

Use of Non-GAAP Financial Measures

We report our financial results in accordance with U.S. generally accepted accounting principles (GAAP). However, to supplement the financial results prepared in accordance with GAAP, we use non-GAAP financial measures including non-GAAP net sales and operating income on a consolidated and segment basis, 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.

EBITDA is defined by us as income before income tax, net other expense, net interest expense and depreciation and amortization. We present EBITDA because we believe that 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. EBITDA is used by our management to perform such evaluation. EBITDA should not be considered in isolation or as substitutes for cash flow from operations, income from operations or other income statement measure prepared in accordance with GAAP. We believe that EBITDA is frequently used by investors, securities analysts and other interested parties in their evaluation of companies, many of which present EBITDA when reporting their results. Other companies may calculate EBITDA differently, it may not be comparable.

We have also provided organic net sales, a non-GAAP measure that excludes the impact of businesses purchased or exited in the prior 12 months, because we believe it permits investors to better understand the performance of our historical business without the impact of recent acquisitions or dispositions.

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 have not provided a reconciliation of non-GAAP guidance measures to the corresponding GAAP measures on a forward-looking basis due to the potential significant variability and limited visibility of the excluded items. 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.

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

- Gains from the fair value remeasurement of previously held investment interests: we have excluded the impact of the fair value remeasurement of a previously held investment interest as it represents an infrequent transaction that occurs in limited circumstances that impacts the comparability between operating periods. We believe the adjustment of these gains supplements the GAAP information with a measure that may be used to assess the sustainability of our operating performance.
- Asset impairment charges: we have excluded 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 sustainability of our operating performance.
- The U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Job Act (the "Tax Reform Act") in December 2017. We have excluded the transitional impact of the Tax Reform Act as the remeasurement of our deferred tax assets and liabilities does not reflect the ongoing impact of the lower U.S. statutory rate on our current year or future year earnings.

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 reflect the following:

- (1) During the second quarter of fiscal 2019, we recorded a preliminary, pending the finalization of the related purchase accounting, non-cash \$3.2 million gain in our Garden segment from the fair value remeasurement of our previously held 45% interest in Arden upon our acquisition of the remaining 55% interest. The gain was recorded as part of selling, general and administrative costs in the condensed consolidated statements of operations.
- (2) During the second quarter of fiscal 2019, we recognized a non-cash impairment charge in our Pet segment of \$2.5 million related to the impairment of intangible assets caused by a retail customer exiting the live fish business. The adjustment was recorded as part of selling, general and administrative costs.

- (3) Transitional impact of U.S. Tax Reform: As a result of the Tax Reform Act, the Company recorded a provisional tax benefit of \$16.3 million in the quarter ended December 30, 2017, due to the remeasurement of its deferred tax assets and liabilities. We have excluded only this transitional impact and have not included in the adjustment the ongoing impact of the lower U.S. statutory rate on our current or future year earnings.

Operating Income Reconciliation	GAAP to Non-GAAP Reconciliation (in thousands) For the Three Months Ended		GAAP to Non-GAAP Reconciliation (in thousands) For the Six Months Ended	
	Consolidated		Consolidated	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
GAAP operating income	\$ 62,153	\$ 65,786	\$ 72,334	\$ 88,307
Previously held investment interest fair value remeasurement	(1) (3,215)	—	(3,215)	—
Intangible asset impairment	(2) 2,540	—	2,540	—
Non-GAAP operating income	\$ 61,478	\$ 65,786	\$ 71,659	\$ 88,307

Pet Segment Operating Income Reconciliation	GAAP to Non-GAAP Reconciliation (in thousands) For the Three Months Ended		GAAP to Non-GAAP Reconciliation (in thousands) For the Six Months Ended	
	Pet		Pet	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
GAAP operating income	\$ 26,984	\$ 32,784	\$ 56,739	\$ 68,960
Intangible asset impairment	(2) 2,540	—	2,540	—
Non-GAAP operating income	\$ 29,524	\$ 32,784	\$ 59,279	\$ 68,960

Garden Segment Operating Income Reconciliation	GAAP to Non-GAAP Reconciliation (in thousands) For the Three Months Ended		GAAP to Non-GAAP Reconciliation (in thousands) For the Six Months Ended	
	Garden		Garden	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
GAAP operating income	\$ 53,355	\$ 50,746	\$ 48,718	\$ 53,046
Previously held investment interest fair value remeasurement	(1) (3,215)	—	(3,215)	—
Non-GAAP operating income	\$ 50,140	\$ 50,746	\$ 45,503	\$ 53,046

Net Income and Diluted Net Income Per Share Reconciliation	GAAP to Non-GAAP Reconciliation (in thousands, except per share amounts) For the Three Months Ended	
	March 30, 2019	March 31, 2018
GAAP net income attributable to Central Garden & Pet	\$ 42,391	\$ 45,234
Previously held investment interest fair value remeasurement (1)	(3,215)	—
Intangible asset impairment (2)	2,540	—
Tax effect of remeasurement and impairment	\$ 144	\$ —
Non-GAAP net income attributable to Central Garden & Pet	\$ 41,860	\$ 28,891
GAAP diluted net income per share	\$ 0.73	\$ 0.86
Non-GAAP diluted net income per share	\$ 0.72	\$ 0.86
Shares used in GAAP and non-GAAP diluted net earnings per share calculation	58,026	52,658

Net Income and Diluted Net Income Per Share Reconciliation	GAAP to Non-GAAP Reconciliation (in thousands, except per share amounts) For the Six Months Ended	
	March 30, 2019	March 31, 2018
GAAP net income attributable to Central Garden & Pet	\$ 44,194	\$ 71,481
Previously held investment interest fair value remeasurement (1)	(3,215)	—
Intangible asset impairment (2)	2,540	—
Tax effect of remeasurement and impairment	142	—
Tax effect of revaluation of deferred tax amounts (3)	—	16,343
Non-GAAP net income attributable to Central Garden & Pet	\$ 43,661	\$ 55,138
GAAP diluted net income per share	\$ 0.76	\$ 1.36
Non-GAAP diluted net income per share	\$ 0.75	\$ 1.05
Shares used in GAAP and non-GAAP diluted net earnings per share calculation	58,013	52,693

Organic Net Sales Reconciliation

We have provided organic net sales, a non-GAAP measure that excludes the impact of recent acquisitions and dispositions, because we believe it permits investors to better understand the performance of our historical business. We define organic net sales as net sales from our historical business derived by excluding the net sales from businesses acquired or exited in the preceding 12 months. After an acquired business has been part of our consolidated results for 12 months, the change in net sales thereafter is considered part of the increase or decrease in organic net sales.

	GAAP to Non-GAAP Reconciliation (in millions) For the Three Months Ended March 30, 2019					
	Consolidated		Pet Segment		Garden Segment	
		Percent change		Percent change		Percent change
Reported net sales - Q2 FY19 (GAAP)	\$ 673.7		\$ 338.2		\$ 335.5	
Reported net sales - Q2 FY18 (GAAP)	613.1		321.7		291.4	
Increase in net sales	60.6	9.9%	16.5	5.1%	44.1	15.1%
Effect of acquisition and divestitures on increase in net sales	47.6		16.3		31.3	
Increase in organic net sales - Q2 2019	\$ 13.0	2.1%	\$ 0.2	0.1%	\$ 12.8	4.4%

GAAP to Non-GAAP Reconciliation
(in millions)
For the Six Months Ended March 30, 2019

	Consolidated		Pet Segment		Garden Segment	
		Percent change		Percent change		Percent change
Reported net sales - Q2 FY19 YTD (GAAP)	\$ 1,135.7		\$ 678.6		\$ 457.1	
Reported net sales - Q2 FY18 YTD (GAAP)	1,055.1		646.7		408.4	
Increase in net sales	80.6	7.6%	31.9	4.9 %	48.7	11.9%
Effect of acquisition and divestitures on increase in net sales	74.9		33.5		41.4	
Increase (decrease) in organic net sales - Q2 2019 YTD	\$ 5.7	0.5%	\$ (1.6)	(0.2)%	\$ 7.3	1.8%

EBITDA Reconciliation

GAAP to Non-GAAP Reconciliation
(in thousands, except per share amounts)
For the Three Months Ended March 30, 2019

	Garden	Pet	Corp	Total
Net income attributable to Central Garden & Pet	—	—	—	\$ 42,391
Interest expense, net	—	—	—	8,385
Other income	—	—	—	(500)
Income tax expense	—	—	—	11,546
Net income attributable to noncontrolling interest	—	—	—	331
Sum of items below operating income	—	—	—	19,762
Income (loss) from operations	\$ 53,355	\$ 26,984	\$ (18,186)	\$ 62,153
Depreciation & amortization	2,312	8,039	1,526	11,877
EBITDA	\$ 55,667	\$ 35,023	\$ (16,660)	\$ 74,030

EBITDA Reconciliation

GAAP to Non-GAAP Reconciliation
(in thousands, except per share amounts)
For the Three Months Ended March 31, 2018

	Garden	Pet	Corp	Total
Net income attributable to Central Garden & Pet	—	—	—	\$ 45,234
Interest expense, net	—	—	—	9,882
Other income	—	—	—	(1,505)
Income tax expense	—	—	—	11,643
Net income attributable to noncontrolling interest	—	—	—	532
Sum of items below operating income	—	—	—	20,552
Income (loss) from operations	\$ 50,746	\$ 32,784	\$ (17,744)	\$ 65,786
Depreciation & amortization	1,707	6,944	2,471	11,122
EBITDA	\$ 52,453	\$ 39,728	\$ (15,273)	\$ 76,908

EBITDA Reconciliation**GAAP to Non-GAAP Reconciliation**
(in thousands, except per share amounts)
For the Six Months Ended March 30, 2019

	Garden	Pet	Corp	Total
Net income attributable to Central Garden & Pet	—	—	—	\$ 44,194
Interest expense, net	—	—	—	16,462
Other income	—	—	—	(308)
Income tax benefit	—	—	—	11,819
Net income attributable to noncontrolling interest	—	—	—	167
Sum of items below operating income	—	—	—	28,140
Income (loss) from operations	\$ 48,718	\$ 56,739	\$ (33,123)	\$ 72,334
Depreciation & amortization	5,138	16,095	2,996	24,229
EBITDA	\$ 53,856	\$ 72,834	\$ (30,127)	\$ 96,563

EBITDA Reconciliation**GAAP to Non-GAAP Reconciliation**
(in thousands, except per share amounts)
For the Six Months Ended March 31, 2018

	Garden	Pet	Corp	Total
Net income attributable to Central Garden & Pet	—	—	—	\$ 71,481
Interest expense, net	—	—	—	17,100
Other income (expense)	—	—	—	1,584
Income tax benefit	—	—	—	(2,593)
Net income attributable to noncontrolling interest	—	—	—	735
Sum of items below operating income	—	—	—	16,826
Income (loss) from operations	\$ 53,046	\$ 68,960	\$ (33,699)	\$ 88,307
Depreciation & amortization	3,276	14,089	4,920	22,285
EBITDA	\$ 56,322	\$ 83,049	\$ (28,779)	\$ 110,592