

03-Dec-2020

Central Garden & Pet Co. (CENT)

Investor Day

CORPORATE PARTICIPANTS

Friederike Edelmann

Vice President, Investor Relations, Central Garden & Pet Co.

Timothy P. Cofer

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

John Hanson

President, Pet Consumer Products, Central Garden & Pet Co.

J.D. Walker

President-Garden Consumer Products, Central Garden & Pet Co.

Clare Schueren

*Vice President, Sustainability & Corporate Social Responsibility,
Central Garden & Pet Co.*

Marilyn Leahy

Senior Vice President-Human Resources, Central Garden & Pet Co.

Nicholas Lahanas

Chief Financial Officer, Central Garden & Pet Co.

OTHER PARTICIPANTS

Bradley Thomas

Analyst, KeyBanc Capital Markets, Inc.

William B. Chappell

Analyst, Truist Securities, Inc.

Peter Graham Malone

Analyst, JPMorgan Asset Management (UK) Ltd.

MANAGEMENT DISCUSSION SECTION

Friederike Edelmann

Vice President, Investor Relations, Central Garden & Pet Co.

Good morning or good afternoon for those of you on the East Coast. And welcome to our first Investor Day. I'm Friederike Edelmann, Vice President of Investor Relations at Central Garden & Pet. And we're delighted you're joining us today.

We have put together an exciting agenda for you. Firstly, our CEO, Tim Cofer will take you through an overview of all industries, introduce you to our company and our long-term strategy. After Tim, John Hanson and J.D. Walker will discuss their two respective businesses, Pet and Garden. Following the business overviews, we will share an update on two important areas of our strategy, corporate social responsibility led by Clare Schueren, and people and culture led by Marilyn Leahy. Finally, our CFO, Niko Lahanas, will discuss our financials and our long-term financial outlook. Tim will wrap up with some closing thoughts, before we'll answer your questions. We have about 30 minutes planned for Q&A. All presentation slides and the replay of the event, including the Q&A, will be made available on our website, ir.central.com under Events & Presentations.

I'd also like to remind you that today we will be making forward-looking statements about the company's performance. These statements are based on how we see things today. Actual results may differ materially due to risk and uncertainties. Please refer to the cautionary statements and risk factors contained in our 10-K and Q filings for more details on forward-looking statements. We assume no obligation to update any forward-looking

statements. Some of today's presentation includes non-GAAP financial measures. You can find the non-GAAP to GAAP reconciliations on our website.

And with that, I'd like to turn it over to Tim Cofer, CEO of Central Garden & Pet. Tim?

Timothy P. Cofer

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

Thank you, Friederike. And good afternoon, everyone. This year, our company celebrates 40 years in business. And today, we're excited to share our strategic roadmap for how we will take our business, our brands, and our people into the future. Before we begin the program, I want to quickly share a bit about my background. I've been at Central Garden & Pet for over a year now. And I'm thrilled to be a part of this company and the garden and pet industries.

I've had the good fortune to have spent my entire 30-year career in the consumer products industry and I'm passionate about leading great companies, developing people, building brands and creating shareholder value. Prior to joining Central, I served in key positions, leading large, profitable and complex businesses here in the United States and around the world at great companies including Kraft Foods, and Mondelēz International.

For the next 45 minutes or so, I will cover three topics. First, I'll walk you through an overview of our dynamic pet and garden industries. Next, I want to introduce you or reintroduce you to Central, who we are, what we stand for, and what makes us unique. And finally, I'm excited to share our new long-term strategy. We're confident we'll generate strong shareholder value for years to come.

So, let's get started with our program. We realized that an Investor Day like this, there's quite a bit of information to absorb. But if nothing else, I hope you'll leave this presentation with four key takeaways. First, both of our industries, pet and garden, are attractive, resilient growth industries with trends that support future growth. And this has only been reinforced in the recent COVID period.

Second, Central Garden & Pet is an industry leader with a strong foundation. After more than a year as CEO, it's also clear to me that we have significant untapped potential in this company. Next, our new strategic framework that we call Central to Home sets a bold ambition, and is a compelling and contemporary roadmap for the next chapter of growth. And we're already seeing early signs of success. And finally, the management team and I are confident in our plans to deliver significant shareholder value. And we'll share more of the long-term algorithm expectations in Niko's financial section.

So, with that, let me start by unpacking our two industries, starting with pet. Pet is a highly attractive growing industry valued at over \$100 billion. It's clearly a resilient space that performs well in good times and bad with an approximate 4% growth rate. Pet has an almost ubiquitous consumer base with 90% household penetration. And there are strong tailwinds that are highly aligned with consumer trends.

Speaking of tailwinds, we see many trends in pet that reinforce the strong growth prospects of the pet industry for years to come. First, humanization. Now, I can tell you from personal experience as a proud owner of a three-year-old Mal-Shi dog, that's a Maltese Shih Tzus, that Toby is the fifth member of our family. And it turns out I'm not alone. 95% of Americans view pets as family referring to themselves as pet parents instead of owners. This creates significant opportunity for products and services to address the ever evolving humanization trend.

Second is health and wellness. Pet health and wellness supplies are exploding across all pet segments and growing at a rate 70% faster than just two years ago. This includes not only physical health, but also the emotional well-being of our pets.

Third is e-commerce. This year, we've all seen the rapid acceleration of online purchases. Pet e-commerce has grown fivefold in the last five years, explosive growth that will continue to make online sales, the fastest growing channels. And finally convenience, we've seen a significant acceleration of the need for convenience when it comes to caring for your pet. Consumers are looking for easy, frictionless solutions. One of our top 10 retail partners, Chewy, recently shared that about two-thirds of their purchases are subscription based.

Further accelerating these tailwinds is a clear increase in pet ownership that bodes well for the continued strength of the pet industry for years to come. As you can see on this slide, in 2020, pet ownership increased 4%. On a percentage basis, we see the strongest growth in reptile, small animals and dogs, but really solid growth across all animal breeds. In total, this translated to 2.7 million incremental households with pets in 2020. And importantly, this growth is disproportionately fueled by the next generation. 57% of millennials and Gen Z have recently become new pet parents, reinforcing our growth outlook for the pet industry. I'm very encouraged to see that today's youth are adopting pet ownership at or above the rate of prior generations.

Now, shifting to garden. The lawn and garden consumables industry is also very attractive, valued at approximately \$33 billion. With a more modest, but consistent growth rate, it is both expanding and resilient. It has a broad consumer base. And lastly, it's an industry with high consumer engagement, strong retention and loyalty. The lawn and garden industry has strong underlying trends that present significant opportunities for growth.

First, sustainability. Gardeners are notorious supporters of the environment and believers in creating a sustainable future. Think about it. They're dedicated to planting, caring for the earth, growing and nurturing plants that can come back year-after-year. Second is homesteading. In 2020 70% of homeowners are doing more projects around the home. This is in combination with a trend towards moving from cities to suburbs, and that's a positive sign for the lawn and garden categories.

And last is emerging e-commerce. While online sales of lawn and garden are well below what we see in pet, the growth rate and the adoption of the online channel is explosive and growing even faster. A combination of these fundamental trends and the consumer impact from COVID-19 has resulted in a significant expansion of household penetration in lawn and garden this year at nearly 73% of households and that's up 5.5 penetration points versus prior year. This translates into more than 7 million new households entering the lawn and garden category in the last year. And much like in pet, we're seeing an exciting level of growth from younger generations. 75% of new consumers in the lawn and garden category are Gen Z or millennials, demonstrating the potential for future growth.

Now that we're grounded in the size, strength and attractiveness of the pet and garden industries, let me shift gears and talk about our company, Central, and our foundation for sustainable growth. In my view, Central has a strong foundation for growth. Now, there are certainly areas where we need to improve. There are new capabilities to build, opportunities we have yet to unlock. But fundamentally, we have the right attributes at a foundational level. Let me walk you through these and spend a minute on each one.

First, we have a leading portfolio of brands across key garden and pet categories. Second, we have demonstrated strength in our financials, both in earnings and cash flow. Third, we have a history and proven track record in M&A. Next, over the last four decades, we've built strong relationships with our key retail partners. Fifth,

we have a superior manufacturing and distribution network. And last but certainly not least, we have an experienced leadership team and an entrepreneurial culture.

So, let's take a look at each of these foundational elements. First, Central has a broad portfolio across both the pet and garden industries. In lawn and garden consumables, Central is the second largest player and our portfolio breadth is a competitive strength relative to some of our garden peers. Shifting to pet, Central is also the second largest player in the industry, excluding dog and cat food and cat litter. These are areas we've purposefully chosen not to participate in, given the competitive dynamics and the presence of large multi-nationals. In pet, we have an equally broad portfolio across the pet supplies categories and this is also a benefit relative to our peers. These two strong leadership positions in both garden and pet give a scale benefits and real competitive advantage in the market.

We're proud to have many leadership brands across the segments in which we compete, ranging from our number one share position with our Kaytee brand in both pet bird and small animal; two, our number two position in dog toys with our iconic Nylabone brand; and our number one position in wild bird with Pennington, which also has the number two leading position in grass seed. And in fertilizer, we have a strong position, thanks to our Pennington brand and select private label partnerships. Next, our strengthened controls with our AMDRO and Sevin brands. And we have leading positions in important high-margin professional categories, like mosquito and farm insect control.

Our second foundational strength is clearly our financial performance. As I shared with you last week on our Q4 earnings call, fiscal year 2020 was a historic year for Central. Our sales are now \$2.7 billion, growing by more than 13% versus prior year. Our EBIT grew even faster at 30% versus prior year. Our EPS rose to \$2.20, a 37% increase. And we further enhanced our cash position, which remains a significant strength and provides meaningful firepower for our M&A agenda. I could not be more proud of our Central employees who have navigated such a challenging environment and delivered that record performance.

Now, shifting to another key foundational strength, M&A. As you know, Central is a company that's been built through acquisitions. We have successfully acquired an integrated more than 50 companies in the last 25 years. These range from when we acquired our Nylabone dog brand and top ranking Kaytee brand in 1997 to our iconic Pennington garden brand in 1998, to our recent acquisitions where we've welcomed Bell Nursery and Arden into the Central family. These acquisitions have successfully expanded our portfolio breadth in both garden and [audio gap] (00:17:26-00:17:31).

It's built upon our long lasting, deep relationships with retail partners. Because Central has over 40 years in the industry, we benefit from highly tenured relationships with our retail partners. This results in strong joint business planning opportunities for private label partnerships, and emerging e-commerce leadership. As you see on the right hand side of this slide, we're proud to partner with our top 10 customers that range from the leading mass merchant to pure play online retailers to pet-specific specialty customers and leading home retailers.

Next, we have a superior manufacturing and distribution footprint with approximately 100 sites in the US as well as locations in Canada, Mexico, Europe and China. We have strong distribution capabilities in both segments and John and J.D. will share more on our distribution strengths in their sections. And given our focus on cost optimization, we are a low cost producer in many of our businesses across garden and pet.

Finally and most importantly, it's our people that provide the foundational strength of this company starting with my leadership team. My leadership team is a collection of highly tenured industry veterans. And importantly, we have a combination of deep Central experience and relevant consumer products industry expertise. In fact, 5 of

our top 12 executives have recently joined Central, including John Hanson, President of Pet Consumer Products; Ken Elsbury, Senior Vice President, Central Life Sciences; Mike McGoohan, Senior Vice President of Marketing and Strategy; and Jon Balousek, President of Corporate Development; in addition to myself. I'm pleased that you have the opportunity to hear from some of these leaders later today.

As many of you have heard me say before, our most important asset is our people. We have over 6,300 incredible men and women, who make, ship and sell our great brands and products to our customers and consumers every day. This past year presented the most challenging environment in our company's 40-year history, and yet our people have navigated the challenges and opportunities with loyalty and tenacity. This period has reinforced our employees' unwavering dedication to each other, to our consumers and customers and to our company. I continue to be sincerely grateful to our employees for their commitment, creativity and collaboration. Thank you, Team Central.

Now that I have provided a good perspective on the strength of our foundations, let's pivot to talk about our new strategy. I'm so proud of our past and all our company has accomplished over the last 40 years, and I'm even more excited about our future. Any good strategy starts with a compelling purpose. Today, it is more important than ever that companies are grounded in a purpose. So, we ask ourselves, what is our purpose? What unites us? What defines why we exist as a business beyond making money? For Central, our business revolves around enabling our consumers through our brands and our products whether we're helping them care for their pets, grow their gardens or support their farms and communities. This is why our company purpose is to nurture happy and healthy homes.

When we talk about homes, we think of a place of comfort, shelter and connection to the ones you love. Home is at the center of our lives and we want to be Central to Home. To accompany this new purpose, we also needed a new mission to define our future aspirations and how we will achieve them. At Central, our mission is to lead the future of the garden and pet industries, one blade of grass and one wagging tail at a time.

Now, leading the future of our industries is a bold ambition. It requires us to think differently to stay agile, to anticipate and understand consumer trends, to embrace and harness the digital revolution, to innovate in products and services and to lead our categories. But as we work toward leading the future, we're mindful that this is a journey. So, that means we will lead the future one case at a time, one day at a time. Every employee at Central counts, every day counts, every idea counts, everything we make, ship and sell counts, just like every blade of grass and every wagging tail.

To reinforce our new strategy, we've also created a new visual identity. You see it here on the screen. Our visual identity reinforces the strength of our company. And through our new iconography, it's clear that the home and consumers are at the center of everything we do. It also represents that we're a house of brands. We're proud to be made up of brands like Kaytee, Aqueon, Farnam, Pennington and Nylabone. And when each of these brands are woven together, as our new identity suggests, we create an even stronger entity of Central Garden & Pet.

To help bring our new Central to Home strategy to life, we've created a short video. Let's take a look.

[Video Presentation] (00:24:20-00:25:54)

Last month, we unveiled our new purpose, mission, strategy and visual identity to our 6,300 employees in a full company meeting. And when we shared the video, you just saw the pride and excitement from our colleagues was overwhelming. It defines for our employees a clear purpose and mission, and it galvanizes support behind our new identity.

Now let's talk about the strategic pillars we will pursue to help us deliver this purpose and mission. As I've signaled to many of you in previous earnings calls, one of my priorities in my first year as CEO was to create a new long-term strategy that can unlock the company's full potential. This roadmap was co-created by over 150 key leaders across the Central organization. I'm extremely proud of our new strategy, because it was developed by Central, for Central.

Up until this point, we've called this work Vision 2025, because we think it's a roadmap for the next five years. Now that we've created it and we're starting to bring it to life, we call it our Central to Home strategy, as it reinforces our unique purpose to nurture happy and healthy homes and our bold ambition to lead the future of our industries.

This culminates in five key strategic pillars that are simple and memorable and I'm confident will inspire employee engagement and clear execution. Conveniently, all five strategic pillars start with the letter C and they are: consumer, build and grow brands, consumers love; customer, win with winning customers and channels; Central, fortify our Central portfolio; cost, reduce costs to improve margins and fuel growth; and culture, strengthen our entrepreneurial business unit led growth culture.

So, let's walk through each of these strategic pillars, starting with consumer. Our first strategic pillar is all about the consumer and our need to build and grow brands consumers love. This will be a big area of focus. I've spent the majority of my career building iconic brands, launching winning innovation and leveraging powerful consumer insights to drive growth. But this is an underdeveloped muscle here at Central and yet, it's mission critical to our ability to unlock our full growth potential.

Accordingly, we've made consumer our first strategic pillar. It all starts with a deep fundamental understanding of our consumers. What motivates them? How do they connect with our brands? What is their path to purchase in Pet and Garden? And how do we meet or exceed their needs and build a personal relationship with today's consumer? With that deep consumer understanding, we can then enhance our brand building efforts to create distinctive and winning brands. This means improving our brand fundamentals, including sharpening brand strategies and building distinctive assets.

Once we're confident in our brand fundamentals and our right to win, we must invest further behind our brands to drive awareness, household penetration, organic growth and market share. We will invest more in digital marketing and ensure we continuously monitor ROIs to optimize our investment posture. This is another area where Central has historically been underdeveloped. And finally, we'll take a fresh look at our innovation process. We have an opportunity to improve our external orientation and our innovation capabilities. Our goal to create disruptive innovation platforms and build a multi-year pipeline of innovation is clear.

Let me give you a couple of recent examples of innovation successes. The first example is from our Pet business, more specifically, our Comfort Zone brand. Through its original drug-free formulas, Comfort Zone uses pheromones to create a calming environment for cats. We were recognized in the industry with the prestigious Cat Care Product of the Year award in 2020. And more importantly, we saw this product line grow by more than 70% versus prior year.

On the Garden side, we're pleased with our innovative PENNINGTON Lawn Booster product, which addresses the convenient solution trend that I referenced earlier. Lawn Booster delivers grass seed, fertilizer and soil enhancer and in a one-stop solution that produces a thicker, greener lawn. This product also experienced strong growth at over 50% versus the prior year. In addition to these two recent innovations, just last week, we were

proud that another one of our great brands, Nylabone was named Chew Toy Product of the Year by the 2020 Pet Independent Innovation Awards program, which is one of the industry's most robust recognition platforms.

Now, let's talk about some examples around our investment in digital marketing. K&H is our brand dedicated to creating innovative pet products for dogs, cats, birds, and other animal companions. And this is one of the brands where we have our own direct-to-consumer website, where pet owners can find resources on animal behavior and wellness and then purchase our innovative products.

Now, at the beginning of the pandemic, many people found themselves working from home and being at home full time gave them a front row seat into pet problems they had not seen or thought of before. Problems like, is my cat cold? How do I cool down my dog on a hot day? So, we created a digital problem solution content program to address the most common needs. Through this program, we learned so much about our consumers and their purchase journeys. And importantly, this effort resulted in website traffic increase of almost 150% and growth in our direct-to-consumer sales of 45%, compared to prior year.

Another example, Sevin, one of our leading brands in the controls category it is also one of our dual language websites. We know through consumer insights that there's a big opportunity to provide content and solutions tailored to the Latino consumer. Our team developed a custom program and we've seen great success. Page views grew by 275% and we saw a rise in total sales by about 25%.

Now, let's move to our second strategic pillar. While our first strategic pillar was all about the consumer, our second pillar is about the customer, or our retail partners. Here our goal is to win with winning customers and channels. And this starts with the imperative to build the leading e-commerce business in our categories. 2020 and the COVID pandemic has clearly shown us that the e-commerce channel whether pure-play, omni-channel or branded direct-to-consumer solutions are the preferred channels for today's convenience oriented consumers.

As I mentioned in last week's earnings call, our e-commerce business on the pet side now represents about 20% of branded consumer sales and this is a significant increase from just last year. And while it's underdeveloped on the Garden side, given the bulky nature of many of our products, it's growing almost 200% versus prior year. John and J.D. will tell you more about their e-commerce business and our bold ambitions in this critical growth factor in just a few minutes.

As I mentioned earlier, Central has built deep meaningful relationships with all of our major retailers. And it's our intent to continue to strengthen relationships with our winning customers, so that together, we can increase basket size, drive attachment rates and grow the entire category. Beyond e-commerce, we also know there are important shifts in both of our industries. We're reviewing our investment levels and our allocation of sales resources across channels to ensure we're focusing on the highest future growth areas. This includes channels where we've historically been underrepresented like club, value, and of course, e-commerce.

Finally, we know that in order to address our changing customer needs, we will need to improve our sales capabilities. In addition to investing in e-commerce capabilities, we're prioritizing key areas like sales planning, net revenue management and price pack architecture. Now let's take a closer look at our approach to winning in e-commerce. Since joining Central, this has been a top priority for me to help build our company capability and invest for future growth.

If you look at the left hand side of this slide, you will see what we call our e-commerce flywheel. We're currently finalizing an internal playbook to ensure our organization is contemporary and fluent in how you drive e-

commerce excellence. For an organization that was historically built around brick-and-mortar distribution, this is clearly an area of opportunity.

The flywheel has five components: assortment, availability, search, content, and activation. Each element has its own playbook to ensure we develop our skills and deliver on our growth ambition. This playbook will be rolled out to hundreds of employees across our different functions from sales and customer teams to brand marketing groups, to our senior leadership team.

The objective of this effort is to ensure we're all building winning capabilities together. We're speaking the same language as an organization and we're approaching e-commerce with current best practices. While we have significant runway for further growth, as you can see on the right hand side of this slide, I'm proud of our 2020 e-commerce results, over \$200 million in sales, almost 50% growth versus prior year and that growth number was even higher in the second half of fiscal 2020.

Our rapid development in e-commerce has translated into both Amazon and Chewy becoming top 10 customers for Central. This is in addition to the tremendous omni-channel growth, including buy online-pickup in store with our traditional retail partners. Net-net, we have a strong start in e-commerce. We're building capabilities for the future and we know this will be an important growth factor for the long-term.

Now let's shift to our third strategic pillar. This one is focused on strengthening the Central portfolio from our approach to optimize brand and business unit portfolios to our M&A agenda, to our social responsibility agenda. As we look across the enterprise, we're working to drive a strong portfolio strategy by over indexing in investment areas that will produce the best return for the organization, making sure we're able to demonstrate and measure the benefits. Not all of our brands, nor our business units are created equally. Not all are in similar growth segments, nor do they produce similar returns. Hence, we will tailor our portfolio strategy that addresses where to play and how to win.

Next, we're evolving our M&A strategy to address the changing dynamics and I'll speak more about this on the next slide. In addition, we are committed to exiting underperforming and non-core businesses. This will require us to continuously review the health and strategic fit of our businesses. A recent example of this is the divestiture of our Breeder's Choice dog food business. We closed on that divestiture earlier this week and we're confident that the business is better suited and can thrive under new ownership.

The final area of focus in this pillar is to ensure a safe, responsible, and sustainable future. We will be weaving sustainable practices into our daily operations and culture. And we'll share details of our CSR agenda or what we call, Central Impact later in the program.

Now, let's take a look at our M&A strategy. Mergers and acquisitions have played a critical role in our history and will continue to play a key role as a growth driver for Central. That said, we are evolving our M&A priorities toward an ambition to acquire growth accretive, margin accretive, brand focused companies with talented management teams. To accomplish this goal, we've added firepower to our M&A team. We've recently added Jon Balousek from Clorox as Head of Corporate Development reporting to me.

And we've assembled a dedicated team of five people exclusively focused on M&A, a significant expansion from last year to drive even harder against our M&A priorities. And those priorities are first to build scale in core Garden and Pet categories, to give us even greater leverage in our priority business units. Next, enter priority adjacencies and white spaces consistent with our portfolio strategy. Third, enhance key capabilities like e-

commerce and digital marketing. And finally, pursue portfolio optimization such as the recent Breeder's Choice dog food exit.

We're confident we will continue to be a preferred acquirer in our industries. We have a proven track record of success over the last decades. We're committed to maintaining an entrepreneurial led culture. We offer target companies immediate distribution and supply chain scale benefits. We can provide world-class merchandising and category management leadership with our retail partners. And finally, we have a stellar balance sheet and access to capital.

Further supporting our M&A strategy is a renewed commitment to venture investments. Today, we're launching our Central Ventures commitment by establishing a new \$20 million venture fund. Our objective is to partner with leading entrepreneurs and innovators in Garden and Pet and leverage Central's capabilities to accelerate growth.

Now, while we will entertain venture partnerships broadly, across the Garden and Pet industries, we're primarily focused on three merging growth areas: sustainability, health and wellness, and digitally connected products and services. We're looking forward to connecting with entrepreneurs and adding further companies to our current portfolio, which includes companies like CASCO Pet, Lucy Pet and Back to the Roots.

Now shifting to CSR, our Vice President of Sustainability and CSR, Clare Schueren, will tell you more about this important body of work, a little later in the program. But I wanted to proactively reinforce the work on our Central Impact strategy. This is another example of a positive evolution of our thinking here at Central. Our commitment is grounded in our purpose to nurture happy and healthy homes and we embrace the importance of a strong social responsibility strategy for all of our stakeholders, from our employees to our consumers and customers, to our investors like you. CSR is now integrated into our enterprise roadmap and we believe it's critical to our mission to lead the future of the Pet and Garden industries.

Now, to our fourth strategic pillar, cost. We will reduce costs to improve margins and fuel growth across the enterprise. In order to deliver on our organic growth ambitions, it's critical that we generate the fuel required to invest in marketing, innovation and sales. So, we have the following priorities. We will continue to set high standards of operating excellence across the entire value chain. We will step up our efforts on net productivity to drive a consistent cost out program in supply chain. We need to better leverage the scale of a \$2.7 billion leader in Garden and Pet. This is another area where Central has opportunity and we need to find the right balance between independent accountable business units and smart scale leverage across our enterprise.

And finally, we will focus on improving our cash conversion cycle, where I believe there's meaningful opportunity on all three levers: payables, receivables, and inventory. Let me share a few examples of how we can generate fuel for growth and improve our margins. And later today, both John and J.D. can give you more color in their segments.

First is to scale our procurement efforts to take advantage of buying materials with our full enterprise scale. We have a few different pilots underway and I look forward to some wins here that we can expand into other areas in the coming years.

Second, given the strength of demand in our business we're investing in incremental capacity, which can give us two benefits, the ability to capture higher growth and also the chance to lower conversion costs, because the new capacity is more modern, more automated and more cost efficient. And third, we have the opportunity to continue to optimize our G&A expenses and generate operating leverage as we grow faster.

The fifth and final strategic pillar is culture, which is all about our most important asset, our people. This pillar is focused on strengthening our entrepreneurial business unit led growth culture. Central is committed to investing in our people. We will develop, recruit and retain top talent in our industries. We know we need to accelerate our efforts to build future proofed capabilities like digital marketing and e-commerce. We recognize that we're well into the digital revolution and we want to evolve toward a digital first business that's focused on the digital consumer and customer, digital data and analytics, adopting digital ways of working, and enabling a digital supply chain.

And finally, we're very committed to making Central a great place to work. Part of that journey includes embracing diversity and inclusion. You'll hear more about our progress in this area from Marilyn Leahy, including the formation of our diversity and inclusion council. One area of continued opportunity is around women in leadership at our company.

As a recent example of this, I'm pleased to share with you that we just named Beth Springer as our new Lead Director on our board. Beth joined our board in 2013 and is widely respected by other members of the board and the Central management team. She is a multi-decade veteran of the consumer products industry including many executive roles at Clorox and I'm thrilled to be working alongside Beth in this expanded responsibility.

So, as we think about building a winning growth culture, my leadership team and I have spent a lot of time working on what that really means. What do we want to retain and how do we want to evolve? We came up with these six attributes that we believe will help us create a winning growth culture: continue to nurture our already strong and thriving entrepreneurial spirit that exists across the company; invest in growth capabilities that will set our people and business up for further success; promote an agile and flexible approach, so that we can respond quickly to trends and opportunities; increase our external focus and our consumer orientation; refresh our values to support our ambitions and exercise we're currently embarking on; and importantly, leverage our collective expertise to win. All told, we believe we can develop a unique winning growth culture, which can be the secret sauce of our success and a real competitive advantage.

So, now that I've had the opportunity to walk you through the five strategic pillars, it's equally important to outline how will we measure our progress? We've established internal metrics in three critical areas. It starts with our ambition to deliver top tier financial performance. And this will be measured by KPIs like organic growth, gross margin, EBIT, EPS and cash conversion.

Second, we will build a strong portfolio with leading brands and this will be measured by metrics like market share both online and offline, brand awareness and household penetration. And third, we want to be the destination for top talent in our industries. And here we will have KPIs like employee engagement, retention, diversity and safety.

So, hopefully, this gives you a good understanding of our industry, our company and our exciting new strategy. And before we turn it over to John Hanson, President of Pet Consumer Products, we're going to take a five minute break. See you soon.

[Break] (00:52:44-00:57:44)

John Hanson

President, Pet Consumer Products, Central Garden & Pet Co.

Welcome back everyone. I'm John Hanson, President of Pet Consumer Products. For those of you who do not know me, I have been President of Pet Consumer Products for a little over a year after spending about a year on Central's board. I have almost 30 years of experience in CPG, building brands and successfully operating large

CPG businesses. My family and I have two dogs. One of them is a rescue puppy we welcomed into our family just a few weeks ago. We also have a guinea pig and a rabbit who also joined our family post-COVID.

So I'm very involved as a consumer with many of our products. I'm thrilled to be here with you all today and share more about the pet industry, our Central pet business. So let's get started. Central Garden & Pet competes in the \$101 billion pet industry. The segments in which we play are valued at approximately \$28 billion. Pet is a dynamic industry with a strong growth profile. Growth has accelerated by the recent increases in pet ownership. The industry has large players like Smucker's, Spectrum, Mars and Central. But it is also highly fragmented with many smaller competitors. Pet products are sold across a broad channel mix – independent specialty pet, specialty pet chain stores, mass club farm channels and traditional grocery, and especially post-COVID, the e-commerce channel has seen explosive growth.

Now let's talk about how Central plays in the industry. We are a leader in the pet segment, and as Tim mentioned, we are number two in pet supplies excluding dog and cat food and cat litter. As we shared with you last week on our earnings call, our pet segment had a great year. In fiscal 2020, pet segment realized a record of \$1.6 billion of net sales, up 13% and 26% growth in EBIT, also a record. We have leading brands in both consumer and professional space with 65% of our sales coming from consumer branded business.

Next moving to our categories and brands. A \$28 billion category in which we compete is divided into eight subcategories; dog and cat, aquatics, small animal, bird, reptile, equine, live animals excluding dog and cat, and professional. We are proud to hold leadership positions in these categories with strong brands like Nylabone in dog toys, Kaytee in small animal and bird, Farnam in equine, and Segrest in live animals.

Now I would like to take you through some of the progress we are making with our new Central to Home strategy, specifically focusing on the consumer, the customer and our cost pillars. First, the consumer, I am really excited with the progress we are making on being more consumer-centric. As Tim mentioned earlier, through this work, we are focused on deeply understanding our consumers and then creating unique products that fill their needs.

This work really comes to life through three examples which demonstrate how our innovation efforts are expanding our industry leadership. First, Kaytee Clean & Cozy extreme odor bedding, thanks to the work done by our Consumer Insights team. We learned that odor control is the number one dissatisfaction point among consumers of small animal bedding, and the number one driver of purchase in time. So we developed and introduced Kaytee Clean & Cozy extreme odor bedding with a proprietary formula that neutralizes ammonia controlling odor for 14 days for a fresh clean cage and absorbs six times its weight in liquid. Clean & Cozy has driven a 50% share increase in our pet bedding business.

Next is Nylabone bone broth. Bone broth is a popular emerging human health trend. So we developed and introduced a line of long-lasting bone broth treats and chews that are made with the real chicken and are all natural. Nylabone bone broth has achieved over \$10 million in sales the first year in market. It's also worth noting that these products are made in the US in our New Jersey factory.

Last, Kaytee food from the wild which acknowledges health and wellness trends providing solutions for those looking for more natural products to feed their pets. With food from the wild, we created a line of products that were inspired by the vegetation that small animals would find forage and eat in the wild. Food from the wild was created with natural foraging ingredients, no added sugar, fillers or artificial preservatives. This product has strong consumer acceptance with a 2.6 percentage points share gain in key customers and we continue to grow.

Now, I would like to show you how we have invested in consumer demand to drive consumer awareness and purchase of innovation. To support the launch of Kaytee Clean & Cozy extreme odor bedding, we activated a comprehensive digital marketing campaign including online displays with one of our large pure play e-commerce partners. This program has resulted in 29% new brand buyers to Kaytee, and with the Kaytee food from the wild debut, we launched a mobile advertising campaign that resulted in four times more engagement than typical campaigns and 13 million consumer impressions.

Let me show you a video that better profiles Kaytee food from the wild.

[Video Presentation] (01:04:11-01:05:33)

These examples bring to light both how we support our innovation with investments in consumer demand and how we are continuing to improve on our digital marketing capabilities and execution to accelerate growth and get better return on our marketing investments.

Moving to the customer pillar, win with winning customers and channels. Here at Central, we are focused on executing winning category growth strategies. We will achieve this through strong relationships across customers and channels. Over our 40-year history, we built and take great pride in relationships with our customers and we are committed to continuing to build and strengthen these relationships. Our success has been driven by category insights and the imperative is to bring meaningful insights and solutions to our customers and consumers to drive industry growth. As an example, in aquatics, we partnered with a major pet specialty retailer to provide consumer insights to drive clarity of assortment and shelving to optimize category sales and profitability.

And as I mentioned, we continue to build our capabilities to win in e-commerce. Underpinning all of our success in sales is our very tenured and capable sales force that is passionate about winning with our customers and driving pet growth, and we have made a lot of progress in e-commerce in fiscal 2020. We grew e-commerce sales 37% to \$184 million representing approximately 20% of our consumer branded pet sales.

As we continue to build our capabilities in e-commerce and digital marketing, our ambition is to double our sales by the end of 2025, a bold and exciting ambition that we are highly committed to achieving. In addition to our branded business, we have a great pet distribution business that distributes primarily to independent pet stores and veterinarians. Our distributed products revenue represents about 20% of our pet sales with 11% sales growth in fiscal 2020. Our pet distribution business offers the largest assortment of pet products with 80% of the sales from third-parties and 20% from Central branded products.

We believe our distribution business has significant competitive advantage. First, we have early insights into consumer trends as many trends start in the pet specialty channel. Second, we have channel leadership in pet specialty with our broad product offering and capability that also benefits Central brands. Third, we have strong category management capabilities that have enabled us to partner with customers to lead planograms and assortment planning. Last, our distribution business provides early access to emerging brands for M&A.

The last strategic pillar I will cover for pet is the cost pillar and the progress we have made to drive net productivity to fuel growth. Two areas where we have made good progress in fiscal 2020 are automation that improves capacity and lowers costs and optimizing our freight and logistics. First, we are adding significant automation to our aquatics business where we expect to achieve capacity gains, cost savings and 15% to 20% waste reduction. Second, automation in our C&S suet business has improved our efficiency by 20% to 25% lowering overall costs and expanding capacity. Third, with the strong COVID demand, we have invested in our Nylabone facilities, expanding capacity by 20% to meet fast-growing consumer demand.

Another area where we have made good progress in fiscal 2020 is optimizing our warehouse, freight and logistics. Here we are executing a key project that will drive 10% to 15% savings in our less than full truckload shipping costs. So we are clearly focused on net productivity. We've made good progress and are building capabilities to accelerate in this critical area. Our team is focused to step up our efforts on cost savings, so we can generate more fuel to drive faster organic growth.

So in closing, I'm extremely proud to lead a dedicated and capable team, and I am excited and confident about our future of our pet industry. The key takeaways I would like everyone to have on Central Pet are, first, pet is a dynamic industry with engaging trends and strong tailwinds. Second, Central holds leadership positions in the pet industry and there is untapped growth potential. Third, we had an outstanding fiscal 2020 and are executing very well. Finally, we have a bold consumer-centric growth strategy and are confident and excited about our future.

Now I'd like to turn it over to J.D. Walker, President, Garden Consumer Products.

J.D. Walker

President-Garden Consumer Products, Central Garden & Pet Co.

Thank you, John, and good afternoon everyone. I'm J.D. Walker, President of Garden Consumer Products. A little bit about my background before we dive in. I've been at Central for 10 years. I've spent over 39 years in consumer packaged goods industries including the last 23 in the lawn and garden industry. Much like Tim and John, I'm also a consumer both of our industries. In total, my family has five dogs, four cats, and one bearded dragon, and they're all very much part of the family. My wife and daughter are both avid gardeners and love to use our products. I guess you can say that they are just like our typical consumers, highly engaged and passionate about their pets, lawns, and gardens. And I think those attributes make our industries both compelling and attractive.

Now, let's turn to our garden business. First, a look at our industry. Lawn and garden consumables is a large attractive and solid growth industry. Key categories within the industry include live goods or, said differently, live plants; fertilizers and controls; grass and other seed; wild bird feed; growing media and mulch; and other consumables. Central currently plays in \$30 billion of the \$33 billion consumables categories.

As you probably know, garden is a very seasonal business with about 70% of the business generated in our second and third fiscal quarters. The industry is dominated by home centers and mass merchandisers and is underpenetrated in e-commerce. But e-commerce growth has accelerated in the COVID environment. Central is one of the few large players in the industry along with Scotts, Spectrum Brands and S.C. Johnson. The rest is a fragmented supplier base and is ripe for consolidation.

Now, moving to Central's garden business. Central is the leader in lawn and garden. As Tim noted earlier, we are number two in the lawn and garden consumables industry. Our portfolio is unique. We are a manufacturer of both branded and private label products. We're also a lawn and garden distributor which differentiates us from everyone else in our space. Our three largest customers represent 70% of our garden sales, but it's important to note that we directly service every major lawn and garden channel.

Moving to our financial results. Our garden business posted record financial results in fiscal year 2020. Our net sales of \$1.1 billion was a 14% increase versus prior year. We achieved a 30% increase in EBIT for the year and our e-commerce business grew almost 200% versus prior year. I'm incredibly proud of our garden team for the dedication and resiliency they've demonstrated in producing these outstanding results in a COVID-challenged

environment. We have a strong portfolio of brands and we are proud to hold meaningful leadership positions in many garden consumables categories.

Typically we hold the number one, two, or three position in the categories in which we compete. With leading brands like Pennington in wild bird feed, grass seed and fertilizers; and Sevin and Amdro in controls. Our demand creation investments are focused on these well-established brands and categories where we have strong market positions and a right to win.

Now following John's lead, I would also like to share with you some of the progress we're making on our Central to Home strategy in the garden segment. First on the consumer pillar. We're committed to creating and building brands that consumers love. One great example is Pennington brand. It's our largest brand and it extends across multiple product categories. This year we're celebrating the 75th anniversary of this iconic garden brand that consumers recognize for its outstanding quality, tradition of innovation and exceptional product performance.

It's important to note that while Pennington is a well-established brand we continue to see great year-over-year sales growth at our top three customers with strong double-digit gains in Pennington wild bird feed, Pennington grass seed, and Pennington fertilizer. Contributing to Pennington's growth is a product that Tim mentioned earlier, our innovative Pennington Lawn Booster. This combination product is a blend of grass seed, fertilizer and a soil enhancer that helps the consumer grow a thicker greener lawn. It also saves that consumer time by completing multiple lawn treatments in one easy application.

Lawn Booster sales exceeded \$10 million in its first year on the market. We supported the launch with investments in digital demand creation that drove a 130% increase in conversion rate. Page views were up 145% with over 50% of the engagement from female consumers.

And now I'd like to share a short video that speaks to both the heritage of the Pennington brand and the Lawn Booster innovation.

[Video Presentation] (01:16:33-01:17:31)

The Pennington brand, 75 years and still growing, building on its stellar reputation for efficacy and innovation. For Pennington, the best is yet to come.

Moving from the consumer pillar to the customer pillar of our Central to Home strategy. We have outstanding relationships with each of our three largest customers – Walmart, Lowe's and Home Depot – which represent over 70% of our garden sales. Our cross-functional business development teams are located near each of these customers to support their businesses. They leverage our unique portfolio, consumer insights and category management principles to optimize customer assortment and support for our brands.

Finally, we offer best-in-class retail activation and execution with over 1,000 merchandisers in store during peak season. We view our sales in merchandising organization as a competitive advantage. Both are passionate and tenured teams with deep lawn and garden experience. While we continue to grow and win with the Big Three customers, our business is strong and growing in other channels as well including farm and ranch and hardware channels where we saw solid double-digit gains year-over-year and e-commerce where we saw triple-digit growth this year.

Continuing in the customer pillar, as I mentioned before, we are both a manufacturer and a distributor. In fact we're the only lawn and garden distributor in the US with a national footprint. We supply independent garden

centers as well as retailers that are regional and national in scope including the largest lawn and garden retailers in the industry. We serve over 4,200 customers and 38,000 stores.

Distribution represents 20% of our garden sales and grew 33% in fiscal 2020. Our unique portfolio and category management approach enables us to bring tailored solutions to our customers whether that's a product that we manufacture or distributed product. In addition to these benefits for the customer, our distribution business gives us additional insights on emerging consumer trends and companies that are positioned for growth which informs our M&A strategy.

And now moving to the cost pillar where our net productivity and cost savings initiatives create the funding needed to fuel growth. Over the past five years, we've reduced our SG&A by about 3 percentage points through multi-year optimization projects such as combining facilities to reduce the complexity and increase the efficiency of our footprint, exiting underperforming businesses through portfolio management and making capital investments to lower operating costs. For example, we recently approved a large-scale project to simplify our manufacturing operations, expand capacity and enhance capabilities through automation. This project will yield a 5% to 10% cost of goods savings for one of our largest business units starting in 2022. In keeping with our strategy, we intend to reinvest a portion of the savings into demand creation activities.

In closing, I'd like to share a few thoughts in summation. Lawn and garden consumables is a resilient industry with a broad base of very loyal and passionate consumers. Central is an industry leader with strong brands and meaningful market positions. We are executing well. We delivered outstanding results in 2020. We're excited about our consumer-centric growth strategy. While we've always had great relationships with a customer, a stronger consumer orientation will help to accelerate our growth. The garden team has embraced our Central to Home strategy and we're incredibly excited about our future.

Now I'm pleased to turn over the floor to our Vice President of Sustainability, Clare Schueren.

Clare Schueren

Vice President, Sustainability & Corporate Social Responsibility, Central Garden & Pet Co.

Thank you, J.D. I'm Clare Schueren, Vice President of Sustainability and Corporate Social Responsibility for Central Garden & Pet. Let me tell you a little bit about myself. I've been a part of the Central family since 2011 and have over 20 years of consumer packaged goods and general management experience. On a personal note, I'm an avid gardener and pet lover. My pet family includes dogs, bearded dragon and many more.

I'm excited to walk you through Central's Corporate Social Responsibility initiative. We are embarking on the journey of an expanded corporate stewardship that is integrated into the core of our culture and operations. We believe social impact and sustainability is about creating business value in addition to doing the right thing. Social responsibility is not only imperative to Central's future, but is also important for our current operations. Grounded in our purpose to nurture happy and healthy homes, we are focused on working towards building stronger communities, a more diverse and well-rounded employee experience, and healthier more sustainable operations while reducing our environmental impact, although the idea of an overarching companywide initiative is new to some of our business units and functional areas.

Social responsibility has been a core part of our DNA since our founding 40 years ago. It has been a staple of our values and our successes. For the past many months, Central has undergone an in-depth stakeholder assessment. The assessment highlighted what was most important to Central's long-term responsible growth and development. I will talk more about that later.

Moving forward, Central will be increasing our focus and incorporating socially responsible and sustainable practices throughout the whole of our enterprise. And finally, we know that in order to deliver on our mission to lead the future of the pet and garden industries, it is critical that we support responsible practices for the betterment of our communities, our customers and our stakeholders.

As I spoke about earlier, Central underwent a comprehensive assessment to develop our impact strategy. The assessment included important stakeholder groups such as our customers, our consumers, our employees, industry experts, and other benchmarking. We began by building an understanding and incorporating multiple industry standards and frameworks into our research. We then completed a large consumer research study to shed light on what topics were most important to our consumers. The consumer study was then combined with extensive data from internal and external expert interviews. To round out the assessment, a substantial customer competitive and best-in-class benchmarking study was completed. These key stakeholder opinions and involvement brought clarity to the materiality and importance of topics which culminated in three strategic focus areas and alignment of our CSR strategy to the overall strategy that Tim shared earlier.

Social and environmental impact is central to home and central to our stakeholders. Central's excited to launch our Impact Strategy and its three focus areas, community health, employee well-being, and sustainability. We can and will positively impact our consumers and where they live through philanthropic work. Our customers by ensuring supply chain security and health, our operations by reducing waste and our impact on the earth. And finally Central will positively impact our employees through diversity and inclusion work and learning and development programs.

We are excited to partner with all of our stakeholders to ensure Central delivers a sustainable future for all. Our journey will begin by developing an even deeper relationship with our communities and expanding our outreach. We are committing to empowering the communities where our consumers, customers, and employees live and work. Community support has long been rooted in Central's culture and history. I would like to highlight a few examples from 2020.

Central through our Pennington and Arden brands partnered with Habitat for Humanity. We are proud to share that we gave approximately \$1 million in support. Equally as important Central came to the rescue through giving to the pet community. COVID-19 and wildfires escalated the need of support of our pet friends and families. Several of our pet brands such as Nylabone, Adams and Farnam showed their dedication with over \$1 million of monetary and product donations. We are proud of our business units and brands that have supported our communities throughout the years and cannot wait to grow from here. The areas we will focus our support on will be maximizing impact where there is the greatest human and pet need and developing programs, projects, and partnerships to make volunteering easier for our employees and their families.

As Tim mentioned, we are committed to supporting the holistic well being of our employees. We will do this by accelerating our diversity and inclusion strategy, expanding learning and development programs and continuing to improve and extend our safety efforts. Marilyn Leahy will go deeper into each one of these employee well-being priorities a little later.

The third and final focus area of our impact strategy is sustainability. Central look to evolve from cost cutting projects to long term integrated business development strategies. We are committed to ensuring sustainable operations while reducing our environmental impact. That commitment shined bright in fiscal 2020 through many of our business unit led initiatives. For example, more than 83 million pounds of ocean plastics and recycled materials were used in our pet beds and outdoor cushions as a replacement to virgin material. Approximately 125 million green energy dog bones were produced using company owned solar power.

We will continue to develop and grow our efforts by partnering to conserve ecosystems imperative to the future, taking more critical steps towards a full circular economy model and continuing to source materials that are better for people and the planet.

Central Impact is our next stage of sustainable and impactful growth. There's still a lot of work for us to do. Over the upcoming months priorities and processes will go through a rigorous vetting period. We'll ensure all relevant activities can be incorporated into our daily functions with clear tracking and reporting mechanisms and to drive the best possible outcomes for all of our stakeholders. We intend for sustainability to become an integral component of our yearly planning and strategy cycle. I look forward to sharing more about this during our next annual reporting cycle.

Now I'd like to turn it over to Marilyn Leahy, Senior Vice President of Human Resources.

Marilyn Leahy

Senior Vice President-Human Resources, Central Garden & Pet Co.

Thank you, Clare. And thanks to all of you for joining us today. I'm Marilyn Leahy, Senior Vice President of Human Resources. I've been with Central for nine years. Prior to joining Central, I spent 13 years at the Clorox Company and have over 25 years in the consumer packaged goods industry. You can see my dog Lizzy with me in this photo, a nine-year-old rescue shepherd. My larger family has two dogs, two cats and a beautiful tropical fish tank. I am passionate about animals and devote my free time to the board of the East Bay SPCA.

I'm excited to be here today to talk about our people and how we will continue to build our culture through our Central to Home strategy. With more than 6,300 passionate employees, our people are at the heart of everything we do. As Tim mentioned, we have approximately 100 offices, manufacturing plants and distribution centers mainly in the US as well as an emerging global footprint across the UK, Mexico, China, and Canada. I'm very proud of our workforce from their commitment to excellence, to their belief in our company, their dedication to their work. They are central to us and they are central to their communities. We are often the biggest employer in the cities where we operate and our employees feel the tight connection between their work, the products they make and the consumers they serve. Our employees have a deep experience and expertise in our industries. The average tenure of our non-exempt employee is six years and the average tenure of our salaried employees is 11 years. Regardless of where the employees sit within the organization, there are certain core attributes every Central employee possesses, high commitment, belief in our products, high integrity, a sense of pride and being a part of a strong company and knowing that they are part of an essential workforce. I love knowing that we're the employer of choice for our employees where people choose to grow in their profession and in some cases build their entire career with our company. Our employees believe in what we stand for and the strong values we fostered since the company started 40 years ago.

As Tim mentioned, 2020 has been an extraordinary year and the COVID pandemic tested our workforce in operations in ways we could not have anticipated. Every day since the pandemic started, our workforce has consistently showed up to meet the increase in demand for our products. They have inspired all of us. To address the need of our businesses, early in the pandemic we mobilized a cross functional task force to focus on timely critical issues related to COVID-19 developments. Our teams procured the necessary personal protective equipment and sanitation supplies for those working in manufacturing, logistics, merchant and merchandising roles. We immediately enhanced our safety procedures including investing in deep regular cleanings, staggering shifts implementing social distancing across our facilities. We prioritized constant communication and regularly shared pertinent information around benefits, health and safety. To-date all of our facilities remain operational but we are prepared to manage COVID incidents as they arise.

Additionally, those employees that can work from home do so seamlessly and securely. We successfully handle our order management customer service accounting and finance and sales remotely. A focus of our Central to Home strategy is to continue to build Central as a great place to work. We will achieve this through developing our talented workforce, recruiting the best and retaining top talent by building winning capabilities to propel our growth and embracing diversity and inclusion.

Let's first dive into how we plan to develop, retain and recruit top talent starting with a strong succession in talent management process. We are actively reviewing all critical roles across the organization assessing the capabilities, discussing development areas for potential successors and evaluating organizational skill gaps that may exist. This fiscal year, we are emphasizing development plans and ensuring we are giving people the appropriate projects, exposure and skills to be ready for their next organizational role. In doing this, we will create a healthy mix of promoting from within while also looking externally. We also created an extended leadership community that I will speak more about later.

And lastly we're committed to investing in robust development and career planning programs. We are excited about our internal promotions to senior level positions and the new talent we have added across the organization. In 2020 alone, we promoted over 25 employees to the director level and above in general management, finance, marketing, information services, manufacturing and distribution.

Additionally, we are proud to welcome over 25 new leaders to the Central family from top organizations as you can see on the page. As Tim joined us as our new CEO, he and I wanted to develop the next generation of leaders and build a strong leadership team. This manifested in the creation of an exciting new leadership community that we call the Central Leadership Council or the CLC. The CLC is a group of leaders who are charged with communicating and modeling Central's key priorities, behaviors and values. This group consists of a diverse and powerful group of leaders who bring unique experiences and perspectives and influence across the organization. They are empowered to lead the company's priorities and ensure are Central to Home strategy is realized. Investing in leadership development is also a focus.

We have several internal leadership academies designed to help our employees grow professionally. The second priority under the culture pillar focuses on how we build our internal expertise and simplify how we will work. When we refer to capability building, we need both organizational as well as individual competencies. We have identified several critical skills that we want to further build in the coming years initially focusing on three key areas marketing, e-commerce, and data and analytics.

In marketing, we will focus on building acumen in consumer insights, brand building and innovation. As you heard Tim talk about earlier, we will continue to build e-commerce strength through our flywheel management approach, omnichannel expansion and supply chain fulfillment. And in data and analytics, the focus is on generating and harnessing real-time and actionable data to improve supply chain, marketing, sales, e-commerce and overall business performance. We plan to take a purposeful approach to our competency building to ensure we are learning from the outside world and embedding the skills into our organization. Finally through our Central to Home Strategy we are committed to continuing to build a great place to work and a winning growth culture that embraces diversity and inclusion. The central leadership team and I are pursuing this work with passion.

To support these efforts, we have created a diversity and inclusion council made up of employees from across the company to guide our efforts. We'll also be activating a diversity and inclusion strategy focused on mentorship, leadership, development and recruiting. We are also continuing to recruit and develop top women across the organization.

In closing, Central's workforce is strong, dedicated, passionate and resilient. We are building Central to be the destination for top talent. We are committed to developing growth capabilities to fully realize our Central to Home strategy and we are embracing diversity and inclusion for an even stronger culture. And now I'd like to turn it over to our Chief Financial Officer, Niko Lahanas.

Nicholas Lahanas

Chief Financial Officer, Central Garden & Pet Co.

Thank you, Marilyn. For those of you that don't know me, I'm a 14-year veteran of Central and have been CFO for the last three and a half of those years. I'm also the proud pet parent of an adopted Greyhound as well as the COVID puppy that was purchased last April. Yeah, I wasn't immune to that either. I'd like to now briefly highlight our financial results and metrics and then talk about our long term algorithm for profitable growth going forward. Investor Day presentations become much easier when you can start with a slide like this. We've obviously been extremely fortunate to be a leading player in two growing and resilient industries and we're the beneficiary of a COVID tailwind as well as favorable weather conditions in 2020. The P&L has a great shape with the bottom line growing faster than the top line and margin expansion on both the gross and operating margin lines. Top line grew at 13% going from \$2.4 billion to \$2.7 billion. And the gain was largely organic as both industries benefited from the shelter-in-place orders as well as almost ideal weather.

Gross margin expanded a modest 10 basis points driven by a combination of increased overhead absorption and favorable product mix, partially offset by increased costs related to COVID-19. Operating profit grew by 30% to \$198 million and margin expanded by 90 basis points as SG&A decreased as a percentage of sales due to the pandemic driven reduced promotional opportunities and almost no travel. EPS increased by almost 37% benefiting from leverage and a lower share count as we bought back approximately 2 million shares in the first nine months of the fiscal year.

Now if we look at our metrics over the last five years, we see that they have largely accelerated. Our net sales ramp up from 2014 represents a four year CAGR of 10% with sales growth largely driven by M&A as well as organic growth. Of note was the robust 11% organic growth we experienced in fiscal 2020.

Moving on to gross profit and margin, we have a 10% four-year CAGR through fiscal 2020 with nice steady growth in terms of gross profit dollars. With respect to margin as a percentage of net sales, we saw a drop in 2019 of approximately 100 basis points versus 2018 which was largely driven by unfavorable product mix as many of our lower margin businesses performed well while our higher margin animal health and controls businesses were challenged by poor weather conditions. And then in fiscal 2020 we see a modest rebound in margin.

Operating income and EBITDA both with four-year CAGRs of 11%. Again, we see a dip in 2019 for the reasons I had mentioned earlier and solid operating and EBITDA margin expansion from 2019 to 2020 of 90 basis points, driven by higher volumes and favorable overhead absorption and product mix as well as lower SG&A expenses as a percentage of net sales. We have a strong cash and liquidity position with cash and cash equivalent steadily increasing driven by a combination of capital raises and cash flow from operations. In 2018, we raised both debt and equity in the amounts of \$300 million and \$200 million, respectively. In 2020, we were able to increase our cash position by \$155 million despite buying back \$53 million worth of our stock during the first three quarters of the fiscal year.

Again cash flow from operations shows a little bit of lumpiness. But what I would like to point out is we began focusing on our cash conversion cycle in fiscal 2019 with some encouraging results, growing cash from operations from \$114 million in 2018 to \$205 million in 2019, about an 80% increase and then another 29%

increase to \$264 million in 2020. While we are certainly pleased with our initial progress, we feel like we're in the early stages and can continue to make meaningful improvements accelerating our cash conversion cycle to increase free cash flow for investment.

Moving on to leverage, we see a steady decline in gross leverage ratios until 2018 when we opportunistically raised an additional \$300 million of debt. Then in 2020, we saw our leverage ratio decline to 2.2 times due to our exceptional operating results.

Additionally, we chose to take advantage of the low interest rate environment and refinanced our \$400 million senior notes maturing in 2023 at 6.125% with 10-year at 4.125% senior notes maturing in 2030. We also opportunistically upsized the transaction to \$500 million and still managed to decrease our absolute interest expense dollars by almost \$4 million per annum. As we look at run rates on leverage while our target is in the 3 times to 3.5 times range, we are willing to lean in and go up to 4 times for the right acquisition, then quickly delever to our target range. Additionally, we aspire to attain investment grade status in the future, largely a function of growing the business through M&A.

Finally, we have \$400 million of availability on our unused ABL facility. So ample flexibility from a liquidity standpoint. As we think about prioritizing our capital allocation, M&A remains at the top of our agenda where we continue to look to build scale, fill in whitespace as well as augment key capabilities or acquire new ones such as e-commerce, digital marketing and innovation. M&A is then followed by internal investments where we are looking to grow by adding capacity, automate and insource to take cost out while investing in organic innovation, brand building as well as digital and e-commerce capabilities. As we think about our capital structure, the main themes that come to mind are balance and flexibility.

So what does that mean? If we find our equity trading at a discount relative to the market and existing M&A, we will not hesitate to buy back shares as it will be the best use of our cash that we can make at that point in time. Finally, we always reserve the right to repay debt to maintain balance sheet flexibility and liquidity. At Central, we have an end-to-end continuous improvement mindset where taking cost out underpins the strategy. The costs we take out is the fuel to drive our growth levers and key in expanding our margins. We call this our virtuous cycle. Examples of how we will take cost out and improve margins include one, improving operating leverage. By driving incremental top line growth, this will create additional operating leverage and margin improvement.

Two, drive net productivity. We have a total company focus around taking cost out with a multiyear funnel of cost saving projects designed around net productivity so net of inflation. These savings will allow us to do two primary things. Reinvest in demand creating activities and expand margins. Three, capture scale benefits through integration and collaboration. Although, we are fiercely BU-led entrepreneurial organization, we want to align for scale where it makes sense. For example trucking is trucking is trucking as well as indirect procurement for materials such as pallets, corrugated, shrink wrap, et cetera. We also want to look at combining manufacturing where it makes sense.

We have already consolidated some of our dog and cat treat and toy businesses as well as numerous garden manufacturing facilities at our Missouri campus. All that said, we are still in the early stages of these types of structural consolidations. Four, enhanced profitable mix. As we drive our cost savings dollars into profitable growth initiatives like innovation, brand building, advertising and promotional spend, we can favorably influence our mix by investing behind margin accretive products. Mix being a crucial driver in our margin profile for any given year.

Five, then last but certainly not least keeping our administrative overheads lean. Before I get into our long-term financial algorithm, I want to briefly take a step back and comment on our performance over the past few years. In 2019, we delivered an earnings per share of \$1.61. In fiscal 2020, as we shared last week, we delivered record sales in EBIT aided by COVID-related tailwinds and favorable weather resulting in a \$2.20 EPS number. As we think about this tremendous growth, it really represents at least a few years of EPS growth compressed into one year. Now per our fiscal 2021 guidance last week, we expect an adjusted earnings per share of \$2.05 or better which when you think about it relative to our \$1.61, this represents a very respectable two-year growth CAGR of approximately 13% and allows us to continue to execute on our virtuous cycle of long-term sustainable profitable growth.

Now as we go into our annual planning cycle, we think of two primary drivers, grow at or above the categories we compete in and expand margins. These two priorities help inform our financial algorithm for long-term growth. It sets our top line growth rate as we aim to maintain or take market share. As you will see, we are targeting to grow organic net sales at or above our category averages which for us translates into low single-digit growth. We will drive this organic growth with strengthened capabilities in areas such as brand building and innovation as well as increased investment in marketing and sales.

Next, our bottom line must grow faster than our top line for margins to expand which translates into mid-single digit EBIT growth, driving this growth and margin expansion, our net productivity and lean overhead agendas which are the fuel of the virtuous cycle. And finally with the benefit of leverage, our EPS should grow faster than EBIT or in the mid-to-high single digits. So to summarize, we are certainly pleased with our robust financial performance, particularly extraordinary year we had in 2020. Our fortress balance sheet and strong cash flow position us well for our aggressive profitable growth agenda.

We also see many opportunities to expand margins and fuel organic growth. We have a long successful track record of M&A which coupled with our strong balance sheet and cash flow have us poised to take advantage of future opportunities. All in all, our Central to Home strategy is designed to harness the virtuous cycle and drive strong and lasting shareholder returns. We couldn't be more excited about where the company is headed. And with that I'll turn it over to Tim for closing remarks. Tim?

Timothy P. Cofer

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

Thanks, Niko. As Niko just shared, we believe we have the financial strength and the clear vision to create significant shareholder value over the long term. Okay, let's wrap this up and then turn it over to all of you for your questions. But before I do, a few closing remarks. As you saw today, we're excited and confident in our new Central to Home strategy. Our employees are inspired by our purpose to nurture happy and healthy homes and our mission to lead the future of our industries. And we have a clear strategic focus on our consumer, our customer, our need to fortify our Central portfolio, reduce costs and strengthen our culture.

And I will finish where I started. If nothing else, four key takeaways we want you to leave with. Garden & Pet are great industries with positive underlying trends and solid continued growth prospects. Central is an industry leader with a strong foundation and untapped potential. Our new Central to Home strategy sets a bold ambition for the future and we're encouraged by some early results. And finally, we are confident in our plans to deliver significant shareholder value. Now I'd like to turn it back over to Friederike, who will provide some brief instructions before we head into a short break and the Q&A session. Friederike?

Friederike Edlmann

Vice President, Investor Relations, Central Garden & Pet Co.

Thank you, Tim. Our executive panel discussion is right around the corner. We will return after a 5-minute break and then begin promptly with our Q&A. Please submit your questions via the chat function of the webcast. Alternatively, you can ask questions by phone dialing 201-689-8345 and entering meeting ID 13712432.

[Break] (01:50:48-01:55:49)

QUESTION AND ANSWER SECTION

Friederike Edlmann

Vice President, Investor Relations, Central Garden & Pet Co.

A

Welcome back to our executive panel. We have planned for about 30 minutes for this session. And Tim and Niko, John and J.D. are ready to take your questions. As you can see, we're all now together on stage. So we're wearing our new Central branded masks to keep everyone safe. We already have plenty of questions lined up. So let's get started with the first question on the phone. Brad Thomas.

Bradley Thomas

Analyst, KeyBanc Capital Markets, Inc.

Q

Hi, everyone. Thank you for the thorough presentation and feels like you are setting out a very exciting roadmap here, capitalizing on what's been a very good year for you. My question for you, Tim, was as you reflect on what you've presented to us, I was curious if you could talk about operationally and strategically where you think you've made the biggest changes from the way the company was operating before you joined? Thank you.

Timothy P. Cofer

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

A

Thanks, Brad for the question. What I think you see in this strategy is a really nice combination of building on the strengths and the foundations of this company that have benefited us for so many years, 40 years to be specific. And then importantly some plus ups and some evolutions and so to your question, Brad, I mean one that clearly jumps out for me is that very strong consumer orientation. This is a company as you would know that's been built through distribution, been built through terrific products. But as we focus ever more on the consumer and really understanding their needs, that gives us an opportunity to really instead of just selling great products, sell great brands that gives us a chance to innovate in a more disruptive manner.

That gives us a chance to learn about our consumers and develop a one-to-one relationship, a personal relationship with them that of course in today's era of digital marketing and e-commerce is very much a real possibility for us to leverage. So that's clearly one of the areas that I think you see an evolution. M&A would be a second where it's been a part of this great company for years, we're a growth through acquisition story. But I think what you heard from me and reinforced by Niko is a view to really look at brand centric, growth accretive, margin accretive companies that we can add into this great family of Central to further accelerate our portfolio and build out our breadth. So there is a couple of areas to really speak to that I think are nice evolutions off the historic foundations.

Friederike Edelmann*Vice President, Investor Relations, Central Garden & Pet Co.*

A

Thank you, Tim. And then...

Bradley Thomas*Analyst, KeyBanc Capital Markets, Inc.*

Q

Very helpful. Thank you so much.

Friederike Edelmann*Vice President, Investor Relations, Central Garden & Pet Co.*

A

Thank you. We have a question coming in from the web from Jim Chartier. What does your research tell you about this year's new pet owners and garden category participants? How are they similar or different? Why do you expect new garden participants will remain engaged in the category in a post-COVID world?

Timothy P. Cofer*Chief Executive Officer & Director, Central Garden & Pet Co.*

A

I'll start that one. Thanks, Jim, for the question. As I shared, the most – first of all, we're seeing significant acceleration of participation in both categories, both on the pet side and on the garden side. Notably on the pet side, it's the adoption of the animals themselves. And we shared those numbers earlier in our program today, 4% overall and in some animal classes as much as 7%. But I think to the core of your question what are we learning about those new consumers? The single biggest insight is that they're younger. And so we're seeing a significant increase in adoption among millennials and Gen Z both in terms of new pet parents but also in terms of gardening activities and spending time in lawn and garden. And that for me is what's most encouraging about the long term growth prospects of our two industries.

Friederike Edelmann*Vice President, Investor Relations, Central Garden & Pet Co.*

A

Great. Thank you. And the next question comes by phone, Bill Chappell from SunTrust. Kevin, would you mind opening the line for Bill Chappell.

William B. Chappell*Analyst, Truist Securities, Inc.*

Q

Hey. Can you hear me?

Timothy P. Cofer*Chief Executive Officer & Director, Central Garden & Pet Co.*

A

Yes.

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

A

Yes.

William B. Chappell*Analyst, Truist Securities, Inc.*

Q

Can you hear me? Hey. Thanks. I appreciate the presentation and I had submitted these questions online so, Friederike, you might delete them so you don't get them twice. But first on M&A, help us understand kind of the

path forward. And when I say that, the company has a strong historical track record for M&A but haven't done a whole lot of sizable deals in the past five years. And by my guess you've only done one deal that would fit your new criteria of kind of margin accretive, sales accretive and branded. So I mean, do the floodgates open, do we expect a faster pace of deals because of the change or what gets us over the hump of doing more and really consolidating the industry where you haven't done that much in the past 5 years and probably even 10 years?

Timothy P. Cofer

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

A

Thanks for the question, Bill. I'll start and Niko can build on that. I think we are very committed to M&A and we shared with you in the presentation and you just cited certainly the interest that Niko and I have in evolving our M&A posture. I think some of the reasons to believe, I mean you're absolutely right, and certainly in my little over a year as CEO here, we have yet to close a deal. I think we're all well aware that in the COVID pandemic period, it has slowed down deal flow a little bit. And certainly we have a stance where as we get to know target companies and entrepreneurs and fellow peers in the industry, it's important to build relationships as well. And of course that's somewhat more challenging in the COVID pandemic.

Having said that, here's what I tell you. Number one is, we've significantly staffed up on M&A. And I shared with you a couple of hires that we've made, our M&A team that is exclusively focused on M&A and acquisitions has significantly increased versus when I joined just 12, 14 months ago. Second is, we are, you know where we stand in terms of our balance sheet, in terms of our firepower that we've got for M&A. And that gives us a lot of flexibility. And third is we are active right now. We have multiple active projects on the plate. And obviously it'd be inappropriate to talk about those in specifics. But the intent that we've shared today is our intent and I'll be disappointed if in the coming period of time we aren't back with you and others in terms of sharing more specifics.

William B. Chappell

Analyst, Truist Securities, Inc.

Q

That's great. And then just switching gears, is there a way you could kind of give us some examples of both kind of the capital projects planned in 2021 and the investments behind kind of the brands? Just something specific, when you look back at Central over the past 10, 15 years, it's been a recurring theme of consolidating plans, improving the supply chain. And so that seems to be a work-in-progress now for at least 17, 18 years. I'm just trying to understand with the step up in CapEx, maybe just give us a clear example of what you're doing and then same for kind of the reinvestment in the business. I realize maybe if it's advertising or a new product, it might be premature, but maybe just something of where those dollars are going would be helpful.

Nicholas Lahanas

Chief Financial Officer, Central Garden & Pet Co.

A

Sure. Thanks, Bill. I'll speak in sort of more macro terms and I'll kick it over to J.D. and John to give you little more specifics. If you look at our last call, you saw in Q4 a real acceleration in CapEx. I think we did \$16 million in Q4 and then we signaled in 2021 it would be between \$70 million and \$80 million. So we are really truly going to invest in the business and it's going to be around capacity, automation as well as consolidation. And we have those lined up really for 2021. So they are very real and we're very excited about it. And we also signaled that 2021 is going to be an investment year. And I can't find any better way to do that than through CapEx because it is a real commitment there. And then I'll kick it over to John and J.D. to talk a little bit more about specifics.

John Hanson

President, Pet Consumer Products, Central Garden & Pet Co.

A

Yeah, Bill. I'll take it from the pet side. We talked a little bit in the presentation. We have key projects on automation and more projects on warehouse, freight and logistics. All of those are going to expand capacity, drive cost savings. And then it provides us oxygen to reinvest back in the business, be it innovation, digital marketing, e-commerce and that really is the direction we're headed.

J.D. Walker

President-Garden Consumer Products, Central Garden & Pet Co.

A

So just building off of that, Bill, over the last couple of years, we have examples on the garden side where we've consolidated two facilities last year, two facilities the year before. That'll be a – we'll continue that process. And we have a lot of runway still in front of us. Purchasing companies as we have over the years through acquisition. We have a lot of integration left in front of us. So that'll be some of the fuel that we'll use to generate some funding for demand creation. We've also exited as you know – you followed our company for a long time. For a long time, we hadn't exited any businesses. We have looked at our portfolio and executed some portfolio management. We've just on the garden side alone sold off two companies in the last five years, one this past year, the glazed pottery business, as you know, so that was further helping us focus on our core brands, our core businesses and investing behind those businesses. And then the last thing, as John mentioned, was automation. And we've done that to really take out a lot of the volatility for labor in some of our factories. All of this is freeing up funding to reinvest back in demand creation, as John said around, innovation, digital, e-commerce. Those are the areas of focus.

William B. Chappell

Analyst, Truist Securities, Inc.

Q

Got it. And then just follow-up to that. Do we expect to see the benefits of either the CapEx investments or a stepped up investment by the [indiscernible] (02:07:11) in 2021 or is this really with R&D? I mean new innovation, usually that takes a couple of years and certainly CapEx takes a while, I mean, or is this more of a 2022, 2023 timeframe?

Nicholas Lahanas

Chief Financial Officer, Central Garden & Pet Co.

A

I think it's going to be a little bit of both, Bill. I think in 2021 we're seeing us add capacity because if we go back and look at 2020 we had issues around fill rates because of the excessive demand. So we're really setting up to meet that demand. So we're going to see a little bit of that hit in 2021, but some of the bigger projects are going to dribble into 2022 and 2023.

J.D. Walker

President-Garden Consumer Products, Central Garden & Pet Co.

A

All right. And if I could just build off on Niko's comment. That's exactly right. We'll see some of the benefit, Bill, in 2021. Our biggest expenditure on the CapEx expenditure on the garden side of the business. We won't see the benefits until 2022. But here again investing in the future so that we can continue to take cost out of operations and reinvest that back in driving demand creation.

John Hanson

President, Pet Consumer Products, Central Garden & Pet Co.

A

Then Bill, a lot on the pet side, the examples we showed in the presentation today that will carry through in fiscal 2021, right. But we're continuing to build our capability. And we think there's a long runway here and that is something that will be an ongoing focus in critical areas for us to continue to progress.

Friederike Edelmann*Vice President, Investor Relations, Central Garden & Pet Co.*

A

Great. Thank you. I'm taking a question from the web. Brad Rogers would like to know that it's clear that digital plays an increasingly important role in our strategic pillars and it's the key driver of our success. What is the biggest challenge we have overcome in the digital environment? How did we overcome that challenge? And – yes. So the focus is clearly on e-commerce here.

Timothy P. Cofer*Chief Executive Officer & Director, Central Garden & Pet Co.*

A

Yeah. Okay. Thanks for the question, Brad. I'll start on this one. I think to your question fundamentally it's about changing a culture and a set of capabilities for a company that has historically been built around brick and mortar distribution, selling in on the pet side to pet specialty retailers, et cetera, with a brick and mortar shelf in mind. And same on the garden side with key home retailers and mass merchants. So the biggest challenge to your question has been making that shift and realizing that we're in an end world that the consumer preference is increasingly online, but they want both the flexibility and the convenience of online, offline, omnichannel, buy online pickup in store, do research online first, learn about the brands, the categories, research their needs online and then perhaps convert to a purchase online or go in store and make that purchase. That's been the biggest challenge to your question and the biggest shift. I think to the presentation you heard from me, John and J.D. earlier today, I feel very good about how we're responding to that challenge.

Fundamentally it starts with making sure that we have that future proofed capabilities that we're contemporary that we're fluent in e-commerce and digital marketing. I shared with you earlier our e-commerce flywheel, the five key elements around the training that we're doing across our organization, sales, marketing, general management leadership. And then, you saw some of the early successes.

On the Pet side, John's business, it's already 20% of our branded consumer products business and on J.D.'s side, the Garden side, while it's lower in terms of percent of the business, you saw the explosive growth rate last year at 200%. So, that's been the biggest challenge for us is making that shift as a company. The great news is, we're on our way. We're investing in those capabilities. We're hiring the right people from the outside. We've brought in people as you saw one of the charts from Amazon, from Starbucks, from other more digitally oriented companies, to really be sure we have that right mix of internal talent and we drive excellence in digital marketing and e-commerce.

Friederike Edelmann*Vice President, Investor Relations, Central Garden & Pet Co.*

A

Great. Thank you. And we're taking the next questions by phone. Peter Graham from JPMorgan. Peter?

Peter Graham Malone*Analyst, JPMorgan Asset Management (UK) Ltd.*

Q

Hey. Can you guys hear me all right?

Timothy P. Cofer*Chief Executive Officer & Director, Central Garden & Pet Co.*

A

Yeah.

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

A

Yes.

Peter Graham Malone*Analyst, JPMorgan Asset Management (UK) Ltd.*

Q

Thank you all for the great presentation, incredibly thorough. Maybe I just kind of want to start with a bit of a housekeeping. When we think about the low single digit top line algorithm longer term, could you maybe breakout what your expectations are for Garden and Pet, particularly given the higher household penetration we've seen from both again from COVID?

And then, my second question is just, I wanted to build on Bill's question on M&A to a degree, but I was kind of hoping to get a sense of how we should think about these active projects that you mentioned. I mean, are the priorities kind of brands within existing categories, are you looking to gain exposure to adjacent or new categories, is it kind of improving the channel exposure? And then, just from when I think about the criteria you mentioned from an M&A perspective, is there kind of a hierarchy there or are they all of equal importance?

Timothy P. Cofer*Chief Executive Officer & Director, Central Garden & Pet Co.*

A

Maybe I'll start with the first one and since I addressed M&A earlier, you take the M&A one, is that right, Niko?

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

A

Sure. Yeah.

Timothy P. Cofer*Chief Executive Officer & Director, Central Garden & Pet Co.*

A

So, Peter, thanks for the question. On the top line growth in the low single digits algorithm that Niko shared, we're certainly bullish on both industries and I think hopefully today we give you even some new data to show why we're bullish on the continued growth prospects for both Pet and Garden. Having said that, to your question, I think it's fair to say that a pet likely has a stronger growth profile in the coming years than on the Garden side for a couple of reasons.

Number one is, that's been the historic pattern and history is often a good indication of the future. And the other is, is this kind of unequivocal incremental adoption of the animals themselves. Our Pet business obviously can only grow if we've got the animals to supply, to comfort, to feed, to nourish, to play with house, bed, et cetera.

And so, I think what we're seeing this year and certainly the COVID pandemic has been a tailwind in this regard, is this really fairly unprecedented increase in pet adoption. And as we lapse that going into the back half of next year, are there headwinds lapping it? Yeah, no question, but is there a degree of stickiness there, since you've got that dog and cat, that bearded dragon, that guinea pig at home, yeah, you're going to still need to supply that pet.

So, I would say, to the core of your question, more bullish in terms of growth profile on Pet versus Garden, but feeling very good about the growth potential in both. That's at the category rate. Then you start talking about market share. I think if we do what we'd like to do across the five strategic pillars we all shared with you today,

we'd like to see not only growing at a category rate, but expanding share and growing faster. And that's why Niko and we guided to at or above the category rates.

You want to do M&A?

Nicholas Lahanas

Chief Financial Officer, Central Garden & Pet Co.

A

Sure. I just want to add one other comment on to yours, which is, as we look at these long-term growth rates, they're long-term. So, we wanted to take a little bit of the noise out of what's happened in the last year and what's happening this year, because we do still have a bit of a COVID tailwind remains to be seen, whether weather will be as favorable as last year going into 2021. But we wanted to really take a more normalized view of really the business going forward and that's why it's our long-term algorithm.

Moving on to M&A, yeah, I think we're really flexible. We want to look at whitespace capabilities across the board. If you look at what we've done in the last few years, we've gotten into live animals and live plants. So, these are nice ancillary categories that we're getting into. Right now, we're squarely looking at Pet and Garden, so very focused there right now. But it doesn't preclude us from really getting creative on the M&A side, but we want to be in categories where we can win is really the bottom line.

Timothy P. Cofer

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

A

And Niko, I'll just build on that. There are opportunities within our existing categories obviously and then adjacent categories, as Niko mentioned. One of them being live goods, which was new for us a couple of years ago and a space that we're glad we moved into. It allows us to leverage a lot of the existing relationships that we already have with the customers and it was a natural fit. So, a lot of commonalities between that business and our existing businesses and there are other adjacent categories that we're looking at now.

Friederike Edelmann

Vice President, Investor Relations, Central Garden & Pet Co.

A

Great. Thank you. Our next question comes from the web again Michael Gallo from Wells Capital. Can you break down the components of operating leverage on your long-term algorithm? How much comes from gross margin versus SG&A leverage? What are the planned cost savings and how much do you assume is reinvested? Also, it would seem you can get low single-digit organic growth sales growth just from your plans to double e-commerce, so help us walk us through why you might not do even better than that or are you just being conservative?

Timothy P. Cofer

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

A

Thanks for the question, Michael. I won't get into too many specifics. But largely, the bulk of the cost savings will come at a cost of goods. And then, we have a portion that will come out of our SG&A. Now, keep in mind cost of goods. And then we have a portion that will come out of our SG&A now keep in mind the way we look at SG&A we have logistics down in SG&A as well. So we always want to be on a continuous improvement sort of mindset and trajectory as far as logistics as well as taking cost out of cost of goods.

So, really largely bulk of it cost of goods then SG&A. As far as e-comm and growth rates the way we view e-comm is really more of a challenge channel shift as opposed to being purely incremental across the board. So, it's not like the categories are growing because of the e-comm, they're growing because of live animals is a big

driver. But we're seeing this channel shift, so I think that's why we're really viewing the growth rates where they are right now as opposed to incremental e-comm sales.

Friederike Edelmann

Vice President, Investor Relations, Central Garden & Pet Co.

A

Great. Thank you, Niko. One more question from the web. How do you measure the level of innovation in your portfolio? For example, is it percentage of sales from new products? Where is your innovation today and where do you want it to go? What is the timeframe to get there?

Timothy P. Cofer

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

A

Good. Thanks for the question. Well, as I mentioned and as I think both John and J.D. gave examples, clearly, we are increasing our focus on innovation in this company. Innovation is the lifeblood of a growth company. And I think to the latter part of your question, kind of where are we on the journey, we're in the early innings, quite honestly. There is, I would say, both resourcing and capability build that needs to be either built or rebuilt in this company, so that we can't throw off the type of winning and category disruptive innovation that drives our categories and that our customers and our consumers really want to get behind.

We're on our way on that journey. I think both John and J.D. gave you some good examples that are within our portfolio today that we're proud of on innovation. But our collective ambition on this stage is to do even more on innovation. And I think you'll see that in the coming years. And I think that it all starts with that fundamental orientation around our consumer.

In terms of measurement, you ask as well about measurement there are many ways we will measure innovation. Clearly, to your question, one of them is sales. I mean in the end, that's what counts, right? Are we selling more? Are we making more money? So the sales and the profitability of it. But it goes beyond that. I mean incrementality of that innovation or the quality of the innovation, I've certainly seen in my career sometimes quantity of innovation isn't necessarily correlated with the full benefits you're looking for in sales and profit. It's also about the quality of that innovation, which is largely around incrementality. And of course, there are a lot of causal metrics or KPIs that we need to do a better job of tracking to get better at our innovation cycle like trial, like repeat, like awareness, loyalty, et cetera. And so those are a few of the other measures we'll look at.

You want to build on that, J.D.?

J.D. Walker

President-Garden Consumer Products, Central Garden & Pet Co.

A

Sure. I'll build on that just a bit. Since talking about where we have been and where we are going, Tim talked about the consumer orientation. And I think that's driving a lot of our – of the change in our process. We've always had a stage gate process on the garden side of the business, but I think we're focusing more and dedicating more resources to the front-end of that funnel around consumer insights and that will drive our ideation and then our concept testing before we even get to stage gate. These are new disciplines for us. And I think as we accelerate this through the stage gate process, we'll see more new products and a real impact in innovation going forward.

Friederike Edelmann

Vice President, Investor Relations, Central Garden & Pet Co.

A

Thank you, Tim and J.D. I have one more question from the web from Hale Holden from Barclays. Do you have a timeline in mind that you would like to target investment grade ratings?

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

A

That's a difficult question. As I mentioned in my earlier comments, it's going to be largely driven via M&A because right now it's really a scale game for us in terms of getting to investment-grade. And M&A can be rather choppy in terms of when and how big the deals are that you get done. So, the answer would be as soon as possible. That said, it really is going to be predicated on M&A and deal flow and the size of those deals.

Friederike Edelmann*Vice President, Investor Relations, Central Garden & Pet Co.*

A

Thank you, Niko. And I think we have time for one more question. This one is from Bill Chappell again. Does your long-term growth goals assume annual price mix benefits? Why or why not?

Timothy P. Cofer*Chief Executive Officer & Director, Central Garden & Pet Co.*

A

Do you want to take it or do you want me to take it?

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

A

I mean, I'll kick it off. Our long-term goals really, we want to start influencing mix. And as I talked about in my earlier comments, we're going to drive that right profitable mix. So we want to lean into higher margin mix going forward, which is really a big goal of ours through innovation, brand building as well as advertising and promotion. So we want to start influencing that in a more positive way. The other piece too is going to be the M&A, which Tim touched on a little bit earlier going after businesses that have a nice accretive margin profile that are growing at or above their categories, and have strong brand awareness to help us to expand those margins. So, really, that's the thinking long term.

Timothy P. Cofer*Chief Executive Officer & Director, Central Garden & Pet Co.*

A

I fully agree with Niko and my one build, Bill, would be on the price part of your question. I mean my expectation is that we can price away commodity pressures. And so, in any given year and in any given quarter sometimes there's a time lag on that. But the expectation that I have for guys like John and J.D. is, hey, we need to price that away because those cost pressures coming to us are pretty common to the industry. Then, once you've covered that then you go after your strong net productivity agenda where you're taking costs out. And as Niko just elaborated well, you drive profitable mix. And then those two things create some extra room in that gross margin to then take a portion of that, drop it all the way down, expand on our EBIT margin. But take importantly a portion of that, put it back in the business and really drive our brands and drive that top line growth. So that's a big part of that virtuous cycle that Niko referenced in his comments a few minutes ago.

Friederike Edelmann*Vice President, Investor Relations, Central Garden & Pet Co.*

Great. Thank you, Niko, and thank you, Tim, and thank you, everyone, for listening in. That was our final question. And I would like to thank everyone who joined us today. I would also like to thank our panelists and everyone who made this day a great success, everyone at Central, the list is too long to name all of them. If you have any further follow-up questions, the Investor Relations team will be available to take them afterwards. Thank you again.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2020 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.