fourth quarter net sales were \$750 million, up 6%, primarily benefiting from the additional week this year. Non-GAAP gross profit for the quarter was \$199 million, essentially in line with a year ago. And non-GAAP gross margin was 26.6% versus 28.2%, as the favorable impact of our pricing actions and productivity efforts was more than offset by inflation and unfavorable overhead absorption due to lower unit volumes.

Non-GAAP SG&A expense for the quarter was \$187 million, in line with prior year. And as a percentage of net sales was 25% compared to 26.4% as we benefited from the additional week of sales while managing commercial spend and administrative expense. Non-GAAP operating income for the quarter was \$12 million compared to \$13 million and non-GAAP operating margin was 1.6% compared to 1.8% in the prior year.

Net interest expense was \$8 million compared to \$14 million a year ago. Non-GAAP income for the quarter was \$5 million compared to a loss of \$2 million in the prior year, and non-GAAP earnings per share was \$0.10 compared to a loss per share of \$0.04 a year ago. GAAP EPS was \$0.05.

Weighted diluted shares outstanding decreased to 53.4 million from 54.4 million in the prior year. We bought back approximately 65,000 shares for roughly \$2.4 million.

Now I'll provide some insights into the fourth quarter of our 2 segments, starting with Pet. Pet net sales for the fourth quarter increased 10% to \$483 million, thanks to the extra week and strong consumer demand. Our POS growth was in the high single digits and coupled with improved service levels, resulted in share gains in a number of categories.

Sales continued to grow in our pet consumables business across all categories, including dog and cat, which had a record quarter. Pet distribution, animal health, small animal, bird and aquatics all experienced growth versus prior year. Pet durables continue to decline in high single digits. Sales of our pet brands increased low double digits, outperforming private label sales, which were negatively impacted by the purposeful exit of low-profit private-label product lines and SKU rationalization.

Driven by our efforts over the last couple of years to build capabilities around consumer insights, innovation and category management, we gained our held market share in most of our categories, including dog toys and treats, small animal, bird, aquatics and equine, reflecting the overall health of our brands. We gained mid-single digits in total distribution points or TDPs.

E-commerce continues to drive growth for this segment at the expense of brick-and-mortar. Thanks to our investments in online and digital, our e-commerce sales increased low double digits and now represent approximately 25% of total pet sales. Moreover, we grew online market share broadly across many of our categories, including dog toys, equine and animal health, small animal and bird.

Non-GAAP operating income for pet was \$48 million compared to \$40 million, and non-GAAP operating margin was 9.9% versus 9.2% a year ago. The increase was driven by productivity efforts and improved pricing, partially offset by unfavorable overhead absorption. Pet adjusted EBITDA increased 15% to \$58 million.

Moving on to Garden. In the fourth quarter, Garden net sales were \$267 million, in line with the prior year due to softness across most of the Garden portfolio, except for Garden controls and fertilizer, live goods and grass seed. We continue to grow market share in grass seed and wild bird, 2 important anchor categories in our garden business. We saw retailers continue to manage their inventory closely, shifting to just-in-time replenishment. This, coupled with the declining foot traffic in home centers and mass channel as well as the extreme weather for the second year in a row, resulted in another challenging quarter for the Garden segment.

Garden e-commerce sales continue to grow faster than brick-and-mortar as consumers shift more and more of their purchasing to online. Our e-commerce business, while still small, now represents approximately 6% of total Garden sales, thanks to our investments in digital and e-commerce capabilities.

Non-GAAP operating loss for Garden was \$5 million compared to operating profit of \$2 million, and non-GAAP operating margin was negative 2% compared to 0.7% a year ago. The decrease was due to inflation, partially offset by improved pricing and productivity efforts. Garden adjusted EBITDA was \$6 million compared to \$12 million in the prior year.

Now turning to the balance sheet and cash flows. Cash provided by operations was \$382 million in fiscal '23 versus cash used by operations of \$34 million in the prior year. I'm extremely proud of our team's focus on converting inventories into cash. Inventories at year-end were \$100 million below prior year and inventory value is down for total Central and across both segments.

CapEx for the year was \$54 million, about half of what we invested in the prior year. In the quarter, we invested in automation and expansion of pet and wild bird, aquatics, live plants and controls and fertilizer. Depreciation and amortization was \$88 million compared to \$81 million a year ago. Thanks to our focus on turning inventories into cash, we had a record cash flow year.

Cash and equivalents, including short-term investments, were \$489 million at year-end compared to \$177 million in the prior year. Total debt was \$1.2 billion, in line with prior year. We ended the quarter with a leverage ratio of 3.1x compared to 2.9x a year ago, well in line with our target range of 3 to 3.5x. We had no borrowings under our \$750 million credit facility at the end of the year.

Given our financial strength and in addition to our recent pet consumables acquisition, we continue to be on the lookout for high-growth companies with accretive margins in both Pet and Garden to build scale in core categories and our adjacent categories and add key capabilities.

Let me now touch on our Cost and Simplicity program. As previously communicated, we're in a multiyear journey to reduce cost and simplify how we operate. We have meaningful opportunity to better leverage the scale of our business across a number of areas, including procurement, manufacturing, logistics, portfolio optimization and administrative costs. We expect to reduce complexity, which means fewer SKUs, increased manufacturing warehouse efficiency as well as fewer facilities. We seek to lower costs through improved logistics costs, better procurement, and lower administrative costs. This will be done by leveraging our scale and capabilities across the company. We believe this program will drive higher margins and generate more fuel to invest in organic growth and accretive M&A in both Pet and Garden.

Now turning to the progress we've made so far in the different areas. First, in manufacturing, we continue to pursue a continuous improvement mindset by measuring cost and productivity by manufacturing line by facility, which resulted in major improvements in cost per unit. In Q4, we announced the closure of an outdoor cushion manufacturing warehousing facility in Amarillo, Texas, moving all manufacturing to a centrally located consolidated facility.

Second, logistics. We're aligning for scale and logistics by expanding our corporate transportation management system and centralizing load planning. In addition, we are standardizing how we operate our warehouses by reapplying internal best practices across BUs, deploying technology solutions to reduce waste and implementing voice direct picking in multiple facilities. Moreover, we're closing 3 smaller pet distribution facilities in Kansas and 1 in Illinois.

Third, portfolio optimization. To become a more focused, higher-margin consumer products company. As a result of the purposeful exit of low-margin private label pet bed product lines, we closed a smaller distribution facility in Corsicana, Texas in December of '22, followed by the closing of our pet bedding manufacturing and distribution facility in Athens, Texas in April '23. We sold our independent garden center distribution business. As you recall, this channel represents less than 5% of our Garden net sales and was dilutive to our Garden operating income margin. As a result of the sale, we plan to close our Portland, Oregon Garden distribution facility.

Fortifying the central portfolio 2 weeks ago, we acquired premium natural chews and treats company TDBBS, adding their established brands and digital capabilities solidifies our position in this large and growing category, strengthens our footprint with key customers and enhances our e-commerce and digital capabilities. We remain committed on this multiyear journey to reduce costs and simplify our business. We have a pipeline of projects to leverage our scale and deploy our capabilities across the company. We'll continue to provide regular progress updates on a quarterly basis. As always, our priority will be on business continuity and minimizing disruption to our operations. As a company that has grown through acquisition and that has the intention of continuing on that path, there is no shortage of opportunity ahead of us.

Now turning to our fiscal '24 outlook. We currently expect non-GAAP EPS for the year to be \$2.50 or better. Let me provide some color around our assumptions. We expect a challenging retail environment with customers continuing to manage their inventories closely and consumers face with high prices and interest rates, reining in their spending. While our team has done a great job managing inventories, higher-value inventory is going to put pressure on margins for some part of the fiscal year. The benefit of the lower cost is taking more time to realize as we continue to work through existing high-cost inventory.

Our Pet segment continues to perform well, especially in the consumables business, such as dog treats and chews, small animal and bird. Conversely, in line with the softer pet ownership, durables continue to present a challenge for the industry and Central. In addition, we remain cautious about the '24 garden season after 2 years of unfavorable weather and continued declines in foot traffic at retail.

As we look at CapEx, we're planning to invest approximately \$70 million, most of which is required maintenance and productivity initiatives across both our segments. While the near-term external environment remains challenging, we remain committed to our Central to Home strategy as it relates to our consumer growth agenda, and we continue to selectively invest in our digital marketing, brand building and innovation to drive profitable long-term organic growth as well as investments to enable future cost and simplicity savings.

Our guidance reflects our belief in the long-term health of our business, our team's execution and the long-term trends that support the pet and garden industries. Fiscal '24 is back to 52 weeks, whereas fiscal '23 benefited from an additional week. As always, our outlook excludes any impact from acquisitions, divestitures or restructuring activities that may occur during fiscal '24, including any such project under the Cost and Simplicity program. It also excludes the impact of our recent pet consumables acquisition as we're still in the early stages of the integration process. We expect the acquisition to be accretive over time. However, it will have a minimal impact on fiscal '24. Now as we look forward to the first quarter of fiscal '24, I want to remind you that Q1 is typically one of our smallest quarters and not indicative of the full year. We expect Q1 non-GAAP loss per share to be in the range of \$0.15 to \$0.20 for the quarter.

To summarize, '23 was a challenging year for our industries and Central. Nevertheless, we delivered fiscal '23 non-GAAP EPS within our revised guidance, turn inventories into cash, generated record cash flow and grew market share broadly across Pet and Garden. We continue to believe in the fundamental trends that support long-term growth in the pet and garden industries. Our company remains strong well capitalized and well positioned to grow both organically and through acquisitions in the coming years. And with that, I'd like to open the line for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Brad Thomas with KeyBanc Capital Markets.

Bradley Bingham Thomas

KeyBanc Capital Markets Inc., Research Division

I wanted to ask Niko a couple of questions as we think about the fiscal year ahead of you. And maybe starting first with margins. I was hoping you could talk a little bit about some of the puts and takes, some of the opportunities and headwinds that you have as you think about margins for this year.

Nicholas Lahanas

Senior VP & CFO

Sure, Brad. I've said this almost every year. We go into every year planning to expand margin. I mean that's our goal. That's how our financial algorithm works. I think this year is going to be unlike the last 3 years in that I think we're heading into a little bit of a deflationary environment. So I think we're going to benefit from some commodity downdraft. However, I think it's going to be a much more promotional environment as well.

The other piece of this is what we've discussed in the prepared remarks that we do still have some higher cost inventory to roll through. So that's going to create a little bit of pressure. The question will be, how promotional does it get, what our product mix is because the margins there are kind of all over the map, and that becomes a wildcard as well. So that's sort of how we're thinking about it but we are going into the year expecting to expand margin.

Bradley Bingham Thomas

KeyBanc Capital Markets Inc., Research Division

That's helpful. And understanding this is such a challenging environment to forecast sales. Can you help us think in broad strokes, what you're starting to plan for in terms of organic trends in the segments? And what level of growth or potentially maybe modest decline you might be able to go through and still have flatter up operating margins?

Nicholas Lahanas

Senior VP & CFO

Yes. I mean, if we -- the way we're looking at it is, keep in mind, we had a 53rd week. So if I look at in absolute terms, we're going to be down year-over-year because of the 53rd week. We also sold off the garden distribution business, which also will drop down. Now the upside is we bought TDBBS. So that's going to help on the top line. If I look at it apples-to-apples, we think that flattish to modestly up. In absolute terms, I think, will be down. But again, we have to see how it all plays out because the deflationary environment could put pressure on the top line. I think that's going to be a real wild card and I think it's going to be a very competitive environment in '24 as well.

Operator

Our next question comes from the line of Bill Chappell with Truist Securities.

William Bates Chappell

Truist Securities, Inc., Research Division

Yes. I guess, first, could you -- any update on the CEO search at this stage?

Mary Beth Springer

Interim CEO & Director

Bill, it's Beth Springer. Nice to hear your voice again. Before we talk about that, I do want to take a moment to reiterate that we have a really experienced leadership team, an engaged Board and a clear direction in our Central to Home strategy. So we're very focused on continuing to execute that. As we look ahead to new leadership, our Board is committed to finding the best possible successor. And our goal specifically is to recruit a world-class leader who can champion Central's culture of entrepreneurship, collaboration and

partnership and drive our company's positive trajectory. Obviously, Bill, we'd like to finish that sooner rather than later but the most important thing is to find the right long-term leader. So when we have an update, we'll provide it to you.

William Bates Chappell

Truist Securities, Inc., Research Division

Got it. And then, Niko, I guess, is there any way you could just for modeling, just trying to understand kind of what the -- almost the pro formas were for 2023 in terms of pet and garden taking out, the business exits, taking out the distribution as stuff like that because it's tough to handicap unless we kind of understand what you've exited.

Nicholas Lahanas

Senior VP & CFO

Yes. What I would say is, like I said, I think overall top line is going to be down if you look at it apples-to-apples. The TDBBS business and the exit of distribution are sort of a wash but then you have the extra week. So that in absolute terms would cause us to be down year-over-year.

William Bates Chappell

Truist Securities, Inc., Research Division

Got it. But I mean, just trying to quantify the distribution exit in terms of revenue and the pet bed exit in terms of revenue, maybe the more specific?

Nicholas Lahanas

Senior VP & CFO

Yes. We haven't given that out, Bill, and I don't think we will going forward.

William Bates Chappell

Truist Securities, Inc., Research Division

Okay. And then just trying to understand the Garden outlook in particular, I mean, I understand it's November and you want to be conservative. But it seemed that there was -- certainly, from your pre-announcement back in early April, it was a much more impactful on the negative side for the business than normal. And so are you just assuming that the abnormal happens again this year or do you expect some recovery? Because I mean that was \$0.20, \$0.30 out of your guidance that doesn't appear to be coming back?

John D. Walker

President of Garden Consumer Products

Bill, it's J.D. I'll take a shot at that. I would say that we're taking a very cautious approach to our outlook for fiscal 2024 after the last 2 years. We're still as most companies are still trying to understand consumer behavior in a post-pandemic period. Household penetration has been down over the last couple of years. Niko referenced in his script that foot traffic at retail has been down in our largest channels. It's down 8% in home centers and 2% in mass channels. So given all of that and 2 years of challenging weather, it's a little bit difficult to get too aggressive in terms of looking at next year.

I will say this, when we look at the controllable causal factors, things like total points of distribution, they're up mid-single digits. We feel great about the level of support that we're going to get from our retailers next year. We have a long list of cost and simplicity initiatives and those will fund some of our strategic investments in the business. So there's a lot to like here. However, while we're optimistic, we think that taking a more measured approach to planning for the year is appropriate.

William Bates Chappell

Truist Securities, Inc., Research Division

Okay. And just last one on that. Are you seeing anything different from the competitive landscape in Garden, certainly as you have a competitor that's kind of getting excess inventory and maybe some excess inventory going into early next year? Do you see it being more promotional than normal or that's just kind of all factored in?

John D. Walker

President of Garden Consumer Products

It's all factored in, Bill. But just as Niko said earlier, we expect it to be more promotional next year. We expect the retailers to be trying to drive footsteps into the stores in the spring season. Our competitors, we expect to continue to be very competitive and aggressive in that area, and we will as well.

Operator

And our next question comes from the line of Jim Chartier with Monness, Crespi and Hardt.

James Andrew Chartier

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

First on the Garden business, can you tell us what POS trends were in the fourth quarter and for the year?

John D. Walker

President of Garden Consumer Products

Jim, it's J.D. POS was flattish, down slightly less than 1% in Q4.

James Andrew Chartier

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

For the quarter?

John D. Walker

President of Garden Consumer Products

For the quarter and up for the year, up low single digits.

James Andrew Chartier

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

Great. And then in terms of the promotional activity? Are you seeing increased promotions today? Have the retailers communicated to you already that they expect lower pricing? Or is this just something that you're expecting will happen and embedding that in the guidance?

John D. Walker

President of Garden Consumer Products

Jim, it's something we're expecting will happen. So the retailers are very much in their planning stages right now. So we don't have hard evidence that will be more aggressive, but we're expecting that. We're not seeing any unusual activity at the moment.

James Andrew Chartier

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

Okay. And then, Niko, could you just tell us what the sales and earnings impact was from the extra week for both the Garden and Pet segment?

Nicholas Lahanas

Senior VP & CFO

The earnings were de minimis. It was very small. Top line, I mean, what I would do is just use straight math on the quarter and calculate it that way.

James Andrew Chartier

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

Okay. Yes. And then how should we...

Nicholas Lahanas

Senior VP & CFO

It's really like that part of the year, there's not a lot going on in Garden. It's sort of counter seasonal. So we're not throwing off a lot of EBIT.

James Andrew Chartier*Monness, Crespi, Hardt & Co., Inc., Research Division*

Okay. And then how should we think about interest income next year, your cash balance is up nicely, what are you forecasting for interest expense and income next year?

Nicholas Lahanas*Senior VP & CFO*

Yes. We're -- it's always tricky, right, because we've got a working cap build that really starts now and then goes into March. And then it's going to also depend on what type of M&A we do. It certainly is going to be probably lower than it is this year. I think this year, we printed around \$50 million. So I would guide somewhere \$45 million to \$50 million, in that range. But again, there's a lot of variability there just based off of M&A activity and what sort of working cap build we end up with.

James Andrew Chartier*Monness, Crespi, Hardt & Co., Inc., Research Division*

Okay. And then on the Pet business, did you say that POS was up high single digit? And then kind of it so, what's kind of forming your caution on that business? Is there anything unusual that drove strong POS in this quarter?

John Edward Hanson*President of Pet Consumer Products*

Yes. This is John. Yes, Q4 POS was up mid high single digits along with sales. So we felt good about that. The big thing going on for us is the mix between consumables and durables, right? Durables, I think we started communicating back in Q2. Durables are about 25% of the category, 20% of Central's business. Back in Q2, we started seeing the declines, declines accelerated in Q3 and Q4, so we feel like we've got a couple of quarters ahead of us to lap that. And then hopefully, it moderates, and we see some flattening of it.

Nicholas Lahanas*Senior VP & CFO*

Well, and also live animals, I would add, too. We've seen a little bit of a drop off in penetration, particularly in dog. Cat seems to be doing pretty well. And aquatics and live animal -- or small animal, excuse me, are holding up pretty well. But that's going to be another driver. And we have a small live animal business as well, and that's been down because of you're just not seeing the adoption rate from the COVID high. So that's going to drive the durables and then also the consumables downstream.

The other thing I would say is what we have to be mindful of too is the consumer trading down. Now on the garden side, like [Technical Difficulty]

Sorry, we'd put it on mute there for a second. In wild bird, we have good, better, best. And so we can cover off the consumer if they decide to trade down. And we have to see how that plays out in pet as well, particularly in our treats business in terms of the consumer feeling a little bit stressed and wanting to trade down from, say, natural chews to all the way down to biscuits, and that's something we don't even make our biscuits. But so far, it's held up pretty well but we do have to be a little bit cautious there.

Operator

Our next question comes from the line of Bob Labick with CJS Securities.

And Bob, your line is live. All right, it seems like as if Bob line's is having some technical difficulties. We'll go ahead and proceed to the next question.

Our next question comes from the line of Andrea Teixeira with JPMorgan.

Andrea Faria Teixeira*JPMorgan Chase & Co, Research Division*

A question on the top line, the flat to modest up, I think, underlying, you mentioned, are you assuming better POS? You just discussed, obviously, strong POS for the Pet business and more modest on the garden. So we're just trying to parse out what are your expectations in terms of like real POS data from a volume perspective? So I'm assuming, in transcript [indiscernible] release, you talk about modest pricing into 2024. So I wanted to see what are your assumption in terms of the of the shipments in 2024?

And then also, if I add on the mid-single-digit TDP growth you mentioned, is that additional that you're coming on spring -- of the spring, your visibility for the [indiscernible] spring? And then your outlook for slightly up operating margin. Can you update us on how much you expect from your program -- the savings program? If there is any update on those savings?

And finally, sorry for all these questions but the clarification on the gain that you had of \$6 million in the quarter, you adjusted out all the expenses from the program, but I think the gain is added back to the EBIT. So just to see if the adjusted GAAP number -- adjusted non-GAAP number includes the gain but excludes the expenses?

Nicholas Lahanas
Senior VP & CFO

Okay. I'm going to take a crack at it. As far as POS and into '24, I think we go into every year assuming, again, fairly normal weather on the garden side. On the Pet side, I think given -- we feel great about where inventories are, I think, in both segments, we feel like POS should be pretty stable. So we feel like there's good equilibrium there in terms of our ships and then sales going forward to the consumer.

John D. Walker
President of Garden Consumer Products

And Niko, I think there was also a [piece] of that, that was added TDP when we would see the lift from that and that would be in the spring. So the retailers set their shelves typically in the January time frame for the coming season. So that's when we'll start to see the impact from that.

Nicholas Lahanas
Senior VP & CFO

Yes. Yes. based on...

Andrea Faria Teixeira
JPMorgan Chase & Co, Research Division

That's included in your guide -- I'm sorry.

Nicholas Lahanas
Senior VP & CFO

Yes, yes. Absolutely.

John Edward Hanson
President of Pet Consumer Products

Yes. And we've seen some -- on the Pet side, we've seen some TDP growth as well. And the good news for Pet, even with the softness, and pet acquisition and pet ownership, and we talked a little bit about durables, we feel really good about our share position. We've taken market share in consumables, in durables, brick-and-mortar and e-comm. And we feel very good about that and feel very good about continuing that in fiscal '24.

Andrea Faria Teixeira
JPMorgan Chase & Co, Research Division

That's very helpful. And then on the operating margin and the gain in the quarter, you can help us?

Nicholas Lahanas
Senior VP & CFO

Yes. So the number we gave you, so as a non-GAAP of, I think, total year was like \$16 million. Now that was net of the game. So we netted all that out. And we non-GAAP-ed it. So if you look at Garden, I think their GAAP number in the quarter is actually higher because of the gain.

John Edward Hanson
President of Pet Consumer Products

It's correct. So just like we took out the expenses [indiscernible] to non-GAAP, we deducted the gain from our non-GAAP results.

Andrea Faria Teixeira

JPMorgan Chase & Co, Research Division

Okay. Perfect. And then just...

Nicholas Lahanas

Senior VP & CFO

Does that help?

Andrea Faria Teixeira

JPMorgan Chase & Co, Research Division

that's very helpful. And then the operating margin outlook, right, that you're expecting. On the savings program, which obviously did make a lot of effort on a bunch of facilities that you closed and there are also warehouses. How we should be expecting embedded in your \$2.50 and better outlook? What is the -- what is your expecting embedding there in terms of savings?

Nicholas Lahanas

Senior VP & CFO

Yes. As I mentioned in the prepared remarks, we're not going to guide on the total savings number. It's in the guide. We also feel that there will be a lot of promotional activity. We need to see how the consumer and the retailers react in the year. If you look at the last few years, too, we took savings every year. However, a lot of those savings were overshadowed by runaway inflation. So that's why we're a little reluctant to guide on an absolute number because we not -- we may not be able to see it given the competitive environment in the marketplace in the coming year. That's why we're opting to be a little bit more accurate and give specific data points on projects every quarter and actions that we're taking every quarter.

Operator

Our next question comes from the line of William Reuter with Bank of America.

William Michael Reuter

BofA Securities, Research Division

The first is you've made a bunch of comments kind of with regard to your expectations of promotions and it wasn't clear to me whether these comments were across both Lawn & Garden as well as Pet, I think it was clear that they were part of the Lawn & Garden commentary but if you could talk a little more about that?

Nicholas Lahanas

Senior VP & CFO

Yes. I think it's across the entire business. If you look at what's going on right now, the macro environment is -- it's flashing a little bit red right now. And you've got higher interest rates. You've got CPG companies as well as retailers really working their working cap down because of the higher cost of capital. We think that it's going to be a bit of a dogfight in '24 and trying to take share here and there. And everyone's going to be doing kind of the margin grab. So we think it's going to be a lot more promotional in particular, in a deflationary environment. So we think it's going to be across the board. It's going to be a pretty tough year.

William Michael Reuter

BofA Securities, Research Division

Got it. And then I want to make sure I got the previous point, correct. But I think you said that inventory levels across both segments, you believe to be in good position. So sell-in and sell-through should be pretty well aligned, is that correct?

Nicholas Lahanas

Senior VP & CFO

Yes. They've been -- the spread has been narrowing throughout the year. So we feel pretty good about that sort of state of equilibrium right now. That said, our inventory levels, if you ask me, I'd like to see us drive them down a little more. I think we still have some work to do there and in particular, the higher cost inventory. But we're going to keep at it. I think we made great progress this last year, decreasing by \$100 million. And I think our cash flow from operations really reflect that.

William Michael Reuter

BofA Securities, Research Division

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Got it. And then lastly, you brought up M&A towards the end of the prepared remarks. I feel like there's been a disconnect in valuations of public companies and a lot of private seller expectations over the last handful of years, particularly in Pet. Do you believe that disconnect still exists? Do you think that sellers are becoming more rational? Are you more optimistic about the ability to find suitable targets at good valuations?

Nicholas Lahanas
Senior VP & CFO

We are. I mean we're very value driven. So we're value buyers of growth businesses. And you're right, the last few years, the pet businesses were very, very high multiples, and that's why you didn't see us doing a lot of pet acquisitions. This is our first one in a while. We feel like we got a great business, fits in really well into our dog and cat platform. We're seeing a lot more activity, I would say, in the last few weeks, so we're seeing a lot more deal flow. I do believe the valuations are more realistic right now than they were in the last few years. So I'm quite optimistic about the M&A pipeline and our ability to identify and get deals done.

Operator

Our next question comes from the line of Hale Holden with Barclays.

Hale Holden
Barclays Bank PLC, Research Division

I just have 2 questions. The pet treats business that you guys just announced the acquisition of, does that meaningfully change the mix of hard goods and consumables in the Pet segment?

Nicholas Lahanas
Senior VP & CFO

No. I mean it's a bit of a bolt-on. It will slide right into our dog and cat platform. So it's not going to meaningfully change the mix between consumable and durable. But what I would point out, and I think if there's anything I want folks to take away from the call is really the kind of the real-time evolution of our portfolio. So if you think about what we did a quarter ago, we sold the garden distribution business and then we turn around and we buy a pet consumable business that has much better consumer tailwinds, has faster growth, higher margin consumable and really not seasonal. So you can see kind of what's going on there real time in terms of our portfolio. And I think if there's anything to take away from the call, it would be that.

Hale Holden
Barclays Bank PLC, Research Division

Great. And the second question was on the SKU reduction efforts for this upcoming 12 months, do you have a -- or would you be able to get a range in terms of what -- in aggregate, what level of SKU you're taking out? Is it low single digits or much higher where that could help on margins going forward in the future?

Nicholas Lahanas
Senior VP & CFO

I won't quantify it. It's going to vary BU by BU. So we're going to look at all the businesses. We're going to have to make judgment calls too. That kind of work is not free. Sometimes you have to get rid of SKUs and sometimes you don't get full price. So we're going to have to weigh each BU and look at the SKU count and look at what the contribution of those SKUs are. So very hard for me to quantify right now.

Operator

Our next question comes from the line of Carla Casella with JPMorgan.

Carla Marie Casella Hodulik
JPMorgan Chase & Co, Research Division

Can you hear me now?

Operator

Yes.

Carla Marie Casella Hodulik

JPMorgan Chase & Co, Research Division

So following on some of the prior questions. The inventory you mentioned is a little bit heavier on your books. How long do you think do you work through some of that excess and high-cost inventory?

Nicholas Lahanas
Senior VP & CFO

I think probably anywhere from 12 to 18 months, I think, in that area.

Carla Marie Casella Hodulik
JPMorgan Chase & Co, Research Division

Okay. Great. And then on the garden distribution business that you sold, did you give the total price or I'm wondering if there's any connection between that, any ties between that business and any other pieces of your business?

Nicholas Lahanas
Senior VP & CFO

I'm not quite following that, Carla. Could you repeat that question? I want to make sure I answer it properly.

Carla Marie Casella Hodulik
JPMorgan Chase & Co, Research Division

Yes, yes. So the garden distribution business that was sold, yes. Did that business interact to any of your other arms? Like is there any synergies or dyssynergies that you lose?

John D. Walker
President of Garden Consumer Products

Sure, Carla. This is J.D. It did. So this was a distribution of third-party vendor items to the independent channel to the independent garden nurseries. And they -- we also through that same distribution organization sold our branded products as well. Now the beauty of the deal that we have with BFG Supply, they are a national distributor and this is their core competency. They will continue to distribute our branded products to that channel -- to the independent channel as well.

So really, it's both companies focusing on their core competencies. And it was an incredibly complex business for us, 4,500 SKUs, distributing to 4,000 customers that had 6,000 stores. So we're reducing the complexity significantly by exiting that business. And as Niko said before, it was a marginally profitable business. We will maintain our distribution business to our larger big-box customers. And they're -- here, again, our branded products right along with those products to the stores.

Carla Marie Casella Hodulik
JPMorgan Chase & Co, Research Division

Okay. Great. And then did you give the sale price or the impact on revenue or EBITDA? I may have missed, I missed a little bit at the beginning.

Nicholas Lahanas
Senior VP & CFO

No, we haven't done that. It's fairly de minimis. [25%] of Garden revenue is what we gave out but it was margin dilutive to the Garden business overall.

Operator

And our next question comes from the line of Karru Martinson with Jefferies Company.

Karru Martinson
Jefferies LLC, Research Division

Apologies if I missed it. Did we break out what the TDBBS acquisition cost us and what it's going to add to the top and bottom line?

Nicholas Lahanas
Senior VP & CFO

No, no. We don't give that information out. But if you look at the cash flow statement next quarter, you probably can figure it out.

Karru Martinson

Jefferies LLC, Research Division

Okay. And certainly, working capital, nice source of cash. I mean I hear your commentary that there's still some inventory that you guys would like to move out. But how should we think about working capital this year, certainly compared to this past year that was certainly a benefit to our bottom line.

Nicholas Lahanas

Senior VP & CFO

Yes. I don't think it will be quite as dramatic but I think there's still work we can do as far as converting inventories into cash working on payables, receivables. I think it's -- and everybody is doing it, it's not just us. So we're going to stay after it. I really love the progress we made but there's still more work to do.

Karru Martinson

Jefferies LLC, Research Division

Okay. And then when we look at the opportunity for M&A, it certainly does sound like value buyers of growth businesses, tuck-ins, things of that nature. It doesn't sound like these are transformative transactions. But for the right one, where are you guys comfortable taking leverage to?

Nicholas Lahanas

Senior VP & CFO

We'll go over 4 for the right deal. We're happy going over 4. And then delevering as quickly as possible back to our stated range of 3 to 3.5. So willing to lean into the right deal for sure.

Friederike Edelmann

Vice President of Investor Relations

And that was our last question. And with that, I would like to thank you, everyone, for attending our call today, and have a wonderful Thanksgiving. If there are any questions later on, please reach out to me. Thank you.

Operator

And this concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.

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