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# *Scotts* Miracle-Gro

*The Scotts Miracle-Gro Company*  
**2020 Annual Report**

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# SHAREHOLDER INFORMATION

## World Headquarters

14111 Scottslawn Road  
Marysville, Ohio 43041  
(937) 644-0011

[www.scottsmiraclegro.com](http://www.scottsmiraclegro.com)

## Annual Meeting

The annual meeting of shareholders will be held on Monday, January 25, 2021, at 9 a.m. EST. The annual meeting will be a virtual meeting and shareholders will be able to participate, vote and submit questions during the virtual meeting.

## NYSE Symbol

The common shares of The Scotts Miracle-Gro Company trade on the New York Stock Exchange under the symbol SMG.

## Transfer Agent and Registrar

EQ Shareowner Services  
P.O. Box 64874  
St. Paul, MN 55164-0874

## Shareholder and Investor Relations Contact

Jim King  
Executive Vice President,  
Chief Communications Officer

The Scotts Miracle-Gro Company  
14111 Scottslawn Road  
Marysville, Ohio 43041  
(937) 644-0011

## Dividends

The Scotts Miracle-Gro Company began paying dividends in 2005. On August 1, 2019, the Company announced that its Board of Directors had increased the quarterly cash dividend to \$0.58 per share, which was first paid to shareholders in the fourth quarter of fiscal 2019. On July 29, 2020, the Company announced that its Board of Directors had increased the quarterly cash dividend to \$0.62 per share, which was first paid to shareholders in the fourth quarter of fiscal 2020.

The payment of future dividends, if any, on common shares will be determined by the Board of Directors of the Company in light of conditions then existing, including the Company's earnings, financial condition and capital requirements, restrictions in financing agreements, business conditions and other factors. The Company's credit facility restricts future dividend payments to an aggregate of \$225 million if the Company's leverage ratio, after giving effect to any such annual dividend payment, exceeds 4.00. The Company's leverage ratio was 2.48 as of September 30, 2020. For further discussion regarding the restrictions on dividend payments, see "NOTE 12. DEBT" of the Notes to Consolidated Financial Statements included in the Company's 2020 Annual Report on Form 10-K.

## Stock Price Performance

See page 25 for stock price performance. The Scotts Miracle-Gro Company's common shares have been publicly traded since January 31, 1992.

## Shareholders

As of November 20, 2020, there were approximately 190,000 shareholders, including holders of record and the Company's estimate of beneficial holders.

## Publications for Shareholders

In addition to this 2020 Annual Report, The Scotts Miracle-Gro Company informs Shareholders about the Company through its Annual Report on Form 10-K, its Quarterly Reports on Form 10-Q, its Current Reports on Form 8-K and its Notice of Annual Meeting of Shareholders and Proxy Statement.

Copies of any of these documents may be obtained without charge on the Company's investor relations website at <http://investor.scotts.com> or by writing to:

The Scotts Miracle-Gro Company  
Attention: Investor Relations  
14111 Scottslawn Road  
Marysville, Ohio 43041

## Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

Statements contained in this 2020 Annual Report, other than statements of historical fact, which address activities, events and developments that the Company expects or anticipates will or may occur in the future, including, but not limited to, information regarding the future economic performance and financial condition of the Company, the plans and objectives of the Company's management, the Company's assumptions regarding such performance and plans, as well as the amount and timing of repurchases of the Company's common shares are "forward-looking statements" within the meaning of the U.S. federal securities laws that are subject to risks and uncertainties. Actual results could differ materially from the forward-looking information in this 2020 Annual Report due to a variety of factors. Additional detailed information concerning a number of the important factors that could cause actual results to differ materially from the forward-looking information contained in this 2020 Annual Report is readily available in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2020, which is filed with the Securities and Exchange Commission.

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**Form 10-K**

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**(Mark One)**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended September 30, 2020**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 001-11593**

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**The Scotts Miracle-Gro Company**

**(Exact name of registrant as specified in its charter)**

**Ohio**

**(State or other jurisdiction of  
incorporation or organization)**

**31-1414921**

**(I.R.S. Employer  
Identification No.)**

**14111 Scottslawn Road, Marysville, Ohio 43041**

**(Address of principal executive offices) (Zip Code)**

**Registrant's telephone number, including area code:**

**(937) 644-0011**

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of Each Exchange on Which Registered</u>
Common Shares, \$0.01 stated value	SMG	NYSE

**Securities registered pursuant to Section 12(g) of the Act:**

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under section 404(b) of the Sarbanes-Oxley Act (15 U.S.C.7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of Common Shares (the only common equity of the registrant) held by non-affiliates (for this purpose, executive officers and directors of the registrant are considered affiliates) as of March 27, 2020 (the last business day of the most recently completed second quarter) was approximately \$4,116,773,282.

There were 55,739,813 Common Shares of the registrant outstanding as of November 20, 2020.

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**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the definitive Proxy Statement for the registrant's 2021 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K. Such Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended September 30, 2020.

**The Scotts Miracle-Gro Company**  
**Annual Report on Form 10-K**  
**For the Fiscal Year Ended September 30, 2020**  
**Table of Contents**

			<u>Page</u>
Part I	Item 1.	Business	2
	Item 1A.	Risk Factors	10
	Item 1B.	Unresolved Staff Comments	21
	Item 2.	Properties	22
	Item 3.	Legal Proceedings	22
	Item 4.	Mine Safety Disclosure	22
	Supplemental Item	Executive Officers of the Registrant	23
Part II	Item 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	24
	Item 6.	Selected Financial Data	25
	Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	32
	Item 7A.	Quantitative And Qualitative Disclosures About Market Risk	52
	Item 8.	Financial Statements and Supplementary Data	53
	Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	53
	Item 9A.	Controls and Procedures	53
	Item 9B.	Other Information	53
Part III	Item 10.	Directors, Executive Officers, and Corporate Governance	54
	Item 11.	Executive Compensation	55
	Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	55
	Item 13.	Certain Relationships and Related Transactions, and Director Independence	55
	Item 14.	Principal Accounting Fees and Services	56
Part IV	Item 15.	Exhibits, Financial Statement Schedules	56
	Item 16.	Form 10-K Summary	56
		Signatures	57
		Index to Exhibits	112

## PART I

### **ITEM 1. BUSINESS**

#### **Company Description and Development of the Business**

The discussion below describes the business conducted by The Scotts Miracle-Gro Company, an Ohio corporation (“Scotts Miracle-Gro” and, together with its subsidiaries, the “Company,” “we” or “us”), including general developments in the Company’s business during the fiscal year ended September 30, 2020 (“fiscal 2020”). For additional information on recent business developments, see “ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS” of this Annual Report on Form 10-K.

Through our U.S. Consumer and Other segments, we are the leading manufacturer and marketer of branded consumer lawn and garden products in North America. Our products are marketed under some of the most recognized brand names in the industry. Our key consumer lawn and garden brands include Scotts® and Turf Builder® lawn and grass seed products; Miracle-Gro® soil, plant food and insecticide, LiquaFeed® plant food and Osmocote®<sup>1</sup> gardening and landscape products; and Ortho®, Home Defense® and Tomcat® branded insect control, weed control and rodent control products. We are the exclusive agent of the Monsanto Company, a subsidiary of Bayer AG (“Monsanto”), for the marketing and distribution of certain of Monsanto’s consumer Roundup® branded products within the United States and certain other specified countries. We also have a presence in similar branded consumer products in China.

Through our Hawthorne segment, we are the leading manufacturer, marketer and distributor of lighting, nutrients, growing media, growing environments and hardware products for indoor and hydroponic gardening. Our key brands include General Hydroponics®, Gavita®, Botanicare®, Vermicrop®, Agrolux®, Can-Filters®, AeroGarden®<sup>TM</sup>, Sun System®, Gro Pro®, Mother Earth®, Hurricane® and Grower’s Edge®.

Scotts Miracle-Gro traces its heritage to a company founded by O.M. Scott in Marysville, Ohio in 1868. In the mid-1900s, we became widely known for the development of quality lawn fertilizers and grass seeds that led to the creation of a new industry - consumer lawn care. In the 1990s, we significantly expanded our product offering with three powerful leading brands in the U.S. home lawn and garden industry. In fiscal 1995, through a merger with Stern’s Miracle-Gro Products, Inc., which was founded by Horace Hagedorn and Otto Stern in Long Island, New York in 1951, we acquired the Miracle-Gro® brand, the industry leader in water-soluble garden plant foods. In fiscal 1999, we acquired the Ortho® brand in the United States and obtained exclusive rights to market Monsanto’s consumer Roundup®<sup>2</sup> brand within the United States and other contractually specified countries, thereby adding industry-leading weed, pest and disease control products to our portfolio. Today, the Scotts®, Turf Builder®, Miracle-Gro®, Ortho® and Roundup® brands make us the most widely recognized company in the consumer lawn and garden industry in the United States. Beginning in fiscal 2015, we made a series of key acquisitions and investments to grow and position our Hawthorne segment as the leading manufacturer, marketer and distributor of indoor and hydroponic gardening products in North America.

#### **Business Segments**

We divide our business into the following reportable segments:

- U.S. Consumer
- Hawthorne
- Other

U.S. Consumer consists of our consumer lawn and garden business located in the geographic United States. Hawthorne consists of our indoor and hydroponic gardening business. Other consists of our consumer lawn and garden business in geographies other than the United States and our product sales to commercial nurseries, greenhouses and other professional customers. In addition, Corporate consists of general and administrative expenses and certain other income and expense items not allocated to the business segments. This division of reportable segments is consistent with how the segments report to and are managed by our Chief Executive Officer (the chief operating decision maker of the Company). Financial information about these segments for each of the three fiscal years ended September 30, 2020, 2019 and 2018 is presented in “NOTE 21. SEGMENT INFORMATION” of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

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<sup>1</sup> Osmocote® is a registered trademark of Everris International B.V., a subsidiary of Israel Chemicals Ltd.

<sup>2</sup> Roundup® is a registered trademark of Monsanto Technology LLC, a company affiliated with Monsanto Company.

## Principal Products and Services

In our reportable segments, we manufacture, market and sell lawn and garden products in the following categories:

*Lawn Care:* The lawn care category is designed to help users grow and enjoy the lawn they want. Products within this category include lawn fertilizer products under the Scotts® and Turf Builder® brand names; grass seed products under the Scotts®, Turf Builder®, EZ Seed®, PatchMaster® and Thick'R Lawn® brand and sub-brand names; and lawn-related weed, pest and disease control products primarily under the Scotts® brand name, including sub-brands such as GrubEx®. The lawn care category also includes spreaders and other durables under the Scotts® brand name, including Turf Builder® EdgeGuard® spreaders and Handy Green® II handheld spreaders. In addition, we market outdoor cleaners under the Scotts® brand name.

*Gardening and Landscape:* The gardening and landscape category is designed to help consumers grow and enjoy flower and vegetable gardens and beautify landscaped areas. Products within this category include a complete line of water-soluble plant foods under the Miracle-Gro® brand and sub-brands such as LiquaFeed®, continuous-release plant foods under the Miracle-Gro®, Scotts® and Osmocote® brands and sub-brands of Miracle-Gro® such as Shake 'N Feed®; potting mixes and garden soils under the Miracle-Gro®, Scotts®, Hyponex®, Earthgro®, SuperSoil® and Fafard® brand names; mulch and decorative groundcover products under the Scotts® brand, including the sub-brands Nature Scapes®, Earthgro® and Hyponex®; plant-related pest and disease control products under the Ortho® brand; organic garden products under the Miracle-Gro® Performance Organics®, Miracle-Gro® Organic Choice®, Scotts®, Whitney Farms® and EcoScraps® brand names; and live goods and seeding solutions under the Miracle-Gro® brand. Hydroponic gardening focused growing media and nutrients products are marketed under the Mother Earth®, Botanicare®, General Hydroponics® and Vermicrop® brand names as well as brands owned by third parties for which we serve as distributor. In the second quarter of fiscal 2016, we entered into a Marketing, R&D and Ancillary Services Agreement (the "Services Agreement") and a Term Loan Agreement (the "Term Loan Agreement") with Bonnie Plants, Inc. ("Bonnie") and its sole shareholder, Alabama Farmers Cooperative, Inc. ("AFC"), pursuant to which we provide financing and certain services to Bonnie's business of planting, growing, developing, manufacturing, distributing, marketing, and selling to retail stores throughout the United States live plants, plant food, fertilizer and potting soil (the "Bonnie Business"). On November 4, 2020, we announced the signing of a non-binding letter-of-intent to acquire a 50 percent equity interest in the Bonnie Business. See "Acquisitions" for further discussion.

*Hydroponic hardware and growing environments:* This category is designed to provide durable goods for customers to grow plants, flowers and vegetables using little or no soil. Products within this category include systems, trays, fans, filters, humidifiers, dehumidifiers, timers, instruments, water pumps, irrigation supplies and hand tools, and are marketed under the Botanicare®, Can-Filters®, Gro Pro®, Hurricane® and AeroGarden™ brand names as well as brands owned by third parties for which we serve as distributor.

*Lighting:* The lighting category is designed to provide consumers a complete selection of lighting systems and components for use in hydroponic and indoor gardening applications. Products in this category include lighting fixtures, reflectors, lamps, cords and hangars, and are marketed under the Gavita®, Sun System®, Agrolux® and Titan® brand names as well as brands owned by third parties for which we serve as distributor.

*Controls:* The controls category is designed to help consumers protect their homes from pests and maintain external home areas. Insect control products are marketed under the Ortho® brand name, including Ortho Max®, Home Defense Max® and Bug B Gon Max® sub-brands; rodent control products are marketed under the Tomcat® and Ortho® brands; selective weed control products are marketed under the Ortho® Weed B Gon® sub-brand; and non-selective weed killer products are marketed under the Groundclear® brand name. Hydroponic gardening focused controls products are marketed under the Alchemist® and General Hydroponics® brand names as well as brands owned by third parties for which we serve as distributor.

*Marketing Agreement:* We are Monsanto's exclusive agent for the marketing and distribution of certain of Monsanto's consumer Roundup® branded products in the United States and certain other specified countries. On May 15, 2015, we entered into an amendment (the "Marketing Agreement Amendment") to the Amended and Restated Exclusive Agency and Marketing Agreement (as amended, the "Original Marketing Agreement") with Monsanto and also entered into a lawn and garden brand extension agreement (the "Brand Extension Agreement") and a commercialization and technology agreement (the "Commercialization and Technology Agreement") with Monsanto. On August 31, 2017, in connection with the sale of our consumer lawn and garden businesses located in Australia, Austria, Belgium, Luxembourg, Czech Republic, France, Germany, Poland and the United Kingdom (the "International Business"), we entered into the Second Amended and Restated Agency and Marketing Agreement (the "Restated Marketing Agreement") and the Amended and Restated Lawn and Garden Brand Extension Agreement - Americas (the "Restated Brand Extension Agreement") to reflect the Company's transfer and assignment to Exponent Private Equity LLP ("Exponent") of the Company's rights and responsibilities under the Original Marketing Agreement, as amended, and the Brand Extension Agreement relating to those countries and territories subject to the sale.

Effective August 1, 2019, we entered into (i) the Third Amended and Restated Exclusive Agency and Marketing Agreement (the “Third Restated Agreement”) which amends and restates the Restated Marketing Agreement, (ii) a Brand Extension Agreement Asset Purchase Agreement (the “BEA Purchase Agreement”) under which we sold certain assets to Monsanto related to the development, manufacture, production, advertising, marketing, promotion, distribution, importation, exportation, offer for sale and sale of specified Roundup® branded products sold outside the non-selective weedkiller category within the residential lawn and garden market and (iii) agreements terminating both the Restated Brand Extension Agreement and the Commercialization and Technology Agreement.

Under the terms of the Third Restated Agreement, we provide certain consumer and trade marketing program services, sales, merchandising, warehousing and other selling and marketing support for certain of Monsanto’s consumer Roundup® branded products. Among other things, the Third Restated Agreement amends the provisions of the Restated Marketing Agreement relating to commissions, contributions, noncompetition, and termination. The Company also performs other services on behalf of Monsanto, including manufacturing conversion services, pursuant to ancillary agreements. For additional details regarding the Third Restated Agreement, see “ITEM 1A. RISK FACTORS — In the event the Third Restated Agreement for Monsanto’s consumer Roundup® products terminates or Monsanto’s consumer Roundup® business materially declines, we would lose a substantial source of future earnings and overhead expense absorption” of this Annual Report on Form 10-K and “NOTE 7. MARKETING AGREEMENT” of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

## **COVID-19**

The World Health Organization recognized COVID-19 as a public health emergency of international concern on January 30, 2020 and as a global pandemic on March 11, 2020. Public health responses have included national pandemic preparedness and response plans, travel restrictions, quarantines, curfews, event postponements and cancellations and closures of facilities including local schools and businesses. The global pandemic and actions taken to contain COVID-19 have adversely affected the global economy and financial markets. In response to the COVID-19 pandemic, we have implemented additional measures intended to both protect the health and safety of our employees and maintain our ability to provide products to our customers, including (i) requiring a significant part of our workforce to work from home, (ii) monitoring our employees for COVID-19 symptoms, (iii) making additional personal protective equipment available to our operations team, (iv) requiring all manufacturing and warehousing associates to take their temperatures before beginning a shift, (v) modifying work methods and schedules of our manufacturing and field associates to create distance or add barriers between associates, consumers and others, (vi) expanding cleaning efforts at our operation centers, (vii) modifying attendance policies so that associates may elect to stay home if they have symptoms, (viii) prioritizing production for goods that are more essential to our customers and (ix) implementing an interim premium pay allowance for certain associates in our field sales force or working in manufacturing or distribution centers.

To date, the developments and effects of the COVID-19 pandemic in the United States have resulted in increased demand for many of our products. However, the extent to which the COVID-19 pandemic will ultimately impact our business, results of operations, financial condition and cash flows depends on future developments that are highly uncertain, rapidly evolving and difficult to predict at this time. Management is actively monitoring the global situation for impacts to our financial condition, liquidity, operations, suppliers, industry and workforce.

## **Acquisitions**

Beginning in fiscal 2015, we made a series of key acquisitions and investments to grow and position our Hawthorne segment as the leading manufacturer, marketer and distributor of indoor and hydroponic gardening products in North America.

On June 4, 2018, our Hawthorne segment acquired substantially all of the assets and certain liabilities of Sunlight Supply, Inc., Sunlight Garden Supply, Inc., Sunlight Garden Supply, ULC, and IP Holdings, LLC, and all of the issued and outstanding equity interests of Columbia River Industrial Holdings, LLC (collectively “Sunlight Supply”) for \$459.1 million. At the time of acquisition, Sunlight Supply was a leading developer, manufacturer, marketer and distributor of horticultural, organics, lighting and hydroponic gardening products. Prior to the transaction, Sunlight Supply served as a non-exclusive distributor of our products.

On October 11, 2017, our Hawthorne segment completed the acquisition of substantially all of the U.S. and Canadian assets of Can-Filters Group Inc. (“Can-Filters”), a wholesaler of ventilation products for indoor and hydroponic gardening and industrial market customers, for \$74.1 million.

On May 26, 2017, our majority-owned subsidiary Gavita completed the acquisition of Agrolux Holding B.V. (now known as Hawthorne Lighting B.V.), and its subsidiaries (collectively, “Agrolux”), a Netherlands-based worldwide supplier of horticultural lighting, for \$21.8 million.

On November 29, 2016, our wholly-owned subsidiary SMG Growing Media, Inc. fully exercised its outstanding warrants to acquire additional shares of common stock of AeroGrow International, Inc. (“AeroGrow”) for \$8.1 million, which increased our percentage ownership of AeroGrow’s outstanding shares of common stock (on a fully diluted basis) from 45% to 80%. AeroGrow is a developer, marketer, direct-seller, and wholesaler of advanced indoor garden systems designed for consumer use in gardening, and home and office décor markets. AeroGrow operates primarily in the United States, Canada, Australia and select countries in Europe and Asia. On November 11, 2020, we entered into an agreement and plan of merger to acquire the remaining outstanding shares of AeroGrow.

On October 3, 2016, our Hawthorne segment completed the acquisition of American Agritech, L.L.C., d/b/a Botanicare (“Botanicare”), an Arizona-based leading producer of plant nutrients, plant supplements and growing systems used for hydroponic gardening, for \$92.6 million. On August 11, 2017, our Hawthorne segment completed the acquisition of substantially all of the assets of the exclusive manufacturer and formulator of branded Botanicare products for \$32.0 million.

On May 26, 2016, our Hawthorne segment acquired majority control and a 75% economic interest in Gavita Holdings B.V., and its subsidiaries (collectively, “Gavita”), a Netherlands-based leading producer and marketer of indoor lighting used in the greenhouse and hydroponic markets, predominately in the United States and Europe, for \$136.2 million. Gavita’s former ownership group initially retained a 25% noncontrolling interest in Gavita consisting of ownership of 5% of the outstanding shares of Gavita and a loan with interest payable based on distributions by Gavita. On October 2, 2017, our Hawthorne segment acquired the remaining 25% noncontrolling interest in Gavita, including Agrolux, for \$69.2 million, plus payment of contingent consideration of \$3.0 million.

On March 30, 2015, our Hawthorne segment acquired the assets of General Hydroponics, Inc. (“General Hydroponics”) and Bio-Organic Solutions, Inc. (“Vermicrop”), leading producers of liquid plant food products, growing media and accessories for hydroponic gardening, for \$120.0 million and \$15.0 million, respectively. The Vermicrop purchase price was paid in common shares of Scotts Miracle-Gro (“Common Shares”) based on the average share price at the time of payment.

We have also made a number of important acquisitions and investments within our U.S. Consumer and Other segments.

During the fourth quarter of fiscal 2017, we also made a \$29.4 million investment in an unconsolidated subsidiary whose products support the professional U.S. industrial, turf and ornamental market (the “IT&O Joint Venture”).

In the third quarter of fiscal 2016, our Other segment completed an acquisition to expand our Canadian growing media operations for an estimated purchase price of \$33.9 million, which was adjusted down by \$4.3 million during fiscal 2017 based on the resolution of contingent consideration.

In the second quarter of fiscal 2016, we entered into the Services Agreement and the Term Loan Agreement with Bonnie and AFC providing for our participation in the Bonnie Business. The Term Loan Agreement provides a loan from us to AFC, with Bonnie as guarantor, in the amount of \$72.0 million with a fixed coupon rate of 6.95% (the “Term Loan”). Under the Services Agreement, we provide marketing, research and development and certain ancillary services to the Bonnie Business for a commission fee based on the profits of the Bonnie Business and the reimbursement of certain costs. On November 4, 2020, we announced the signing of a non-binding letter-of-intent to acquire a 50 percent equity interest in the Bonnie Business.

## **Divestitures**

During the fourth quarter of fiscal 2019, we sold to Monsanto specified assets related to the development, manufacture, production, advertising, marketing, promotion, distribution, importation, exportation, offer for sale and sale of specified Roundup<sup>®</sup> branded products sold outside the non-selective weedkiller category within the residential lawn and garden market for \$115.5 million.

On March 19, 2019, we sold all of our approximately 30% equity interest in Outdoor Home Services Holdings LLC, a lawn services joint venture between the Company and TruGreen Holding Corporation (the “TruGreen Joint Venture”) to TruGreen Companies L.L.C., a subsidiary of TruGreen Holding Corporation. In connection with this transaction, we received cash proceeds of \$234.2 million related to the sale of our equity interest in the TruGreen Joint Venture and \$18.4 million related to the payoff of second lien term loan financing by the TruGreen Joint Venture.

On April 1, 2019, we sold all of our noncontrolling equity interest in the IT&O Joint Venture for cash proceeds of \$36.6 million.

On April 29, 2017, we received a binding and irrevocable offer (the “Offer”) from Exponent to purchase the International Business for approximately \$250.0 million (subject to adjustment following closing in respect of the actual financial position at closing) and a deferred payment amount of up to \$23.8 million. On July 5, 2017, we accepted the Offer and entered into the Share and Business Sale Agreement contemplated by the Offer. On August 31, 2017, we completed the sale of the International Business for cash proceeds of \$150.6 million at closing, which was net of a closing statement adjustment for expected financial position at closing and net of seller financing provided by us of \$29.7 million.



On April 13, 2016, we contributed the Scotts LawnService® business (the “SLS Business”) to the TruGreen Joint Venture in exchange for a minority equity interest of approximately 30% in the TruGreen Joint Venture, which had an initial fair value of \$294.0 million, and received a tax-deferred cash distribution of \$196.2 million, partially offset by an investment of \$18.0 million in second lien term loan financing provided by us to the TruGreen Joint Venture.

Where required, we have classified our results of operations for all periods presented in this Annual Report on Form 10-K to reflect these businesses as discontinued operations during the applicable periods. See “NOTE 3. DISCONTINUED OPERATIONS” of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information.

### **Principal Markets and Methods of Distribution**

We sell our products through a direct sales force, online selling and our network of brokers and distributors primarily to home centers, mass merchandisers, warehouse clubs, large hardware chains, independent hardware stores, nurseries, garden centers, e-commerce platforms, food and drug stores, indoor gardening and hydroponic product distributors, retailers and growers.

The majority of our shipments to customers are made via common carriers or through distributors in the United States. We primarily utilize third parties to manage the key distribution centers for our consumer lawn and garden business, which are strategically located across the United States and Canada. For our Hawthorne business, we primarily self-manage distribution centers across the United States and Canada. Growing media products are generally shipped direct-to-store without passing through a distribution center.

### **Raw Materials**

We purchase raw materials for our products from various sources. We are subject to market risk as a result of the fluctuating prices of raw materials, including urea and other fertilizer inputs, resins, diesel, gasoline, natural gas, sphagnum peat, bark and grass seed. Our objectives surrounding the procurement of these materials are to ensure continuous supply, minimize costs and improve predictability. We seek to achieve these objectives through negotiation of contracts with favorable terms directly with vendors. When appropriate, we commit to purchase a certain percentage of our needs in advance of the lawn and garden season to secure pre-determined prices. We also hedge certain commodities, particularly diesel, resin and urea, to improve cost predictability and control. Sufficient raw materials were available during fiscal 2020.

### **Trademarks, Patents, Trade Secrets and Licenses**

We consider our trademarks, patents, trade secrets and licenses to be key competitive advantages. We pursue a vigorous trademark protection strategy consisting of registration, renewal and maintenance of key trademarks and proactive monitoring and enforcement activities to protect against infringement. The Scotts®, Miracle-Gro®, Ortho®, Tomcat®, Hyponex®, Earthgro®, General Hydroponics®, Vermicrop®, Gavita®, Botanicare®, Agrolux®, Sun System®, Mother Earth® and Can-Filters® brand names and logos, as well as a number of product trademarks, including Turf Builder®, EZ Seed®, Organic Choice®, Home Defense Max®, Nature Scapes®, and Weed B Gon® are registered in the United States and/or internationally and are considered material to our business.

In addition, we actively develop and maintain an extensive portfolio of utility and design patents covering a variety of subject matters and technologies relevant to the business such as fertilizer, weed killer, chemical and growing media compositions and processes; grass seed varieties; mechanical dispensing devices such as applicators, spreaders and sprayers; lighting applications; and hydroponic growing systems. Our utility patents provide protection generally extending to 20 years from the date of filing, and many of our patents will continue well into the next decade. We also hold exclusive and non-exclusive patent licenses and supply arrangements, permitting the use and sale of additional patented fertilizers, pesticides, electrical and mechanical devices. Although our portfolio of trade secrets, patents and patent licenses is important to our success, no single trade secret, patent or group of related patents, alone, is considered critical to the operation of any of our business segments or the business as a whole.

### **Seasonality and Backlog**

Our North America consumer lawn and garden business is highly seasonal, with approximately 75% of our annual net sales occurring in our second and third fiscal quarters combined. Our annual sales for this business are further concentrated in our second and third fiscal quarters by retailers who rely on our ability to deliver products closer to when consumers buy our products, thereby reducing retailers’ pre-season inventories.

We anticipate significant orders for the upcoming spring season will start to be received late in the winter and continue through the spring season. Historically, substantially all orders have been received and shipped within the same fiscal year with minimal carryover of open orders at the end of the fiscal year.

## Significant Customers

Home Depot and Lowe's are our two largest customers and are the only customers that individually represent more than 10% of reported consolidated net sales during any of the three most recent fiscal years. During fiscal 2020, we experienced increased demand for many of our products, especially our soils, fertilizer, grass seed, controls and plant food products, in response to COVID-19. This increased demand has driven an increase in sales and profits that were not previously projected for the fiscal year. The extent to which the COVID-19 pandemic will ultimately impact our business, results of operations, financial condition and cash flows depends on future developments that are highly uncertain, rapidly evolving and difficult to predict at this time. Depending on the length and severity of the COVID-19 pandemic, we may experience an increase or decrease in future customer orders driven by volatility in retail foot traffic, consumer shopping and consumption behavior. For additional details regarding significant customers, see "ITEM 1A. RISK FACTORS — Because of the concentration of our sales to a small number of retail customers, the loss of one or more of, or a significant reduction in orders from, our top customers could adversely affect our financial results" of this Annual Report on Form 10-K and "NOTE 21. SEGMENT INFORMATION" of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

## Competitive Marketplace

The markets in which we sell our products are highly competitive. We compete primarily on the basis of brand strength, product innovation, product quality, product performance, advertising, value, supply chain competency, field sales support, in-store sales support and the strength of our relationships with major retailers and distributors.

In the lawn and garden, pest control and indoor gardening and hydroponic markets, our products compete against private-label as well as branded products. Primary competitors include Spectrum Brands Holdings, Inc., Central Garden & Pet Company, Enforcer Products, Inc., Kellogg Garden Products, Oldcastle Retail, Inc., Lebanon Seaboard Corporation, Reckitt Benckiser Group plc, FoxFarm Soil & Fertilizer Company, Nanolux Technology, Inc., Sun Gro Horticulture, Inc., Advanced Nutrients, Ltd. and Hydrofarm, LLC. In addition, we face competition from smaller regional competitors who operate in many of the areas where we compete.

In Canada, we face competition in the lawn and garden market from Premier Tech Ltd. and a variety of local companies including private label brands.

## Research and Development

We continually invest in research and development, both in the laboratory and at the consumer level, to improve our products, manufacturing processes, packaging and delivery systems. Spending on research and development was \$39.7 million, \$39.6 million and \$42.5 million in fiscal 2020, fiscal 2019 and fiscal 2018, respectively, including product registration costs of \$11.0 million, \$11.0 million and \$11.4 million, respectively. In addition to the benefits of our own research and development, we actively seek ways to leverage the research and development activities of our suppliers and other business partners.

## Regulatory Considerations

Local, state, federal and foreign laws and regulations affect the manufacture, sale, distribution and application of our products in several ways. For example, in the United States, all pesticide products must comply with the Federal Insecticide, Fungicide, and Rodenticide Act ("FIFRA"), and most require registration with the U.S. Environmental Protection Agency (the "U.S. EPA") and similar state agencies before they can be sold or distributed. Fertilizer and growing media products are subject to state and foreign labeling regulations. In addition to the regulations already described, federal, state and foreign agencies regulate the disposal, transport, handling and storage of waste, remediation of contaminated sites, air and water discharges from our facilities, and workplace health and safety. Our grass seed products are regulated by the Federal Seed Act and various state regulations.

In addition, the use of certain pesticide and fertilizer products is regulated by various local, state, federal and foreign environmental and public health agencies. These regulations may include requirements that only certified or professional users apply the product or that certain products be used only on certain types of locations (such as "not for use on sod farms or golf courses"), may require users to post notices on properties to which products have been or will be applied, may require notification to individuals in the vicinity that products will be applied in the future or may ban the use of certain ingredients or categories of products altogether.

State, federal and foreign authorities generally require growing media facilities to obtain permits (sometimes on an annual basis) in order to harvest peat and to discharge storm water run-off or water pumped from peat deposits. The permits typically specify the condition in which the property must be left after the peat is fully harvested, with the residual use typically being natural wetland habitats combined with open water areas. We are generally required by these permits to limit our harvesting and to restore the property consistent with the intended residual use. In some locations, these facilities have been required to create water retention ponds to control the sediment content of discharged water.

For more information regarding how compliance with local, state, federal and foreign laws and regulations may affect us, see “ITEM 1A. RISK FACTORS — Compliance with environmental and other public health regulations or changes in such regulations or regulatory enforcement priorities could increase our costs of doing business or limit our ability to market all of our products” of this Annual Report on Form 10-K.

### ***Regulatory Matters***

We are subject to various environmental proceedings, the majority of which are for site remediation. At September 30, 2020, \$4.2 million was accrued for such environmental matters. During fiscal 2020, fiscal 2019 and fiscal 2018, we expensed \$0.5 million, \$1.4 million and \$1.6 million, respectively, for such environmental matters. We had no material capital expenditures during the last three fiscal years related to environmental or regulatory matters.

### **Human Capital**

We believe our culture and commitment to our associates provides unique value to our Company and its shareholders. Every associate, and every job, is important to our success and helping us achieve our purpose. We seek to create an environment that values the health, safety and wellness of our teams, and we work to equip them with the knowledge and skills to serve our business and develop in their careers.

As of September 30, 2020, we employed 5,932 employees. During peak sales and production periods in fiscal 2020, our personnel (all approximate) numbered 7,800 comprised of 6,600 associates including seasonal associates with the remaining 1,200 consisting of temporary labor. During fiscal 2020, we employed a total of 2,659 full-time and seasonal in-store associates within the United States to help our retail partners merchandise their lawn and garden departments directly to consumers of our products.

We foster a safe, healthy and inclusive workplace culture that permits all associates to thrive. This means cultivating a diverse and inclusive workplace that reflects the communities where we operate. We utilize engagement surveys to develop action plans, invite external thought leaders to speak on topics of importance and provide forums for associates to dialogue with leadership and develop together. In addition, our leadership team also holds regular town hall meetings to share and receive information with our associates.

### ***Employee Resource Groups***

Our Employee Resource Groups (“ERGs”) are voluntary, associate-led groups usually formed by people with a common affinity such as gender, race, national origin, sexual orientation, military status or other attributes. Each ERG establishes a mission to positively impact the business. ERGs are open to any associate regardless of race, national origin or other demographics. Our ERGs consist of the Scotts Women’s Network, the Scotts Black Employees Network, the Scotts Veterans Network, the Scotts Young Professionals and Scotts GroPride.

### ***Diversity***

We value our associates’ diversity from gender, race and sexuality to thoughts, interests, languages and beliefs. We encourage associates to leverage their varied life experiences to build a strong organization.

### ***Training and Professional Development***

Training is an integral part of developing and retaining our associates and creating a culture of leadership within the Company. As part of our standard onboarding program, associates take more than 10 hours of training covering our commitment to leadership, ethics and our values. We also train our associates on important environmental health and safety topics to help ensure we protect our people and our environment as we operate our business. Associates are encouraged to participate in a variety of Company provided learning resources including: online business skills courses; onsite classroom events; professional development events; external training programs based on individual needs; business-led enterprise leader learning events; and a tuition assistance program.

### ***Compensation and Benefits***

Our commitment to our associates starts with benefit and compensation programs that value the contributions our associates make and offers physical, financial and personal health programs to associates and their families. We recognize financial stability is a critical component to our associates’ well-being. In addition to competitive pay, we offer an industry-leading 401(k) match and other performance-based financial programs for our associates who are not incentive-eligible. Our physical health programs, like our medical and dental coverage, help our associates to feel their best on the job and at home. Associates and their families at our Marysville location can utilize of our wellness center and we reimburse fitness club memberships for associates at other locations. A newly launched cancer support program provides associates and their families access to resources to help them through the cancer experience as a patient or caregiver.

Specific examples of our commitment to our associates include:

- Our decision to allocate a percentage of the savings from the 2019 Tax Cuts and Jobs Act with associates by increasing our 401(k) company match. Our 401(k) participation rate at the end of fiscal 2020 was 93% for our full-time non-seasonal associates.
- We established an annual 401(k) profit-sharing matching program whereby if we reach or exceed profitability targets in a given year, certain U.S. associates not eligible for annual bonuses will receive a 401(k) profit-sharing matching contribution early the following year.
- We make ownership of Company stock a reality for as many of our associates as possible through our Discounted Stock Purchase Program (“DSPP”). The DSPP provides a unique opportunity for our associates to buy our Common Shares at a 15% discount – one of the most generous discounts in the industry.

### ***Health and Safety***

We have several health and safety programs in place to help protect our associates. Our Environmental Health and Safety (“EHS”) management system is one tool that we use to promote the health and safety of our employees. We have a behavioral based safety program where our associates can submit concerns over unsafe conditions or share feedback when they observe unsafe work behaviors. We are focused on tracking and improving the industrial hygiene at our plants. This includes identifying opportunities to reduce workplace hazards and potential exposures in the work environment per Occupational Safety and Health Administration (“OSHA”) standards. The Centennial plant in Vancouver, Washington, which opened in 2018, provides a cool, well-ventilated working environment filled with natural light that associates report contributes positively to their well-being. We are embarking on a multi-year capital improvement project at our largest manufacturing facility in Marysville, Ohio. Upgrades made will support the Company as it continues to grow while also providing for the health and safety of our frontline associates.

### ***Information Systems***

We understand the critical nature of measurable data and insights from a human capital perspective. We made the decision to leverage a cloud-based human capital management software solution that unifies our wide range of human relations functionality onto one single platform. This allows support for the entire enterprise with qualitative and quantitative analytics specific to associate transactions, processes and programs, thereby creating a culture where data and analytics are the norm.

Additional information regarding our human capital initiatives can be found under the “People” section of our 2020 Corporate Responsibility Report which can be found at <https://scottsmiraclegro.com/environmental-social-and-governance/>. The contents of our corporate website are not incorporated by reference in this Annual Report on Form 10-K or in any other report or document we file with the Securities and Exchange Commission (the “SEC”).

### **Environmental, Social and Governance**

All of our stakeholders are essential to our business – shareholders, customers, suppliers, employees, communities as well as the environment and society. We are working to make our workforce more inclusive, our business more sustainable, and our communities more engaged by maintaining strong environmental, social and governance (“ESG”) practices.

In fiscal 2020, we demonstrated our ongoing ESG commitment by publishing our ninth Corporate Responsibility Report, prepared in accordance with the Global Reporting Initiative (“GRI”) Standards: Core option. This report provides detailed information regarding our ESG strategy, focus areas and governance structure. The Company’s ESG focus areas are Product Stewardship and Safety, Operations and Supply Chain, Associate Engagement and Wellness, Community Engagement and Governance and Transparency. The Company is developing a regime for benchmarking, goal setting and continuous improvement around these focus areas.

In addition, we published several ESG-related policies and statements on our corporate website, which can be found at <https://scottsmiraclegro.com/environmental-social-and-governance/> (this uniform resource locator, or URL, is an inactive textual reference only and is not intended to incorporate our website into this Annual Report on Form 10-K). These policies and statements address environmental, health and safety and human rights concerns. Further ESG initiatives in fiscal 2020 included responding to the Carbon Disclosure Project’s climate questionnaire and participation in the Human Rights Campaign’s Corporate Equality Index annual benchmarking survey.

### **General Information**

We maintain a website at <http://investor.scotts.com> (this uniform resource locator, or URL, is an inactive textual reference only and is not intended to incorporate our website into this Annual Report on Form 10-K). We file reports with the SEC and make available, free of charge, on or through our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or

15(d) of the Securities Exchange Act of 1934, as amended, as well as our proxy and information statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

## **ITEM 1A. RISK FACTORS**

### **Cautionary Note Regarding Forward-Looking Statements**

This Annual Report on Form 10-K, including the exhibits hereto and the information incorporated by reference herein, as well as our 2020 Annual Report to Shareholders (our “2020 Annual Report”), contain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to risks and uncertainties. Information regarding activities, events and developments that we expect or anticipate will or may occur in the future, including, but not limited to, information relating to our future growth and profitability targets and strategies designed to increase total shareholder value, are forward-looking statements based on management’s estimates, assumptions and projections. Forward-looking statements also include, but are not limited to, statements regarding our future economic and financial condition and results of operations, the plans and objectives of management and our assumptions regarding our performance and such plans and objectives, as well as the amount and timing of repurchases of our Common Shares or other uses of cash flows. Forward-looking statements generally can be identified through the use of words such as “guidance,” “outlook,” “projected,” “believe,” “target,” “predict,” “estimate,” “forecast,” “strategy,” “may,” “goal,” “expect,” “anticipate,” “intend,” “plan,” “foresee,” “likely,” “will,” “should” and other similar words and variations.

Forward-looking statements contained in this Annual Report on Form 10-K and our 2020 Annual Report are predictions only and actual results could differ materially from management’s expectations due to a variety of factors, including those described below. All forward-looking statements attributable to us or persons working on our behalf are expressly qualified in their entirety by such risk factors.

The forward-looking statements that we make in this Annual Report on Form 10-K and our 2020 Annual Report are based on management’s current views and assumptions regarding future events and speak only as of their dates. We disclaim any obligation to update developments of these risk factors or to announce publicly any revisions to any of the forward-looking statements that we make, or to make corrections to reflect future events or developments, except as required by the federal securities laws.

***Compliance with environmental and other public health regulations or changes in such regulations or regulatory enforcement priorities could increase our costs of doing business or limit our ability to market all of our products.***

Local, state, federal and foreign laws and regulations relating to environmental matters affect us in several ways. In the United States, all pesticide products must comply with FIFRA and most must be registered with the U.S. EPA and similar state agencies before they can be sold or distributed. Our inability to obtain or maintain such registrations, or the cancellation of any such registration of our products, could have an adverse effect on our business, the severity of which would depend on a variety of factors, including the product(s) involved, whether another product could be substituted and whether our competitors were similarly affected. We attempt to anticipate regulatory developments and maintain registrations of, and access to, substitute active ingredients, but there can be no assurance that we will be able to avoid or reduce these risks. In addition, in Canada, regulations have been adopted by several provinces that substantially restrict our ability to market and sell certain of our consumer pesticide products.

Under the Food Quality Protection Act, enacted by the U.S. Congress in 1996, food-use pesticides are evaluated to determine whether there is reasonable certainty that no harm will result from the cumulative effects of pesticide exposures. Under this Act, the U.S. EPA is evaluating the cumulative and aggregate risks from dietary and non-dietary exposures to pesticides. The pesticides in our products, certain of which may be also used on crops processed into various food products, are manufactured by independent third parties and continue to be evaluated by the U.S. EPA as part of this exposure risk assessment. The U.S. EPA or the third-party registrant may decide that a pesticide we use in our products will be limited or made unavailable to us. We cannot predict the outcome or the severity of the effect of these continuing evaluations.

In addition, the use of certain pesticide and fertilizer products (including pesticide products that contain glyphosate) is regulated by various local, state, federal and foreign environmental and public health agencies. These regulations may, among other things, ban the use of certain ingredients contained in such products or require (i) that only certified or professional users apply the product, (ii) that certain products be used only on certain types of locations, (iii) users to post notices on properties to which products have been or will be applied, and (iv) notification to individuals in the vicinity that products will be applied in the future. Even if we are able to comply with all such regulations and obtain all necessary registrations and licenses, we cannot provide assurance that our products, particularly pesticide products, will not cause or be alleged to cause injury to the environment or to people under all circumstances, particularly when used improperly or contrary to instructions. The costs of compliance, remediation or products liability have adversely affected operating results in the past and could materially adversely affect future quarterly or annual operating results.

Our products and operations may be subject to increased regulatory and environmental scrutiny in jurisdictions in which we do business. For example, we are subject to regulations relating to our harvesting of peat for our growing media business which has come under increasing regulatory and environmental scrutiny. In the United States, state regulations frequently require us to limit our harvesting and to restore the property to an agreed-upon condition. In some locations, we have been required to create water retention ponds to control the sediment content of discharged water. In Canada, our peat extraction efforts are also the subject of regulation.

In addition to the regulations already described, local, state, federal and foreign agencies regulate the disposal, transport, handling and storage of waste, remediation of contaminated sites, air and water discharges from our facilities, and workplace health and safety.

Under certain environmental laws, we may be liable for the costs of investigation and remediation of the presence of certain regulated materials, as well as related costs of investigation and remediation of damage to natural resources, at various properties, including our current and former properties as well as offsite waste handling or disposal sites that we have used. Liability may be imposed upon us without regard to whether we knew of or caused the presence of such materials and, under certain circumstances, on a joint and several basis. There can be no assurances that the presence of such regulated materials at any such locations, or locations that we may acquire in the future, will not result in liability to us under such laws or expose us to third-party actions such as tort suits based on alleged conduct or environmental conditions.

The adequacy of our current non-FIFRA compliance-related environmental accruals and future provisions depends upon our operating in substantial compliance with applicable environmental and public health laws and regulations, as well as the assumptions that we have both identified all of the significant sites that must be remediated and that there are no significant conditions of potential contamination that are unknown to us. A significant change in the facts and circumstances surrounding these assumptions or in current enforcement policies or requirements, or a finding that we are not in substantial compliance with applicable environmental and public health laws and regulations, could have a material adverse effect on future environmental capital expenditures and other environmental expenses, as well as our financial condition, results of operations and cash flows.

***Damage to our reputation or the reputation of our products or products we market on behalf of third parties could have an adverse effect on our business.***

Maintaining our strong reputation and a strong reputation of our products and products we market on behalf of third parties with both consumers and our retail customers is a key component in our success. Product recalls, our inability to ship, sell or transport affected products, governmental actions, investigations or other legal proceedings, and adverse media commentary may harm our reputation and hinder the acceptance by consumers of our products or products we market on behalf of third parties (including certain of Monsanto's consumer Roundup<sup>®</sup> branded products). In addition to effects on consumer behavior, retailers could decide to stop carrying those products which may materially and adversely affect our business operations, reduce sales and increase costs.

In addition, notwithstanding the weight of scientific evidence supporting the safety of these products, claims or allegations that our products or products we market on behalf of third parties are not safe could adversely affect us and contribute to the risk we will be subjected to legal action. We manufacture a variety of products, such as fertilizers, growing media, pesticides, and herbicides, and also serve as marketer for certain of Monsanto's consumer Roundup<sup>®</sup> branded products. On occasion, allegations are made that some of these products have failed to perform up to expectations, are inappropriately labeled, contain insufficient instructions or have caused damage or injury to individuals or property. Public commentary by media agencies or non-governmental organizations and/or litigation-related assertions, even when such commentary or assertions may be inaccurate, may lead consumers or our retail customers to believe that certain of our products or products we market on behalf of third parties may be unsafe. For example, notwithstanding the weight of scientific evidence and regulatory determinations supporting the safety of glyphosate, recent litigation involving Monsanto's consumer Roundup<sup>®</sup> non-selective glyphosate-containing weedkiller products has led to negative publicity and consumer sentiment with respect to these products and Monsanto's Roundup<sup>®</sup> brand. As another example, based on reports of contamination at a third-party supplier's vermiculite mine, the public may perceive that some of our products manufactured in the past using vermiculite are or may be contaminated in a way that makes them unsafe.

Even when inaccurate or not supported by the scientific evidence, claims and allegations that our products or products we market on behalf of third parties are not safe could impair our reputation, the reputation of our products or the reputation of products we market on behalf of third parties, involve us in litigation, damage our brand names and have a material adverse effect on our business.

***Our business could be negatively impacted by corporate citizenship and ESG matters and/or our reporting of such matters.***

There is an increasing focus from certain investors, customers, consumers, employees, and other stakeholders concerning corporate citizenship and sustainability matters. From time to time, we communicate certain initiatives, including goals, regarding environmental matters, responsible sourcing and social investments, including pursuant to our Corporate Responsibility Report. We could fail, or be perceived to fail, in our achievement of such initiatives or goals, or we could fail in fully and accurately reporting our progress on such initiatives and goals. In addition, we could be criticized for the scope of such initiatives or goals or perceived as not acting responsibly in connection with these matters. Our business could be negatively impacted by such matters. Any such matters, or related corporate citizenship and sustainability matters, could have a material adverse effect on our business.

***The effects of the ongoing coronavirus (COVID-19) pandemic and any possible recurrence of other similar types of pandemics, or any other widespread public health emergencies, could have a material adverse effect on our business, results of operations, financial condition and/or cash flows.***

The World Health Organization recognized COVID-19 as a public health emergency of international concern on January 30, 2020 and as a global pandemic on March 11, 2020. Public health responses have included national pandemic preparedness and response plans, travel restrictions, quarantines, curfews, event postponements and cancellations and closures of facilities including local schools and businesses. The global pandemic and actions taken to contain COVID-19 have adversely affected the global economy and financial markets.

In response to the COVID-19 pandemic, we have implemented additional measures intended to both protect the health and safety of our employees and maintain our ability to provide products to our customers, including (i) requiring a significant part of our workforce to work from home, (ii) monitoring our employees for COVID-19 symptoms, (iii) making additional personal protective equipment available to our operations team, (iv) requiring all manufacturing and warehousing associates to take their temperatures before beginning a shift, (v) modifying work methods and schedules of our manufacturing and field associates to create distance or add barriers between associates, consumers and others, (vi) expanding cleaning efforts at our operation centers, (vii) modifying attendance policies so that associates may elect to stay home if they have symptoms, (viii) prioritizing production for goods that are more essential to our customers and (ix) implementing an interim premium pay allowance for associates in our field sales force as well as those still working in manufacturing or distribution centers. While we believe that these efforts should enable us to maintain our operations during the COVID-19 pandemic, we can provide no assurance that we will be able to do so as a result of the unpredictability of the ultimate impact of the COVID-19 pandemic, including the responses of local, state, federal and foreign governmental authorities to the pandemic.

The extent to which the COVID-19 pandemic will ultimately impact our business, results of operations, financial condition and cash flows depends on future developments that are highly uncertain, rapidly evolving and difficult to predict at this time, including:

- the duration, spread and intensity of the pandemic;
- the availability and effectiveness of any vaccines or alternative treatments;
- the ability of our suppliers, contract manufacturers, contractors and third-party logistics providers to meet their obligations to us (including supplying us with essential raw materials, components and finished products, or shipping finished goods to customers) on a timely basis and at previously anticipated costs without significant disruption, and our ability to identify alternative sources of materials and services, if necessary;
- our ability to continue to meet our customers' needs in the event of the suspension or interruption of essential elements of our manufacturing and supply arrangements and activities such as the continued availability of raw materials, transportation, labor and production capacity and at previously anticipated costs;
- the effect of the COVID-19 pandemic on our customers (including retailers and distributors), including their ability to remain open, continue to sell our products, pay for the products purchased from us on a timely basis or at all and collect payment from their customers;
- the impact of the COVID-19 pandemic on the financial and credit markets and economic activity generally, including our ability to maintain compliance with financial covenants, access lending, capital markets, and other sources of liquidity when needed on reasonable terms or at all; and
- the demand for our products, which may be impacted by, among other things, the temporary inability of consumers to purchase our products due to illness, quarantine, travel restrictions or financial hardship, shifts in short- or long-term consumer behavior including moving from one or more of our more discretionary and

profitable products to less profitable products, or stockpiling and similar pantry-loading activity that could negatively impact future demand.

Negative developments with respect to any of these items could have a material adverse effect on our business, results of operations, financial condition and/or cash flows.

***Certain of our products may be purchased for use in new and emerging industries or segments and/or be subject to varying, inconsistent, and rapidly changing laws, regulations, administrative practices, enforcement approaches, judicial interpretations, and consumer perceptions.***

We sell products, including hydroponic gardening products, that end users may purchase for use in new and emerging industries or segments, including the growing of cannabis, that may not grow or achieve market acceptance in a manner that we can predict. The demand for these products depends on the uncertain growth of these industries or segments.

In addition, we sell products that end users may purchase for use in industries or segments, including the growing of cannabis, that are subject to varying, inconsistent, and rapidly changing laws, regulations, administrative practices, enforcement approaches, judicial interpretations, and consumer perceptions. For example, certain countries and 36 U.S. states have adopted frameworks that authorize, regulate, and tax the cultivation, processing, sale, and use of cannabis for medicinal and/or non-medicinal use, while the U.S. Controlled Substances Act and the laws of other U.S. states prohibit growing cannabis.

Our gardening products, including our hydroponic gardening products, are multi-purpose products designed and intended for growing a wide range of plants and are generally purchased from retailers by end users who may grow any variety of plants, including cannabis. Although the demand for our products may be negatively impacted depending on how laws, regulations, administrative practices, enforcement approaches, judicial interpretations, and consumer perceptions develop, we cannot reasonably predict the nature of such developments or the effect, if any, that such developments could have on our business.

***If we underestimate or overestimate demand for our products and do not maintain appropriate inventory levels, our net sales and/or working capital could be negatively impacted.***

Our ability to manage our inventory levels to meet our customers' demand for our products is important for our business. Our production levels and inventory management goals for our products are based on estimates of demand, taking into account production capacity, timing of shipments, and inventory levels. If we overestimate or underestimate both channel and retail demand for any of our products during a given season, we may not maintain appropriate inventory levels, which could negatively impact our net sales, profit margins, net earnings, and/or working capital, hinder our ability to meet customer demand, result in loss of customers, or cause us to incur excess and obsolete inventory charges.

***Our marketing activities may not be successful.***

We invest substantial resources in advertising, consumer promotions and other marketing activities to maintain, extend and expand our brand image. There can be no assurances that our marketing strategies will be effective or that the amount we invest in advertising activities will result in a corresponding increase in sales of our products. If our marketing initiatives are not successful, including our ability to leverage new media such as digital media and social networks to reach existing and potential customers, we will have incurred significant expenses without the benefit of higher revenues.

***Our success depends upon the retention and availability of key personnel and the effective succession of senior management.***

Our success largely depends on the performance of our management team and other key personnel. Our future operations could be harmed if we are unable to attract and retain talented, highly qualified senior executives and other key personnel. In addition, if we are unable to effectively provide for the succession of senior management, including our chief executive officer, our business, prospects, results of operations, financial condition and cash flows may be materially adversely affected.

***Disruptions in availability or increases in the prices of raw materials or fuel could adversely affect our results of operations.***

We source many of our commodities and other raw materials on a global basis. The general availability and price of those raw materials can be affected by numerous forces beyond our control, including political instability, trade restrictions and other government regulations, duties and tariffs, price controls, changes in currency exchange rates and weather.

A significant disruption in the availability of any of our key raw materials could negatively impact our business. In addition, increases in the prices of key commodities and other raw materials could adversely affect our ability to manage our cost structure. Market conditions may limit our ability to raise selling prices to offset increases in our raw material costs. Our proprietary technologies can limit our ability to locate or utilize alternative inputs for certain products. For certain inputs, new sources of supply may have to be qualified under regulatory standards, which can require additional investment and delay bringing a product to market.



We utilize hedge agreements periodically to fix the prices of a portion of our urea, resin and fuel needs. The hedge agreements are designed to mitigate the earnings and cash flow fluctuations associated with the costs of urea, resin and fuel. In periods of declining prices, utilizing these hedge agreements may effectively increase our expenditures for these raw materials.

***Our business is subject to risks associated with sourcing and manufacturing outside of the U.S. and risks from tariffs and/or international trade wars.***

The Company imports many of its raw materials and finished goods from countries outside of the United States, including but not limited to China. Our import operations are subject to complex customs laws, regulations, tax requirements, and trade regulations, such as tariffs set by governments, either through mutual agreements or bilateral actions. Recent changes in U.S. tariffs on goods imported into the U.S., particularly goods from China, have increased the cost of goods purchased by the Company. Additional tariffs could be imposed by the U.S. with relatively short notice to the Company. These governmental actions could have, and any similar future actions may have, a material adverse effect on our business, financial condition and results of operations. The overall effect of these risks is that our costs may increase, which in turn may result in lower profitability if we are unable to offset such increases through higher prices, and/or that we may suffer a decline in sales if our customers do not accept price increases.

***The highly competitive nature of our markets could adversely affect our ability to maintain or grow revenues.***

Each of our operating segments participates in markets that are highly competitive. Our products compete against national and regional products and private label products produced by various suppliers. Many of our competitors sell their products at prices lower than ours. Our most price sensitive customers may trade down to lower priced products during challenging economic times or if current economic conditions worsen. We compete primarily on the basis of product innovation, product quality, product performance, value, brand strength, supply chain competency, field sales support, in-store sales support, the strength of our relationships with major retailers and advertising. Some of our competitors have significant financial resources. The strong competition that we face in all of our markets may prevent us from achieving our revenue goals, which may have a material adverse effect on our financial condition, results of operations and cash flows. Our inability to continue to develop and grow brands with leading market positions, maintain our relationships with key retailers and deliver high quality products on a reliable basis at competitive prices could have a material adverse effect on our business.

***We may not successfully develop new product lines and products or improve existing product lines and products.***

Our future success depends on creating and successfully competing in markets for our products including our ability to improve our existing product lines and products and to develop and manufacture new product lines and products to meet evolving consumer needs. We cannot be certain that we will be successful in developing and manufacturing new product lines and products or product innovations which satisfy consumer needs or achieve market acceptance, or that we will develop, manufacture and market new product lines and products or product innovations in a timely manner. If we fail to successfully develop and manufacture new product lines and products or product innovations, our ability to maintain or grow our market share may be adversely affected, which in turn could materially adversely affect our business, financial condition and results of operations. In addition, the development and introduction of new product lines and products and product innovations require substantial research and development expenditures, which we may be unable to recoup if such new product lines, products or innovations do not achieve market acceptance.

Many of the products we manufacture and market contain active ingredients that are subject to regulatory approval. The need to obtain such approval could delay the launch of new products or product innovations that contain active ingredients or otherwise prevent us from developing and manufacturing certain products and product innovations.

***If we are unable to effectively execute our e-commerce business, our reputation and operating results may be harmed.***

We sell certain of our products over the Internet through our online store, which represents a growing percentage of our overall net sales. The success of our e-commerce business depends on our investment in this platform, consumer preferences and buying trends relating to e-commerce, and our ability to both maintain the continuous operation of our online store and our fulfillment operations and provide a shopping experience that will generate orders and return visits to our online store.

We are also vulnerable to certain additional risks and uncertainties associated with our e-commerce business, including: changes in required technology interfaces; website downtime and other technical failures; costs and technical issues associated with website software, systems and technology investments and upgrades; data and system security; system failures, disruptions and breaches and the costs to address and remedy such failures, disruptions or breaches; computer viruses; and changes in and compliance with applicable federal and state regulations. In addition, our efforts to remain competitive with technology trends, including the use of new or improved technology, creative user interfaces and other e-commerce marketing tools such as paid search and mobile applications, among others, may increase our costs and may not increase sales or attract consumers. Our failure to successfully respond to these risks and uncertainties might adversely affect the sales of our e-commerce business, as well as damage our reputation and brands.

Additionally, the success of our e-commerce business and the satisfaction of our consumers depend on their timely receipt of our products. The efficient delivery of our products to our consumers requires that our distribution centers have adequate capacity to support the current level of e-commerce operations and any anticipated increased levels that may occur as a result of the growth of our e-commerce business. If we encounter difficulties with our distribution centers, or if any distribution centers shut down for any reason, including as a result of fire or other natural disaster, we could face shortages of inventory, resulting in out of stock conditions in our online store, and we could incur significantly higher costs and longer lead times associated with distributing our products to our consumers and experience dissatisfaction from our consumers. Any of these issues could have a material adverse effect on our business and harm our reputation.

***Because of the concentration of our sales to a small number of retail customers, the loss of one or more of, or a significant reduction in orders from, our top customers could adversely affect our financial results.***

Our top two retail customers together accounted for 44% of our fiscal 2020 net sales and 58% of our outstanding accounts receivable as of September 30, 2020. The loss of, or reduction in orders from, our top two retail customers, Home Depot and Lowe's, or any other major customer for any reason (including, for example, changes in a retailer's strategy, claims or allegations that our products or products we market on behalf of third parties are unsafe, a decline in consumer demand, regulatory, legal or other external pressures or a change in marketing strategy) could have a material adverse effect on our business, financial condition, results of operations and cash flows, as could customer disputes regarding shipments, fees, merchandise condition or related matters. Our inability to collect accounts receivable from one of our major customers, or a significant deterioration in the financial condition of one of these customers, including a bankruptcy filing or a liquidation, could also have a material adverse effect on our financial condition, results of operations and cash flows.

We do not have long-term sales agreements with, or other contractual assurances as to future sales to, any of our major retail customers. In addition, continued consolidation in the retail industry has resulted in an increasingly concentrated retail base, and as a result, we are significantly dependent upon sales to key retailers who have significant bargaining strength. To the extent such concentration continues to occur, our net sales and income from operations may be increasingly sensitive to deterioration in the financial condition of, or other adverse developments involving our relationship with, one or more of our key customers. In addition, our business may be negatively affected by changes in the policies of our retailers, such as inventory destocking, limitations on access to shelf space, price demands and other conditions.

***Our reliance on third-party manufacturers could harm our business.***

We rely on third parties to manufacture certain of our products. This reliance generates a number of risks, including decreased control over the production process, which could lead to production delays or interruptions and inferior product quality control. In addition, performance problems at these third-party manufacturers could lead to cost overruns, shortages or other problems, which could increase our costs of production or result in delivery delays to our customers.

In addition, if one or more of our third-party manufacturers becomes insolvent or unwilling to continue to manufacture products of acceptable quality, at acceptable costs and in a timely manner, our ability to deliver products to our retail customers could be significantly impaired. Substitute manufacturers may not be available or, if available, may be unwilling or unable to manufacture the products we need on acceptable terms. Moreover, if customer demand for our products increases, we may be unable to secure sufficient additional capacity from our current third-party manufacturers, or others, on commercially reasonable terms, or at all.

***Our reliance on a limited base of suppliers may result in disruptions to our business and adversely affect our financial results.***

Although we continue to implement risk mitigation strategies for single-source suppliers, we also rely on a limited number of suppliers for certain of our raw materials, product components and other necessary supplies, including certain active ingredients used in our products. If we are unable to maintain supplier arrangements and relationships, if we are unable to contract with suppliers at the quantity and quality levels needed for our business, or if any of our key suppliers becomes insolvent or experience other financial distress, we could experience disruptions in production, which could have a material adverse effect on our financial condition, results of operations and cash flows.

***A significant interruption in the operation of our or our suppliers' facilities could impact our capacity to produce products and service our customers, which could adversely affect revenues and earnings.***

Operations at our and our suppliers' facilities are subject to disruption for a variety of reasons, including fire, flooding or other natural disasters, disease outbreaks or pandemics, acts of war, terrorism, government shut-downs and work stoppages. A significant interruption in the operation of our or our suppliers' facilities could significantly impact our capacity to produce products and service our customers in a timely manner, which could have a material adverse effect on our revenues, earnings and financial position. This is especially true for those products that we manufacture at a limited number of facilities, such as our fertilizer and liquid products.

***Climate change and unfavorable weather conditions could adversely impact financial results.***

The issue of climate change is receiving ever increasing worldwide attention. The possible effects, as described in various public accounts, could include changes in rainfall patterns, water shortages, changing storm patterns and intensities, and changing temperature levels that could adversely impact our costs and business operations and the supply and demand for weather sensitive products such as fertilizer, garden soils and pesticide products. In addition, fluctuating climatic conditions may result in unpredictable modifications in the manner in which consumers garden or their attitudes towards gardening, making it more difficult for us to provide appropriate products to appropriate markets in time to meet consumer demand.

Because of the uncertainty of weather volatility related to climate change and any resulting unfavorable weather conditions, we cannot predict its potential impact on our financial condition, results of operations and cash flows.

***Our hedging arrangements expose us to certain counterparty risks.***

In addition to commodity hedge agreements, we utilize interest rate swap agreements to manage the net interest rate risk inherent in our sources of borrowing as well as foreign currency forward contracts to manage the exchange rate risk associated with certain intercompany loans with foreign subsidiaries and other approved transactional currency exposures. Utilizing these hedge agreements exposes us to certain counterparty risks. The failure of one or more of the counterparties to fulfill their obligations under the hedge agreements, whether as a result of weakening financial stability or otherwise, could adversely affect our financial condition, results of operations or cash flows.

***Our indebtedness could limit our flexibility and adversely affect our financial condition.***

As of September 30, 2020, we had \$1,531.2 million of debt and \$1,415.7 million in available borrowings under our credit facility. Our inability to meet restrictive financial and non-financial covenants associated with that debt, or to generate sufficient cash flow to repay maturing debt, could adversely affect our financial condition. For example, our debt level could:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness;
- make us more vulnerable to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of cash flows from operating activities to payments on our indebtedness, which would reduce the cash flows available to fund working capital, capital expenditures, advertising, research and development efforts and other general corporate requirements;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- limit our ability to borrow additional funds;
- expose us to risks inherent in interest rate fluctuations because some of our borrowings are at variable rates of interest, which could result in higher interest expense in the event of increases in interest rates; and
- place us at a competitive disadvantage compared to our competitors that have less debt.

Our ability to make payments on or to refinance our indebtedness, fund planned capital expenditures and acquisitions, pay dividends and make repurchases of our Common Shares will depend on our ability to generate cash in the future. This, to some extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We cannot provide any assurance that our business will generate sufficient cash flow from operating activities or that future borrowings will be available to us under our credit facility in amounts sufficient to enable us to pay our indebtedness or to fund our other liquidity needs.

In addition, our credit facility and the indentures governing our 5.250% Senior Notes due 2026 (the “5.250% Senior Notes”) and our 4.500% Senior Notes due 2029 (the “4.500% Senior Notes”) contain restrictive covenants and cross-default provisions. Our credit facility also requires us to maintain specified financial ratios. Our ability to comply with those covenants and satisfy those financial ratios can be affected by events beyond our control including prevailing economic, financial and industry conditions. A breach of any of those financial ratio covenants or other covenants could result in a default. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, and could cease making further loans and institute foreclosure proceedings against our assets. We cannot provide any assurance that the holders of such indebtedness would waive a default or that we could pay the indebtedness in full if it were accelerated.

Subject to compliance with certain covenants under our credit facility and the indentures governing the 5.250% Senior Notes and the 4.500% Senior Notes, we may incur additional debt in the future. If we incur additional debt, the risks described above could intensify.

***Our lending activities may adversely impact our business and results of operations.***

As part of our strategic initiatives, we have provided financing to buyers of certain business assets we have sold and to certain strategic partners. Our exposure to credit losses on these financing balances will depend on the financial condition of these counterparties and macroeconomic factors beyond our control, such as deteriorating conditions in the world economy or in the industries served by the borrowers. While we monitor our exposure, there can be no guarantee we will be able to successfully mitigate all of these risks. Credit losses, if significant, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

***Changes in credit ratings issued by nationally recognized statistical rating organizations (NRSROs) could adversely affect our cost of financing and the market price of our 5.250% Senior Notes and 4.500% Senior Notes.***

NRSROs rate the 5.250% Senior Notes, the 4.500% Senior Notes and the Company based on factors that include our operating results, actions that we take, their view of the general outlook for our industry and their view of the general outlook for the economy. Actions taken by the NRSROs can include maintaining, upgrading or downgrading the current rating or placing us on a watch list for possible future downgrading. Downgrading the credit rating of the 5.250% Senior Notes or the 4.500% Senior Notes or placing us on a watch list for possible future downgrading could increase our cost of financing, limit our access to the capital markets and have an adverse effect on the market price of the 5.250% Senior Notes and the 4.500% Senior Notes.

***Uncertainty regarding the LIBOR calculation process and potential discontinuance of LIBOR may adversely impact our current or future debt obligations, including under our credit facility, receivables facility and certain hedging arrangements.***

Certain of our debt obligations and instruments, including our credit facility, receivables facility and certain hedging arrangements, use the London Inter-Bank Offer Rate (“LIBOR”) as a reference rate for establishing the variable interest rate applicable to such debt obligations and instruments. On July 27, 2017, the United Kingdom’s Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR by the end of 2021. It is unclear if at that time LIBOR will cease to exist or if new methods of calculating LIBOR will be established such that it continues to exist after 2021. In addition, the Federal Reserve System, in conjunction with the Alternative Reference Rates Committee, has recommended the replacement of LIBOR with a new index, calculated by short-term repurchase agreements collateralized by U.S. Treasury securities, called the Secured Overnight Financing Rate (“SOFR”). At this time, it is not certain that SOFR will attain market traction as a LIBOR replacement.

Additionally, while the expectation is that LIBOR will cease to exist, the future of LIBOR at this time is uncertain. If LIBOR ceases to exist, we may need to renegotiate our credit and receivable facilities since each utilize LIBOR as a reference rate in determining the applicable interest rate under each facility. Our credit facility and receivables facility each specify that if it is not possible to ascertain LIBOR or certain other circumstances exist, we will endeavor to establish with the applicable agent under each facility an alternative rate of interest that gives due consideration to the then prevailing market convention for determining a rate of interest for syndicated credit facilities in the United States at such time, which alternative rate shall not be objected to by a majority of lenders under our credit facility or buyers under our receivables facilities, as applicable, within a specified period of time. If we are not able to agree on an alternative rate of interest under our credit facility, then our indebtedness under the credit facility will bear interest with reference to the alternate base rate, and if we are not able to agree on an alternative rate of interest under our receivables facility, then the indebtedness under the receivables facility will bear interest with reference to our agent’s offered rate on U.S. dollar deposits in the London interbank market.

We have also entered into LIBOR based interest rate swap agreements to manage our exposure to interest rate movements under certain of our variable-rate debt obligations. Any replacement of LIBOR as the basis on which interest on our variable-rate debt and/or under our interest rate swaps is calculated may result in interest rates and/or payments that do not directly correlate over time with the interest rates and/or payments that would have been made on our obligations if LIBOR was available in its current form.

The potential effect of the replacement of LIBOR on our cost of capital cannot yet be determined.

***Our postretirement-related costs and funding requirements could increase as a result of volatility in the financial markets, changes in interest rates and actuarial assumptions.***

We sponsor a number of defined benefit pension plans associated with our U.S. and former international businesses, as well as a postretirement medical plan in the United States for certain retired associates and their dependents. The performance of the financial markets and changes in interest rates impact the funded status of these plans and cause volatility in our postretirement-related costs and future funding requirements. If the financial markets do not provide the expected long-term returns on invested assets, we could be required to make significant pension contributions. Additionally, changes in interest rates and legislation enacted by governmental authorities can impact the timing and amounts of contribution requirements.

We utilize third-party actuaries to evaluate assumptions used in determining projected benefit obligations and the fair value of plan assets for our pension and other postretirement benefit plans. In the event we determine that our assumptions should be revised, such as the discount rate or expected return on assets, our future pension and postretirement benefit expenses could increase or decrease. The assumptions we use may differ from actual results, which could have a significant impact on our pension and postretirement liabilities and related costs and funding requirements.

***Our international operations make us susceptible to the costs and risks associated with operating internationally.***

We operate manufacturing, sales and service facilities outside of the United States, particularly in Canada, the Netherlands and China. Accordingly, we are subject to risks associated with operating in foreign countries, including:

- fluctuations in currency exchange rates;
- limitations on the remittance of dividends and other payments by foreign subsidiaries;
- additional costs of compliance with local regulations;
- historically, in certain countries, higher rates of inflation than in the United States;
- changes in the economic conditions or consumer preferences or demand for our products in these markets;
- restrictive actions by multi-national governing bodies, foreign governments or subdivisions thereof;
- changes in foreign labor laws and regulations affecting our ability to hire and retain employees;
- changes in U.S. and foreign laws regarding trade and investment;
- less robust protection of our intellectual property under foreign laws; and
- difficulty in obtaining distribution and support for our products.

In addition, our operations outside the United States are subject to the risk of new and different legal and regulatory requirements in local jurisdictions, potential difficulties in staffing and managing local operations and potentially adverse tax consequences. The costs associated with operating our continuing international business could adversely affect our results of operations, financial condition and cash flows in the future.

***Unanticipated changes in our tax provisions, the adoption of new tax legislation or exposure to additional tax liabilities could affect our profitability and cash flows.***

We are subject to income and other taxes in the United States federal jurisdiction and various local, state and foreign jurisdictions. Our effective tax rate in the future could be adversely affected by changes to our operating structure, changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets (such as net operating losses and tax credits) and liabilities, changes in tax laws and the discovery of new information in the course of our tax return preparation process. In particular, the carrying value of deferred tax assets, which are predominantly related to our operations in the United States, is dependent on our ability to generate future taxable income of the appropriate character in the relevant jurisdiction.

From time to time, tax proposals are introduced or considered by the U.S. Congress or the legislative bodies in local, state and foreign jurisdictions that could also affect our tax rate, the carrying value of our deferred tax assets, or our tax liabilities. Our tax liabilities are also affected by the amounts we charge for inventory, services, licenses, funding and other items in intercompany transactions. We are subject to ongoing tax audits in various jurisdictions. In connection with these audits (or future audits), tax authorities may disagree with our intercompany charges, cross-jurisdictional transfer pricing or other matters and assess additional taxes. We regularly assess the likely outcomes of our audits in order to determine the appropriateness of our tax provision. As a result, the ultimate resolution of our tax audits, changes in tax laws or tax rates, and the ability to utilize our deferred tax assets could materially affect our tax provision, net income and cash flows in future periods.

***Our operations may be impaired if our information technology systems fail to perform adequately or if we are the subject of a data breach or cyber attack.***

We rely on information technology systems in order to conduct business, including communicating with employees and our key retail customers, ordering and managing materials from suppliers, shipping products to retail customers and analyzing and reporting results of operations. While we have taken steps to ensure the security of our information technology systems, our systems may nevertheless be vulnerable to computer viruses, security breaches and other disruptions from unauthorized users. If our information technology systems are damaged or cease to function properly for an extended period of time, whether

as a result of a significant cyber incident or otherwise, our ability to communicate internally as well as with our retail customers could be significantly impaired, which may adversely impact our business.

Additionally, in the normal course of our business, we collect, store and transmit proprietary and confidential information regarding our customers, employees, suppliers and others, including personally identifiable information. An operational failure or breach of security from increasingly sophisticated cyber threats could lead to loss, misuse or unauthorized disclosure of this information about our employees or consumers, which may result in regulatory or other legal proceedings, and have a material adverse effect on our business and reputation. We also may not have the resources or technical sophistication to anticipate or prevent rapidly-evolving types of cyber attacks. Any such attacks or precautionary measures taken to prevent anticipated attacks may result in increasing costs, including costs for additional technologies, training and third party consultants. The losses incurred from a breach of data security and operational failures as well as the precautionary measures required to address this evolving risk may adversely impact our financial condition, results of operations and cash flows.

***We may not be able to adequately protect our intellectual property and other proprietary rights that are material to our business.***

Our ability to compete effectively depends in part on our rights to service marks, trademarks, tradenames and other intellectual property rights we own or license, particularly our registered brand names and issued patents. We have not sought to register every one of our marks either in the United States or in every country in which such mark is used. Furthermore, because of the differences in foreign trademark, patent and other intellectual property or proprietary rights laws, we may not receive the same protection in other countries as we would in the United States with respect to the registered brand names and issued patents we hold. If we are unable to protect our intellectual property, proprietary information and/or brand names, we could suffer a material adverse effect on our business, financial condition and results of operations.

Litigation may be necessary to enforce our intellectual property rights and protect our proprietary information, or to defend against claims by third parties that our products or services infringe their intellectual property rights. Any litigation or claims brought by or against us could result in substantial costs and diversion of our resources. A successful claim of trademark, patent or other intellectual property infringement against us, or any other successful challenge to the use of our intellectual property, could subject us to damages or prevent us from providing certain products or services, or using certain of our recognized brand names, which could have a material adverse effect on our business, financial condition and results of operations.

***In the event the Third Restated Agreement for Monsanto's consumer Roundup<sup>®</sup> products terminates or Monsanto's consumer Roundup<sup>®</sup> business materially declines, we would lose a substantial source of future earnings and overhead expense absorption.***

If we (i) become insolvent, (ii) commit a material breach, material fraud or material willful misconduct under the Third Restated Agreement, (iii) experience a change of control of the Company (subject to certain exceptions), or (iv) impermissibly assign our rights or delegate our obligations under the Third Restated Agreement, Monsanto may terminate the Third Restated Agreement without paying a termination fee to the Company, subject to certain terms and conditions as set forth in the applicable agreements. In addition, if, after January 16, 2021, Program EBIT (as defined in the Third Restated Agreement) falls below \$50 million in any program year, Monsanto may terminate the Third Restated Agreement without paying a termination fee to the Company, subject to certain terms and conditions as set forth in the applicable agreements.

Monsanto may also terminate the Third Restated Agreement in the event of (a) a change of control of Monsanto or a sale of the Roundup<sup>®</sup> business effective at the end of the fifth full year after providing notice of termination, subject to certain terms and conditions as set forth in the applicable agreements, (b) Monsanto's decision to decommission the permits, licenses and registrations needed for, and the trademarks, trade names, packages, copyrights and designs used in, the sale of the Roundup<sup>®</sup> products in the lawn and garden market (a "Brand Decommissioning Event"), but, in each case, Monsanto would have to pay a termination fee to the Company.

If circumstances exist or otherwise develop that result in a material decline in Monsanto's consumer Roundup<sup>®</sup> business, or in the event of Monsanto's insolvency or bankruptcy, we would seek to mitigate the impact on us by exercising various rights and remedies under the Third Restated Agreement and applicable law. We cannot, however, provide any assurance that our exercise of such rights or remedies would produce the desired outcomes or that a material decline in Monsanto's consumer Roundup<sup>®</sup> business would not have a material adverse effect on our business, financial condition or results of operations.

In the event that the Third Restated Agreement terminates or Monsanto's consumer Roundup<sup>®</sup> business materially declines, we would lose all, or a substantial portion, of the significant source of earnings and overhead expense absorption the Third Restated Agreement provides.

For additional information regarding the Third Restated Agreement including certain of our rights and remedies under the Third Restated Agreement, see "NOTE 7. MARKETING AGREEMENT" of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

***Hagedorn Partnership, L.P. beneficially owns approximately 25% of our Common Shares and can significantly influence decisions that require the approval of shareholders.***

Hagedorn Partnership, L.P. beneficially owned approximately 25% of our outstanding Common Shares on a fully diluted basis as of November 20, 2020. As a result, it has sufficient voting power to significantly influence the election of directors and the approval of other actions requiring the approval of our shareholders, including the entering into of certain business combination transactions. In addition, because of the percentage of ownership and voting concentration in Hagedorn Partnership, L.P., elections of our board of directors will generally be within the control of Hagedorn Partnership, L.P. While all of our shareholders are entitled to vote on matters submitted to our shareholders for approval, the concentration of our Common Shares and voting control presently lies with Hagedorn Partnership, L.P. As such, it would be difficult for shareholders to propose and have approved proposals not supported by Hagedorn Partnership, L.P. Hagedorn Partnership, L.P.'s interests could differ from, or be in conflict with, the interests of other shareholders.

***While we have, over the past few years, increased the rate of cash dividends on, and engaged in repurchases of, our Common Shares, any future decisions to reduce or discontinue paying cash dividends to our shareholders or repurchasing our Common Shares pursuant to our previously announced repurchase program could cause the market price for our Common Shares to decline.***

Our payment of quarterly cash dividends on and repurchase of our Common Shares pursuant to our stock repurchase program are subject to, among other things, our financial position and results of operations, available cash and cash flow, capital requirements, credit facility provisions and other factors. We have, over the past few years, increased the rate of cash dividends on, and repurchases of, our Common Shares. In the fourth quarter of fiscal 2020, we increased the amount of our quarterly cash dividend by 7% to \$0.62 per Common Share. On January 31, 2020, the Scotts Miracle-Gro Board of Directors authorized a new share repurchase program allowing for repurchases of up to \$750.0 million of Common Shares from April 30, 2020 through March 25, 2023. The total remaining share repurchase authorization as of September 30, 2020 is \$750.0 million.

We may further increase or decrease the rate of cash dividends on, and the amount of repurchases of, our Common Shares in the future. Any reduction or discontinuance by us of the payment of quarterly cash dividends or repurchases of our Common Shares pursuant to our current share repurchase authorization program could cause the market price of our Common Shares to decline. Moreover, in the event our payment of quarterly cash dividends on or repurchases of our Common Shares are reduced or discontinued, our failure or inability to resume paying cash dividends or repurchasing Common Shares at historical levels could result in a lower market valuation of our Common Shares.

***Acquisitions, other strategic alliances and investments could result in operating difficulties, dilution, and other harmful consequences that may adversely impact our business and results of operations.***

Acquisitions are an important element of our overall corporate strategy and use of capital, and these transactions could be material to our financial condition and results of operations. We expect to continue to evaluate and enter into discussions regarding a wide array of potential strategic transactions. The process of integrating an acquired company, business, or product has created, and will continue to create, unforeseen operating difficulties and expenditures. The areas where we face risks include:

- Diversion of management time and focus from operating our business to acquisition integration challenges.
- Failure to successfully further develop the acquired business or product lines.
- Implementation or remediation of controls, procedures and policies at the acquired company.
- Integration of the acquired company's accounting, human resources and other administrative systems, and coordination of product, engineering and sales and marketing functions.
- Transition of operations, users and customers onto our existing platforms.
- Reliance on the expertise of our strategic partners with respect to market development, sales, local regulatory compliance and other operational matters.
- Failure to obtain required approvals on a timely basis, if at all, from governmental authorities, or conditions placed upon approval, under competition and antitrust laws which could, among other things, delay or prevent us from completing a transaction, or otherwise restrict our ability to realize the expected financial or strategic goals of an acquisition.

- In the case of foreign acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political and regulatory risks associated with specific countries.
- Cultural challenges associated with integrating employees from the acquired company into our organization, and retention of employees from the businesses we acquire.
- Liability for or reputational harm from activities of the acquired company before the acquisition or from our strategic partners, including patent and trademark infringement claims, violations of laws, commercial disputes, tax liabilities and other known and unknown liabilities.
- Litigation or other claims in connection with the acquired company, including claims from terminated employees, customers, former shareholders or other third parties.

Our failure to address these risks or other problems encountered in connection with our past or future acquisitions and investments or strategic alliances could cause us to fail to realize the anticipated benefits of such acquisitions, investments or alliances, incur unanticipated liabilities, and harm our business generally.

Our acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities or amortization expenses, or impairment of goodwill and purchased long-lived assets, and restructuring charges, any of which could harm our financial condition or results of operations and cash flows. Also, the anticipated benefits of many of our acquisitions may not materialize.

***A failure to dispose of assets or businesses in a timely manner may cause the results of the Company to suffer.***

We evaluate as necessary the potential disposition of assets and businesses that may no longer help meet our objectives. When we decide to sell assets or a business, we may encounter difficulty in finding buyers or alternative exit strategies on acceptable terms in a timely manner, which could delay the accomplishment of our strategic objectives. Alternatively, we may dispose of a business at a price or on terms that are less than we had anticipated. After reaching an agreement with a buyer for the disposition of a business, we are subject to the satisfaction of pre-closing conditions, which may prevent us from completing the transaction. Dispositions may also involve continued financial involvement in the divested business, such as through continuing equity ownership, guarantees, indemnities or other financial obligations. Under these arrangements, performance by the divested businesses or other conditions outside our control could affect future financial results.

***We are involved in a number of legal proceedings and, while we cannot predict the outcomes of such proceedings and other contingencies with certainty, some of these outcomes could adversely affect our business, financial condition, results of operations and cash flows.***

We are involved in legal proceedings and are subject to investigations, inspections, audits, inquiries and similar actions by governmental authorities, arising in the course of our business (see the discussion in “ITEM 3. LEGAL PROCEEDINGS” of this Annual Report on Form 10-K). Legal proceedings, in general, can be expensive and disruptive. Some of these suits may purport or may be determined to be class actions and/or involve parties seeking large and/or indeterminate amounts of damages, including punitive or exemplary damages, and may remain unresolved for several years. For example, product liability claims challenging the safety of our products or products we market on behalf of third parties may also result in a decline in sales for a particular product and could damage the reputation or the value of related brands, involve us in litigation and have a material adverse effect on our business.

From time to time, we are also involved in legal proceedings as a plaintiff involving contract, intellectual property and other matters. We cannot predict with certainty the outcomes of these legal proceedings and other contingencies, and the costs incurred in litigation can be substantial, regardless of the outcome. Substantial unanticipated verdicts, fines and rulings do sometimes occur. As a result, we could from time to time incur judgments, enter into settlements or revise our expectations regarding the outcome of certain matters, and such developments could have a material adverse effect on our results of operations in the period in which the amounts are accrued and/or our cash flows in the period in which the amounts are paid. The outcome of some of these legal proceedings and other contingencies could require us to take, or refrain from taking, actions which could negatively affect our operations and, depending on the nature of the allegations, could negatively impact our reputation or the reputation of products we market on behalf of third parties. Additionally, defending against these legal proceedings may involve significant expense and diversion of management’s attention and resources.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.



## **ITEM 2. PROPERTIES**

Our corporate headquarters is located in Marysville, Ohio, where we own approximately 729 acres of land. In addition, we own and lease numerous industrial, commercial and office properties located in North America, Europe and Asia that support the management, manufacturing, distribution and research and development of our products and services. We believe our properties are suitable and adequate to serve the needs of our business and that our leased properties are subject to appropriate lease agreements.

The following is a summary of owned and leased properties by country:

<b>Location</b>	<b>Owned</b>	<b>Leased</b>
United States .....	35	80
Canada .....	9	12
China .....	—	5
The Netherlands .....	—	4
Total .....	44	101

We own or lease 71 manufacturing properties, 26 distribution properties and 3 research and development properties in the United States. We own or lease 18 manufacturing and 1 distribution property in Canada, 2 manufacturing and 2 distribution properties in the Netherlands and 2 manufacturing properties in China. Most of the manufacturing properties, which include growing media properties and peat harvesting properties, have production lines, warehouses, offices and field processing areas.

## **ITEM 3. LEGAL PROCEEDINGS**

As noted in the discussion in “ITEM 1. BUSINESS — Regulatory Considerations — *Regulatory Matters*” of this Annual Report on Form 10-K, we are involved in several pending environmental and regulatory matters. We believe that our assessment of contingencies is reasonable and that the related accruals, in the aggregate, are adequate; however, there can be no assurance that the final resolution of these matters will not have a material effect on our financial condition, results of operations or cash flows.

The Company has been named as a defendant in a number of cases alleging injuries that the lawsuits claim resulted from exposure to asbestos-containing products, apparently based on the Company’s historic use of vermiculite in certain of its products. In many of these cases, the complaints are not specific about the plaintiffs’ contacts with the Company or its products. The cases vary, but complaints in these cases generally seek unspecified monetary damages (actual, compensatory, consequential and punitive) from multiple defendants. The Company believes that the claims against it are without merit and is vigorously defending against them. No accruals have been recorded in the Company’s consolidated financial statements as the likelihood of a loss is not probable at this time; and the Company does not believe a reasonably possible loss would be material to, nor the ultimate resolution of these cases will have a material adverse effect on, the Company’s financial condition, results of operations or cash flows. There can be no assurance that future developments related to pending claims or claims filed in the future, whether as a result of adverse outcomes or as a result of significant defense costs, will not have a material effect on the Company’s financial condition, results of operations or cash flows.

We are involved in other lawsuits and claims which arise in the normal course of our business including the initiation and defense of proceedings to protect intellectual property rights, advertising claims and employment disputes. In our opinion, these claims individually and in the aggregate are not expected to have a material adverse effect on our financial condition, results of operations or cash flows.

## **ITEM 4. MINE SAFETY DISCLOSURE**

Not Applicable.

**SUPPLEMENTAL ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT**

The executive officers of Scotts Miracle-Gro, their positions and, as of November 20, 2020, their ages and years with Scotts Miracle-Gro (and its predecessors) are set forth below.

<u>Name</u>	<u>Age</u>	<u>Position(s) Held</u>	<u>Years with Company</u>
James Hagedorn	65	Chief Executive Officer and Chairman of the Board	33
Michael C. Lukemire	62	President and Chief Operating Officer	24
Thomas R. Coleman	51	Executive Vice President and Chief Financial Officer	21
James D. King	57	Executive Vice President, Chief Communications Officer	19
Ivan C. Smith	51	Executive Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer	17
Denise S. Stump	66	Executive Vice President, Global Human Resources and Chief Ethics Officer	20

Executive officers serve at the discretion of the Board of Directors of Scotts Miracle-Gro and pursuant to executive severance agreements or other arrangements. The business experience of each of the individuals listed above during at least the past five years is as follows:

*Mr. Hagedorn* was named Chairman of the Board of Scotts Miracle-Gro's predecessor in January 2003 and Chief Executive Officer of Scotts Miracle-Gro's predecessor in May 2001. He also served as President of Scotts Miracle-Gro (or its predecessor) from October 2015 until February 2016. Mr. Hagedorn serves on Scotts Miracle-Gro's Board of Directors, a position he has held with Scotts Miracle-Gro (or its predecessor) since 1995. Mr. Hagedorn is the brother of Katherine Hagedorn Littlefield, a director of Scotts Miracle-Gro.

*Mr. Lukemire* was named President and Chief Operating Officer of Scotts Miracle-Gro in February 2016. He served as Executive Vice President and Chief Operating Officer of Scotts Miracle-Gro from December 2014 until February 2016. Prior to this appointment, Mr. Lukemire had served as Executive Vice President, North American Operations of Scotts Miracle-Gro from April 2014 until December 2014 and as Executive Vice President, Business Execution of Scotts Miracle-Gro from May 2013 until April 2014.

*Mr. Coleman* was named Executive Vice President and Chief Financial Officer of Scotts Miracle-Gro in April 2014. Prior to this appointment, Mr. Coleman had served as Senior Vice President, Global Finance Operations and Enterprise Performance Management Analytics for The Scotts Company LLC, a wholly-owned subsidiary of Scotts Miracle-Gro, since January 2011.

*Mr. King* was named Executive Vice President, Chief Communications Officer of Scotts Miracle-Gro in April 2019. Prior to this appointment, Mr. King had served as Senior Vice President, Chief Communications Officer from June 2008 to April 2019.

*Mr. Smith* was named Executive Vice President, General Counsel and Corporate Secretary of Scotts Miracle-Gro in July 2013 and Chief Compliance Officer of Scotts Miracle-Gro in October 2013.

*Ms. Stump* was named Executive Vice President, Global Human Resources of Scotts Miracle-Gro (or its predecessor) in February 2003 and Chief Ethics Officer of Scotts Miracle-Gro in October 2013.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Common Shares trade on the New York Stock Exchange under the symbol “SMG.” The payment of future dividends, if any, on the Common Shares will be determined by the Board of Directors in light of conditions then existing, including the Company’s earnings, financial condition and capital requirements, restrictions in financing agreements, business conditions and other factors. The fifth amended and restated credit agreement (the “Fifth A&R Credit Agreement”) allows the Company to make unlimited restricted payments (as defined in the Fifth A&R Credit Agreement), including dividend payments and repurchases of Common Shares, as long as the leverage ratio resulting from the making of such restricted payments is 4.00 or less. Otherwise, the Company may make further restricted payments in an aggregate amount for each fiscal year not to exceed \$225.0 million for fiscal 2020 and thereafter. The Company’s leverage ratio was 2.48 at September 30, 2020 and restricted payments for fiscal 2020 were within the amounts allowed by the Fifth A&R Credit Agreement. See “NOTE 12. DEBT” of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for further discussion regarding the restrictions on dividend payments.

As of November 20, 2020, there were approximately 190,000 shareholders, including holders of record and our estimate of beneficial holders.

The following table shows the purchases of Common Shares made by or on behalf of Scotts Miracle-Gro or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) of Scotts Miracle-Gro for each of the three fiscal months in the quarter ended September 30, 2020:

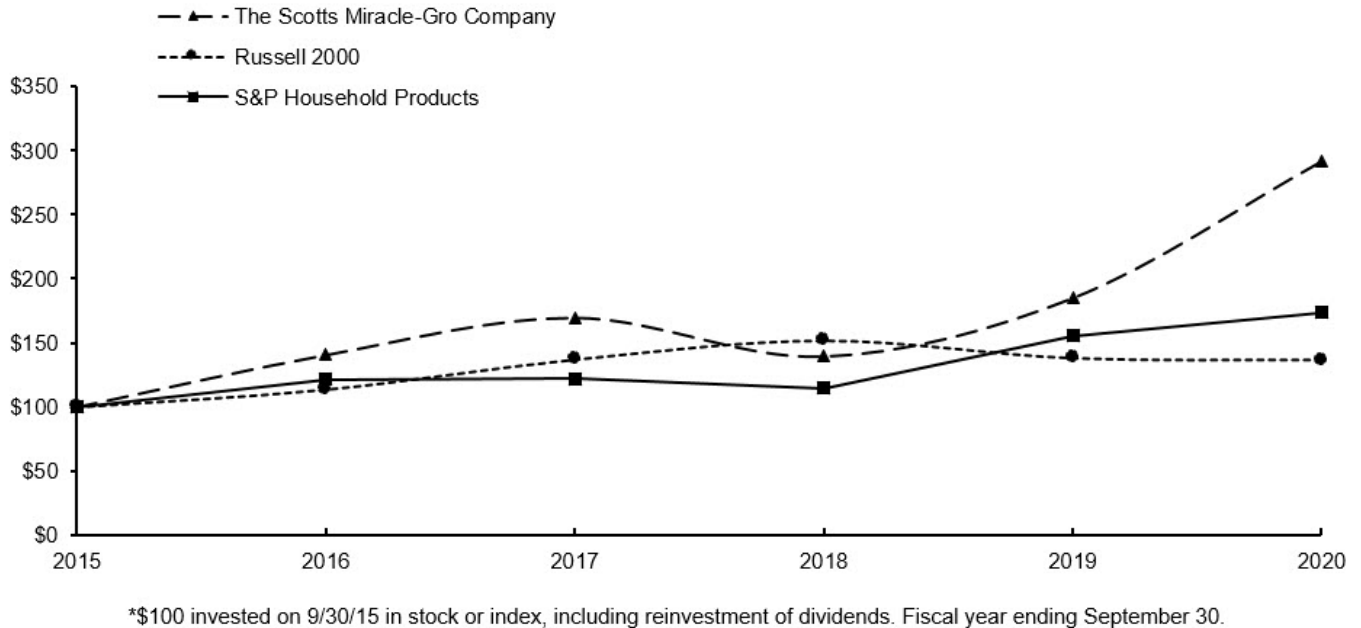
<u>Period</u>	<u>Total Number of Common Shares Purchased<sup>(1)</sup></u>	<u>Average Price Paid per Common Share<sup>(2)</sup></u>	<u>Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs<sup>(3)</sup></u>	<u>Approximate Dollar Value of Common Shares That May Yet be Purchased Under the Plans or Programs<sup>(3)</sup></u>
June 28, 2020 through July 25, 2020 . . . . .	7	\$ 135.36	—	\$ 750,000,000
July 26, 2020 through August 22, 2020 . . . . .	750	\$ 146.49	—	\$ 750,000,000
August 23, 2020 through September 30, 2020	6,920	\$ 161.20	—	\$ 750,000,000
Total . . . . .	<u>7,677</u>	<u>\$ 159.74</u>	<u>—</u>	

- (1) All of the Common Shares purchased during the fourth quarter of fiscal 2020 were purchased in open market transactions. The total number of Common Shares purchased during the quarter includes 7,677 Common Shares purchased by the trustee of the rabbi trust established by the Company as permitted pursuant to the terms of The Scotts Company LLC Executive Retirement Plan (the “ERP”).
- (2) The average price paid per Common Share is calculated on a settlement basis and includes commissions.
- (3) On February 6, 2020, the Company announced a new repurchase program allowing for repurchases of up to \$750.0 million of Common Shares from April 30, 2020 through March 25, 2023. The previous repurchase program, which authorized repurchases of up to \$1.0 billion, expired on March 28, 2020.

**Comparison of Cumulative Five-Year Total Return\***

The following graph compares the yearly change in the cumulative total stockholder return on our Common Stock for the past five fiscal years with the cumulative total return of the Russell 2000 Index and the S&P 500 Household Products Index.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\***



**ITEM 6. SELECTED FINANCIAL DATA**

The following table sets forth selected consolidated financial data for the periods indicated. You should read the following summary consolidated financial data in conjunction with our consolidated financial statements and the notes thereto and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in this Annual Report on Form 10-K. The summary consolidated financial data presented below as of and for the fiscal years ended September 30, 2020, 2019, 2018, 2017 and 2016 has been derived from our consolidated financial statements.

## Five-Year Summary<sup>(1)</sup>

	Year Ended September 30,				
	2020	2019	2018	2017	2016
(In millions, except per share amounts)					
<b>GAAP OPERATING RESULTS:</b>					
Net sales	\$ 4,131.6	\$ 3,156.0	\$ 2,663.4	\$ 2,642.1	\$ 2,506.2
Gross profit	1,347.0	1,019.6	864.6	972.6	900.3
Income from operations	585.2	409.6	198.9	433.4	447.6
Income from continuing operations	386.9	436.7	127.6	198.3	246.1
Income (loss) from discontinued operations, net of tax	1.7	23.5	(63.9)	20.5	68.7
Net income	388.6	460.2	63.7	218.8	314.8
Net income attributable to controlling interest	387.4	460.7	63.7	218.3	315.3
<b>NON-GAAP ADJUSTED OPERATING RESULTS<sup>(2)</sup>:</b>					
Adjusted income from operations	\$ 602.0	\$ 422.9	\$ 351.7	\$ 438.3	\$ 402.1
Adjusted income from continuing operations	412.9	251.3	211.6	237.4	230.2
Adjusted net income attributable to controlling interest from continuing operations	411.7	251.8	211.6	236.9	230.7
SLS Divestiture adjusted income	411.7	251.8	211.6	236.9	221.7
<b>FINANCIAL POSITION:</b>					
Working capital <sup>(3)</sup>	\$ 266.2	\$ 421.2	\$ 273.0	\$ 337.2	\$ 325.8
Current ratio <sup>(3)</sup>	1.3	1.7	1.4	1.6	1.5
Property, plant and equipment, net	560.0	546.0	530.8	467.7	444.9
Total assets	3,380.5	3,028.7	3,054.5	2,747.0	2,755.8
Total debt to total book capitalization <sup>(4)</sup>	68.6 %	69.7 %	85.0 %	68.3 %	63.0 %
Total debt	1,521.5	1,651.6	2,016.4	1,401.1	1,215.9
Total equity—controlling interest	697.2	718.7	354.6	648.8	715.2
<b>GAAP CASH FLOWS:</b>					
Cash flows provided by operating activities	\$ 558.0	\$ 226.8	\$ 342.5	\$ 363.2	\$ 244.0
Investments in property, plant and equipment	62.7	42.4	68.2	69.6	58.3
Investments in acquired businesses and payments on seller notes, net of cash acquired	0.5	7.4	501.8	150.4	161.2
Dividends paid	411.2	124.5	120.0	120.3	116.6
Purchases of Common Shares	53.2	3.1	327.7	255.2	137.4
<b>NON-GAAP CASH FLOWS<sup>(2)</sup>:</b>					
Free cash flow	495.3	184.4	274.3	293.6	185.7
Free cash flow productivity	127.5 %	40.1 %	430.6 %	134.2 %	59.0 %
<b>PER SHARE DATA:</b>					
GAAP earnings per common share from continuing operations:					
Basic	\$ 6.92	\$ 7.88	\$ 2.27	\$ 3.33	\$ 4.04
Diluted	6.78	7.77	2.23	3.29	3.98
Non-GAAP adjusted earnings per common share from continuing operations:					
Adjusted diluted <sup>(2)</sup>	7.24	4.47	3.71	3.94	3.72
SLS Divestiture adjusted income <sup>(2)</sup>	7.24	4.47	3.71	3.94	3.58
Dividends per common share	7.36	2.23	2.14	2.03	1.91
<b>OTHER:</b>					
Adjusted EBITDA <sup>(2)(5)</sup>	\$ 766.6	\$ 558.2	\$ 482.0	\$ 560.5	\$ 517.4
Leverage ratio <sup>(5)</sup>	2.48	3.67	4.23	3.04	3.10
Interest coverage ratio <sup>(5)</sup>	10.12	5.78	5.55	7.54	7.88
Weighted average Common Shares outstanding	55.7	55.5	56.2	59.4	61.1
Common shares and dilutive potential common shares used in diluted EPS calculation	56.9	56.3	57.1	60.2	62.0

- (1) The Selected Financial Data has been retrospectively updated to recast activity for the following:

#### Discontinued Operations

On April 13, 2016, we completed the contribution of the SLS Business to the TruGreen Joint Venture in exchange for a minority equity interest of approximately 30% in the TruGreen Joint Venture. As a result, effective in our second quarter of fiscal 2016, we classified the SLS Business as a discontinued operation in accordance with GAAP.

On August 31, 2017, we completed the sale of the International Business. As a result, effective in our fourth quarter of fiscal 2017, we classified the International Business as a discontinued operation in accordance with GAAP.

#### Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (“FASB”) issued an accounting standard update that requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the corresponding debt liability rather than as an asset; however debt issuance costs relating to revolving credit facilities will remain in other assets. We adopted this guidance on a retrospective basis effective October 1, 2016. As a result, debt issuance costs have been presented as a component of the carrying amount of long-term debt in the Consolidated Balance Sheets. These amounts were previously reported within other assets.

In November 2015, the FASB issued an accounting standard update to simplify the presentation of deferred income taxes by requiring that deferred income tax liabilities and assets be classified as noncurrent in a classified statement of financial position. We adopted this guidance on a retrospective basis during the fourth quarter of fiscal 2017. As a result, deferred tax assets have been presented net within other liabilities in the Consolidated Balance Sheets. These amounts were previously reported within prepaid and other current assets.

In March 2016, the FASB issued an accounting standard update that simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The amended accounting guidance requires cash paid to a tax authority when shares are withheld to satisfy statutory income tax withholding obligations to be classified as a financing activity in the statement of cash flows. These amounts were previously classified as an operating activity in the statement of cash flows.

- (2) *Reconciliation of Non-GAAP Measures*

#### Use of Non-GAAP Measures

To supplement the financial measures prepared in accordance with U.S. generally accepted accounting principles (“GAAP”), we use non-GAAP financial measures. The reconciliations of these non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are shown in the tables below. These non-GAAP financial measures should not be considered in isolation from, or as a substitute for or superior to, financial measures reported in accordance with GAAP. Moreover, these non-GAAP financial measures have limitations in that they do not reflect all the items associated with the operations of the business as determined in accordance with GAAP. Other companies may calculate similarly titled non-GAAP financial measures differently than us, limiting the usefulness of those measures for comparative purposes.

In addition to GAAP measures, we use these non-GAAP financial measures to evaluate our performance, engage in financial and operational planning and determine incentive compensation because we believe that these measures provide additional perspective on and, in some circumstances are more closely correlated to, the performance of our underlying, ongoing business.

We believe that these non-GAAP financial measures are useful to investors in their assessment of operating performance and the valuation of the Company. In addition, these non-GAAP financial measures address questions routinely received from analysts and investors and, in order to ensure that all investors have access to the same data, we have determined that it is appropriate to make this data available to all investors. Non-GAAP financial measures exclude the impact of certain items (as further described below) and provide supplemental information regarding operating performance. By disclosing these non-GAAP financial measures, we intend to provide investors with a supplemental comparison of operating results and trends for the periods presented. We believe these measures are also useful to investors as such measures allow investors to evaluate performance using the same metrics that we use to

evaluate past performance and prospects for future performance. We view free cash flow as an important measure because it is one factor used in determining the amount of cash available for dividends and discretionary investment. We view free cash flow productivity as a useful measure to help investors understand the Company's ability to generate cash.

#### Exclusions from Non-GAAP Financial Measures

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

- Impairments, which are excluded because they do not occur in or reflect the ordinary course of our ongoing business operations and their exclusion results in a metric that provides supplemental information about the sustainability of operating performance.
- Restructuring and employee severance costs, which include charges for discrete projects or transactions that fundamentally change our operations and are excluded because they are not part of the ongoing operations of our underlying business, which includes normal levels of reinvestment in the business.
- Costs related to refinancing, which are excluded because they do not typically occur in the normal course of business and may obscure analysis of trends and financial performance. Additionally, the amount and frequency of these types of charges is not consistent and is significantly impacted by the timing and size of debt financing transactions.
- Charges or credits incurred by the TruGreen Joint Venture that were apart from and not indicative of the results of its ongoing operations, including transaction related costs, refinancing costs, restructurings and other discrete projects or transactions including a non-cash purchase accounting fair value write-down adjustment related to deferred revenue and advertising ("TruGreen Joint Venture non-GAAP adjustments"). We held a noncontrolling equity interest of approximately 30% in the TruGreen Joint Venture until March 2019. We did not control, nor did we have any legal claim to, the revenues and expenses of the TruGreen Joint Venture. The use of non-GAAP measures that are subject to TruGreen Joint Venture non-GAAP adjustments is not intended to imply that we had control over the operations and resulting revenue and expenses of the TruGreen Joint Venture. Moreover, these non-GAAP financial measures have limitations in that they do not reflect all revenue and expenses of the unconsolidated affiliates.
- Discontinued operations and other unusual items, which include costs or gains related to discrete projects or transactions and are excluded because they are not comparable from one period to the next and are not part of the ongoing operations of our underlying business.

The tax effect for each of the items listed above is determined using the tax rate and other tax attributes applicable to the item and the jurisdiction(s) in which the item is recorded.

#### Definitions of Non-GAAP Financial Measures

The reconciliations of non-GAAP disclosure items include the following financial measures that are not calculated in accordance with GAAP and are utilized by us in evaluating the performance of the business, engaging in financial and operational planning, the determination of incentive compensation, and by investors and analysts in evaluating performance of the business:

**Adjusted income (loss) from operations:** Income (loss) from operations excluding impairment, restructuring and other charges / recoveries.

**Adjusted income (loss) from continuing operations:** Income (loss) from continuing operations excluding impairment, restructuring and other charges / recoveries, costs related to refinancing and TruGreen Joint Venture non-GAAP adjustments, each net of tax.

**Adjusted net income (loss) attributable to controlling interest from continuing operations:** Net income (loss) attributable to controlling interest excluding impairment, restructuring and other charges / recoveries, costs related to refinancing, TruGreen Joint Venture non-GAAP adjustments and discontinued operations, each net of tax.

**Adjusted diluted income (loss) per common share from continuing operations:** Diluted net income (loss) per common share from continuing operations excluding impairment, restructuring and other charges / recoveries, costs related to refinancing and TruGreen Joint Venture non-GAAP adjustments, each net of tax.

**SLS Divestiture adjusted income (loss):** Net income (loss) from continuing operations excluding impairment, restructuring and other charges / recoveries, costs related to refinancing and TruGreen Joint Venture non-GAAP adjustments, each net of tax. This measure also includes income (loss) from discontinued operations related to the SLS Business; however, excludes the gain on the contribution of the SLS Business to the TruGreen Joint Venture, each net of tax.

**SLS Divestiture adjusted income (loss) per common share:** Diluted net income (loss) per common share excluding impairment, restructuring and other charges / recoveries, costs related to refinancing and TruGreen Joint Venture non-GAAP adjustments, each net of tax. This measure also includes income (loss) from discontinued operations related to the SLS Business; however, excludes the gain on the contribution of the SLS Business to the TruGreen Joint Venture, each net of tax.

**Free cash flow:** Net cash provided by (used in) operating activities reduced by investments in property, plant and equipment.

**Free cash flow productivity:** Ratio of free cash flow to net income (loss).

**Adjusted EBITDA:** Net income (loss) before interest, taxes, depreciation and amortization as well as certain other items such as the impact of the cumulative effect of changes in accounting, costs associated with debt refinancing and other non-recurring or non-cash items affecting net income (loss). The presentation of adjusted EBITDA is intended to be consistent with the calculation of that measure as required by our borrowing arrangements, and used to calculate a leverage ratio (maximum of 4.75 at September 30, 2020) and an interest coverage ratio (minimum of 3.00 for the twelve months ended September 30, 2020).

Reconciliations of the non-GAAP measures to the most directly comparable GAAP measures are presented in the following tables:

	Year Ended September 30,				
	2020	2019	2018	2017	2016
	(In millions, except per share data)				
<b>Income from operations (GAAP)</b>	\$ 585.2	\$ 409.6	\$ 198.9	\$ 433.4	\$ 447.6
Impairment, restructuring and other charges (recoveries)	16.8	13.3	152.8	4.9	(45.5)
<b>Adjusted income from operations (Non-GAAP)</b>	<u>\$ 602.0</u>	<u>\$ 422.9</u>	<u>\$ 351.7</u>	<u>\$ 438.3</u>	<u>\$ 402.1</u>
<b>Income from continuing operations (GAAP)</b>	\$ 386.9	\$ 436.7	\$ 127.6	\$ 198.3	\$ 246.1
Impairment, restructuring and other charges (recoveries)	16.8	13.3	152.8	30.1	(33.8)
Costs related to refinancing	15.1	—	—	—	8.8
Other non-operating (income) expense, net	0.8	(260.2)	11.7	13.4	—
Adjustment to income tax expense (benefit) from continuing operations	(6.7)	61.5	(80.5)	(4.4)	9.1
<b>Adjusted income from continuing operations (Non-GAAP)</b>	<u>\$ 412.9</u>	<u>\$ 251.3</u>	<u>\$ 211.6</u>	<u>\$ 237.4</u>	<u>\$ 230.2</u>
<b>Net income attributable to controlling interest (GAAP)</b>	\$ 387.4	\$ 460.7	\$ 63.7	\$ 218.3	\$ 315.3
Income (loss) from discontinued operations, net of tax	1.7	23.5	(63.9)	20.5	68.7
Impairment, restructuring and other charges (recoveries)	16.8	13.3	152.8	30.1	(33.8)
Costs related to refinancing	15.1	—	—	—	8.8
Other non-operating (income) expense, net	0.8	(260.2)	11.7	13.4	—
Adjustment to income tax expense (benefit) from continuing operations	(6.7)	61.5	(80.5)	(4.4)	9.1
<b>Adjusted net income attributable to controlling interest from continuing operations (Non-GAAP)</b>	<u>\$ 411.7</u>	<u>\$ 251.8</u>	<u>\$ 211.6</u>	<u>\$ 236.9</u>	<u>\$ 230.7</u>
<b>Income from continuing operations (GAAP)</b>	\$ 386.9	\$ 436.7	\$ 127.6	\$ 198.3	\$ 246.1
Net (income) loss attributable to noncontrolling interest	(1.2)	0.5	—	(0.5)	0.5
Net income attributable to controlling interest from continuing operations	385.7	437.2	127.6	197.8	246.6
Impairment, restructuring and other charges (recoveries)	16.8	13.3	152.8	30.1	(33.8)
Costs related to refinancing	15.1	—	—	—	8.8
Other non-operating (income) expense, net	0.8	(260.2)	11.7	13.4	—
Adjustment to income tax expense (benefit) from continuing operations	(6.7)	61.5	(80.5)	(4.4)	9.1
<b>Adjusted income attributable to controlling interest from continuing operations (Non-GAAP)</b>	<u>\$ 411.7</u>	<u>\$ 251.8</u>	<u>\$ 211.6</u>	<u>\$ 236.9</u>	<u>\$ 230.7</u>
Income (loss) from discontinued operations from SLS Business	—	—	—	(1.8)	102.9
Gain on contribution of SLS Business	—	—	—	—	(131.2)
Adjustment to gain on contribution of SLS Business	—	—	—	1.0	—
Impairment, restructuring and other from SLS Business in discontinued operations	—	—	—	0.8	13.6
Adjustment to income tax expense (benefit) from SLS Business in discontinued operations	—	—	—	—	5.7
Adjusted income (loss) from SLS Business in discontinued operations, net of tax	—	—	—	—	(9.0)
<b>SLS Divestiture adjusted income (Non-GAAP)</b>	<u>\$ 411.7</u>	<u>\$ 251.8</u>	<u>\$ 211.6</u>	<u>\$ 236.9</u>	<u>\$ 221.7</u>

The sum of the components may not equal the total due to rounding.



	Year Ended September 30,				
	2020	2019	2018	2017	2016
	(In millions, except per share data)				
<b>Diluted income per share from continuing operations (GAAP)</b>	\$ 6.78	\$ 7.77	\$ 2.23	\$ 3.29	\$ 3.98
Impairment, restructuring and other charges (recoveries)	0.30	0.24	2.68	0.50	(0.55)
Costs related to refinancing	0.27	—	—	—	0.14
Other non-operating (income) expense, net	0.01	(4.62)	0.20	0.22	—
Adjustment to income tax expense (benefit) from continuing operations	(0.12)	1.09	(1.41)	(0.07)	0.15
<b>Adjusted diluted income per common share from continuing operations (Non-GAAP)</b>	<u>\$ 7.24</u>	<u>\$ 4.47</u>	<u>\$ 3.71</u>	<u>\$ 3.94</u>	<u>\$ 3.72</u>
Income (loss) from discontinued operations from SLS Business	\$ —	\$ —	\$ —	\$ (0.03)	\$ 1.66
Gain on contribution of SLS Business	—	—	—	—	(2.12)
Adjustment to gain on contribution of SLS Business	—	—	—	0.02	—
Impairment, restructuring and other from SLS Business in discontinued operations	—	—	—	0.01	0.22
Adjustment to income tax expense (benefit) from SLS Business in discontinued operations	—	—	—	—	0.09
Adjusted diluted income (loss) from SLS Business in discontinued operations, net of tax	—	—	—	—	(0.15)
<b>SLS Divestiture adjusted income per common share (Non-GAAP)</b>	<u>\$ 7.24</u>	<u>\$ 4.47</u>	<u>\$ 3.71</u>	<u>\$ 3.94</u>	<u>\$ 3.58</u>
<b>Net cash provided by operating activities (GAAP)</b>	\$ 558.0	\$ 226.8	\$ 342.5	\$ 363.2	\$ 244.0
Investments in property, plant and equipment	(62.7)	(42.4)	(68.2)	(69.6)	(58.3)
<b>Free cash flow (Non-GAAP)</b>	<u>\$ 495.3</u>	<u>\$ 184.4</u>	<u>\$ 274.3</u>	<u>\$ 293.6</u>	<u>\$ 185.7</u>
Free cash flow (Non-GAAP)	\$ 495.3	\$ 184.4	\$ 274.3	\$ 293.6	\$ 185.7
Net income (GAAP)	388.6	460.2	63.7	218.8	314.8
<b>Free cash flow productivity (Non-GAAP)</b>	<u>127.5 %</u>	<u>40.1 %</u>	<u>430.6 %</u>	<u>134.2 %</u>	<u>59.0 %</u>

The sum of the components may not equal the total due to rounding.

- (3) Working capital is calculated as current assets minus current liabilities. Current ratio is calculated as current assets divided by current liabilities.
- (4) The total debt to total book capitalization percentage is calculated by dividing total debt by total debt plus total equity—controlling interest.
- (5) We view our credit facility as material to our ability to fund operations, particularly in light of our seasonality. Please refer to “ITEM 1A. RISK FACTORS — Our indebtedness could limit our flexibility and adversely affect our financial condition” of this Annual Report on Form 10-K for a more complete discussion of the risks associated with our debt and our credit facility and the restrictive covenants therein. Our ability to generate cash flows sufficient to cover our debt service costs is essential to our ability to maintain our borrowing capacity. We believe that Adjusted EBITDA provides additional information for determining our ability to meet debt service requirements. The presentation of Adjusted EBITDA herein is intended to be consistent with the calculation of that measure as required by our borrowing arrangements, and used to calculate a leverage ratio (maximum of 4.75 at September 30, 2020) and an interest coverage ratio (minimum of 3.00 for the twelve months ended September 30, 2020). Leverage ratio is calculated as average total indebtedness divided by Adjusted EBITDA. Interest coverage ratio is calculated as Adjusted EBITDA divided by interest expense, as described in the Fifth A&R Credit Agreement, and excludes costs related to refinancings. Please refer to “ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — Liquidity and Capital Resources — *Borrowing Agreements*” of this Annual Report on Form 10-K for a discussion of our credit facility.

Our calculation of Adjusted EBITDA does not represent and should not be considered as an alternative to net income or cash flows from operating activities as determined by GAAP. We make no representation or assertion that Adjusted EBITDA is indicative of our cash flows from operating activities or results of operations. We have provided a reconciliation of Adjusted EBITDA to net income from solely for the purpose of complying with SEC regulations and not as an indication that Adjusted EBITDA is a substitute measure for net income.

A numeric reconciliation of net income to Adjusted EBITDA is as follows:

	Year Ended September 30,				
	2020	2019	2018	2017	2016
	(In millions)				
<b>Net income (GAAP)</b> .....	\$ 388.6	\$ 460.2	\$ 63.7	\$ 218.8	\$ 314.8
Income tax expense (benefit) from continuing operations .....	123.7	144.9	(11.9)	116.6	137.6
Income tax expense (benefit) from discontinued operations .....	0.1	11.7	(25.5)	11.9	43.2
(Gain) loss on sale / contribution of business .....	—	—	0.7	(31.7)	(131.2)
Costs related to refinancing .....	15.1	—	—	—	8.8
Interest expense .....	79.6	101.8	86.4	76.6	65.6
Depreciation .....	62.2	55.9	53.4	55.1	53.8
Amortization .....	32.5	33.4	30.0	25.0	19.7
Impairment, restructuring and other charges (recoveries) from continuing operations .....	16.8	13.3	152.8	30.1	(33.8)
Impairment, restructuring and other charges (recoveries) from discontinued operations .....	(3.1)	(35.8)	86.8	15.9	19.7
Other non-operating (income) expense, net .....	0.8	(260.2)	11.7	13.4	—
Interest income .....	(7.6)	(8.6)	(10.0)	—	—
Expense on certain leases .....	—	3.2	3.5	3.6	3.6
Share-based compensation expense .....	57.9	38.4	40.4	25.2	15.6
<b>Adjusted EBITDA (Non-GAAP)</b> .....	<u>\$ 766.6</u>	<u>\$ 558.2</u>	<u>\$ 482.0</u>	<u>\$ 560.5</u>	<u>\$ 517.4</u>

## THE SCOTTS MIRACLE-GRO COMPANY

(Dollars in millions, except per share data)

### **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The purpose of this Management's Discussion and Analysis ("MD&A") is to provide an understanding of our financial condition and results of operations by focusing on changes in certain key measures from year-to-year. This MD&A is divided into the following sections:

- Executive summary
- Results of operations
- Segment results
- Liquidity and capital resources
- Regulatory matters
- Critical accounting policies and estimates

#### **Executive Summary**

We are the leading manufacturer and marketer of branded consumer lawn and garden products in North America. We are the exclusive agent of Monsanto for the marketing and distribution of certain of Monsanto's consumer Roundup<sup>®</sup> branded products within the United States and certain other specified countries. Through our Hawthorne segment, we are the leading manufacturer, marketer and distributor of lighting, nutrients, growing media, growing environments and hardware products for indoor and hydroponic gardening.

Beginning in fiscal 2015, our Hawthorne segment made a series of key acquisitions and investments, including General Hydroponics, Gavita, Botanicare, Vermicrop, Agrolux, Can-Filters and AeroGrow. On June 4, 2018, our Hawthorne segment acquired substantially all of the assets of Sunlight Supply. At the time of the acquisition, Sunlight Supply was a leading developer, manufacturer, marketer and distributor of horticultural, organics, lighting and hydroponic gardening products. Prior to the transaction, Sunlight Supply served as a non-exclusive distributor of our products. In connection with our acquisition of Sunlight Supply, we announced the launch of an initiative called Project Catalyst. Project Catalyst is a company-wide restructuring effort to reduce operating costs throughout our U.S. Consumer, Hawthorne and Other segments and drive synergies from acquisitions within our Hawthorne segment.

In addition, we are party to the Services Agreement and Term Loan Agreement with Bonnie and its sole shareholder, AFC, pursuant to which we provide financing and certain services to the Bonnie Business. The Services Agreement and Term Loan Agreement include options, beginning in fiscal 2020, that provide for either (i) the Company to increase its economic interest in the Bonnie Business or (ii) AFC and Bonnie to repurchase the Company's economic interest in the Bonnie Business (collectively, the "Bonnie Option"). On November 4, 2020, we announced the signing of a non-binding letter-of-intent to acquire a 50 percent equity interest in the Bonnie Business. If the transactions contemplated by the non-binding letter-of-intent are consummated, the Bonnie Option would be terminated.

Our operations are divided into three reportable segments: U.S. Consumer, Hawthorne and Other. U.S. Consumer consists of our consumer lawn and garden business located in the geographic United States. Hawthorne consists of our indoor and hydroponic gardening business. Other consists of our consumer lawn and garden business in geographies other than the U.S. and our product sales to commercial nurseries, greenhouses and other professional customers. In addition, Corporate consists of general and administrative expenses and certain other income and expense items not allocated to the business segments. This division of reportable segments is consistent with how the segments report to and are managed by our chief operating decision maker. See "SEGMENT RESULTS" below for additional information regarding our evaluation of segment performance.

As a leading consumer branded lawn and garden company, our product development and marketing efforts are largely focused on providing innovative and differentiated products and continually increasing brand and product awareness to inspire consumers to create retail demand. We have implemented this model for a number of years by focusing on research and development and investing approximately 4-5% of our U.S. Consumer segment annual net sales in advertising to support and promote our consumer lawn and garden products and brands. We continually explore new and innovative ways to communicate with consumers. We believe that we receive a significant benefit from these expenditures and anticipate a similar commitment to research and development, advertising and marketing investments in the future, with the continuing objective of driving category growth and profitably increasing market share.

## THE SCOTTS MIRACLE-GRO COMPANY

(Dollars in millions, except per share data)

Our consumer lawn and garden net sales in any one year are susceptible to weather conditions in the markets in which our products are sold and our services are offered. For instance, periods of abnormally wet or dry weather can adversely impact the sale of certain products, while increasing demand for other products. We believe that our diversified product line and our geographic diversification reduce this risk, although to a lesser extent in a year in which unfavorable weather is geographically widespread and extends across a significant portion of the lawn and garden season. We also believe that weather conditions in any one year, positive or negative, do not materially impact longer-term category growth trends.

Due to the seasonal nature of the lawn and garden business, significant portions of our products ship to our retail customers during our second and third fiscal quarters, as noted in the chart below. Our annual net sales are further concentrated in the second and third fiscal quarters by retailers who rely on our ability to deliver products closer to when consumers buy our products, thereby reducing retailers' pre-season inventories.

	Percent of Net Sales from Continuing Operations by Quarter		
	2020	2019	2018
First Quarter .....	8.9 %	9.4 %	8.3 %
Second Quarter .....	33.5 %	37.7 %	38.0 %
Third Quarter .....	36.1 %	37.1 %	37.3 %
Fourth Quarter .....	21.5 %	15.8 %	16.3 %

We follow a 13-week quarterly accounting cycle pursuant to which the first three fiscal quarters end on a Saturday and the fiscal year always ends on September 30. This fiscal calendar convention requires us to cycle forward the first three fiscal quarter ends every six years.

Management focuses on a variety of key indicators and operating metrics to monitor the financial condition and performance of the continuing operations of our business. These metrics include consumer purchases (point-of-sale data), market share, category growth, net sales (including unit volume, pricing and foreign exchange movements), gross profit margins, advertising to net sales ratios, income from operations, income from continuing operations, net income and earnings per share. To the extent applicable, these metrics are evaluated with and without impairment, restructuring and other charges that do not occur in or reflect the ordinary course of our ongoing business operations. Metrics that exclude impairment, restructuring and other charges are used by management to evaluate our performance, engage in financial and operational planning and determine incentive compensation because we believe that these measures provide additional perspective on the performance of our underlying, ongoing business. Refer to "ITEM 6. SELECTED FINANCIAL DATA" for further discussion of non-GAAP measures. We also focus on measures to optimize cash flow and return on invested capital, including the management of working capital and capital expenditures.

On August 11, 2014, Scotts Miracle-Gro announced that its Board of Directors authorized the repurchase of up to \$500.0 of Common Shares over a five-year period (effective November 1, 2014 through September 30, 2019). On August 3, 2016, Scotts Miracle-Gro announced that its Board of Directors authorized a \$500.0 increase to the share repurchase authorization ending on September 30, 2019. On August 2, 2019, the Scotts Miracle-Gro Board of Directors authorized an extension of the share repurchase authorization through March 28, 2020. The amended authorization allowed for repurchases of Common Shares of up to an aggregate amount of \$1,000.0 through March 28, 2020. During fiscal 2020 through March 28, 2020, Scotts Miracle-Gro repurchased 0.4 million Common Shares under the share repurchase authorization for \$48.2. There were no share repurchases under the share repurchase authorization during fiscal 2019. From the effective date of the share repurchase authorization in the fourth quarter of fiscal 2014 through March 28, 2020, Scotts Miracle-Gro repurchased approximately 8.7 million Common Shares for \$762.8.

On February 6, 2020, the Company announced a new share repurchase program allowing for repurchases of up to \$750.0 of Common Shares from April 30, 2020 through March 25, 2023. Effective March 30, 2020, management elected to temporarily suspend share repurchase activity in order to enhance the Company's financial flexibility in response to the COVID-19 pandemic. Accordingly, there were no share repurchases under this share repurchase authorization during fiscal 2020. Subsequent to September 30, 2020, management has elected to commence share repurchase activity.

On July 30, 2019, the Scotts Miracle-Gro Board of Directors approved an increase in our quarterly cash dividend from \$0.55 to \$0.58 per Common Share, which was first paid in the fourth quarter of fiscal 2019. On July 27, 2020, the Scotts Miracle-Gro Board of Directors approved a special cash dividend of \$5.00 per Common Share, which was paid on September 10, 2020 to all shareholders of record at the close of business on August 27, 2020. In addition, on July 27, 2020, the Scotts Miracle-Gro Board of Directors also approved an increase in our quarterly cash dividend from \$0.58 to \$0.62 per Common Share, which was first paid in the fourth quarter of fiscal 2020.

## THE SCOTTS MIRACLE-GRO COMPANY

(Dollars in millions, except per share data)

### *COVID-19 Response and Impacts*

The World Health Organization recognized COVID-19 as a public health emergency of international concern on January 30, 2020 and as a global pandemic on March 11, 2020. Public health responses have included national pandemic preparedness and response plans, travel restrictions, quarantines, curfews, event postponements and cancellations and closures of facilities including local schools and businesses. The global pandemic and actions taken to contain COVID-19 have adversely affected the global economy and financial markets.

In response to the COVID-19 pandemic, we have implemented additional measures intended to both protect the health and safety of our employees and maintain our ability to provide products to our customers, including (i) requiring a significant part of our workforce to work from home, (ii) monitoring our employees for COVID-19 symptoms, (iii) making additional personal protective equipment available to our operations team, (iv) requiring all manufacturing and warehousing associates to take their temperatures before beginning a shift, (v) modifying work methods and schedules of our manufacturing and field associates to create distance or add barriers between associates, consumers and others, (vi) expanding cleaning efforts at our operation centers, (vii) modifying attendance policies so that associates may elect to stay home if they have symptoms, (viii) prioritizing production for goods that are more essential to our customers and (ix) implementing an interim premium pay allowance for certain associates in our field sales force or working in manufacturing or distribution centers. In addition, to help address the critical shortage of personal protective equipment in the fight against COVID-19, we shifted production in our Temecula, California manufacturing plant for a period of time to produce face shields to help protect healthcare workers and first responders in critical need areas across the country. As a result of these additional measures and initiatives, we incurred incremental costs, mostly related to premium pay provided to our associates. While we believe that these efforts should enable us to maintain our operations during the COVID-19 pandemic, we can provide no assurance that we will be able to do so as a result of the unpredictability of the ultimate impact of the COVID-19 pandemic, including its length, severity and the responses of local, state, federal and foreign governmental authorities to the pandemic.

In those jurisdictions that were subject to business closures or limitations, our manufacturing and distribution operations were viewed as essential services and continued to operate. Likewise, our major retail partners were designated as essential services and remained open during this time but with reduced hours and with customer capacity limitations in certain locations. There have been no significant disruptions in incoming supplies or raw materials. We believe we have sufficient liquidity to satisfy our cash needs, however, we continue to evaluate and are prepared to take action, as necessary, to preserve adequate liquidity and ensure that our business can continue to operate during these uncertain times. At September 30, 2020, we had \$1,415.7 of borrowing availability under the Fifth A&R Credit Agreement.

During fiscal 2020, we experienced increased demand for many of our products, especially our soils, fertilizer, grass seed, controls and plant food products, in response to the COVID-19 pandemic. This increased demand has driven an increase in sales and profits that were not previously projected for the fiscal year. In light of these events and in recognition of the dedication and efforts of our associates during this challenging time, we made one-time payments and retirement contributions to our hourly and certain salaried associates who do not participate in our variable cash incentive compensation plans along with providing increased variable payments to our salaried associates who participate in such plans. In addition, we increased our contributions supporting community initiatives and charities.

The extent to which the COVID-19 pandemic will ultimately impact our business, results of operations, financial condition and cash flows depends on future developments that are highly uncertain, rapidly evolving and difficult to predict at this time. Depending on the length and severity of the COVID-19 pandemic, we may experience an increase or decrease in future customer orders driven by volatility in retail foot traffic, consumer shopping and consumption behavior. We are not able to predict the impact, if any, that the COVID-19 pandemic may have on the seasonality of our business.

**THE SCOTTS MIRACLE-GRO COMPANY**

(Dollars in millions, except per share data)

**Results of Operations**

The following table sets forth the components of earnings as a percentage of net sales:

	Year Ended September 30,					
	2020	% of Net Sales	2019	% of Net Sales	2018	% of Net Sales
Net sales	\$ 4,131.6	100.0 %	\$ 3,156.0	100.0 %	\$ 2,663.4	100.0 %
Cost of sales	2,768.6	67.0	2,130.5	67.5	1,778.3	66.8
Cost of sales—impairment, restructuring and other	16.0	0.4	5.9	0.2	20.5	0.8
Gross profit	1,347.0	32.6	1,019.6	32.3	864.6	32.5
Operating expenses:						
Selling, general and administrative	757.8	18.3	601.3	19.1	540.1	20.3
Impairment, restructuring and other	0.8	—	7.4	0.2	132.3	5.0
Other (income) expense, net	3.2	0.1	1.3	—	(6.7)	(0.3)
Income from operations	585.2	14.2	409.6	13.0	198.9	7.5
Equity in income of unconsolidated affiliates	—	—	(3.3)	(0.1)	(4.9)	(0.2)
Costs related to refinancing	15.1	0.4	—	—	—	—
Interest expense	79.6	1.9	101.8	3.2	86.4	3.2
Other non-operating (income) expense, net	(20.1)	(0.5)	(270.5)	(8.6)	1.7	0.1
Income from continuing operations before income taxes	510.6	12.4	581.6	18.4	115.7	4.3
Income tax expense (benefit) from continuing operations	123.7	3.0	144.9	4.6	(11.9)	(0.4)
Income from continuing operations	386.9	9.4	436.7	13.8	127.6	4.8
Income (loss) from discontinued operations, net of tax	1.7	—	23.5	0.7	(63.9)	(2.4)
Net income	<u>\$ 388.6</u>	<u>9.4 %</u>	<u>\$ 460.2</u>	<u>14.6 %</u>	<u>\$ 63.7</u>	<u>2.4 %</u>

The sum of the components may not equal due to rounding.

**Net Sales**

Net sales for fiscal 2020 were \$4,131.6, an increase of 30.9% from net sales of \$3,156.0 for fiscal 2019. Net sales for fiscal 2019 increased 18.5% from net sales of \$2,663.4 for fiscal 2018. These changes in net sales were attributable to the following:

	Year Ended September 30,	
	2020	2019
Volume	29.2 %	9.0 %
Acquisitions	—	8.7
Pricing	1.9	1.3
Foreign exchange rates	(0.2)	(0.5)
Change in net sales	<u>30.9 %</u>	<u>18.5 %</u>

The increase in net sales for fiscal 2020 as compared to fiscal 2019 was primarily driven by:

- increased sales volume due to increased consumer demand including impacts of the COVID-19 pandemic and driven by soils, fertilizer, grass seed, controls and plant food products in our U.S. Consumer segment; lighting, nutrients, hardware and growing environments products in our Hawthorne segment; and increased sales in our Other segment; partially offset by decreased sales of mulch products in our U.S. Consumer segment and a decrease of approximately \$29.7 due to the loss in sales from the Roundup® brand extension products that were sold to Monsanto during fiscal 2019;
- increased pricing in our U.S. Consumer and Hawthorne segments; and
- increased net sales associated with the Roundup® marketing agreement and the Bonnie Services Agreement;

## THE SCOTTS MIRACLE-GRO COMPANY

(Dollars in millions, except per share data)

- partially offset by the unfavorable impact of foreign exchange rates as a result of the strengthening of the U.S. dollar relative to the Canadian dollar.

The increase in net sales for fiscal 2019 as compared to fiscal 2018 was primarily driven by:

- increased sales volume driven by increased sales of soils, mulch, grass seed and fertilizer products in our U.S. Consumer segment and hydroponic gardening products in our Hawthorne segment excluding the impact of acquisitions, partially offset by decreased sales in our Other segment as a result of the closure of our business in Mexico;
- the addition of net sales from the Sunlight Supply acquisition of \$231.4 in our Hawthorne segment; and
- increased pricing in our U.S. Consumer and Other segments, partially offset by higher volume-based customer rebates in our U.S. Consumer segment and decreased pricing in our Hawthorne segment primarily driven by increased promotional activities;
- partially offset by decreased net sales associated with the Roundup<sup>®</sup> marketing agreement; and
- the unfavorable impact of foreign exchange rates as a result of the strengthening of the U.S. dollar relative to the euro and the Canadian dollar.

### **Cost of Sales**

The following table shows the major components of cost of sales:

	Year Ended September 30,		
	2020	2019	2018
Materials	\$ 1,599.3	\$ 1,196.4	\$ 994.2
Manufacturing labor and overhead	615.1	485.8	401.3
Distribution and warehousing	492.6	394.9	328.3
Costs associated with Roundup <sup>®</sup> marketing agreement	61.6	53.4	54.5
Cost of sales	<u>2,768.6</u>	<u>2,130.5</u>	<u>1,778.3</u>
Cost of sales—impairment, restructuring and other	16.0	5.9	20.5
	<u>\$ 2,784.6</u>	<u>\$ 2,136.4</u>	<u>\$ 1,798.8</u>

Factors contributing to the change in cost of sales are outlined in the following table:

	Year Ended September 30,	
	2020	2019
Volume, product mix and other	\$ 643.0	\$ 358.2
Costs associated with Roundup <sup>®</sup> marketing agreement	8.2	(1.1)
Foreign exchange rates	(4.8)	(10.5)
Material cost changes	(8.3)	5.6
	<u>638.1</u>	<u>352.2</u>
Impairment, restructuring and other	10.1	(14.6)
Change in cost of sales	<u>\$ 648.2</u>	<u>\$ 337.6</u>

The increase in cost of sales for fiscal 2020 as compared to fiscal 2019 was primarily driven by:

- higher sales volume in our U.S. Consumer, Hawthorne and Other segments;
- higher warehousing costs and inventory adjustments to net realizable value included within “volume, product mix and other” associated with our U.S. Consumer segment;
- an increase in costs associated with the Roundup<sup>®</sup> marketing agreement; and
- an increase in impairment, restructuring and other charges of \$10.1 as a result of costs associated with the COVID-19 pandemic;
- partially offset by the favorable impact of foreign exchange rates as a result of the strengthening of the U.S. dollar relative to the Canadian dollar;
- lower material prices in our U.S. Consumer, Hawthorne and Other segments; and

## THE SCOTTS MIRACLE-GRO COMPANY

(Dollars in millions, except per share data)

- lower transportation prices included within “volume, product mix and other” in our U.S. Consumer segment.

The increase in cost of sales for fiscal 2019 as compared to fiscal 2018 was primarily driven by:

- costs of \$199.6 included within “volume, product mix and other” related to sales from the Sunlight Supply acquisition in our Hawthorne segment;
- higher sales volume in our U.S. Consumer and Hawthorne segments excluding the impact of acquisitions, partially offset by decreased sales in our Other segment;
- higher transportation costs included within “volume, product mix and other” associated with our U.S. Consumer segment; and
- higher material costs in our U.S. Consumer and Other segments;
- partially offset by a decrease in costs associated with the Roundup® marketing agreement;
- the favorable impact of foreign exchange rates as a result of the strengthening of the U.S. dollar relative to the euro and the Canadian dollar; and
- a decrease in impairment, restructuring and other charges of \$14.6 as a result of lower costs associated with Project Catalyst.

### **Gross Profit**

As a percentage of net sales, our gross profit rate was 32.6%, 32.3% and 32.5% for fiscal 2020, fiscal 2019 and fiscal 2018, respectively. Factors contributing to the change in gross profit rate are outlined in the following table:

	Year Ended September 30,	
	2020	2019
Pricing .....	0.8 %	0.8 %
Material costs .....	0.2	(0.2)
Roundup® commissions and reimbursements .....	0.1	(0.1)
Acquisitions .....	—	(1.5)
Volume, product mix and other .....	(0.6)	0.3
	0.5	(0.7)
Impairment, restructuring and other .....	(0.2)	0.5
Change in gross profit rate .....	0.3 %	(0.2)%

The increase in gross profit rate for fiscal 2020 as compared to fiscal 2019 was primarily driven by:

- increased pricing in our U.S. Consumer and Hawthorne segments;
- lower material prices in our U.S. Consumer, Hawthorne and Other segments;
- increased net sales associated with the Roundup® marketing agreement;
- increased net sales associated with the Bonnie Services Agreement included within “volume, product mix and other” in our U.S. Consumer segment;
- lower transportation prices included within “volume, product mix and other” in our U.S. Consumer segment; and
- favorable leverage of fixed costs driven by higher sales volume in our U.S. Consumer, Hawthorne and Other segments;
- partially offset by unfavorable mix driven by higher sales growth in our Hawthorne segment relative to our U.S. Consumer segment and increased sales of lower tier and commodity soils products within our U.S. Consumer segment;
- higher warehousing costs and inventory adjustments to net realizable value included within “volume, product mix and other” associated with our U.S. Consumer segment; and
- an increase in impairment, restructuring and other charges of \$10.1 as a result of costs associated with the COVID-19 pandemic.

The decrease in gross profit rate for fiscal 2019 as compared to fiscal 2018 was primarily driven by:

- an unfavorable impact from acquisitions in our Hawthorne segment related to Sunlight Supply;
- higher material costs in our U.S. Consumer and Other segments; and



## THE SCOTTS MIRACLE-GRO COMPANY

(Dollars in millions, except per share data)

- higher transportation costs included within “volume, product mix and other” associated with our U.S. Consumer segment;
- partially offset by the favorable impact within “volume, product mix and other” of Sunlight Supply acquisition date inventory fair value adjustments of \$12.2 incurred during fiscal 2018;
- increased pricing in our U.S. Consumer and Other segments, net of higher volume-based customer rebates in our U.S. Consumer segment and decreased pricing in our Hawthorne segment primarily driven by increased promotional activities;
- favorable leverage of fixed costs such as warehousing driven by higher sales volume in our U.S. Consumer and Hawthorne segments; and
- a decrease in impairment, restructuring and other charges as a result of lower costs associated with Project Catalyst.

### ***Selling, General and Administrative Expenses***

The following table sets forth the components of selling, general and administrative expenses (“SG&A”):

	Year Ended September 30,		
	2020	2019	2018
Advertising .....	\$ 147.4	\$ 120.3	\$ 104.2
Advertising as a percentage of net sales .....	3.6 %	3.8 %	3.9 %
Share-based compensation .....	57.9	38.4	40.4
Research and development .....	39.7	39.6	42.5
Amortization of intangibles .....	31.5	32.9	28.9
Other selling, general and administrative .....	481.3	370.1	324.1
	<u>\$ 757.8</u>	<u>\$ 601.3</u>	<u>\$ 540.1</u>

SG&A increased \$156.5, or 26.0%, during fiscal 2020 compared to fiscal 2019. Advertising expense increased \$27.1, or 22.5%, during fiscal 2020 driven by increased media spending in our U.S. Consumer and Hawthorne segments. Share-based compensation expense increased \$19.5, or 50.8%, in fiscal 2020 due to an increase in the expected payout percentage on long-term performance-based awards. Other SG&A increased \$111.2, or 30.0%, in fiscal 2020 driven by higher short-term variable cash incentive compensation expense of \$67.6, higher selling expense of \$18.6, higher one-time payments and retirement contributions to our hourly and certain salaried associates who do not participate in our short-term variable cash incentive compensation plans and higher contributions supporting community initiatives and charities.

SG&A increased \$61.2, or 11.3%, during fiscal 2019 compared to fiscal 2018. Advertising expense increased \$16.1, or 15.5%, during fiscal 2019 driven by increased media spending in our U.S. Consumer segment. Share-based compensation expense decreased \$2.0, or 5.0%, in fiscal 2019 due to a more significant increase in the expected payout percentage on long-term performance-based awards during fiscal 2018 as compared to fiscal 2019. Amortization expense increased \$4.0, or 13.8%, in fiscal 2019 due to the impact of recent acquisitions. Other SG&A increased \$46.0, or 14.2%, in fiscal 2019 driven by higher short-term variable cash incentive compensation expense of \$33.3 and the impact of recent acquisitions of \$11.8.

**THE SCOTTS MIRACLE-GRO COMPANY**

(Dollars in millions, except per share data)

***Impairment, Restructuring and Other***

Activity described herein is classified within the “Cost of sales—impairment, restructuring and other,” “Impairment, restructuring and other” and “Income (loss) from discontinued operations, net of tax” lines in the Consolidated Statements of Operations. The following table details impairment, restructuring and other charges (recoveries) for each of the periods presented:

	Year Ended September 30,		
	2020	2019	2018
Cost of sales—impairment, restructuring and other:			
COVID-19 related costs	\$ 15.5	\$ —	\$ —
Restructuring and other charges (recoveries)	(0.1)	5.1	12.3
Intangible asset and property, plant and equipment impairments	0.6	0.8	8.2
Operating expenses:			
COVID-19 related costs	3.9	—	—
Restructuring and other charges (recoveries), net	(3.1)	7.4	20.2
Goodwill and intangible asset impairments	—	—	112.1
Impairment, restructuring and other charges from continuing operations	16.8	13.3	152.8
Restructuring and other charges (recoveries), net, from discontinued operations	(3.1)	(35.8)	86.8
Total impairment, restructuring and other charges (recoveries)	\$ 13.7	\$ (22.5)	\$ 239.6

**COVID-19**

In response to the COVID-19 pandemic, we have implemented additional measures intended to both protect the health and safety of our employees and maintain our ability to provide products to our customers as described in additional detail above under “COVID-19 Response and Impacts.” During fiscal 2020, we incurred costs of \$19.4 associated with the COVID-19 pandemic primarily related to an interim premium pay allowance for certain associates in our field sales force or working in manufacturing or distribution centers. We incurred costs of \$12.4 in our U.S. Consumer segment, \$2.6 in our Hawthorne segment and \$0.5 in our Other segment in the “Cost of sales—impairment, restructuring and other” line in the Consolidated Statements of Operations during fiscal 2020. We incurred costs of \$3.8 in our U.S. Consumer segment and \$0.1 in our Other segment in the “Impairment, restructuring and other” line in the Consolidated Statements of Operations during fiscal 2020.

**Project Catalyst**

In connection with the acquisition of Sunlight Supply during the third quarter of fiscal 2018, we announced the launch of an initiative called Project Catalyst, which is a company-wide restructuring effort to reduce operating costs throughout our U.S. Consumer, Hawthorne and Other segments and drive synergies from acquisitions within our Hawthorne segment. Costs incurred during fiscal 2020 related to Project Catalyst were not material. Costs incurred to date since the inception of Project Catalyst are \$25.1 for our Hawthorne segment, \$13.5 for our U.S. Consumer segment, \$1.3 for our Other segment and \$2.8 for Corporate. Additionally, during fiscal 2020, we received \$2.6 from the final settlement of escrow funds related to a previous acquisition within the Hawthorne segment that was recognized in the “Impairment, restructuring and other” line in the Consolidated Statements of Operations.

During fiscal 2019, we incurred charges of \$13.7 related to Project Catalyst. We incurred charges of \$1.1 in our U.S. Consumer segment, \$4.2 in our Hawthorne segment and \$0.6 in our Other segment in the “Cost of sales—impairment, restructuring and other” line in the Consolidated Statements of Operations during fiscal 2019 related to employee termination benefits, facility closure costs and impairment of property, plant and equipment. We incurred charges of \$0.5 in our U.S. Consumer segment, \$3.9 in our Hawthorne segment, \$0.6 in our Other segment and \$2.8 at Corporate in the “Impairment, restructuring and other” line in the Consolidated Statements of Operations during fiscal 2019 related to employee termination benefits and facility closure costs.

During fiscal 2018, we incurred charges of \$29.4 related to Project Catalyst. We incurred charges of \$8.2 in our U.S. Consumer segment and \$12.4 in our Hawthorne segment in the “Cost of sales—impairment, restructuring and other” line in the Consolidated Statements of Operations during fiscal 2018 related to employee termination benefits, facility closure costs and impairment of property, plant and equipment. We incurred charges of \$3.4 in our U.S. Consumer segment and \$5.4 in our Hawthorne segment in the “Impairment, restructuring and other” line in the Consolidated Statements of Operations during fiscal 2018 related to employee termination benefits.

## THE SCOTTS MIRACLE-GRO COMPANY

(Dollars in millions, except per share data)

### ***Other***

We recognized insurance recoveries related to the previously disclosed legal matter *In re Morning Song Bird Food Litigation* of \$1.5 and \$13.4 during fiscal 2020 and fiscal 2019, respectively, in the “Income (loss) from discontinued operations, net of tax” line in the Consolidated Statements of Operations. In addition, during fiscal 2019, we recognized a favorable adjustment of \$22.5 in the “Income (loss) from discontinued operations, net of tax” line in the Consolidated Statements of Operations as a result of the final resolution of the previously disclosed settlement agreement related to this matter. During fiscal 2018, we recognized a pre-tax charge of \$85.0 for a probable loss related to this matter in the “Income (loss) from discontinued operations, net of tax” line in the Consolidated Statements of Operations. Refer to “NOTE 20. CONTINGENCIES” of the Notes to the Consolidated Financial Statements included in this Annual Report on Form 10-K for more information.

During fiscal 2019, we recognized a favorable adjustment of \$0.4 related to the previously disclosed legal matter *In re Scotts EZ Seed Litigation* in the “Impairment, restructuring and other” line in the Consolidated Statements of Operations. During fiscal 2018, we recognized a charge of \$11.7 for a probable loss related to this matter in the “Impairment, restructuring and other” line in the Consolidated Statements of Operations. Refer to “NOTE 20. CONTINGENCIES” of the Notes to the Consolidated Financial Statements included in this Annual Report on Form 10-K for more information.

During fiscal 2018, we recognized a non-cash impairment charge of \$94.6 related to a goodwill impairment in our Hawthorne segment in the “Impairment, restructuring and other” line in the Consolidated Statements of Operations as a result of the Company’s annual fourth quarter quantitative goodwill impairment test. Refer to “NOTE 5. GOODWILL AND INTANGIBLE ASSETS, NET” of the Notes to the Consolidated Financial Statements included in this Annual Report on Form 10-K for more information for more information.

During fiscal 2018, we recognized a non-cash impairment charge of \$17.5 related to the settlement of a portion of certain previously acquired customer relationships due to the acquisition of Sunlight Supply in the “Impairment, restructuring and other” line in the Consolidated Statement of Operations. Refer to “NOTE 8. ACQUISITIONS AND INVESTMENTS” of the Notes to the Consolidated Financial Statements included in this Annual Report on Form 10-K for more information.

### ***Other (Income) Expense, net***

Other (income) expense is comprised of activities outside our normal business operations, such as royalty income from the licensing of certain of our brand names, foreign exchange transaction gains and losses and gains and losses from the disposition of non-inventory assets. Other (income) expense was \$3.2, \$1.3 and \$(6.7) in fiscal 2020, fiscal 2019 and fiscal 2018, respectively. The change for fiscal 2020 was primarily due to losses on long-lived assets. The change for fiscal 2019 was primarily due to foreign exchange transaction losses, a decrease in royalty income earned from Exponent related to its use of our brand names following the divestiture of the International Business due to the adoption of the amended revenue recognition accounting guidance and losses on long-lived assets.

### ***Income from Operations***

Income from operations was \$585.2 in fiscal 2020, an increase of 42.9% compared to \$409.6 in fiscal 2019. The increase was driven by higher net sales and an increase in gross profit rate, partially offset by higher SG&A.

Income from operations was \$409.6 in fiscal 2019, an increase of 105.9% compared to \$198.9 in fiscal 2018. The increase was driven by higher net sales and lower impairment, restructuring and other charges, partially offset by a decrease in gross profit rate, higher SG&A and a decrease in other income.

### ***Equity in Income of Unconsolidated Affiliates***

Equity in income of unconsolidated affiliates was zero, \$3.3 and \$4.9 in fiscal 2020, fiscal 2019 and fiscal 2018, respectively. The decrease for fiscal 2020 was attributable to the April 1, 2019 sale of our noncontrolling equity interest in the IT&O Joint Venture.

### ***Costs Related to Refinancing***

Costs related to refinancing were \$15.1 in fiscal 2020. The costs incurred in fiscal 2020 were associated with the redemption of our 6.000% Senior Notes due 2023 (the “6.000% Senior Notes”), and are comprised of \$12.0 of redemption premium and \$3.1 of unamortized bond issuance costs that were written off. Refer to “NOTE 12. DEBT” of the Notes to the Consolidated Financial Statements included in this Annual Report on Form 10-K for more information regarding the redemption of the 6.000% Senior Notes.

## THE SCOTTS MIRACLE-GRO COMPANY

(Dollars in millions, except per share data)

### *Interest Expense*

Interest expense was \$79.6 in fiscal 2020, a decrease of 21.8% compared to \$101.8 in fiscal 2019. The decrease was driven by a decrease in average borrowings of \$256.4 and a decrease in our weighted average interest rate of 50 basis points. The decrease in average borrowings was primarily driven by the application of the proceeds from the sale of our approximately 30% equity interest in the TruGreen Joint Venture, the payoff of second lien term loan financing by the TruGreen Joint Venture, the sale of our noncontrolling equity interest in the IT&O Joint Venture and the sale of the Roundup® brand extension assets to reduce our indebtedness. The decrease in our weighted average interest rate was driven by lower borrowing rates on the Fifth A&R Credit Agreement, the issuance of the 4.500% Senior Notes and the redemption of the 6.000% Senior Notes.

Interest expense was \$101.8 in fiscal 2019, an increase of 17.8% compared to \$86.4 in fiscal 2018. The increase was driven by an increase in average borrowings of \$111.9 and an increase in our weighted average interest rate of 50 basis points. The increase in average borrowings was driven by our acquisition activity and Common Share repurchase activity during fiscal 2018, partially offset by the application of the proceeds from the sale of our equity interests in the TruGreen Joint Venture and the IT&O Joint Venture to reduce our indebtedness. The increase in our weighted average interest rate was driven by higher borrowing rates.

### *Other Non-Operating (Income) Expense, net*

Other non-operating (income) expense was \$(20.1), \$(270.5) and \$1.7 in fiscal 2020, fiscal 2019 and fiscal 2018, respectively. Interest income was \$7.6, \$8.6 and \$10.0 for fiscal 2020, fiscal 2019 and fiscal 2018, respectively. During the fourth quarter of fiscal 2020, we recognized an increase in the fair value of the Bonnie Option of \$12.0 driven by an increase in sales and profits of the Bonnie Business.

On March 19, 2019, we entered into an agreement under which we sold, to TruGreen Companies L.L.C., a subsidiary of TruGreen Holding Corporation, all of our approximately 30% equity interest in the TruGreen Joint Venture. In connection with this transaction, we received cash proceeds of \$234.2 related to the sale of our equity interest in the TruGreen Joint Venture and \$18.4 related to the payoff of second lien term loan financing by the TruGreen Joint Venture. During fiscal 2019, we also received a distribution from the TruGreen Joint Venture intended to cover certain required tax payments of \$3.5, which was classified as an investing activity in the Consolidated Statements of Cash Flows. During fiscal 2019, we recognized a pre-tax gain of \$259.8 related to this sale. The cash proceeds were applied to reduce our indebtedness. During fiscal 2019, we made cash tax payments of \$99.5 associated with this disposition.

On April 1, 2019, we sold all of our noncontrolling equity interest in the IT&O Joint Venture for cash proceeds of \$36.6. During fiscal 2019, we recognized a pre-tax gain of \$2.9 related to this sale. During fiscal 2019, we received a distribution of net earnings from the IT&O Joint Venture of \$4.9, which was classified as an operating activity in the Consolidated Statements of Cash Flows.

During the second quarter of fiscal 2019, we recognized a charge of \$2.5 related to the write-off of accumulated foreign currency translation loss adjustments of a foreign subsidiary that was substantially liquidated.

As a result of the enactment of H.R.1 (the “Act,” formerly known as the “Tax Cuts and Jobs Act”) on December 22, 2017, we repatriated cash from a foreign subsidiary during the second quarter of fiscal 2018 resulting in the liquidation of substantially all of the assets of the subsidiary and the write-off of accumulated foreign currency translation loss adjustments of \$11.7.

**THE SCOTTS MIRACLE-GRO COMPANY**

(Dollars in millions, except per share data)

***Income Tax Expense (Benefit) from Continuing Operations***

A reconciliation of the federal corporate income tax rate and the effective tax rate on income from continuing operations before income taxes is summarized below:

	Year Ended September 30,		
	2020	2019	2018
Statutory income tax rate	21.0 %	21.0 %	24.5 %
Effect of foreign operations	(0.7)	0.3	7.4
State taxes, net of federal benefit	3.5	1.8	6.5
Domestic Production Activities Deduction permanent difference	—	—	(4.4)
Effect of other permanent differences	—	(0.2)	(3.0)
Research and Experimentation and other federal tax credits	(0.3)	(0.3)	(1.7)
Effect of tax contingencies	0.1	1.9	1.3
Effect of tax reform	—	—	(38.7)
Other	0.6	0.4	(2.2)
Effective income tax rate	<u>24.2 %</u>	<u>24.9 %</u>	<u>(10.3)%</u>

On December 22, 2017, the Act was signed into law. The Act provides for significant changes to the U.S. Internal Revenue Code of 1986, as amended (the “Code”). Among other items, the Act implements a territorial tax system, imposed a one-time transition tax on deemed repatriated earnings of foreign subsidiaries, and reduces the federal corporate statutory tax rate to 21% effective January 1, 2018. As our fiscal year end falls on September 30, the federal corporate statutory tax rate for fiscal 2018 was prorated to 24.5%, with the statutory rate for fiscal 2019 and beyond at 21%. Included in the effective tax rate for fiscal 2018 are one-time impacts related to the tax law change of \$42.8. These include a one-time \$44.6 net tax benefit adjustment reflecting the revaluation of our net deferred tax liability at the lower tax rate. In addition, we recognized a one-time tax expense on deemed repatriated earnings and cash of foreign subsidiaries as required by the Act of \$21.2, partially offset by the recognition and application of foreign tax credits associated with these foreign subsidiaries of \$18.2. We also reduced the value of deferred tax liabilities associated with the write-off of previously acquired customer relationship intangible assets by \$7.3, which was recognized in the “Income tax expense (benefit) from continuing operations” line in the Consolidated Statement of Operations in fiscal 2018. During the fourth quarter of fiscal 2018, we recognized a non-cash goodwill impairment charge of \$94.6, of which \$20.0 was not tax-deductible.

***Income from Continuing Operations***

Income from continuing operations was \$386.9, or \$6.78 per diluted share, in fiscal 2020 compared to \$436.7, or \$7.77 per diluted share, in fiscal 2019. The decrease was driven by lower other non-operating income, higher SG&A and higher costs related to refinancing, partially offset by higher net sales, an increase in gross profit rate and lower interest expense.

Diluted average common shares used in the diluted income per common share calculation were 56.9 million for fiscal 2020 compared to 56.3 million for fiscal 2019. The increase was primarily the result of the exercise and issuance of share-based compensation awards, partially offset by Common Share repurchase activity. Dilutive equivalent shares for fiscal 2020 and fiscal 2019 were 1.2 million and 0.8 million, respectively.

Income from continuing operations was \$436.7, or \$7.77 per diluted share, in fiscal 2019 compared to \$127.6, or \$2.23 per diluted share, in fiscal 2018. The increase was driven by higher net sales, lower impairment, restructuring and other charges and an increase in other non-operating income, partially offset by a lower gross profit rate, higher SG&A, decreased other income and an increase in interest expense.

Diluted average common shares used in the diluted income per common share calculation were 56.3 million for fiscal 2019 compared to 57.1 million for fiscal 2018. The decrease was primarily the result of Common Share repurchase activity during fiscal 2018, partially offset by the exercise and issuance of share-based compensation awards and the payment of a portion of the purchase price of Sunlight Supply in Common Shares. Dilutive equivalent shares for fiscal 2019 and fiscal 2018 were 0.8 million and 0.9 million, respectively.

***Income (Loss) from Discontinued Operations, net of tax***

Income (loss) from discontinued operations, net of tax, was \$1.7, \$23.5 and \$(63.9) for fiscal 2020, fiscal 2019 and fiscal 2018, respectively.

## THE SCOTTS MIRACLE-GRO COMPANY

(Dollars in millions, except per share data)

We recognized insurance recoveries related to the previously disclosed legal matter *In re Morning Song Bird Food Litigation* of \$1.5 and \$13.4 during fiscal 2020 and fiscal 2019, respectively. In addition, during fiscal 2019, we recognized a favorable pre-tax adjustment of \$22.5 as a result of the final resolution of the previously disclosed settlement agreement related to this matter. During fiscal 2018, we recognized a pre-tax charge of \$85.0 for a probable loss related to this matter. Refer to “NOTE 20. CONTINGENCIES” of the Notes to the Consolidated Financial Statements included in this Annual Report on Form 10-K for more information.

### Segment Results

The performance of each reportable segment is evaluated based on several factors, including income (loss) from continuing operations before income taxes, amortization, impairment, restructuring and other charges (“Segment Profit (Loss)”), which is a non-GAAP financial measure. Senior management uses Segment Profit (Loss) to evaluate segment performance because they believe this measure is indicative of performance trends and the overall earnings potential of each segment.

The following table sets forth net sales by segment:

	Year Ended September 30,		
	2020	2019	2018
U.S. Consumer .....	\$ 2,823.1	\$ 2,281.1	\$ 2,109.6
Hawthorne .....	1,083.5	671.2	344.9
Other .....	225.0	203.7	208.9
Consolidated .....	<u>\$ 4,131.6</u>	<u>\$ 3,156.0</u>	<u>\$ 2,663.4</u>

The following table sets forth Segment Profit (Loss) as well as a reconciliation to income from continuing operations before income taxes, the most directly comparable GAAP measure:

	Year Ended September 30,		
	2020	2019	2018
U.S. Consumer .....	\$ 686.1	\$ 527.8	\$ 496.6
Hawthorne .....	120.1	53.5	(6.1)
Other .....	11.7	10.3	11.2
Total Segment Profit (Non-GAAP) .....	817.9	591.6	501.7
Corporate .....	(183.4)	(135.3)	(120.8)
Intangible asset amortization .....	(32.5)	(33.4)	(29.2)
Impairment, restructuring and other .....	(16.8)	(13.3)	(152.8)
Equity in income of unconsolidated affiliates .....	—	3.3	4.9
Costs related to refinancing .....	(15.1)	—	—
Interest expense .....	(79.6)	(101.8)	(86.4)
Other non-operating income (expense), net .....	20.1	270.5	(1.7)
Income from continuing operations before income taxes (GAAP) .....	<u>\$ 510.6</u>	<u>\$ 581.6</u>	<u>\$ 115.7</u>

### U.S. Consumer

U.S. Consumer segment net sales were \$2,823.1 in fiscal 2020, an increase of 23.8% from fiscal 2019 net sales of \$2,281.1. The increase was driven by the favorable impacts of volume and pricing of 22.2% and 1.5%, respectively. The increase in sales volume for fiscal 2020 was driven by soils, fertilizer, grass seed, controls and plant food products, partially offset by decreased sales of mulch products and the loss in sales from the Roundup<sup>®</sup> brand extension products that were sold to Monsanto during fiscal 2019.

U.S. Consumer Segment Profit was \$686.1 in fiscal 2020, an increase of 30.0% from fiscal 2019 Segment Profit of \$527.8. The increase for fiscal 2020 was primarily due to higher net sales and a higher gross profit rate, partially offset by higher SG&A.

U.S. Consumer segment net sales were \$2,281.1 in fiscal 2019, an increase of 8.1% from fiscal 2018 net sales of \$2,109.6. The increase was driven by the favorable impacts of volume and pricing of 6.3% and 1.8%, respectively. Increased sales volume for fiscal 2019 was driven by increased sales of soils, mulch, grass seed and fertilizer products.

## THE SCOTTS MIRACLE-GRO COMPANY

(Dollars in millions, except per share data)

U.S. Consumer Segment Profit was \$527.8 in fiscal 2019, an increase of 6.3% from fiscal 2018 Segment Profit of \$496.6. The increase for fiscal 2019 was primarily due to higher net sales, partially offset by higher SG&A and lower other income.

### *Hawthorne*

Hawthorne segment net sales were \$1,083.5 in fiscal 2020, an increase of 61.4% from fiscal 2019 net sales of \$671.2. The increase was driven by the favorable impacts of volume and pricing of 57.7% and 3.7%, respectively. The increase in sales volume for fiscal 2020 was driven by lighting, nutrients, hardware and growing environments products.

Hawthorne Segment Profit was \$120.1 in fiscal 2020, an increase of 124.5% from fiscal 2019 Segment Profit of \$53.5. The increase for fiscal 2020 was driven by higher net sales and a higher gross profit rate, partially offset by higher SG&A.

Hawthorne segment net sales were \$671.2 in fiscal 2019, an increase of 94.6% from fiscal 2018 net sales of \$344.9. The increase was driven by the favorable impacts of acquisitions and volume of 67.1% and 31.7%, respectively, partially offset by the unfavorable impacts of pricing and foreign exchange rates of 2.2% and 2.0%, respectively.

Hawthorne Segment Profit was \$53.5 in fiscal 2019 as compared to fiscal 2018 Segment Loss of \$6.1. The increase for fiscal 2019 was driven by higher net sales, gross profit rate, cost savings and other synergies as a result of Project Catalyst activities.

### *Other*

Other segment net sales were \$225.0 in fiscal 2020, an increase of 10.5% from fiscal 2019 net sales of \$203.7. The increase was driven by the favorable impact of volume of 13.9%, partially offset by the unfavorable impacts of foreign exchange rates and pricing of 3.1% and 0.4%, respectively.

Other Segment Profit was \$11.7 in fiscal 2020, an increase of 13.6% from fiscal 2019 Segment Profit of \$10.3. The increase was driven by higher net sales, partially offset by higher SG&A.

Other segment net sales were \$203.7 in fiscal 2019, a decrease of 2.5% from fiscal 2018 net sales of \$208.9. The decrease was driven by the unfavorable impacts of foreign exchange rates and volume of 2.9% and 1.8%, respectively, partially offset by the favorable impact of pricing of 2.2%. The decrease in sales volume for fiscal 2019 was driven by the closure of our business in Mexico.

Other Segment Profit was \$10.3 in fiscal 2019, a decrease of 8.0% from fiscal 2018 Segment Profit of \$11.2. The decrease was due to lower net sales and lower other income, partially offset by a higher gross profit rate.

### *Corporate*

Corporate expenses were \$183.4 in fiscal 2020, an increase of 35.6% from fiscal 2019 expenses of \$135.3. The increase was driven by higher short-term variable cash incentive compensation expense, an increase in the expected payout percentage on long-term performance-based awards, higher one-time payments and retirement contributions to our hourly and certain salaried associates who do not participate in our short-term variable cash incentive compensation plans and higher contributions supporting community initiatives and charities.

Corporate expenses were \$135.3 in fiscal 2019, an increase of 12.0% from fiscal 2018 expenses of \$120.8. The increase was primarily due to higher short-term variable cash incentive compensation expense and a decrease in royalty income earned from Exponent related to its use of our brand names following our divestiture of the International Business due to the adoption of the amended revenue recognition accounting guidance, partially offset by a decrease in expense related to long-term performance-based awards due to a more significant increase in the expected payout percentage during fiscal 2018 as compared to fiscal 2019.

## Liquidity and Capital Resources

The following table summarizes cash activities for the years ended September 30:

	2020	2019	2018
Net cash provided by operating activities	\$ 558.0	\$ 226.8	\$ 342.5
Net cash provided by (used in) investing activities	46.9	255.2	(580.7)
Net cash (used in) provided by financing activities	(607.1)	(496.5)	151.2

## THE SCOTTS MIRACLE-GRO COMPANY

(Dollars in millions, except per share data)

### *Operating Activities*

Cash provided by operating activities totaled \$558.0 for fiscal 2020, an increase of \$331.2 as compared to \$226.8 for fiscal 2019. This increase was driven by higher net sales and lower interest payments during fiscal 2020, payments made in connection with litigation settlements during fiscal 2019 of \$73.9 which were partially offset by insurance reimbursements of \$13.4 received during fiscal 2019, and lower tax payments including \$99.5 of payments made in connection with the sale of our equity interest in the TruGreen Joint Venture during fiscal 2019, partially offset by higher short-term variable cash incentive compensation payouts and higher SG&A during fiscal 2020.

Cash provided by operating activities totaled \$226.8 for fiscal 2019, a decrease of \$115.7 as compared to cash provided by operating activities of \$342.5 for fiscal 2018. This decrease was driven by tax payments made in connection with the sale of our equity interest in the TruGreen Joint Venture of \$99.5, payments made in connection with litigation settlements during fiscal 2019 of \$73.9 which were partially offset by insurance reimbursements of \$13.4, the timing of customer rebate payments, an increase in interest payments and higher SG&A, partially offset by increased net sales, lower short-term variable cash incentive payouts and a distribution of net earnings from the IT&O Joint Venture.

The seasonal nature of our North America consumer lawn and garden business generally requires cash to fund significant increases in inventories during the first half of the fiscal year. Receivables and payables also build substantially in our second quarter of the fiscal year in line with the timing of sales to support our retailers' spring selling season. These balances liquidate during the June through September period as the lawn and garden season unwinds.

### *Investing Activities*

Cash provided by investing activities totaled \$46.9 for fiscal 2020 as compared to \$255.2 for fiscal 2019. Cash used for investments in property, plant and equipment during fiscal 2020 was \$62.7. During fiscal 2020, we received proceeds of \$115.5 from the sale of the Roundup® brand extension assets. In addition, during fiscal 2020, we made loan investments of \$3.4 and paid cash of \$2.9 associated with currency forward contracts.

Cash provided by investing activities totaled \$255.2 for fiscal 2019 as compared to cash used in investing activities of \$580.7 for fiscal 2018. During fiscal 2019, we sold our interest in the TruGreen Joint Venture for cash proceeds of \$234.2 related to the sale of our equity interest and \$18.4 related to the payoff of second lien term loan financing by the TruGreen Joint Venture, and we sold our equity interest in the IT&O Joint Venture for cash proceeds of \$36.6. Cash used for investments in property, plant and equipment during fiscal 2019 was \$42.4. During fiscal 2019, we paid a post-closing net working capital adjustment obligation of \$6.6 related to the fiscal 2018 acquisition of Sunlight Supply and we received cash of \$7.0 associated with currency forward contracts.

For the three fiscal years ended September 30, 2020, our capital spending was allocated as follows: 74% for expansion and maintenance of existing productive assets; 6% for new productive assets; 13% to expand our information technology and transformation and integration capabilities; and 7% for corporate assets. We expect fiscal 2021 capital expenditures to be higher than 2020 as a result of increased demand for many of our products within our U.S. Consumer and Hawthorne segments.

### *Financing Activities*

Cash used in financing activities totaled \$607.1 for fiscal 2020 as compared to \$496.5 for fiscal 2019. This change was the result of an increase in dividends paid of \$286.7 driven by the special cash dividend of \$5.00 per Common Share paid on September 10, 2020, an increase in repurchases of our Common Shares of \$50.1 during fiscal 2020, the redemption of all \$400.0 aggregate principal amount of 6.000% Senior Notes, an increase in financing and issuance fees of \$18.5 and a decrease in cash received from the exercise of stock options of \$3.8, partially offset by the issuance of \$450.0 aggregate principal amount of 4.500% Senior Notes and net repayments of our Fifth A&R Credit Facilities (as defined below) of \$191.1 during fiscal 2020 as compared to net repayments of our Fifth A&R Credit Facilities of \$389.3 during fiscal 2019.

Cash used in financing activities totaled \$496.5 in fiscal 2019 as compared to cash provided by financing activities of \$151.2 in fiscal 2018. This change was the result of net repayments of our Fifth A&R Credit Facilities of \$389.3 during fiscal 2019 driven by proceeds from the sale of our equity interests in the TruGreen Joint Venture and the IT&O Joint Venture that were used to reduce our indebtedness and an increase in cash received from the exercise of stock options of \$10.9, as compared to net borrowings under our Fifth A&R Credit Facilities of \$674.1 during fiscal 2018 driven by the acquisitions of Sunlight Supply and Can-Filters, repurchases of our Common Shares of \$327.7 and a cash outflow of \$70.7 related to the acquisition of the remaining 25% noncontrolling interest in Gavita during fiscal 2018.

### *Cash and Cash Equivalents*

Our cash and cash equivalents were held in cash depository accounts with major financial institutions around the world or invested in high quality, short-term liquid investments having original maturities of three months or less. The cash and cash equivalents balances of \$16.6 and \$18.8 at September 30, 2020 and 2019, respectively, included \$9.4 and \$7.2, respectively,



## THE SCOTTS MIRACLE-GRO COMPANY

(Dollars in millions, except per share data)

held by controlled foreign corporations. As of September 30, 2020, we maintain our assertion of indefinite reinvestment of the earnings of all material foreign subsidiaries with the exception of the cumulative earnings of Scotts Luxembourg Sarl, which have generally been taxed on a current basis under “Subpart F” of the Code which prevents deferral of recognition of U.S. taxable income through the use of foreign entities.

### ***Borrowing Agreements***

#### **Credit Facilities**

Our primary sources of liquidity are cash generated by operations and borrowings under our credit facilities, which are guaranteed by substantially all of Scotts Miracle-Gro’s domestic subsidiaries. We maintain the Fifth A&R Credit Agreement that provides senior secured loan facilities in the aggregate principal amount of \$2,300.0, comprised of a revolving credit facility of \$1,500.0 and a term loan in the original principal amount of \$800.0 (the “Fifth A&R Credit Facilities”). The Fifth A&R Credit Agreement is available for issuance of letters of credit up to \$75.0 and will terminate on July 5, 2023.

At September 30, 2020, we had letters of credit outstanding in the aggregate principal amount of \$20.3, and \$1,415.7 of borrowing availability under the Fifth A&R Credit Agreement. The weighted average interest rates on average borrowings under the Fifth A&R Credit Agreement were 3.3%, 4.6% and 4.0% for fiscal 2020, fiscal 2019 and fiscal 2018, respectively.

The Fifth A&R Credit Agreement contains, among other obligations, an affirmative covenant regarding our leverage ratio on the last day of each quarter calculated as average total indebtedness divided by our earnings before interest, taxes, depreciation and amortization (“EBITDA”), as adjusted pursuant to the terms of the Fifth A&R Credit Agreement (“Adjusted EBITDA”). The maximum leverage ratio was 4.75 for the second quarter of fiscal 2020 through the fourth quarter of fiscal 2020 and is 4.50 for the first quarter of fiscal 2021 and thereafter. Our leverage ratio was 2.48 at September 30, 2020. The Fifth A&R Credit Agreement also contains an affirmative covenant regarding our interest coverage ratio determined as of the end of each of our fiscal quarters. The interest coverage ratio is calculated as Adjusted EBITDA divided by interest expense, as described in the Fifth A&R Credit Agreement, and excludes costs related to refinancings. The minimum interest coverage ratio was 3.00 for the twelve months ended September 30, 2020. Our interest coverage ratio was 10.12 for the twelve months ended September 30, 2020. As of September 30, 2020, we were in compliance with these financial covenants.

The Fifth A&R Credit Agreement allows us to make unlimited restricted payments (as defined in the Fifth A&R Credit Agreement), including dividend payments and repurchases of Common Shares, as long as the leverage ratio resulting from the making of such restricted payments is 4.00 or less. Otherwise, we may make further restricted payments in an aggregate amount for each fiscal year not to exceed \$225.0 for fiscal 2020 and thereafter. We continue to monitor our compliance with the leverage ratio, interest coverage ratio and other covenants contained in the Fifth A&R Credit Agreement and, based upon our current operating assumptions, we expect to remain in compliance with the permissible leverage ratio and interest coverage ratio throughout fiscal 2021. However, an unanticipated shortfall in earnings, an increase in net indebtedness or other factors could materially affect our ability to remain in compliance with the financial or other covenants of the Fifth A&R Credit Agreement, potentially causing us to have to seek an amendment or waiver from our lending group which could result in repricing of the Fifth A&R Credit Agreement. While we believe we have good relationships with our lending group, we can provide no assurance that such a request would result in a modified or replacement credit agreement on reasonable terms, if at all.

#### **Senior Notes**

On December 15, 2016, we issued \$250.0 aggregate principal amount of 5.250% Senior Notes due 2026 (the “5.250% Senior Notes”). The 5.250% Senior Notes represent general unsecured senior obligations and rank equal in right of payment with our existing and future unsecured senior debt. The 5.250% Senior Notes have interest payment dates of June 15 and December 15 of each year. Substantially all of our directly and indirectly owned domestic subsidiaries serve as guarantors of the 5.250% Senior Notes.

On October 22, 2019, we issued \$450.0 aggregate principal amount of 4.500% Senior Notes. The net proceeds of the offering were used to redeem all of our outstanding 6.000% Senior Notes and for general corporate purposes. The 4.500% Senior Notes represent general unsecured senior obligations and rank equal in right of payment with our existing and future unsecured senior debt. The 4.500% Senior Notes have interest payment dates of April 15 and October 15 of each year. All of our domestic subsidiaries that serve as guarantors of the 5.250% Senior Notes also serve as guarantors of the 4.500% Senior Notes.

On October 23, 2019, we redeemed all of our outstanding 6.000% Senior Notes for a redemption price of \$412.5, comprised of \$0.5 of accrued and unpaid interest, \$12.0 of redemption premium, and \$400.0 for outstanding principal amount. The \$12.0 redemption premium was recognized in the “Costs related to refinancing” line on the Consolidated Statements of Operations during the first quarter of fiscal 2020. Additionally, we had \$3.1 in unamortized bond issuance costs associated with

## THE SCOTTS MIRACLE-GRO COMPANY

(Dollars in millions, except per share data)

the 6.000% Senior Notes, which were written-off during the first quarter of fiscal 2020 and were recognized in the “Costs related to refinancing” line in the Consolidated Statements of Operations.

### Receivables Facility

We also maintain a Master Repurchase Agreement (including the annexes thereto, the “Repurchase Agreement”) and a Master Framework Agreement, as amended annually (the “Framework Agreement” and, together with the Repurchase Agreement, the “Receivables Facility”). Under the Receivables Facility, we may sell a portfolio of available and eligible outstanding customer accounts receivable to the purchasers and simultaneously agree to repurchase the receivables on a weekly basis. The eligible accounts receivable consist of accounts receivable generated by sales to three specified customers. The eligible amount of customer accounts receivables which may be sold under the Receivables Facility is \$400.0 and the commitment amount during the seasonal commitment period beginning on February 26, 2021 and ending on June 18, 2021 is \$160.0. The Receivables Facility expires on August 20, 2021.

We account for the sale of receivables under the Receivables Facility as short-term debt and continue to carry the receivables on our Consolidated Balance Sheets, primarily as a result of our requirement to repurchase receivables sold. As of September 30, 2020 and 2019, there were \$20.0 and \$76.0, respectively, in borrowings on receivables pledged as collateral under the Receivables Facility, and the carrying value of the receivables pledged as collateral was \$22.3 and \$84.5, respectively.

### Interest Rate Swap Agreements

We enter into interest rate swap agreements with major financial institutions that effectively convert a portion of our variable rate debt to a fixed rate. The swap agreements had a maximum total U.S. dollar equivalent notional amount of \$600.0 and \$850.0 at September 30, 2020 and 2019, respectively. Interest payments made between the effective date and expiration date are hedged by the swap agreements, except as noted below. The notional amount, effective date, expiration date and rate of each of these swap agreements outstanding at September 30, 2020 are shown in the table below:

Notional Amount	Effective Date (a)	Expiration Date	Fixed Rate
\$ 100	6/20/2018	10/20/2020	2.15 %
200 (b)	11/7/2018	6/7/2021	2.87 %
100	11/7/2018	7/7/2021	2.96 %
200	11/7/2018	10/7/2021	2.98 %
100	12/21/2020	6/20/2023	1.36 %
300 (b)	1/7/2021	6/7/2023	1.34 %
200	10/7/2021	6/7/2023	1.37 %
200 (b)	1/20/2022	6/20/2024	0.58 %
200	6/7/2023	6/8/2026	0.85 %

- (a) The effective date refers to the date on which interest payments are first hedged by the applicable swap agreement.  
 (b) Notional amount adjusts in accordance with a specified seasonal schedule. This represents the maximum notional amount at any point in time.

We believe that our cash flows from operations and borrowings under our agreements described herein will be sufficient to meet debt service, capital expenditures and working capital needs for the foreseeable future. However, we cannot ensure that our business will generate sufficient cash flow from operations or that future borrowings will be available under our borrowing agreements in amounts sufficient to pay indebtedness or fund other liquidity needs. Additionally, the extent to which the COVID-19 pandemic will ultimately impact our business, results of operations, financial condition and cash flows depends on future developments that are highly uncertain, rapidly evolving and difficult to predict at this time. Actual results of operations will depend on numerous factors, many of which are beyond our control as further discussed in “Item 1A. RISK FACTORS — Our indebtedness could limit our flexibility and adversely affect our financial condition” and “Item 1A. RISK FACTORS — The effects of the ongoing coronavirus (COVID-19) pandemic and any possible recurrence of other similar types of pandemics, or any other widespread public health emergencies, could have a material adverse effect on our business, results of operations, financial condition and/or cash flows” of this Annual Report on Form 10-K.

### Financial Disclosures About Guarantors and Issuers of Guaranteed Securities

The 5.250% Senior Notes and 4.500% Senior Notes were issued by Scotts Miracle-Gro on December 15, 2016 and October 22, 2019, respectively. The 5.250% Senior Notes and 4.500% Senior Notes are guaranteed by certain consolidated

## THE SCOTTS MIRACLE-GRO COMPANY

(Dollars in millions, except per share data)

domestic subsidiaries of Scotts Miracle-Gro (collectively, the “Guarantors”) and, therefore, we report summarized financial information in accordance with SEC Regulation S-X, Rule 13-01, “Guarantors and Issuers of Guaranteed Securities Registered or Being Registered.”

The guarantees are “full and unconditional,” as those terms are used in Regulation S-X, Rule 3-10(b)(3), except that a Guarantor’s guarantee will be released in certain circumstances set forth in the indentures governing the 5.250% Senior Notes and 4.500% Senior Notes, such as: (i) upon any sale or other disposition of all or substantially all of the assets of the Guarantor (including by way of merger or consolidation) to any person other than Scotts Miracle-Gro or any “restricted subsidiary” under the applicable indenture; (ii) if the Guarantor merges with and into Scotts Miracle-Gro, with Scotts Miracle-Gro surviving such merger; (iii) if the Guarantor is designated an “unrestricted subsidiary” in accordance with the applicable indenture or otherwise ceases to be a “restricted subsidiary” (including by way of liquidation or dissolution) in a transaction permitted by such indenture; (iv) upon legal or covenant defeasance; (v) at the election of Scotts Miracle-Gro following the Guarantor’s release as a guarantor under the Fifth A&R Credit Agreement, except a release by or as a result of the repayment of the Fifth A&R Credit Agreement; or (vi) if the Guarantor ceases to be a “restricted subsidiary” and the Guarantor is not otherwise required to provide a guarantee of the 5.250% Senior Notes and the 4.500% Senior Notes pursuant to the applicable indenture.

Our foreign subsidiaries and certain of our domestic subsidiaries are not guarantors (collectively, the “Non-Guarantors”) on the 5.250% Senior Notes and 4.500% Senior Notes. Payments on the 5.250% Senior Notes and 4.500% Senior Notes are only required to be made by Scotts Miracle-Gro and the Guarantors. As a result, no payments are required to be made from the assets of the Non-Guarantors, unless those assets are transferred by dividend or otherwise to Scotts Miracle-Gro or a Guarantor. In the event of a bankruptcy, insolvency, liquidation or reorganization of any of the Non-Guarantors, holders of their indebtedness, including their trade creditors and other obligations, will be entitled to payment of their claims from the assets of the Non-Guarantors before any assets are made available for distribution to Scotts Miracle-Gro or the Guarantors. As a result, the 5.250% Senior Notes and 4.500% Senior Notes are effectively subordinated to all the liabilities of the Non-Guarantors.

The guarantees may be subject to review under federal bankruptcy laws or relevant state fraudulent conveyance or fraudulent transfer laws. In certain circumstances, the court could void the guarantee, subordinate the amounts owing under the guarantee, or take other actions detrimental to the holders of the 5.250% Senior Notes and 4.500% Senior Notes.

As a general matter, value is given for a transfer or an obligation if, in exchange for the transfer or obligation, property is transferred or a valid antecedent debt is satisfied. A court would likely find that a Guarantor did not receive reasonably equivalent value or fair consideration for its guarantee to the extent such Guarantor did not obtain a reasonably equivalent benefit from the issuance of the 5.250% Senior Notes or the 4.500% Senior Notes.

The measure of insolvency varies depending upon the law of the jurisdiction that is being applied. Regardless of the measure being applied, a court could determine that a Guarantor was insolvent on the date the guarantee was issued, so that payments to the holders of the 5.250% Senior Notes and 4.500% Senior Notes would constitute a preference, fraudulent transfer or conveyances on other grounds. If a guarantee is voided as a fraudulent conveyance or is found to be unenforceable for any other reason, the holders of the 5.250% Senior Notes and 4.500% Senior Notes will not have a claim against the Guarantor.

Each guarantee contains a provision intended to limit the Guarantor’s liability to the maximum amount that it could incur without causing the incurrence of obligations under its guarantee to be a fraudulent conveyance. However, there can be no assurance as to what standard a court will apply in making a determination of the maximum liability of each Guarantor. Moreover, this provision may not be effective to protect the guarantees from being voided under fraudulent conveyance laws. There is a possibility that the entire guarantee may be set aside, in which case the entire liability may be extinguished.

The following tables present summarized financial information on a combined basis for Scotts Miracle-Gro and the Guarantors. Transactions between Scotts Miracle-Gro and the Guarantors have been eliminated and the summarized financial information does not reflect investments of the Scotts Miracle-Gro and the Guarantors in the Non-Guarantor subsidiaries.

	<b>SEPTEMBER 30, 2020</b>
Current assets .....	\$ 1,062.5
Noncurrent assets <sup>(a)</sup> .....	1,853.8
Current liabilities .....	872.1
Noncurrent liabilities .....	1,695.7

(a) Includes amounts due from Non-Guarantor subsidiaries of \$27.2.

**THE SCOTTS MIRACLE-GRO COMPANY**

(Dollars in millions, except per share data)

YEAR ENDED  
SEPTEMBER 30,  
2020

Net sales .....	\$ 3,713.4
Gross profit .....	1,255.5
Income (loss) from continuing operations <sup>(a)</sup> .....	360.4
Net income (loss) .....	360.5
Net income (loss) attributable to controlling interest .....	360.5

(a) Includes intercompany expense from Non-Guarantor subsidiaries of \$4.6.

***Judicial and Administrative Proceedings***

We are party to various pending judicial and administrative proceedings arising in the ordinary course of business, including, among others, proceedings based on accidents or product liability claims and alleged violations of environmental laws. We have reviewed these pending judicial and administrative proceedings, including the probable outcomes, reasonably anticipated costs and expenses, and the availability and limits of our insurance coverage, and have established what we believe to be appropriate accruals. We believe that our assessment of contingencies is reasonable and that the related accruals, in the aggregate, are adequate; however, there can be no assurance that future quarterly or annual operating results will not be materially affected by these proceedings, whether as a result of adverse outcomes or as a result of significant defense costs.

***Contractual Obligations***

The following table summarizes our future cash outflows for contractual obligations as of September 30, 2020:

Contractual Cash Obligations	Total	Payments Due by Period			
		Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Debt obligations .....	\$ 1,495.1	\$ 61.1	\$ 734.0	\$ —	\$ 700.0
Interest expense on debt obligations .....	331.9	57.1	101.9	73.5	99.4
Finance lease obligations .....	43.4	6.5	13.1	9.0	14.8
Operating lease obligations .....	175.9	52.5	71.3	35.0	17.1
Purchase obligations .....	512.8	283.1	178.6	43.7	7.4
Other, primarily retirement plan obligations .....	85.9	12.2	24.1	23.3	26.3
Total contractual cash obligations .....	<u>\$ 2,645.0</u>	<u>\$ 472.5</u>	<u>\$ 1,123.0</u>	<u>\$ 184.5</u>	<u>\$ 865.0</u>

We had long-term debt obligations and interest payments due primarily under the 5.250% Senior Notes, 4.500% Senior Notes and our credit facilities. Amounts in the table represent scheduled future maturities of debt principal for the periods indicated.

The interest payments for our credit facilities are based on outstanding borrowings as of September 30, 2020. Actual interest expense will likely be higher due to the seasonality of our business and associated higher average borrowings.

Purchase obligations primarily represent commitments for materials used in our manufacturing processes, including urea and packaging, as well as commitments for warehouse services, grass seed, marketing services and information technology services which comprise the unconditional purchase obligations disclosed in “NOTE 19. COMMITMENTS” of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

Other obligations include actuarially determined retiree benefit payments and pension funding to comply with local funding requirements. Pension funding requirements beyond fiscal 2020 are based on preliminary estimates using actuarial assumptions determined as of September 30, 2020. These amounts represent expected payments through 2030. Based on the accounting rules for defined benefit pension plans and retirement health care plans, the liabilities reflected in our Consolidated Balance Sheets differ from these expected future payments (see Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K). The above table excludes liabilities for unrecognized tax benefits and insurance accruals as we are unable to estimate the timing of payments for these items.

***Off-Balance Sheet Arrangements***

At September 30, 2020, we have letters of credit in the aggregate face amount of \$20.3 outstanding.

## THE SCOTTS MIRACLE-GRO COMPANY

(Dollars in millions, except per share data)

### **Regulatory Matters**

We are subject to local, state, federal and foreign environmental protection laws and regulations with respect to our business operations and believe we are operating in substantial compliance with, or taking actions aimed at ensuring compliance with, such laws and regulations. We are involved in several legal actions with various governmental agencies related to environmental matters. While it is difficult to quantify the potential financial impact of actions involving these environmental matters, particularly remediation costs at waste disposal sites and future capital expenditures for environmental control equipment, in the opinion of management, the ultimate liability arising from such environmental matters, taking into account established accruals, should not have a material effect on our financial condition, results of operations or cash flows. However, there can be no assurance that the resolution of these matters will not materially affect our future quarterly or annual results of operations, financial condition or cash flows. Additional information on environmental matters affecting us is provided in “ITEM 1. BUSINESS — Regulatory Considerations” and “ITEM 3. LEGAL PROCEEDINGS” of this Annual Report on Form 10-K.

### **Critical Accounting Policies and Estimates**

The preparation of financial statements requires management to use judgment and make estimates that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to customer programs and incentives, product returns, bad debts, inventories, intangible assets, income taxes, restructuring, environmental matters, contingencies and litigation. By their nature, these judgments are subject to uncertainty. We base our estimates on historical experience and on various other sources that we believe to be reasonable under the circumstances.

Certain accounting policies are particularly significant, including those related to revenue recognition, income taxes and goodwill and intangible assets. Our critical accounting policies are reviewed periodically with the Audit Committee of the Board of Directors of Scotts Miracle-Gro.

#### ***Revenue Recognition and Promotional Allowances***

Our revenue is primarily generated from sales of branded and private label lawn and garden care and indoor and hydroponic gardening finished products. Product sales are recognized at a point in time when control of products transfers to customers and we have no further obligation to provide services related to such products. Sales are typically recognized when products are delivered to or picked up by the customer. We are generally the principal in a transaction, therefore revenue is primarily recorded on a gross basis. Revenue for product sales is recorded net of sales returns and allowances. Revenues are measured based on the amount of consideration that we expect to receive as derived from a list price, reduced by estimates for variable consideration. Variable consideration includes the cost of current and continuing promotional programs and expected sales returns.

Our promotional programs primarily include rebates based on sales volumes, in-store promotional allowances, cooperative advertising programs, direct consumer rebate programs and special purchasing incentives. The cost of promotional programs is estimated considering all reasonably available information, including current expectations and historical experience. Promotional costs (including allowances and rebates) incurred during the year are expensed to interim periods in relation to revenues and are recorded as a reduction of net sales. Provisions for estimated returns and allowances are recorded at the time revenue is recognized based on historical rates and are periodically adjusted for known changes in return levels. Shipping and handling costs are accounted for as contract fulfillment costs and included in the “Cost of sales” line in the Consolidated Statements of Operations. We exclude from revenue any amounts collected from customers for sales or other taxes.

#### ***Income Taxes***

Our annual effective tax rate is established based on our pre-tax income (loss), statutory tax rates and the tax impacts of items treated differently for tax purposes than for financial reporting purposes. We record income tax liabilities utilizing known obligations and estimates of potential obligations. A deferred tax asset or liability is recognized whenever there are future tax effects from existing temporary differences and operating loss and tax credit carryforwards. Valuation allowances are used to reduce deferred tax assets to the balances that are more likely than not to be realized. We must make estimates and judgments on future taxable income, considering feasible tax planning strategies and taking into account existing facts and circumstances, to determine the proper valuation allowances. When we determine that deferred tax assets could be realized in greater or lesser amounts than recorded, the asset balance and Consolidated Statements of Operations reflect the change in the period such determination is made. Due to changes in facts and circumstances and the estimates and judgments that are involved in determining the proper valuation allowances, differences between actual future events and prior estimates and judgments could

## THE SCOTTS MIRACLE-GRO COMPANY

(Dollars in millions, except per share data)

result in adjustments to these valuation allowances. We use an estimate of our annual effective tax rate at each interim period based on the facts and circumstances available at that time, while the actual effective tax rate is calculated at year-end.

### ***Goodwill and Indefinite-lived Intangible Assets***

We have significant investments in intangible assets and goodwill. Our annual goodwill and indefinite-lived intangible asset testing is performed as of the first day of our fiscal fourth quarter or more frequently if circumstances indicate potential impairment. In our evaluation of impairment for goodwill and indefinite-lived intangible assets, we perform either an initial qualitative or quantitative evaluation for each of our reporting units and indefinite-lived intangible assets. Factors considered in the qualitative test include operating results as well as new events and circumstances impacting the operations or cash flows of the reporting unit or indefinite-lived intangible assets. For the quantitative test, the review for impairment of goodwill and indefinite-lived intangible assets is based on a combination of income-based and market-based approaches. If it is determined that an impairment has occurred, an impairment loss is recognized for the amount by which the carrying value of the reporting unit or intangible asset exceeds its estimated fair value.

Under the income-based approach, we determine fair value using a discounted cash flow approach that requires significant judgment with respect to revenue and profitability growth rates, based upon annual budgets and longer-range strategic plans, and the selection of an appropriate discount rate. These budgets and plans are used for internal purposes and are also the basis for communication with outside parties about future business trends. Under the market-based approach, we determine fair value by comparing our reporting units to similar businesses or guideline companies whose securities are actively traded in public markets. We also use the guideline transaction method to determine fair value based on pricing multiples derived from the sale of companies that are similar to our reporting units.

Fair value estimates employed in our annual impairment review of indefinite-lived intangible assets and goodwill were determined using models involving several assumptions. Changes in our assumptions could materially impact our fair value estimates. Assumptions critical to our fair value estimates were: (i) discount rates used in determining the fair value of the reporting units and intangible assets; (ii) royalty rates used in our intangible asset valuations; (iii) projected future revenues and profitability used in the reporting unit and intangible asset models; and (iv) projected long-term growth rates used in the derivation of terminal year values. These and other assumptions are impacted by economic conditions and expectations of management and may change in the future based on period specific facts and circumstances. While we believe the assumptions we used to estimate future cash flows are reasonable, there can be no assurance that the expected future cash flows will be realized. As a result, impairment charges that possibly would have been recognized in earlier periods may not be recognized until later periods if actual results deviate unfavorably from earlier estimates. The use of different assumptions would increase or decrease discounted cash flows or earnings projections and, therefore, could change impairment determinations.

At September 30, 2020, goodwill totaled \$544.1, with \$228.1, \$305.5 and \$10.5 for our U.S. Consumer, Hawthorne and Other segments, respectively. We performed annual impairment testing as of the first day of our fiscal fourth quarter in fiscal 2020, 2019 and 2018 and, with the exception of our Hawthorne reporting unit in fiscal 2018, concluded that there were no impairments of goodwill as the estimated fair value of each reporting unit exceeded its carrying value. Based on the results of the annual quantitative evaluation for fiscal 2020, the fair values of our U.S. Consumer, Hawthorne and Other segment reporting units exceeded their respective carrying values by 339%, 79% and 17%, respectively. A 100 basis point change in the discount rate would not have resulted in an impairment for our U.S. Consumer, Hawthorne and Other segment reporting units. As discussed further in “NOTE 5. GOODWILL AND INTANGIBLE ASSETS, NET” of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K, during the fourth quarter of fiscal 2018 we recognized a non-cash goodwill impairment charge of \$94.6 related to our Hawthorne reporting unit in the “Impairment, restructuring and other” line in the Consolidated Statements of Operations.

At September 30, 2020, indefinite-lived intangible assets consisted of tradenames of \$168.2 and the Roundup<sup>®</sup> marketing agreement amendment of \$155.7. Based on the results of the annual evaluation for fiscal 2020, the fair values of our indefinite-lived intangible assets exceeded their respective carrying values in a range of 19% to over 1,400%. A 100 basis point change in the discount rate would not have resulted in an impairment of any of our indefinite-lived intangible assets.

### ***Other Significant Accounting Policies***

Other significant accounting policies, primarily those with lower levels of uncertainty than those discussed above, are also critical to understanding the consolidated financial statements. The Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K contain additional information related to our accounting policies, including recent accounting pronouncements, and should be read in conjunction with this discussion.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As part of our ongoing business, we are exposed to certain market risks, including fluctuations in interest rates, foreign currency exchange rates and commodity prices. Financial derivatives and other instruments are used to manage these risks. These instruments are not used for speculative purposes.

### **Interest Rate Risk**

The following table summarizes information about our debt instruments and derivative financial instruments that are sensitive to changes in interest rates as of September 30, 2020 and 2019. For debt instruments, the table presents principal cash flows and related weighted-average interest rates by expected maturity dates. For interest rate swap agreements, the table presents expected cash flows based on notional amounts and weighted-average interest rates by contractual maturity dates. We have outstanding interest rate swap agreements with major financial institutions that effectively convert a portion of the Company's variable-rate debt to a fixed rate. The swap agreements had a maximum total U.S. dollar equivalent notional amount of \$600.0 million and \$850.0 million at September 30, 2020 and 2019, respectively. Weighted-average variable rates are based on rates in effect at September 30, 2020 and 2019. A change in our variable interest rate of 100 basis points for a full twelve-month period would have a \$2.5 million impact on interest expense assuming approximately \$250 million of our average fiscal 2020 variable-rate debt had not been hedged via an interest rate swap agreement.

<b>2020</b>	<b>Expected Maturity Date (in millions)</b>						<b>Total</b>	<b>Fair Value</b>
	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>After</b>		
Long-term debt:								
Fixed rate debt .....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 700.0	\$ 700.0	\$ 743.0
Average rate .....	—	—	—	—	—	4.8 %	4.8 %	—
Variable rate debt .....	\$ 60.0	\$ 40.0	\$ 694.0	\$ —	\$ —	\$ —	\$ 794.0	\$ 794.0
Average rate .....	1.3 %	1.4 %	1.4 %	—	—	—	1.4 %	—
Interest rate derivatives:								
Interest rate swaps .....	\$ (9.8)	\$ (5.7)	\$ (3.5)	\$ (0.4)	\$ (0.4)	\$ (0.3)	\$ (20.1)	\$ (20.1)
Average rate .....	2.6 %	1.5 %	1.2 %	0.9 %	0.9 %	0.9 %	1.4 %	—

<b>2019</b>	<b>Expected Maturity Date (in millions)</b>						<b>Total</b>	<b>Fair Value</b>
	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>After</b>		
Long-term debt:								
Fixed rate debt .....	\$ —	\$ —	\$ —	\$ —	\$ 400.0	\$ 250.0	\$ 650.0	\$ 675.9
Average rate .....	—	—	—	—	6.0 %	5.3 %	5.7 %	—
Variable rate debt .....	\$ 116.0	\$ 40.0	\$ 40.0	\$ 777.2	\$ —	\$ —	\$ 973.2	\$ 973.2
Average rate .....	3.1 %	3.8 %	3.8 %	3.7 %	—	—	3.6 %	—
Interest rate derivatives:								
Interest rate swaps .....	\$ (0.4)	\$ (4.3)	\$ (6.1)	\$ —	\$ —	\$ —	\$ (10.8)	\$ (10.8)
Average rate .....	2.1 %	2.7 %	3.0 %	—	—	—	2.8 %	—

Excluded from the information provided above are miscellaneous debt instruments of \$1.1 million and \$10.3 million and finance lease obligations of \$36.1 million and \$25.8 million at September 30, 2020 and 2019, respectively.

### **Other Market Risks**

We are subject to market risk from fluctuations in foreign currency exchange rates and fluctuating prices of certain raw materials, including urea and other fertilizer inputs, resins, diesel, gasoline, natural gas, sphagnum peat, bark and grass seed. Refer to "NOTE 16. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES" of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for discussion of these market risks and the derivatives used to manage these risks.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The financial statements and other information required by this Item are contained in the Consolidated Financial Statements, Notes to Consolidated Financial Statements and Schedules Supporting the Consolidated Financial Statements listed in the “Index to Consolidated Financial Statements and Financial Statement Schedules” on page 59 of this Annual Report on Form 10-K.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

With the participation of the principal executive officer and the principal financial officer of The Scotts Miracle-Gro Company (the “Registrant”), the Registrant’s management has evaluated the effectiveness of the Registrant’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934), as of the end of the fiscal year covered by this Annual Report on Form 10-K. Based upon that evaluation, the Registrant’s principal executive officer and principal financial officer have concluded that the Registrant’s disclosure controls and procedures were effective as of the end of the fiscal year covered by this Annual Report on Form 10-K.

**Management’s Annual Report on Internal Control Over Financial Reporting**

The “Annual Report of Management on Internal Control Over Financial Reporting” required by Item 308(a) of SEC Regulation S-K is included on page 60 of this Annual Report on Form 10-K.

**Attestation Report of Independent Registered Public Accounting Firm**

The “Report of Independent Registered Public Accounting Firm” required by Item 308(b) of SEC Regulation S-K is included on page 61 of this Annual Report on Form 10-K.

**Changes in Internal Control Over Financial Reporting**

No changes in the Registrant’s internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the Registrant’s fiscal quarter ended September 30, 2020, that have materially affected, or are reasonably likely to materially affect, the Registrant’s internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.



## PART III

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

#### **Directors, Executive Officers and Persons Nominated or Chosen to Become Directors or Executive Officers**

The information required by Item 401 of SEC Regulation S-K concerning the directors of Scotts Miracle-Gro and the nominees for election or re-election as directors of Scotts Miracle-Gro at the Annual Meeting of Shareholders to be held on January 25, 2021 (the “2021 Annual Meeting”) is incorporated herein by reference from the disclosure which will be included under the caption “PROPOSAL NUMBER 1 — ELECTION OF DIRECTORS” in Scotts Miracle-Gro’s definitive Proxy Statement relating to the 2021 Annual Meeting (“Scotts Miracle-Gro’s Definitive Proxy Statement”), which will be filed pursuant to SEC Regulation 14A not later than 120 days after the end of Scotts Miracle-Gro’s fiscal year ended September 30, 2020.

The information required by Item 401 of SEC Regulation S-K concerning the executive officers of Scotts Miracle-Gro is incorporated herein by reference from the disclosure included under the caption “SUPPLEMENTAL ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT” in Part I of this Annual Report on Form 10-K.

#### **Compliance with Section 16(a) of the Securities Exchange Act of 1934**

The information required by Item 405 of SEC Regulation S-K is incorporated herein by reference from the disclosure which will be included under the caption “SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE” in Scotts Miracle-Gro’s Definitive Proxy Statement.

#### **Procedures for Recommending Director Nominees**

Information concerning the procedures by which shareholders of Scotts Miracle-Gro may recommend nominees to Scotts Miracle-Gro’s Board of Directors is incorporated herein by reference from the disclosures which will be included under the captions “CORPORATE GOVERNANCE — Nominations of Directors” and “MEETINGS AND COMMITTEES OF THE BOARD — Committees of the Board — Nominating and Governance Committee” in Scotts Miracle-Gro’s Definitive Proxy Statement. These procedures have not materially changed from those described in Scotts Miracle-Gro’s definitive Proxy Statement for the 2020 Annual Meeting of Shareholders held on January 27, 2020.

#### **Audit Committee**

The information required by Items 407(d)(4) and 407(d)(5) of SEC Regulation S-K is incorporated herein by reference from the disclosure which will be included under the caption “MEETINGS AND COMMITTEES OF THE BOARD — Committees of the Board” in Scotts Miracle-Gro’s Definitive Proxy Statement.

#### **Committee Charters; Code of Business Conduct & Ethics; Corporate Governance Guidelines**

The Board of Directors of Scotts Miracle-Gro has adopted charters for each of the Audit Committee, the Nominating and Governance Committee, the Compensation and Organization Committee, the Innovation and Technology Committee and the Finance Committee, as well as Corporate Governance Guidelines, as contemplated by the applicable sections of the New York Stock Exchange Listed Company Manual.

In accordance with the requirements of Section 303A.10 of the New York Stock Exchange Listed Company Manual and Item 406 of SEC Regulation S-K, the Board of Directors of Scotts Miracle-Gro has adopted a Code of Business Conduct & Ethics covering the members of Scotts Miracle-Gro’s Board of Directors and associates (employees) of Scotts Miracle-Gro and its subsidiaries, including, without limitation, Scotts Miracle-Gro’s principal executive officer, principal financial officer and principal accounting officer. Scotts Miracle-Gro intends to disclose the following events, if they occur, on its Internet website located at <http://investor.scotts.com> within four business days following their occurrence: (A) the date and nature of any amendment to a provision of Scotts Miracle-Gro’s Code of Business Conduct & Ethics that (i) applies to Scotts Miracle-Gro’s principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, (ii) relates to any element of the code of ethics definition enumerated in Item 406(b) of SEC Regulation S-K, and (iii) is not a technical, administrative or other non-substantive amendment; and (B) a description of any waiver (including the nature of the waiver, the name of the person to whom the waiver was granted and the date of the waiver), including an implicit waiver, from a provision of the Code of Business Conduct & Ethics granted to Scotts Miracle-Gro’s principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, that relates to one or more of the elements of the code of ethics definition enumerated in Item 406(b) of SEC Regulation S-K. In addition, Scotts Miracle-Gro will disclose any waivers from the provisions of the Code of Business Conduct & Ethics granted to an executive

officer or a director of Scotts Miracle-Gro on Scotts Miracle-Gro's Internet website located at <http://investor.scotts.com> within four business days of the determination to grant any such waiver.

The text of Scotts Miracle-Gro's Code of Business Conduct & Ethics, Scotts Miracle-Gro's Corporate Governance Guidelines, the Audit Committee charter, the Nominating and Governance Committee charter, the Compensation and Organization Committee charter, the Innovation and Technology Committee charter and the Finance Committee charter are posted under the "Corporate Governance" link on Scotts Miracle-Gro's Internet website located at <http://investor.scotts.com>. Interested persons and shareholders of Scotts Miracle-Gro may also obtain copies of each of these documents without charge by writing to The Scotts Miracle-Gro Company, Attention: Corporate Secretary, 14111 Scottslawn Road, Marysville, Ohio 43041.

#### **ITEM 11. EXECUTIVE COMPENSATION**

The information required by Item 402 of SEC Regulation S-K is incorporated herein by reference from the disclosures which will be included under the captions "EXECUTIVE COMPENSATION," "NON-EMPLOYEE DIRECTOR COMPENSATION," "EXECUTIVE COMPENSATION TABLES," "SEVERANCE AND CHANGE IN CONTROL (CIC) ARRANGEMENTS," and "PAYMENTS ON TERMINATION OF EMPLOYMENT AND/OR CHANGE IN CONTROL" in Scotts Miracle-Gro's Definitive Proxy Statement.

The information required by Item 407(e)(4) of SEC Regulation S-K is incorporated herein by reference from the disclosure which will be included under the caption "MEETINGS AND COMMITTEES OF THE BOARD — Compensation and Organization Committee Interlocks and Insider Participation" in Scotts Miracle-Gro's Definitive Proxy Statement.

The information required by Item 407(e)(5) of SEC Regulation S-K is incorporated herein by reference from the disclosure which will be included under the caption "COMPENSATION COMMITTEE REPORT" in Scotts Miracle-Gro's Definitive Proxy Statement.

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

##### **Ownership of Common Shares of Scotts Miracle-Gro**

The information required by Item 403 of SEC Regulation S-K is incorporated herein by reference from the disclosure which will be included under the caption "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT" in Scotts Miracle-Gro's Definitive Proxy Statement.

##### **Equity Compensation Plan Information**

The information required by Item 201(d) of SEC Regulation S-K is incorporated herein by reference from the disclosure which will be included under the caption "EQUITY COMPENSATION PLAN INFORMATION" in Scotts Miracle-Gro's Definitive Proxy Statement.

#### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

##### **Certain Relationships and Related Person Transactions**

The information required by Item 404 of SEC Regulation S-K is incorporated herein by reference from the disclosures which will be included under the caption "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS" in Scotts Miracle-Gro's Definitive Proxy Statement.

##### **Director Independence**

The information required by Item 407(a) of SEC Regulation S-K is incorporated herein by reference from the disclosures which will be included under the captions "CORPORATE GOVERNANCE — Director Independence" and "MEETINGS AND COMMITTEES OF THE BOARD" in Scotts Miracle-Gro's Definitive Proxy Statement.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this Item 14 is incorporated herein by reference from the disclosures which will be included under the captions “AUDIT COMMITTEE MATTERS — Fees of the Independent Registered Public Accounting Firm” and “AUDIT COMMITTEE MATTERS — Pre-Approval of Services Performed by the Independent Registered Public Accounting Firm” in Scotts Miracle-Gro’s Definitive Proxy Statement.

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) *LIST OF DOCUMENTS FILED AS PART OF THIS REPORT*

1 and 2. Financial Statements and Financial Statement Schedules:

The response to this portion of Item 15 is submitted as a separate section of this Annual Report on Form 10-K. Reference is made to the “Index to Consolidated Financial Statements and Financial Statement Schedules” on page 59 of this Annual Report on Form 10-K.

(b) *EXHIBITS*

The exhibits listed on the “Index to Exhibits” beginning on page 112 of this Annual Report on Form 10-K are filed or furnished with this Annual Report on Form 10-K or incorporated herein by reference as noted in the “Index to Exhibits.”

(c) *FINANCIAL STATEMENT SCHEDULES*

The financial statement schedule filed with this Annual Report on Form 10-K is submitted in a separate section hereof. For a description of such financial statement schedules, see “Index to Consolidated Financial Statements and Financial Statement Schedules” on page 59 of this Annual Report on Form 10-K.

**ITEM 16. FORM 10-K SUMMARY**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE SCOTTS MIRACLE-GRO COMPANY

By: /s/ JAMES HAGEDORN  
James Hagedorn, Chief Executive Officer and  
Chairman of the Board

Dated: November 24, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ THOMAS RANDAL COLEMAN</u> Thomas Randal Coleman	Chief Financial Officer and Executive Vice President (Principal Financial Officer and Principal Accounting Officer)	November 24, 2020
<u>/s/ JAMES HAGEDORN</u> James Hagedorn	Chief Executive Officer, Chairman of the Board and Director (Principal Executive Officer)	November 24, 2020
<u>/s/ DAVID C. EVANS*</u> David C. Evans	Director	November 24, 2020
<u>/s/ BRIAN D. FINN*</u> Brian D. Finn	Director	November 24, 2020
<u>/s/ ADAM HANFT*</u> Adam Hanft	Director	November 24, 2020
<u>/s/ STEPHEN L. JOHNSON*</u> Stephen L. Johnson	Director	November 24, 2020
<u>/s/ THOMAS N. KELLY JR.*</u> Thomas N. Kelly Jr.	Director	November 24, 2020
<u>/s/ KATHERINE HAGEDORN LITTLEFIELD*</u> Katherine Hagedorn Littlefield	Director	November 24, 2020

Signature

Title

Date

/s/ NANCY G. MISTRETТА\* Director  
Nancy G. Mistretta

November 24, 2020

/s/ PETER E. SHUMLIN\* Director  
Peter E. Shumlin

November 24, 2020

/s/ JOHN R. VINES\* Director  
John R. Vines

November 24, 2020

\* The undersigned, by signing his name hereto, does hereby sign this Report on behalf of each of the directors of the Registrant identified above pursuant to Powers of Attorney executed by the directors identified above, which Powers of Attorney are filed with this Report as exhibits.

By: /s/ THOMAS RANDAL COLEMAN  
Thomas Randal Coleman, Attorney-in-Fact

**THE SCOTTS MIRACLE-GRO COMPANY  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS  
AND FINANCIAL STATEMENT SCHEDULES**

	<b>Page</b>
Consolidated Financial Statements of The Scotts Miracle-Gro Company and Subsidiaries:	
Annual Report of Management on Internal Control Over Financial Reporting .....	60
Reports of Independent Registered Public Accounting Firm .....	61
Consolidated Statements of Operations for the fiscal years ended September 30, 2020, 2019 and 2018 .....	64
Consolidated Statements of Comprehensive Income (Loss) for the fiscal years ended September 30, 2020, 2019 and 2018 .....	65
Consolidated Statements of Cash Flows for the fiscal years ended September 30, 2020, 2019 and 2018 .....	66
Consolidated Balance Sheets at September 30, 2020 and 2019 .....	67
Consolidated Statements of Shareholders' Equity for the fiscal years ended September 30, 2020, 2019 and 2018 .....	68
Notes to Consolidated Financial Statements .....	69
Schedules Supporting the Consolidated Financial Statements:	
Schedule II—Valuation and Qualifying Accounts for the fiscal years ended September 30, 2020, 2019 and 2018 .....	111

All other financial statement schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are omitted because they are not required or are not applicable, or the required information has been presented in the Consolidated Financial Statements or Notes thereto.

## ANNUAL REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of The Scotts Miracle-Gro Company and our consolidated subsidiaries; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of The Scotts Miracle-Gro Company and our consolidated subsidiaries are being made only in accordance with authorizations of management and directors of The Scotts Miracle-Gro Company and our consolidated subsidiaries, as appropriate; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the assets of The Scotts Miracle-Gro Company and our consolidated subsidiaries that could have a material effect on our consolidated financial statements.

Management, with the participation of our principal executive officer and principal financial officer, assessed the effectiveness of our internal control over financial reporting as of September 30, 2020, the end of our fiscal year. Management based its assessment on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management’s assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies and our overall control environment. This assessment is supported by testing and monitoring performed under the direction of management.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Accordingly, even an effective system of internal control over financial reporting will provide only reasonable assurance with respect to financial statement preparation.

Based on our assessment, management has concluded that our internal control over financial reporting was effective as of September 30, 2020, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America. We reviewed the results of management’s assessment with the Audit Committee of the Board of Directors of The Scotts Miracle-Gro Company.

Our independent registered public accounting firm, Deloitte & Touche LLP, independently audited our internal control over financial reporting as of September 30, 2020 and has issued their attestation report which appears herein.

/s/ JAMES HAGEDORN

James Hagedorn  
Chief Executive Officer and Chairman of the Board

Dated: November 24, 2020

/s/ THOMAS RANDAL COLEMAN

Thomas Randal Coleman  
Executive Vice President and Chief Financial Officer

Dated: November 24, 2020

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of  
The Scotts Miracle-Gro Company  
Marysville, Ohio

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of The Scotts Miracle-Gro Company and subsidiaries (the “Company”) as of September 30, 2020 and 2019, the related consolidated statements of operations, comprehensive income (loss), shareholders’ equity, and cash flows, for each of the three years in the period ended September 30, 2020, and the related notes and the schedules listed in the Index at Item 15 (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of September 30, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 24, 2020, expressed an unqualified opinion on the Company’s internal control over financial reporting.

### Changes in Accounting Principle

As discussed in Note 1 to the financial statements, on October 1, 2019, the Company adopted Financial Accounting Standards Board Accounting Standards Codification 842, *Leases*, using the modified retrospective approach.

As discussed in Note 1 to the financial statements, during the three months ended December 28, 2019, the Company adopted accounting guidance related to inventory valuation for the change in accounting for a portion of its inventories to the first-in, first-out method which was determined to be a preferable accounting principle for such inventories.

### Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.



***Goodwill — Hawthorne Reporting Unit — Refer to Notes 1 and 5 to the financial statements.***

*Critical Audit Matter Description*

When evaluating goodwill for impairment, the Company performs either an initial qualitative or quantitative evaluation for each of their reporting units. For the quantitative evaluation, the Company compares the fair value of each reporting unit to its carrying value. The Company determines the fair value of its reporting units using a combination of income-based and market-based approaches and incorporates assumptions it believes market participants would utilize. Under the income-based approach, the Company determines fair value using a discounted cash flow approach that requires significant judgment with respect to revenue and profitability growth rates based upon annual budgets and longer-range strategic plans and the selection of an appropriate discount rate. Under the market-based approach, the Company determines fair value by comparing its reporting units to similar businesses or guideline companies whose securities are actively traded in public markets. The use of different assumptions would increase or decrease discounted cash flows or earnings projections and could, therefore, change impairment determinations. The goodwill balance was \$544.1 million as of September 30, 2020, of which \$305.5 million was allocated to the Hawthorne reporting unit. The fair value of the Hawthorne reporting unit exceeded its carrying value as of the measurement date and, therefore, no impairment was recognized. Hawthorne's operations are sensitive to changes in the U.S. retail hydroponic market as the demand for its products depends on the uncertain growth of the market.

Given the significant estimates and assumptions management makes to estimate the fair value of Hawthorne and the sensitivity of Hawthorne's operations to changes in the U.S. retail hydroponic market, performing audit procedures to evaluate the reasonableness of management's estimates and assumptions with respect to revenue and profitability growth rates, and the selection of an appropriate discount rate for Hawthorne required a high degree of auditor judgment and an increased extent of effort, including the need to involve our fair value specialists.

*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures with respect to revenue and profitability growth rates, and the selection of an appropriate discount rate for Hawthorne included the following, among others:

- We tested the effectiveness of controls over management's goodwill impairment evaluation, including those over the determination of the fair value of Hawthorne, such as controls related to revenue and profitability growth rates and the selection of an appropriate discount rate.
- We evaluated management's ability to accurately forecast revenue and profitability growth rates by comparing actual results to management's historical forecasts.
- Due to the uncertain growth in the U.S. retail hydroponic market, we evaluated the reasonableness of management's forecasts of revenue and profitability growth rates by comparing the forecasts to (1) the historical results of Hawthorne, (2) internal communications to management and the board of directors, (3) external communications made by management to analysts and investors, and (4) industry reports containing analyses of the Company's markets.
- We considered the impact of changes in the regulatory environment on management's forecasts of revenue and profitability growth rates.
- With the assistance of our fair value specialists, we evaluated the reasonableness of the discount rate, including testing the source information underlying the determination of the discount rate, testing the mathematical accuracy of the calculation, and developing a range of independent estimates and comparing those to the discount rate selected by management.

/s/ DELOITTE & TOUCHE LLP

Columbus, Ohio

November 24, 2020

We have served as the Company's auditor since 2005.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of The Scotts Miracle-Gro Company

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of The Scotts Miracle-Gro Company and subsidiaries (the “Company”) as of September 30, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements as of and for the year ended September 30, 2020, of the Company and our report dated November 24, 2020, expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company’s adoption of Financial Accounting Standards Board Accounting Standards Codification 842, *Leases*, and accounting guidance related to inventory valuation for its change in accounting for a portion of its inventories to the first-in, first-out method which was determined to be a preferable accounting principle for such inventories.

### Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Annual Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP

Columbus, Ohio  
November 24, 2020

**THE SCOTTS MIRACLE-GRO COMPANY**

**Consolidated Statements of Operations**  
**(In millions, except per share data)**

	Year Ended September 30,		
	2020	2019	2018
Net sales	\$ 4,131.6	\$ 3,156.0	\$ 2,663.4
Cost of sales	2,768.6	2,130.5	1,778.3
Cost of sales—impairment, restructuring and other	16.0	5.9	20.5
Gross profit	1,347.0	1,019.6	864.6
Operating expenses:			
Selling, general and administrative	757.8	601.3	540.1
Impairment, restructuring and other	0.8	7.4	132.3
Other (income) expense, net	3.2	1.3	(6.7)
Income from operations	585.2	409.6	198.9
Equity in income of unconsolidated affiliates	—	(3.3)	(4.9)
Costs related to refinancing	15.1	—	—
Interest expense	79.6	101.8	86.4
Other non-operating (income) expense, net	(20.1)	(270.5)	1.7
Income from continuing operations before income taxes	510.6	581.6	115.7
Income tax expense (benefit) from continuing operations	123.7	144.9	(11.9)
Income from continuing operations	386.9	436.7	127.6
Income (loss) from discontinued operations, net of tax	1.7	23.5	(63.9)
Net income	\$ 388.6	\$ 460.2	\$ 63.7
Net (income) loss attributable to noncontrolling interest	(1.2)	0.5	—
Net income attributable to controlling interest	\$ 387.4	\$ 460.7	\$ 63.7
Basic income (loss) per common share:			
Income from continuing operations	\$ 6.92	\$ 7.88	\$ 2.27
Income (loss) from discontinued operations	0.04	0.42	(1.14)
Basic net income per common share	\$ 6.96	\$ 8.30	\$ 1.13
Diluted income (loss) per common share:			
Income from continuing operations	\$ 6.78	\$ 7.77	\$ 2.23
Income (loss) from discontinued operations	0.03	0.41	(1.11)
Diluted net income per common share	\$ 6.81	\$ 8.18	\$ 1.12

See Notes to Consolidated Financial Statements.

**THE SCOTTS MIRACLE-GRO COMPANY**

**Consolidated Statements of Comprehensive Income (Loss)**  
**(In millions)**

	Year Ended September 30,		
	2020	2019	2018
Net income .....	\$ 388.6	\$ 460.2	\$ 63.7
Other comprehensive income (loss):			
Net foreign currency translation adjustment, including reclassifications to net income of \$0.8, \$2.5 and \$11.7 for fiscal 2020, fiscal 2019 and fiscal 2018, respectively .....	11.3	(8.7)	9.0
Net unrealized gain (loss) on derivative instruments, net of tax of \$(5.1), \$(5.2) and \$3.3 for fiscal 2020, fiscal 2019 and fiscal 2018, respectively .....	(14.6)	(14.9)	9.3
Reclassification of net unrealized (gains) losses on derivative instruments to net income, net of tax of \$2.6, \$(0.5) and \$(1.1) for fiscal 2020, fiscal 2019 and fiscal 2018, respectively .....	7.5	(1.5)	(3.1)
Net unrealized gain (loss) in pension and other post-retirement benefits, net of tax of \$(3.3), \$(3.9) and \$2.4 for fiscal 2020, fiscal 2019 and fiscal 2018, respectively .....	(9.6)	(11.1)	6.7
Reclassification of net pension and other post-retirement benefit losses to net income, net of tax of \$0.1, \$0.7 and \$0.4 for fiscal 2020, fiscal 2019 and fiscal 2018, respectively .....	0.2	2.1	1.3
Total other comprehensive income (loss) .....	(5.2)	(34.1)	23.2
Comprehensive income .....	383.4	426.1	86.9
Comprehensive (income) loss attributable to noncontrolling interest .....	(1.2)	0.5	—
Comprehensive income attributable to controlling interest .....	<u>\$ 382.2</u>	<u>\$ 426.6</u>	<u>\$ 86.9</u>

See Notes to Consolidated Financial Statements.

**THE SCOTTS MIRACLE-GRO COMPANY**

**Consolidated Statements of Cash Flows**  
**(In millions)**

	Year Ended September 30,		
	2020	2019	2018
<b>OPERATING ACTIVITIES</b>			
Net income	\$ 388.6	\$ 460.2	\$ 63.7
Adjustments to reconcile net income to net cash provided by operating activities:			
Impairment, restructuring and other	0.6	0.7	121.5
Costs related to refinancing	15.1	—	—
Share-based compensation expense	57.9	38.4	40.4
Depreciation	62.2	55.9	53.4
Amortization	32.5	33.4	30.0
Deferred taxes	(11.1)	(33.3)	(87.6)
(Gain) loss on long-lived assets	2.8	1.1	(0.6)
(Gain) loss on sale of business / unconsolidated affiliate	—	(262.6)	0.7
Recognition of accumulated foreign currency translation loss	0.8	2.5	11.7
Equity in (income) loss and distributions from unconsolidated affiliates	—	1.6	(4.9)
Changes in assets and liabilities, net of acquired businesses:			
Accounts receivable	(188.1)	0.6	(2.7)
Inventories	(80.6)	(65.0)	14.3
Prepaid and other assets	(19.4)	(11.0)	18.0
Accounts payable	172.2	54.3	(3.9)
Other current liabilities	154.6	49.7	4.5
Restructuring and other	(6.0)	(100.2)	100.1
Other non-current items	(24.8)	(0.3)	(13.6)
Other, net	0.7	0.8	(2.5)
Net cash provided by operating activities	<u>558.0</u>	<u>226.8</u>	<u>342.5</u>
<b>INVESTING ACTIVITIES</b>			
Proceeds from sale of long-lived assets	0.4	2.1	5.1
Post-closing working capital payment related to sale of International Business	—	—	(35.3)
Investments in property, plant and equipment	(62.7)	(42.4)	(68.2)
Investments in loans receivable	(3.4)	—	(17.1)
Proceeds from loans receivable	—	20.8	14.3
Proceeds from sale of brand extension assets	115.5	—	—
Proceeds from sale of investment in unconsolidated affiliates	—	274.3	—
Net distributions from unconsolidated affiliates	—	—	(0.1)
Investments in acquired businesses, net of cash acquired	—	(6.6)	(492.9)
Other investing, net	(2.9)	7.0	13.5
Net cash provided by (used in) investing activities	<u>46.9</u>	<u>255.2</u>	<u>(580.7)</u>
<b>FINANCING ACTIVITIES</b>			
Borrowings under revolving and bank lines of credit and term loans	1,222.7	1,056.2	2,987.0
Repayments under revolving and bank lines of credit and term loans	(1,413.8)	(1,445.5)	(2,312.9)
Proceeds from issuance of 4.500% Senior Notes	450.0	—	—
Repayment of 6.000% Senior Notes	(400.0)	—	—
Financing and issuance fees	(18.7)	(0.2)	(6.1)
Dividends paid	(411.2)	(124.5)	(120.0)
Purchase of Common Shares	(53.2)	(3.1)	(327.7)
Payments on seller notes	(0.5)	(0.8)	(8.9)
Cash received from exercise of stock options	17.6	21.4	10.5
Acquisition of noncontrolling interests	—	—	(70.7)
Net cash (used in) provided by financing activities	<u>(607.1)</u>	<u>(496.5)</u>	<u>151.2</u>
Effect of exchange rate changes on cash	—	(0.6)	0.4
Net increase (decrease) in cash and cash equivalents	<u>(2.2)</u>	<u>(15.1)</u>	<u>(86.6)</u>
Cash and cash equivalents at beginning of year	18.8	33.9	120.5
Cash and cash equivalents at end of year	<u>\$ 16.6</u>	<u>\$ 18.8</u>	<u>\$ 33.9</u>

See Notes to Consolidated Financial Statements.

**THE SCOTTS MIRACLE-GRO COMPANY**

**Consolidated Balance Sheets  
(In millions, except per share data)**

	September 30,	
	2020	2019
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 16.6	\$ 18.8
Accounts receivable, less allowances of \$7.5 in 2020 and \$4.2 in 2019	474.8	223.9
Accounts receivable pledged	22.3	84.5
Inventories	621.9	540.3
Prepaid and other current assets	81.0	174.2
Total current assets	1,216.6	1,041.7
Property, plant and equipment, net	560.0	546.0
Goodwill	544.1	538.7
Intangible assets, net	679.2	707.5
Other assets	380.6	194.8
Total assets	<u>\$ 3,380.5</u>	<u>\$ 3,028.7</u>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current portion of debt	\$ 66.4	\$ 128.1
Accounts payable	391.0	214.2
Other current liabilities	493.0	278.2
Total current liabilities	950.4	620.5
Long-term debt	1,455.1	1,523.5
Other liabilities	272.1	161.5
Total liabilities	<u>2,677.6</u>	<u>2,305.5</u>
Commitments and contingencies (Notes 18, 19 and 20)		
Equity:		
Common shares and capital in excess of \$.01 stated value per share; shares outstanding of 55.8 in 2020 and 2019	482.5	442.2
Retained earnings	1,235.6	1,274.7
Treasury shares, at cost; 12.4 shares in 2020 and 2019	(921.8)	(904.3)
Accumulated other comprehensive loss	(99.1)	(93.9)
Total equity—controlling interest	697.2	718.7
Noncontrolling interest	5.7	4.5
Total equity	<u>702.9</u>	<u>723.2</u>
Total liabilities and equity	<u>\$ 3,380.5</u>	<u>\$ 3,028.7</u>

See Notes to Consolidated Financial Statements.

**THE SCOTTS MIRACLE-GRO COMPANY**  
**Consolidated Statements of Shareholders' Equity**  
(In millions, except per share data)

	Common Shares		Capital in Excess of Stated Value	Retained Earnings	Treasury Shares		Accumulated Other Comprehensive Income (Loss)	Total	Non-controlling Interest	Total
	Shares	Amount			Shares	Amount				
Balance at September 30, 2017	68.1	\$ 0.3	\$ 407.3	\$ 978.2	10.0	\$ (667.8)	\$ (69.2)	\$ 648.8	\$ 12.9	\$ 661.7
Net income (loss)	—	—	—	63.7	—	—	—	63.7	—	63.7
Other comprehensive income (loss)	—	—	—	—	—	—	23.2	23.2	—	23.2
Share-based compensation	—	—	40.5	—	—	—	—	40.5	—	40.5
Dividends declared (\$2.14 per share)	—	—	—	(122.0)	—	—	—	(122.0)	—	(122.0)
Treasury share purchases	—	—	—	—	3.5	(326.1)	—	(326.1)	—	(326.1)
Treasury share issuances	—	—	(22.1)	—	(0.7)	54.3	—	32.2	—	32.2
Acquisition of remaining noncontrolling interest in Gavita	—	—	(5.7)	—	—	—	—	(5.7)	(7.9)	(13.6)
Balance at September 30, 2018	68.1	0.3	420.0	919.9	12.8	(939.6)	(46.0)	354.6	5.0	359.6
Adoption of new accounting pronouncements (see Note 1)	—	—	—	22.9	—	—	(13.8)	9.1	—	9.1
Net income (loss)	—	—	—	460.7	—	—	—	460.7	(0.5)	460.2
Other comprehensive income (loss)	—	—	—	—	—	—	(34.1)	(34.1)	—	(34.1)
Share-based compensation	—	—	38.4	—	—	—	—	38.4	—	38.4
Dividends declared (\$2.23 per share)	—	—	—	(128.8)	—	—	—	(128.8)	—	(128.8)
Treasury share purchases	—	—	—	—	—	(2.7)	—	(2.7)	—	(2.7)
Treasury share issuances	—	—	(16.5)	—	(0.4)	38.0	—	21.5	—	21.5
Balance at September 30, 2019	68.1	0.3	441.9	1,274.7	12.4	(904.3)	(93.9)	718.7	4.5	723.2
Net income (loss)	—	—	—	387.4	—	—	—	387.4	1.2	388.6
Other comprehensive income (loss)	—	—	—	—	—	—	(5.2)	(5.2)	—	(5.2)
Share-based compensation	—	—	57.9	—	—	—	—	57.9	—	57.9
Dividends declared (\$7.36 per share)	—	—	—	(426.5)	—	—	—	(426.5)	—	(426.5)
Treasury share purchases	—	—	—	—	0.4	(53.2)	—	(53.2)	—	(53.2)
Treasury share issuances	—	—	(17.6)	—	(0.4)	35.7	—	18.1	—	18.1
Balance at September 30, 2020	68.1	\$ 0.3	\$ 482.2	\$ 1,235.6	12.4	\$ (921.8)	\$ (99.1)	\$ 697.2	\$ 5.7	\$ 702.9

The sum of the components may not equal due to rounding.

See Notes to Consolidated Financial Statements.

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Dollars in millions, except per share data)

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

The Scotts Miracle-Gro Company (“Scotts Miracle-Gro” or “Parent”) and its subsidiaries (collectively, together with Scotts Miracle-Gro, the “Company”) are engaged in the manufacturing, marketing and sale of products for lawn and garden care and indoor and hydroponic gardening. The Company’s products are sold in North America, Europe and Asia.

The Company’s North America consumer lawn and garden business is highly seasonal, with more than 75% of its annual net sales occurring in the second and third fiscal quarters combined.

**Organization and Basis of Presentation**

The Company’s consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The consolidated financial statements include the accounts of Scotts Miracle-Gro and its subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation. The Company’s consolidation criteria are based on majority ownership (as evidenced by a majority voting interest in the entity) and an objective evaluation and determination of effective management control. AeroGrow International, Inc. (“AeroGrow”), in which the Company has a controlling interest, is consolidated, with the equity owned by other shareholders shown as noncontrolling interest in the Consolidated Balance Sheets, and the other shareholders’ portion of net earnings and other comprehensive income shown as net (income) loss or comprehensive (income) loss attributable to noncontrolling interest in the Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income (Loss), respectively. The results of businesses acquired or disposed of are included in the consolidated financial statements from the date of each acquisition or up to the date of disposal, respectively.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes and related disclosures. Although these estimates are based on management’s best knowledge of current events and actions the Company may undertake in the future, actual results ultimately may differ from the estimates.

**Advertising**

Advertising costs incurred during the year are expensed to interim periods in relation to revenues. All advertising costs, except for external production costs, are expensed within the fiscal year in which such costs are incurred. External production costs for advertising programs are deferred until the period in which the advertising is first aired. Costs deferred at September 30, 2020 and 2019 were not material. Advertising expenses were \$147.4, \$120.3 and \$104.2 for fiscal 2020, fiscal 2019 and fiscal 2018, respectively.

**Research and Development**

Costs associated with research and development are generally charged to expense as incurred. Expenses for fiscal 2020, fiscal 2019 and fiscal 2018 were \$39.7, \$39.6 and \$42.5, respectively, including product registration costs of \$11.0, \$11.0 and \$11.4, respectively.

**Environmental Costs**

The Company recognizes environmental liabilities when conditions requiring remediation are probable and the amounts can be reasonably estimated. Expenditures which extend the life of the related property or mitigate or prevent future environmental contamination are capitalized. Environmental liabilities are not discounted or reduced for possible recoveries from insurance carriers.

**Earnings per Common Share**

Basic income (loss) per common share of Scotts Miracle-Gro (“Common Share”) is computed by dividing income attributable to controlling interest from continuing operations, income (loss) from discontinued operations or net income attributable to controlling interest by the weighted average number of Common Shares outstanding each period. Diluted income (loss) per Common Share is computed by dividing income attributable to controlling interest from continuing operations, income (loss) from discontinued operations or net income attributable to controlling interest by the weighted average number of Common Shares outstanding plus all dilutive potential Common Shares (stock options, restricted stock units, deferred stock units and performance-based award units) outstanding each period.



**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

**Share-Based Compensation Awards**

Scotts Miracle-Gro grants share-based awards annually to officers and certain other employees of the Company and non-employee directors of Scotts Miracle-Gro. The share-based awards have consisted of stock options, restricted stock units, deferred stock units and performance-based award units. All of these share-based awards have been made under plans approved by the shareholders. The fair value of awards is expensed over the requisite service period which is typically the vesting period, generally three to five years for awards granted to officers and other employees and one year for awards granted to non-employee directors.

For restricted stock units, deferred stock units and performance-based award units, the fair value of each award is estimated on the date of grant based on the current market price of the Common Shares. The grant date fair value of stock option awards is estimated using a binomial model. Expected market price volatility is based on implied volatilities from traded options on Common Shares and historical volatility specific to the Common Shares. Historical data, including demographic factors impacting historical exercise behavior, is used to estimate stock option exercises and employee terminations within the valuation model. The risk-free rate for periods within the contractual life of the stock option is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life of stock options is based on historical experience and expectations for grants outstanding.

Vesting of performance-based award units is dependent on service and achievement of specified performance targets. Based on the extent to which the targets are achieved, vested shares may range from 50 to 250 percent of the target award amount. The total amount of compensation expense recognized reflects management's assessment of the probability that performance goals will be achieved. A cumulative adjustment is recognized to compensation expense in the current period to reflect any changes in the probability of achievement of performance goals.

Restricted stock units, deferred stock units and performance-based award units receive dividend equivalents equal to the cash dividends earned during the vesting period that are only paid out upon vesting. Share-based award units are generally forfeited if a holder terminates employment or service with the Company prior to the vesting date, except in cases where employees are eligible for accelerated vesting based on having satisfied retirement requirements relating to age and years of service. The Company estimates that 15% to 20% of its share-based awards will be forfeited based on an analysis of historical trends. The Company evaluates the estimated forfeiture rate on an annual basis and makes adjustments as appropriate. Stock options have exercise prices equal to the market price of the underlying Common Shares on the date of grant and a term of 10 years. If available, Scotts Miracle-Gro typically uses treasury shares, or if not available, newly-issued Common Shares, to settle vested share-based awards. The Company classifies share-based compensation expense within selling, general and administrative expenses to correspond with the same line item as cash compensation paid to employees. Cash flows resulting from tax deductions in excess of the cumulative compensation cost recognized for share-based awards (excess tax benefits) are classified as operating cash inflows.

**Cash and Cash Equivalents**

Cash and cash equivalents were held in cash depository accounts with major financial institutions around the world or invested in high quality, short-term liquid investments. The Company considers all highly liquid financial instruments with original maturities of three months or less to be cash equivalents. The Company maintains cash deposits in banks which from time to time exceed the amount of deposit insurance available. Management periodically assesses the financial condition of the Company's banks and believes that the risk of any potential credit loss is minimal.

**Accounts Receivable and Allowances**

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Allowances for doubtful accounts reflect the Company's estimate of amounts in its existing accounts receivable that may not be collected due to customer claims or customer inability or unwillingness to pay. The allowance is determined based on a combination of factors, including the Company's risk assessment regarding the credit worthiness of its customers, historical collection experience and length of time the receivables are past due. Account balances are charged off against the allowance when the Company believes it is probable the receivable will not be recovered.

**Inventories**

Inventories are stated at the lower of cost or net realizable value and include the cost of raw materials, labor, manufacturing overhead and freight and inbound handling costs incurred to pre-position goods in the Company's warehouse network. The Company makes provisions for obsolete or slow-moving inventories as necessary to properly reflect inventory at the lower of cost or net realizable value. Inventories are valued using the first in, first out method. Inventories acquired through the acquisition of or subsequently produced by Sunlight Supply (as defined below) were initially recorded at fair value at the date of the acquisition and subsequently were measured using the average costing method of inventory valuation. During the

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

three months ended December 28, 2019, the Company determined it was preferable to use the first in, first out inventory valuation method and adopted this method for the remaining Sunlight Supply inventories not subject to the first in, first out method. This change in accounting principle resulted in an increase in inventories of \$0.2 as of December 28, 2019, with a corresponding decrease in cost of goods sold for the three months ended December 28, 2019. The change in accounting principle was not material to prior periods so it was not retrospectively applied. During fiscal 2018, the Company determined it was preferable to use the first in, first out inventory valuation method and adopted this method for the remaining U.S. Consumer segment inventories not subject to the first in, first out method. The impact of this change in accounting principle on inventory value and cost of goods sold was immaterial. Adjustments to reflect inventories at net realizable values were \$31.3 and \$8.8 at September 30, 2020 and 2019, respectively.

**Loans Receivable**

Loans receivable are carried at outstanding principal amount, and are recognized in the “Other assets” line in the Consolidated Balance Sheets. Loans receivable are impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. If it is determined that an impairment has occurred, an impairment loss is recognized for the amount by which the carrying value of the asset exceeds the present value of expected future cash flows. Interest income was \$7.6, \$8.6 and \$10.0 for fiscal 2020, fiscal 2019 and fiscal 2018, respectively. Interest income is recorded on an accrual basis and is classified in the “Other non-operating (income) expense, net” line in the Consolidated Statements of Operations.

**Long-Lived Assets**

Property, plant and equipment are stated at cost. Interest capitalized in property, plant and equipment amounted to \$0.4, \$0.5 and \$0.3 during fiscal 2020, fiscal 2019 and fiscal 2018, respectively. Expenditures for maintenance and repairs are charged to expense as incurred. When properties are retired or otherwise disposed of, the cost of the asset and the related accumulated depreciation are removed from the accounts with the resulting gain or loss being reflected in income from operations.

Depreciation of property, plant and equipment is provided on the straight-line method and is based on the estimated useful economic lives of the assets as follows:

Land improvements .....	10 – 25 years
Buildings .....	10 – 40 years
Machinery and equipment .....	3 – 15 years
Furniture and fixtures .....	6 – 10 years
Software .....	3 – 8 years

Intangible assets subject to amortization include technology, patents, customer relationships, non-compete agreements and certain tradenames. These intangible assets are being amortized over their estimated useful economic lives, which typically range from 3 to 25 years. The Company’s fixed assets and intangible assets subject to amortization are required to be tested for recoverability whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. If an evaluation of recoverability was required, the estimated undiscounted future cash flows associated with the asset group would be compared to the asset group carrying amount to determine if a write-down is required. If the undiscounted cash flows are less than the carrying amount, an impairment loss is recorded to the extent that the carrying amount exceeds fair value and classified as “Impairment, restructuring and other” within “Operating expenses” in the Consolidated Statements of Operations.

The Company had non-cash investing activities of \$26.4, \$22.1 and \$9.8 during fiscal 2020, fiscal 2019 and fiscal 2018, respectively, representing unpaid liabilities to acquire property, plant and equipment.

**Statements of Cash Flows**

Supplemental cash flow information was as follows:

	Year Ended September 30,		
	2020	2019	2018
Interest paid .....	\$ 75.9	\$ 93.5	\$ 81.6
Income taxes paid .....	124.2	166.2	56.3

During fiscal 2019, the Company paid a post-closing net working capital adjustment obligation of \$6.6 related to the fiscal 2018 acquisition of Sunlight Supply, Inc., Sunlight Garden Supply, Inc., Sunlight Garden Supply, ULC, and IP Holdings,

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

LLC, and all of the issued and outstanding equity interests of Columbia River Industrial Holdings, LLC (collectively “Sunlight Supply”), which was classified as an investing activity in the “Investments in acquired businesses, net of cash acquired” line in the Consolidated Statements of Cash Flows. During fiscal 2018, the Company paid contingent consideration of \$3.0 related to the fiscal 2016 acquisition of Gavita Holdings B.V., and its subsidiaries (collectively, “Gavita”) and \$5.8 related to the fiscal 2017 acquisition of Agrolux Holding B.V. (now known as Hawthorne Lighting B.V.), and its subsidiaries (collectively, “Agrolux”), which were classified as financing activities in the “Payments on seller notes” line in the Consolidated Statements of Cash Flows.

The Company uses the “cumulative earnings” approach for determining cash flow presentation of distributions from unconsolidated affiliates. Distributions received are included in the Consolidated Statements of Cash Flows as operating activities, unless the cumulative distributions exceed the portion of the cumulative equity in the net earnings of the unconsolidated affiliate, in which case the excess distributions are deemed to be returns of the investment and are classified as investing activities in the Consolidated Statements of Cash Flows.

**Internal Use Software**

The costs of internal use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage or the post-implementation/operation stage. As of September 30, 2020 and 2019, the Company had \$18.8 and \$13.6, respectively, in unamortized capitalized internal use software costs. Amortization of these costs was \$4.0, \$2.9 and \$3.9 during fiscal 2020, fiscal 2019 and fiscal 2018, respectively.

**Goodwill and Indefinite-lived Intangible Assets**

Goodwill and indefinite-lived intangible assets are not subject to amortization. Goodwill and indefinite-lived intangible assets are reviewed for impairment by applying a fair-value based test on an annual basis, as of the first day of the Company’s fiscal fourth quarter, or more frequently if circumstances indicate impairment may have occurred. With respect to goodwill, the Company performs either a qualitative or quantitative evaluation for each of its reporting units. Factors considered in the qualitative test include reporting unit specific operating results as well as new events and circumstances impacting the operations or cash flows of the reporting units. For the quantitative test, the Company assesses goodwill for impairment by comparing the carrying value of its reporting units to their respective fair values. A reporting unit is defined as an operating segment or one level below an operating segment. The Company determines the fair value of its reporting units using a combination of income-based and market-based approaches and incorporates assumptions it believes market participants would utilize. The income-based approach utilizes discounted cash flows while the market-based approach utilizes market multiples. These approaches depend upon internally-developed forecasts that are based upon annual budgets and longer-range strategic plans. The Company uses discount rates that are commensurate with the risks and uncertainties inherent in the respective reporting units and in the internally-developed forecasts. To further confirm fair value, the Company compares the aggregate fair value of the reporting units to the Company’s total market capitalization.

With respect to indefinite-lived intangible assets, the Company performs either a qualitative or quantitative evaluation for each asset. Factors considered in the qualitative test include asset specific operating results as well as new events and circumstances impacting the cash flows of the assets. For the quantitative test, the fair value of the Company’s indefinite-lived intangible assets is determined under the income-based approach utilizing discounted cash flows and incorporating assumptions the Company believes market participants would utilize. For tradenames, fair value is determined using a royalty savings methodology similar to that employed when the associated businesses were acquired but using updated estimates of sales, cash flow and profitability.

If it is determined that an impairment has occurred, an impairment loss is recognized for the amount by which the carrying value of the reporting unit or intangible asset exceeds its estimated fair value and classified as “Impairment, restructuring and other” within “Operating expenses” in the Consolidated Statements of Operations.

**Insurance and Self-Insurance**

The Company maintains insurance for certain risks, including workers’ compensation, general liability and vehicle liability, and is self-insured for employee-related health care benefits up to a specified level for individual claims. The Company accrues for the expected costs associated with these risks by considering historical claims experience, demographic factors, severity factors and other relevant information. Costs are recognized in the period the claim is incurred, and accruals include an actuarially determined estimate of claims incurred but not yet reported.

**Income Taxes**

The Company uses the asset and liability method to account for income taxes. Deferred tax assets and liabilities are recognized for the anticipated future tax consequences attributable to differences between financial statement amounts and their

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

respective tax bases. Management reviews the Company's deferred tax assets to determine whether their value can be realized based upon available evidence. A valuation allowance is established when management believes that it is more likely than not that some portion of its deferred tax assets will not be realized. Changes in valuation allowances from period to period are included in the Company's tax provision in the period of change.

The Company establishes a liability for tax return positions in which there is uncertainty as to whether or not the position will ultimately be sustained. Amounts for uncertain tax positions are adjusted in quarters when new information becomes available or when positions are effectively settled. The Company recognizes interest expense and penalties related to these unrecognized tax benefits within income tax expense. GAAP provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the position. The amount recognized is measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement.

U.S. income tax expense and foreign withholding taxes are provided on unremitted foreign earnings that are not indefinitely reinvested at the time the earnings are generated. Where foreign earnings are indefinitely reinvested, no provision for U.S. income or foreign withholding taxes is made. When circumstances change and the Company determines that some or all of the undistributed earnings will be remitted in the foreseeable future, the Company accrues an expense in the current period for U.S. income taxes and foreign withholding taxes attributable to the anticipated remittance.

**Translation of Foreign Currencies**

The functional currency for each Scotts Miracle-Gro subsidiary is generally its local currency. Assets and liabilities of these subsidiaries are translated at the exchange rate in effect at each fiscal year-end. Income and expense accounts are translated at the average rate of exchange prevailing during the year. Translation gains and losses arising from the use of differing exchange rates from period to period are included in accumulated other comprehensive loss ("AOCL") within shareholders' equity. Foreign exchange transaction gains and losses are included in the determination of net income and classified as "Other (income) expense, net" in the Consolidated Statements of Operations. The Company recognized foreign exchange transaction losses of \$0.9, \$1.6 and \$0.9 during fiscal 2020, fiscal 2019 and fiscal 2018, respectively.

**Derivative Instruments**

The Company is exposed to market risks, such as changes in interest rates, currency exchange rates and commodity prices. A variety of financial instruments, including forwards, futures and swap contracts, are used to manage these exposures. These financial instruments are recognized at fair value in the Consolidated Balance Sheets, and all changes in fair value are recognized in net income or shareholders' equity through AOCL. The Company's objective in managing these exposures is to better control these elements of cost and mitigate the earnings and cash flow volatility associated with changes in the applicable rates and prices.

The Company has established policies and procedures that encompass risk-management philosophy and objectives, guidelines for derivative instrument usage, counterparty credit approval, and the monitoring and reporting of derivative activity. The Company does not enter into derivative instruments for the purpose of speculation.

The Company formally designates and documents instruments at inception that qualify for hedge accounting of underlying exposures in accordance with GAAP. The Company formally assesses, both at inception and at least quarterly, whether the financial instruments used in hedging transactions are effective at offsetting changes in cash flows of the related underlying exposure. Fluctuations in the value of these instruments generally are offset by changes in the cash flows of the underlying exposures being hedged. This offset is driven by the high degree of effectiveness between the exposure being hedged and the hedging instrument. The Company designates certain commodity hedges as cash flow hedges of forecasted purchases of commodities and interest rate swap agreements as cash flow hedges of interest payments on variable rate borrowings. Changes in the fair value of derivative contracts that qualify for hedge accounting are recorded in AOCL. For commodity hedges, realized gains or losses remain as a component of AOCL until the related inventory is sold.

During the second quarter of fiscal 2016, the Company entered into definitive agreements with Bonnie Plants, Inc. ("Bonnie") and its sole shareholder, Alabama Farmers Cooperative, Inc. ("AFC"), that include options beginning in fiscal 2020 that provide for either (i) the Company to increase its economic interest in Bonnie's business of planting, growing, developing, manufacturing, distributing, marketing, and selling live plants, plant food, fertilizer and potting soil (the "Bonnie Business") or (ii) AFC and Bonnie to repurchase the Company's economic interest in the Bonnie Business (collectively, the "Bonnie Option"). The Bonnie Option is required to be accounted for as a derivative instrument and is recorded at fair value in the "Other assets" line in the Consolidated Balance Sheets, with changes in fair value recognized in the "Other non-operating (income) expense, net" line in the Consolidated Statements of Operations.

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

**Leases**

Effective October 1, 2019, the Company adopted Accounting Standards Codification (“ASC”) 842, “Leases” (“ASC 842”). Under this guidance, the Company determines whether an arrangement contains a lease at inception by determining if the contract conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration and other facts and circumstances. Right-of-use (“ROU”) assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the Company’s obligation to make lease payments arising from the lease. ROU assets are calculated based on the lease liability adjusted for any lease payments paid to the lessor at or before the commencement date and initial direct costs incurred by the Company and exclude any lease incentives received from the lessor. Lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term. The lease term may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. As the Company’s leases typically do not contain a readily determinable implicit rate, the Company determines the present value of the lease liability using its incremental borrowing rate at the lease commencement date based on the lease term. The Company considers its credit rating and the current economic environment in determining this collateralized rate. Variable lease payments are the portion of lease payments that are not fixed over the lease term. Variable lease payments are expensed as incurred and include certain non-lease components, such as maintenance and other services provided by the lessor, and other charges included in the lease, as applicable. The Company elected to exclude short-term leases, defined as leases with initial terms of 12 months or less, from its Consolidated Balance Sheets.

**RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS**

In May 2014, the Financial Accounting Standards Board (“FASB”) issued amended accounting guidance that replaces most existing revenue recognition guidance under GAAP. The Company adopted this guidance effective October 1, 2018 under the modified retrospective approach. The Company’s revenue primarily consists of product sales, which are recognized at a point in time when title transfers to customers and the Company has no further obligation to provide services related to such products. The Company’s timing of recognition of revenue is substantially unchanged under the amended guidance. The new accounting guidance required the Company to recognize earlier certain deferred revenue associated with a license agreement related to the sale of the International Business (as defined in “NOTE 3. DISCONTINUED OPERATIONS”), resulting in a cumulative adjustment to its fiscal 2019 opening balance of retained earnings of \$9.1, other current liabilities of \$1.4 and other liabilities of \$7.7. With the exception of this item, the adoption of the amended accounting guidance did not have a material impact on the Company’s consolidated financial statements. The additional disclosures required by this guidance are presented within “NOTE 2. REVENUE RECOGNITION” and “NOTE 21. SEGMENT INFORMATION.”

In February 2018, the FASB issued an Accounting Standards Update (“ASU”) that allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the enactment of H.R.1 (the “Act,” formerly known as the “Tax Cuts and Jobs Act”). The Company elected to adopt this guidance effective October 1, 2018, resulting in a reclassification of \$13.8 from AOCL to retained earnings upon adoption.

In February 2016, the FASB issued its final standard on lease accounting, ASC 842. This guidance requires lessees to recognize a lease liability for the obligation to make lease payments and a ROU asset for the right to use the underlying asset for the lease term. The Company elected the optional transition method and adopted the new guidance on October 1, 2019 on a modified retrospective basis with no restatement of prior period amounts. Fiscal 2019 balances and related disclosures supporting those comparative period balances continue to be presented under ASC 840, “Leases.” As allowed under the new accounting standard, the Company elected to apply practical expedients to carry forward the original lease determinations, lease classifications and accounting of initial direct costs for all asset classes at the time of adoption. The Company also elected to exclude short-term leases from its Consolidated Balance Sheets. The Company’s adoption of the new standard resulted in the recognition of ROU assets of \$129.6 in the “Other assets” line in the Consolidated Balance Sheets, liabilities of \$45.4 in the “Other current liabilities” line in the Consolidated Balance Sheet and liabilities of \$88.8 in the “Other liabilities” line in the Consolidated Balance Sheets as of the October 1, 2019 adoption date. Adoption of the new standard did not result in a material cumulative effect adjustment to equity as of the date of adoption and did not have a material impact on the Company’s Consolidated Statements of Operations or Cash Flows. In connection with the adoption of this guidance, as required, the Company reclassified certain restructuring accruals (refer to “NOTE 4. IMPAIRMENT, RESTRUCTURING AND

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

OTHER” for more information) and deferred rent liabilities as reductions to the ROU asset. Refer to “NOTE 18. LEASES” for more information.

On March 2, 2020, the Securities and Exchange Commission (the “SEC”) issued a final rule that amends the financial disclosure requirements related to certain registered securities under SEC Regulation S-X, Rule 3-10, “Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered.” These amendments are generally effective for registration statements filed pursuant to the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (the “Exchange Act”), on or after January 4, 2021 (or with fiscal periods ending after a registration statement that was required to comply with these amendments became effective) and periodic reports filed pursuant to the Exchange Act for fiscal periods ending after January 4, 2021. However, voluntary compliance in advance of these effective dates is permitted. The amendments permit the omission from the applicable filings of separate financial statements for each issuer of a registered security that is guaranteed and each guarantor of a registered security that would be required of a registrant under Regulation S-X if, subject to additional conditions, the parent company of such issuers and/or guarantors provides supplemental financial and non-financial disclosures about the subsidiary issuers and/or guarantors and the guarantees. Under the amended Rule 3-10, in lieu of separate financial statements, a parent company of the subsidiary issuers and/or guarantors may provide summarized financial information of the issuers and guarantors, as well as other qualitative disclosures about the guarantees and the issuers and guarantors, in the parent company’s Management’s Discussion and Analysis (“MD&A”) or its consolidated financial statements. As permitted under these amendments, the Company elected to begin providing the summarized financial information and qualitative disclosures permitted under the amended Rule 3-10 during the second quarter of fiscal 2020 and has provided such information and disclosures within the “Liquidity and Capital Resources” section of the MD&A.

On March 12, 2020, the FASB issued ASU No. 2020-04, “Facilitation of the Effects of Reference Rate Reform on Financial Reporting,” which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The Company may elect to apply the contract modification provisions as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020 up until December 31, 2022. The hedge accounting expedients may be applied, on an individual hedging relationship basis, to eligible hedge accounting relationships that existed as of the beginning of the interim period that includes March 12, 2020 and to new eligible hedging relationships entered into after the beginning of the interim period that includes March 12, 2020; however, those expedients generally cannot be applied to hedging relationships evaluated for periods after December 31, 2022. The Company adopted certain optional hedge accounting expedients provided by ASU 2020-04 during fiscal 2020. The adoption of this guidance did not have a material impact on the Company’s consolidated financial position, results of operations or cash flows. The Company is continuing to assess other optional expedients and exceptions available within the amended guidance.

#### **RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326),” which changes the impairment model for most financial assets to require measurement and recognition of expected credit losses for financial assets held. The provisions are effective for the Company’s financial statements no later than the fiscal year beginning October 1, 2020. Adoption of this guidance is not expected to have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

In August 2018, the FASB issued ASU No. 2018-14, “Compensation-Retirement Benefits-Defined Benefit Plans-General (Topic 715): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans,” which removes certain disclosures that are not considered cost beneficial, clarifies certain required disclosures and requires certain additional disclosures related to defined benefit pension and other postretirement plans. The provisions are effective for the Company’s financial statements no later than the fiscal year beginning October 1, 2020. Adoption of this guidance is not expected to have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

In August 2018, the FASB issued ASU No. 2018-15, “Intangibles-Goodwill and Other-Internal-Use Software (Topic 350): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract,” which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The provisions are effective for the Company’s financial statements no later than the fiscal year beginning October 1, 2020. Adoption of this guidance is not expected to have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

In December 2019, the FASB issued ASU No. 2019-12, “Income taxes (Topic 740): Simplifying the Accounting for Income Taxes,” which simplifies the accounting for income taxes by removing certain exceptions to the general principles in ASC 740 and also clarifies and amends existing guidance to improve consistent application. The provisions are effective for the

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

Company's financial statements no later than the fiscal year beginning October 1, 2021. The Company is continuing to assess the impact of the amended guidance.

## **NOTE 2. REVENUE RECOGNITION**

### **Nature of Goods and Services**

The Company's revenue is primarily generated from sales of branded and private label lawn and garden care and indoor and hydroponic gardening finished products to home centers, mass merchandisers, warehouse clubs, large hardware chains, independent hardware stores, nurseries, garden centers, e-commerce platforms, food and drug stores, indoor gardening and hydroponic product distributors, retailers and growers. In addition to product sales, the Company acts as the exclusive agent of Monsanto Company, a subsidiary of Bayer AG ("Monsanto"), for the marketing and distribution of certain of Monsanto's consumer Roundup<sup>®</sup> branded products in the United States and certain other specified countries, and performs certain other services under ancillary agreements with Monsanto. The Company also provides marketing, research and development and certain ancillary services to Bonnie. Refer to "NOTE 21. SEGMENT INFORMATION" for disaggregated revenue information and "NOTE 7. MARKETING AGREEMENT" for revenue information related to the Monsanto agreements.

### **Identification and Satisfaction of Performance Obligations**

Product sales are recognized at a point in time when control of products transfers to customers and the Company has no further obligation to provide services related to such products. Control is the ability of customers to direct the "use of" and "obtain" the benefit from the Company's products. In evaluating the timing of the transfer of control of products to customers, the Company considers several control indicators, including significant risks and rewards of products, the Company's right to payment and the legal title of the products. Based on the assessment of control indicators, sales are typically recognized when products are delivered to or picked up by the customer. The Company is generally the principal in a transaction, therefore revenue is primarily recorded on a gross basis. When the Company is a principal in a transaction, it has determined that it controls the ability to direct the use of the product prior to transfer to a customer, is primarily responsible for fulfilling the promise to provide the product or service to the customer, has discretion in establishing prices, and ultimately controls the transfer of the product or services provided to the customer.

Under the terms of the Second Amended and Restated Exclusive Agency and Marketing Agreement (the "Restated Marketing Agreement"), as amended by the Third Amended and Restated Exclusive Agency and Marketing Agreement (the "Third Restated Agreement"), pursuant to which the Company serves as the exclusive agent of Monsanto for the marketing and distribution of certain of Monsanto's consumer Roundup<sup>®</sup> branded products in the United States and certain other specified countries, the Company is entitled to receive an annual commission from Monsanto as consideration for the performance of the Company's duties as agent. The Restated Marketing Agreement and Third Restated Agreement also require the Company to make annual payments to Monsanto as a contribution against the overall expenses of its consumer Roundup<sup>®</sup> business. The gross commission earned under the Restated Marketing Agreement and Third Restated Agreement and the contribution payments to Monsanto are included in the "Net sales" line in the Consolidated Statements of Operations. The Company performs other services, including conversion services, pursuant to ancillary agreements with Monsanto. The actual costs incurred for these activities are charged to and reimbursed by Monsanto. The Company records costs incurred for which the Company is the primary obligor on a gross basis, recognizing such costs in the "Cost of sales" line and the reimbursement of these costs in the "Net sales" line in the Consolidated Statements of Operations, with no effect on gross profit dollars or net income.

Under the terms of the Marketing, R&D and Ancillary Services Agreement (the "Services Agreement") with Bonnie and AFC, the Company provides marketing, research and development and certain ancillary services to Bonnie. In exchange for these services, Bonnie reimburses the Company for certain costs and provides a commission fee earned based on a percentage of the growth in earnings before interest, income taxes and amortization of the Bonnie Business. The commission earned under the Services Agreement is included in the "Net sales" line in the Consolidated Statements of Operations. Additionally, the Company records costs incurred under the Services Agreement for which the Company is the primary obligor on a gross basis, recognizing such costs in the "Cost of sales" line and the reimbursement of these costs in the "Net sales" line in the Consolidated Statements of Operations, with no effect on gross profit dollars or net income.

### **Transactional Price and Promotional Allowances**

Revenue for product sales is recorded net of sales returns and allowances. Revenues are measured based on the amount of consideration that the Company expects to receive as derived from a list price, reduced by estimates for variable consideration. Variable consideration includes the cost of current and continuing promotional programs and expected sales

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

returns. Commission income related to the Monsanto and Bonnie agreements is recognized over the program year as the services are being performed based upon the commission income formula in the agreements.

The Company's promotional programs primarily include rebates based on sales volumes, in-store promotional allowances, cooperative advertising programs, direct consumer rebate programs and special purchasing incentives. The cost of promotional programs is estimated considering all reasonably available information, including current expectations and historical experience. Promotional costs (including allowances and rebates) incurred during the year are expensed to interim periods in relation to revenues and are recorded as a reduction of net sales. Accruals for expected payouts under these programs are included in the "Other current liabilities" line in the Consolidated Balance Sheets. Provisions for estimated returns and allowances are recorded at the time revenue is recognized based on historical rates and are periodically adjusted for known changes in return levels. Shipping and handling costs are accounted for as contract fulfillment costs and included in the "Cost of sales" line in the Consolidated Statements of Operations. The Company excludes from revenue any amounts collected from customers for sales or other taxes.

**NOTE 3. DISCONTINUED OPERATIONS**

***International Business***

Prior to August 31, 2017, the Company operated consumer lawn and garden businesses located in Australia, Austria, Belgium, Luxembourg, Czech Republic, France, Germany, Poland and the United Kingdom (the "International Business"). On August 31, 2017, the Company completed the sale of the International Business. As a result, effective in its fourth quarter of fiscal 2017, the Company classified its results of operations for all periods presented to reflect the International Business as a discontinued operation. The sale proceeds were net of seller financing provided by the Company in the form of a \$29.7 loan for seven years bearing interest at 5% for the first three years, with annual 2.5% increases thereafter. The transaction also included contingent consideration with a maximum payout of \$23.8 and an initial fair value of \$18.2, the payment of which will depend on the achievement of certain performance criteria by the International Business following the closing of the transaction through fiscal 2020. The Company has not yet established whether the International Business has achieved the performance criteria for fiscal 2020 and the recorded contingent consideration, which is based upon the best information available to the Company, will be adjusted once the results are determined. The seller financing loan receivable and the contingent consideration receivable are recorded in the "Other assets" line in the Consolidated Balance Sheets.

***Wild Bird Food***

During fiscal 2014, the Company completed the sale of its U.S. and Canadian wild bird food business. As a result, effective in fiscal 2014, the Company classified its results of operations for all periods presented to reflect the wild bird food business as a discontinued operation. During fiscal 2019, the Company recognized a favorable adjustment of \$22.5 as a result of the final resolution of the previously disclosed settlement agreement related to the *In re Morning Song Bird Food Litigation* legal matter. This matter relates to a class-action lawsuit filed in 2012 in connection with the sale of wild bird food products that were the subject of a voluntary recall in 2008 by the Company's previously sold wild bird food business. In addition, during fiscal 2020 and fiscal 2019, the Company recognized insurance recoveries of \$1.5 and \$13.4, respectively, related to this matter. During fiscal 2018, the Company recognized a pre-tax charge of \$85.0 for a probable loss related to this matter. Refer to "NOTE 20. CONTINGENCIES" for more information.

The following table summarizes the results of discontinued operations described above and reflected within discontinued operations in the Company's consolidated financial statements for each of the periods presented:

	Year Ended September 30,		
	2020	2019	2018
Operating and exit costs	\$ 1.3	\$ 0.6	\$ 1.9
Impairment, restructuring and other charges (recoveries)	(3.1)	(35.8)	86.8
Loss on sale / contribution of business	—	—	0.7
Income (loss) from discontinued operations before income taxes	1.8	35.2	(89.4)
Income tax expense (benefit) from discontinued operations	0.1	11.7	(25.5)
Income (loss) from discontinued operations, net of tax	<u>\$ 1.7</u>	<u>\$ 23.5</u>	<u>\$ (63.9)</u>

The Consolidated Statements of Cash Flows do not present the cash flows from discontinued operations separately from cash flows from continuing operations. Cash provided by (used in) operating activities related to discontinued operations was



**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

\$3.6, \$(38.6) and \$(1.6) for fiscal 2020, fiscal 2019 and fiscal 2018, respectively. Cash (used in) provided by investing activities related to discontinued operations was zero, zero and \$(35.3) for fiscal 2020, fiscal 2019 and fiscal 2018, respectively.

**NOTE 4. IMPAIRMENT, RESTRUCTURING AND OTHER**

Activity described herein is classified within the “Cost of sales—impairment, restructuring and other,” “Impairment, restructuring and other” and “Income (loss) from discontinued operations, net of tax” lines in the Consolidated Statements of Operations. The following table details impairment, restructuring and other charges (recoveries) for each of the periods presented:

	Year Ended September 30,		
	2020	2019	2018
Cost of sales—impairment, restructuring and other:			
COVID-19 related costs	\$ 15.5	\$ —	\$ —
Restructuring and other charges (recoveries)	(0.1)	5.1	12.3
Intangible asset and property, plant and equipment impairments	0.6	0.8	8.2
Operating expenses:			
COVID-19 related costs	3.9	—	—
Restructuring and other charges (recoveries), net	(3.1)	7.4	20.2
Goodwill and intangible asset impairments	—	—	112.1
Impairment, restructuring and other charges from continuing operations	16.8	13.3	152.8
Restructuring and other charges (recoveries), net, from discontinued operations	(3.1)	(35.8)	86.8
Total impairment, restructuring and other charges (recoveries)	<u>\$ 13.7</u>	<u>\$ (22.5)</u>	<u>\$ 239.6</u>

The following table summarizes the activity related to liabilities associated with restructuring and other, excluding insurance reimbursement recoveries, for each of the periods presented:

	Year Ended September 30,		
	2020	2019	2018
Amounts accrued for restructuring and other at beginning of year	\$ 11.6	\$ 112.2	\$ 12.1
Restructuring and other charges from continuing operations	20.0	13.4	32.7
Restructuring and other charges (recoveries) from discontinued operations	—	(22.4)	86.8
Payments and other	(27.7)	(91.6)	(19.4)
Amounts accrued for restructuring and other at end of year	<u>\$ 3.9</u>	<u>\$ 11.6</u>	<u>\$ 112.2</u>

In connection with the adoption of ASC 842 on October 1, 2019, the Company reclassified restructuring accruals of \$1.7 to lease ROU assets, and has presented this reclassification within “Payments and other” in the table above. Refer to “NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES” and “NOTE 18. LEASES” for more information. Included in restructuring accruals, as of September 30, 2020, is \$0.8 that is classified as long-term. Payments against the long-term accruals will be incurred as the employees covered by the restructuring plan retire or through the passage of time. The remaining amounts accrued will continue to be paid out over the course of the next twelve months.

**COVID-19**

The World Health Organization recognized COVID-19 as a public health emergency of international concern on January 30, 2020 and as a global pandemic on March 11, 2020. In response to the COVID-19 pandemic, the Company has implemented additional measures intended to both protect the health and safety of its employees and maintain its ability to provide products to its customers, including (i) requiring a significant part of its workforce to work from home, (ii) monitoring its employees for COVID-19 symptoms, (iii) making additional personal protective equipment available to its operations team, (iv) requiring all manufacturing and warehousing associates to take their temperatures before beginning a shift, (v) modifying work methods and schedules of its manufacturing and field associates to create distance or add barriers between associates, consumers and others, (vi) expanding cleaning efforts at its operation centers, (vii) modifying attendance policies so that associates may elect to stay home if they have symptoms, (viii) prioritizing production for goods that are more essential to its customers and (ix) implementing an interim premium pay allowance for certain associates in its field sales force or working in manufacturing or distribution centers. In addition, to help address the critical shortage of personal protective equipment in the fight against

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

COVID-19, the Company shifted production in its Temecula, California manufacturing plant for a period of time to produce face shields to help protect healthcare workers and first responders in critical need areas across the country. During fiscal 2020, the Company incurred costs of \$19.4 associated with the COVID-19 pandemic primarily related to premium pay. The Company incurred costs of \$12.4 in its U.S. Consumer segment, \$2.6 in its Hawthorne segment and \$0.5 in its Other segment in the “Cost of sales—impairment, restructuring and other” line in the Consolidated Statements of Operations during fiscal 2020. The Company incurred costs of \$3.8 in its U.S. Consumer segment and \$0.1 in its Other segment in the “Impairment, restructuring and other” line in the Consolidated Statements of Operations during fiscal 2020.

**Project Catalyst**

In connection with the acquisition of Sunlight Supply during the third quarter of fiscal 2018, the Company announced the launch of an initiative called Project Catalyst, which is a company-wide restructuring effort to reduce operating costs throughout the U.S. Consumer, Hawthorne and Other segments and drive synergies from acquisitions within the Hawthorne segment. Costs incurred during fiscal 2020 related to Project Catalyst were not material. Costs incurred to date since the inception of Project Catalyst are \$25.1 for the Hawthorne segment, \$13.5 for the U.S. Consumer segment, \$1.3 for the Other segment and \$2.8 for Corporate. Additionally, during fiscal 2020, the Company received \$2.6 from the final settlement of escrow funds related to a previous acquisition within the Hawthorne segment that was recognized in the “Impairment, restructuring and other” line in the Consolidated Statements of Operations.

During fiscal 2019, the Company incurred charges of \$13.7 related to Project Catalyst. The Company incurred charges of \$1.1 in its U.S. Consumer segment, \$4.2 in its Hawthorne segment and \$0.6 in its Other segment in the “Cost of sales—impairment, restructuring and other” line in the Consolidated Statements of Operations during fiscal 2019 related to employee termination benefits, facility closure costs and impairment of property, plant and equipment. The Company incurred charges of \$0.5 in its U.S. Consumer segment, \$3.9 in its Hawthorne segment, \$0.6 in its Other segment and \$2.8 at Corporate in the “Impairment, restructuring and other” line in the Consolidated Statements of Operations during fiscal 2019 related to employee termination benefits and facility closure costs.

During fiscal 2018, the Company incurred charges of \$29.4 related to Project Catalyst. The Company incurred charges of \$8.2 in its U.S. Consumer segment and \$12.4 in its Hawthorne segment in the “Cost of sales—impairment, restructuring and other” line in the Consolidated Statements of Operations during fiscal 2018 related to employee termination benefits, facility closure costs and impairment of property, plant and equipment. The Company incurred charges of \$3.4 in its U.S. Consumer segment and \$5.4 in its Hawthorne segment in the “Impairment, restructuring and other” line in the Consolidated Statements of Operations during fiscal 2018 related to employee termination benefits.

**Other**

The Company recognized insurance recoveries related to the previously disclosed legal matter *In re Morning Song Bird Food Litigation* of \$1.5 and \$13.4 during fiscal 2020 and fiscal 2019, respectively, in the “Income (loss) from discontinued operations, net of tax” line in the Consolidated Statements of Operations. In addition, during fiscal 2019, the Company recognized a favorable adjustment of \$22.5 in the “Income (loss) from discontinued operations, net of tax” line in the Consolidated Statements of Operations as a result of the final resolution of the previously disclosed settlement agreement related to this matter. During fiscal 2018, the Company recognized a pre-tax charge of \$85.0 for a probable loss related to this matter in the “Income (loss) from discontinued operations, net of tax” line in the Consolidated Statements of Operations. Refer to “NOTE 20. CONTINGENCIES” for more information.

During fiscal 2019, the Company recognized a favorable adjustment of \$0.4 related to the previously disclosed legal matter *In re Scotts EZ Seed Litigation* in the “Impairment, restructuring and other” line in the Consolidated Statements of Operations. During fiscal 2018, the Company recognized a charge of \$11.7 for a probable loss related to this matter in the “Impairment, restructuring and other” line in the Consolidated Statements of Operations. Refer to “NOTE 20. CONTINGENCIES” for more information.

During fiscal 2018, the Company recognized a non-cash impairment charge of \$94.6 related to a goodwill impairment in the Hawthorne segment in the “Impairment, restructuring and other” line in the Consolidated Statements of Operations as a result of the Company’s annual fourth quarter quantitative goodwill impairment test. Refer to “NOTE 5. GOODWILL AND INTANGIBLE ASSETS, NET” for more information.

During fiscal 2018, the Company recognized a non-cash impairment charge of \$17.5 related to the settlement of a portion of certain previously acquired customer relationships due to the acquisition of Sunlight Supply in the “Impairment, restructuring and other” line in the Consolidated Statement of Operations. Refer to “NOTE 8. ACQUISITIONS AND INVESTMENTS” for more information.

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

**NOTE 5. GOODWILL AND INTANGIBLE ASSETS, NET**

The following table displays a rollforward of the carrying amount of goodwill by reportable segment:

	U.S. Consumer	Hawthorne	Other	Total
Goodwill	\$ 229.9	\$ 398.7	\$ 10.8	\$ 639.4
Accumulated impairment losses	(1.8)	(94.6)	—	(96.4)
<b>Balance at September 30, 2018</b>	<b>228.1</b>	<b>304.1</b>	<b>10.8</b>	<b>543.0</b>
Acquisitions, net of purchase price adjustments	—	1.3	—	1.3
Foreign currency translation	—	(5.4)	(0.2)	(5.6)
Goodwill	\$ 229.9	\$ 394.6	\$ 10.6	\$ 635.1
Accumulated impairment losses	(1.8)	(94.6)	—	(96.4)
<b>Balance at September 30, 2019</b>	<b>228.1</b>	<b>300.0</b>	<b>10.6</b>	<b>538.7</b>
Foreign currency translation	—	5.5	(0.1)	5.4
Goodwill	\$ 229.9	\$ 400.1	\$ 10.5	\$ 640.5
Accumulated impairment losses	(1.8)	(94.6)	—	(96.4)
<b>Balance at September 30, 2020</b>	<b>\$ 228.1</b>	<b>\$ 305.5</b>	<b>\$ 10.5</b>	<b>\$ 544.1</b>

The Company performed annual impairment testing as of the first day of its fourth fiscal quarter in fiscal 2020, 2019 and 2018 and, with the exception of the Hawthorne reporting unit in fiscal 2018, concluded that there were no impairments of goodwill as the estimated fair value of each reporting unit exceeded its carrying value. During the fourth quarter of fiscal 2018, the Company recognized a non-cash goodwill impairment charge of \$94.6 related to the Hawthorne reporting unit in the “Impairment, restructuring and other” line in the Consolidated Statements of Operations. The impairment was primarily driven by a downturn in the U.S. retail hydroponic market. This impairment charge did not impact the Company’s liquidity, cash flows from operations or compliance with debt covenants. The fair value estimates utilize significant unobservable inputs and thus represent Level 3 nonrecurring fair value measurements.

The following table presents intangible assets, net:

	September 30, 2020			September 30, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Finite-lived intangible assets:						
Tradenames	\$ 258.8	\$ (61.7)	\$ 197.1	\$ 254.1	\$ (48.9)	\$ 205.2
Customer accounts	212.6	(77.6)	135.0	210.7	(60.6)	150.1
Technology	49.2	(39.3)	9.9	49.8	(36.7)	13.1
Other	24.3	(11.0)	13.3	24.4	(9.2)	15.2
Total finite-lived intangible assets, net			355.3			383.6
Indefinite-lived intangible assets:						
Indefinite-lived tradenames			168.2			168.2
Roundup <sup>®</sup> marketing agreement amendment			155.7			155.7
Total indefinite-lived intangible assets			323.9			323.9
Total intangible assets, net			<u>\$ 679.2</u>			<u>\$ 707.5</u>

During the third quarter of fiscal 2018, the Company’s Hawthorne segment recognized a non-cash impairment charge of \$17.5 related to the settlement of a portion of certain previously acquired customer relationships due to the acquisition of Sunlight Supply.

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

Total amortization expense was \$32.5, \$33.4 and \$30.0 for fiscal 2020, fiscal 2019 and fiscal 2018, respectively. Amortization expense is estimated to be as follows for the years ending September 30:

2021 .....	\$	29.4
2022 .....		27.0
2023 .....		24.3
2024 .....		21.6
2025 .....		20.5

**NOTE 6. DETAIL OF CERTAIN FINANCIAL STATEMENT ACCOUNTS**

The following is detail of certain financial statement accounts:

	September 30,	
	2020	2019
<b>INVENTORIES:</b>		
Finished goods .....	\$ 390.3	\$ 344.9
Raw materials .....	164.8	131.8
Work-in-progress .....	66.8	63.6
	\$ 621.9	\$ 540.3
	September 30,	
	2020	2019
<b>PROPERTY, PLANT AND EQUIPMENT, NET:</b>		
Land and improvements .....	\$ 139.0	\$ 129.4
Buildings .....	260.0	255.9
Machinery and equipment .....	571.0	554.5
Furniture and fixtures .....	47.9	45.7
Software .....	112.8	107.0
Finance / capital leases .....	39.8	26.6
Aircraft .....	16.6	16.6
Construction in progress .....	55.0	38.3
	1,242.1	1,174.0
Less: accumulated depreciation .....	(682.1)	(628.0)
	\$ 560.0	\$ 546.0
<b>OTHER ASSETS:</b>		
Operating lease right-of-use assets .....	\$ 156.0	\$ —
Loans receivable .....	100.0	95.1
Accrued pension, postretirement and executive retirement assets .....	64.3	50.8
Bonnie Option .....	23.3	11.3
Contingent consideration receivable .....	17.9	16.7
Unamortized debt issuance costs .....	5.6	7.7
Other .....	13.5	13.2
	\$ 380.6	\$ 194.8

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

	September 30,	
	2020	2019
<b>OTHER CURRENT LIABILITIES:</b>		
Payroll and other compensation accruals .....	\$ 144.6	\$ 73.2
Advertising and promotional accruals .....	117.4	74.0
Current operating lease liabilities .....	47.5	—
Accrued taxes .....	42.8	22.4
Accrued dividends .....	21.8	7.1
Accrued interest .....	15.4	16.7
Accrued insurance and claims .....	12.2	11.7
Accrued restructuring and other .....	3.1	8.5
Other .....	88.2	64.6
	<u>\$ 493.0</u>	<u>\$ 278.2</u>
<b>OTHER NON-CURRENT LIABILITIES:</b>		
Non-current operating lease liabilities .....	\$ 113.3	\$ —
Accrued pension, postretirement and executive retirement liabilities .....	96.2	86.9
Deferred tax liabilities .....	25.2	36.3
Other .....	37.4	38.3
	<u>\$ 272.1</u>	<u>\$ 161.5</u>

**NOTE 7. MARKETING AGREEMENT**

The Scotts Company LLC (“Scotts LLC”) is the exclusive agent of Monsanto, for the marketing and distribution of certain of Monsanto’s consumer Roundup® branded products in the United States and certain other specified countries. Effective August 1, 2019, the Company entered into the Third Restated Agreement which amended, among other things, the provisions of the Restated Marketing Agreement relating to commissions, contributions, noncompetition, and termination. The annual commission payable under the Third Restated Agreement is equal to 50% of the actual earnings before interest and income taxes of Monsanto’s consumer Roundup® business in the markets covered by the Third Restated Agreement (“Program EBIT”). Prior to the Third Restated Agreement, the annual commission payable was equal to (1) 50% of the actual earnings before interest and income taxes of Monsanto’s consumer Roundup® business in the markets covered by the Restated Marketing Agreement for program years 2017 and 2018 and (2) 50% of the actual earnings before interest and income taxes of Monsanto’s consumer Roundup® business in the markets covered by the Restated Marketing Agreement in excess of \$40.0 for program year 2019. The Third Restated Agreement also requires the Company to make annual payments of \$18.0 to Monsanto as a contribution against the overall expenses of its consumer Roundup® business, subject to reduction pursuant to the Third Restated Agreement for any program year in which the Program EBIT does not equal or exceed \$36.0. During fiscal 2019, Monsanto agreed to reimburse the Company for \$20.0 of additional expenses incurred by the Company for certain activities connected to the Roundup® marketing agreement and this payment was recognized in the “Net sales” line in the Consolidated Statements of Operations.

Unless Monsanto terminates the Third Restated Agreement due to an event of default by the Company, termination rights under the Third Restated Agreement include the following:

- The Company may terminate the Third Restated Agreement (i) for any reason effective as of September 30, 2022 by delivery of notice of termination to Monsanto on January 15, 2021 (a “Convenience Termination”) or (ii) upon the insolvency or bankruptcy of Monsanto;
- Monsanto may terminate the Third Restated Agreement in the event that Monsanto decides to decommission the permits, licenses and registrations needed for, and the trademarks, trade names, packages, copyrights and designs used in, the sale of the Roundup® products in the lawn and garden market (a “Brand Decommissioning Termination”); and
- Each party may terminate the Third Restated Agreement if Program EBIT falls below \$50.0 and, in such case, no termination fee would be payable to either party.

The termination fee structure requires Monsanto to pay a termination fee to the Company in an amount equal to (i) \$175.0 upon a Convenience Termination, (ii) \$375.0 upon a Brand Decommissioning Termination, and (iii) the greater of \$175.0 or four times an amount equal to the average of the Program EBIT for the three program years before the year of termination,

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

minus \$186.4, if Monsanto or its successor terminates the Third Restated Agreement as a result of a Roundup Sale or Change of Control of Monsanto (each, as defined in the Third Restated Agreement).

In connection with the signing of the Third Restated Agreement, the Company also entered into the Brand Extension Agreement Asset Purchase Agreement (the “BEA Purchase Agreement”). The BEA Purchase Agreement provides for the sale by the Company to Monsanto of specified assets related to, among other things, the development, manufacture, production, advertising, marketing, promotion, distribution, importation, exportation, offer for sale and sale of specified Roundup® branded products sold outside the non-selective weedkiller category within the residential lawn and garden market. The consideration paid by Monsanto was \$112.0 plus the value of finished goods inventory of \$3.5. This consideration was recorded in the “Prepaid and other current assets” line in the Consolidated Balance Sheets until it was received by the Company on January 13, 2020. The carrying value of the assets sold, which included the brand extension agreement intangible asset with a carrying value of \$111.7, approximated the consideration received, resulting in an insignificant gain on the sale.

The elements of the net commission and reimbursements earned under the Restated Marketing Agreement and Third Restated Agreement and included in the “Net sales” line in the Consolidated Statements of Operations are as follows:

	Year Ended September 30		
	2020	2019	2018
Gross commission	\$ 90.4	\$ 58.4	\$ 80.5
Contribution expenses	(18.0)	(18.0)	(18.0)
Amortization of marketing fee	—	—	(0.8)
Net commission	72.4	40.4	61.7
Reimbursements associated with Roundup® marketing agreement	61.6	73.4	54.5
Total net sales associated with Roundup® marketing agreement	<u>\$ 134.0</u>	<u>\$ 113.8</u>	<u>\$ 116.2</u>

**NOTE 8. ACQUISITIONS AND INVESTMENTS**

***FISCAL 2018***

***Sunlight Supply***

On June 4, 2018, the Company’s Hawthorne segment acquired substantially all of the assets and certain liabilities of Sunlight Supply. At the time of acquisition, Sunlight Supply was a leading developer, manufacturer, marketer and distributor of horticultural, organics, lighting and hydroponic gardening products. Prior to the transaction, Sunlight Supply served as a non-exclusive distributor of the Company. The purchase price of Sunlight Supply was \$459.1, a portion of which was paid by the issuance of 0.3 million Common Shares, a non-cash investing and financing activity, with a fair value of \$23.4 based on the average share price at the time of payment. The purchase price included contingent consideration, a non-cash investing activity, with an initial fair value of \$3.1 and a maximum payout of \$20.0, which was finalized during the third quarter of fiscal 2019 and resulted in no additional payment by the Company. The purchase price was also subject to a post-closing net working capital adjustment which was paid during the first quarter of fiscal 2019.

The valuation of the acquired assets included (i) \$5.3 of cash, prepaid and other current assets, (ii) \$19.3 of accounts receivable, (iii) \$84.3 of inventory, (iv) \$64.4 of fixed assets, (v) \$11.7 of accounts payable and other current liabilities, (vi) \$151.1 of finite-lived identifiable intangible assets, and (vii) \$146.4 of tax-deductible goodwill. Identifiable intangible assets included tradenames of \$65.1, customer relationships of \$84.1 and non-competes of \$1.9 with useful lives ranging between 5 and 25 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate discount rate. The contingent consideration related to the Sunlight Supply acquisition was required to be accounted for as a derivative instrument and was recorded at fair value in the “Other current liabilities” line in the Consolidated Balance Sheets, with changes in fair value recognized in the “Impairment, restructuring and other” line in the Consolidated Statements of Operations.

The acquisition of Sunlight Supply also resulted in the settlement of a portion of certain previously acquired customer relationships, which resulted in a non-cash impairment charge of \$17.5 recognized in the “Impairment, restructuring and other” line in the Consolidated Statements of Operations during the third quarter of fiscal 2018 to reduce the carrying value of these previously acquired customer relationship intangible assets to an estimated fair value of \$30.9. The estimated fair value was determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate discount rate, and has been included as part of goodwill. Additionally, the Company reduced the value of deferred tax liabilities associated with the write-off of these

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

previously acquired customer relationship intangible assets by \$7.3, which was recognized in the “Income tax expense (benefit) from continuing operations” line in the Consolidated Statement of Operations for fiscal 2018.

The following unaudited pro forma information presents the combined results of operations as if the acquisition of Sunlight Supply had occurred at the beginning of fiscal 2017. Sunlight Supply’s pre-acquisition results have been added to the Company’s historical results. The pro forma results contained in the table below include adjustments for (i) the elimination of intercompany sales, (ii) amortization of acquired intangibles, (iii) increased depreciation expense as a result of acquisition date fair value adjustments, (iv) decreased cost of goods sold for fiscal 2018 related to the acquisition date inventory fair value adjustment, (v) increased interest expense related to the financing of the acquisition, (vi) removal of the non-cash impairment charge of \$17.5 during the third quarter of fiscal 2018 related to the settlement of a portion of certain previously acquired customer relationships due to the acquisition of Sunlight Supply, (vii) adjustments to tax expense based on condensed consolidated pro forma results, and (viii) the impact of additional Common Shares issued as a result of the acquisition. The pro forma information does not reflect the realization of any potential cost savings or other synergies from the acquisition as a result of restructuring activities and other cost savings initiatives. These pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results of operations as they would have been had the acquisitions occurred on the assumed dates, nor are they necessarily an indication of future operating results.

<b><u>Unaudited Consolidated Pro Forma Results</u></b>	<b>Year Ended September 30</b>
	<b>2018</b>
Proforma net sales .....	\$ 2,879.7
Proforma net income attributable to controlling interest .....	90.0
Proforma diluted net income per common share .....	1.57

**Gavita**

On May 26, 2016, the Company’s Hawthorne segment acquired majority control and a 75% economic interest in Gavita. Gavita’s former ownership group initially retained a 25% noncontrolling interest in Gavita consisting of ownership of 5% of the outstanding shares of Gavita and a loan with interest payable based on distributions by Gavita. On October 2, 2017, the Company’s Hawthorne segment acquired the remaining 25% noncontrolling interest in Gavita, including Agrolux, for \$69.2, plus payment of contingent consideration of \$3.0. The carrying value of the 25% noncontrolling interest consisted of long-term debt of \$55.6 and noncontrolling interest of \$7.9. The difference between purchase price and carrying value of \$5.7 was recognized in the “Common shares and capital in excess of \$0.01 stated value per share” line within “Total equity—controlling interest” in the Consolidated Balance Sheets.

**Can-Filters**

On October 11, 2017, the Company’s Hawthorne segment completed the acquisition of substantially all of the U.S. and Canadian assets of Can-Filters Group Inc. (“Can-Filters”), a wholesaler of ventilation products for indoor and hydroponic gardening and industrial market customers, for \$74.1. The valuation of the acquired assets included (i) \$1.5 of cash, prepaid and other current assets, (ii) \$7.7 of inventory and accounts receivable, (iii) \$4.4 of fixed assets, (iv) \$0.7 of accounts payable and other current liabilities, (v) \$39.7 of finite-lived identifiable intangible assets, and (vi) \$21.5 of tax-deductible goodwill. Identifiable intangible assets included tradenames and customer relationships with useful lives of 25 years. The estimated fair value of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate discount rate. Net sales for Can-Filters included within the Hawthorne segment for fiscal 2018 were \$10.7.

**NOTE 9. INVESTMENT IN UNCONSOLIDATED AFFILIATES**

On April 13, 2016, pursuant to the terms of the Contribution and Distribution Agreement (the “Contribution Agreement”) between the Company and TruGreen Holding Corporation (“TruGreen Holdings”), the Company completed the contribution of the Scotts LawnService® business (the “SLS Business”) to Outdoor Home Services Holdings LLC, a lawn services joint venture between the Company and TruGreen Holding Corporation (the “TruGreen Joint Venture”), in exchange for a minority equity interest of approximately 30% in the TruGreen Joint Venture. The Company’s interest had an initial fair value of \$294.0 and was accounted for using the equity method of accounting. In connection with the closing of the transactions contemplated by the Contribution Agreement on April 13, 2016, the TruGreen Joint Venture obtained debt financing and made a distribution of \$196.2 to the Company and the Company invested \$18.0 in second lien term loan financing to the TruGreen Joint Venture. The Company was reimbursed \$1.4 during fiscal 2018 for expenses incurred pursuant to a short-term transition services agreement, payments on claims associated with insurance programs and an employee leasing agreement. In the first quarter of fiscal 2018, the Company’s net investment and advances were reduced to a liability and subsequently the Company no longer recorded its proportionate share of the TruGreen Joint Venture earnings in the Consolidated Statements of Operations.

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

On March 19, 2019, the Company entered into an agreement under which it sold, to TruGreen Companies L.L.C., a subsidiary of TruGreen Holdings, all of its approximately 30% equity interest in the TruGreen Joint Venture. In connection with this transaction, the Company received cash proceeds of \$234.2 related to the sale of its equity interest in the TruGreen Joint Venture and \$18.4 related to the payoff of second lien term loan financing by the TruGreen Joint Venture. During fiscal 2019, the Company also received a distribution from the TruGreen Joint Venture intended to cover certain required tax payments of \$3.5, which was classified as an investing activity in the Consolidated Statements of Cash Flows. During fiscal 2019, the Company recognized a pre-tax gain of \$259.8 related to this sale in the “Other non-operating (income) expense, net” line in the Consolidated Statements of Operations. The Company made cash tax payments of \$99.5 during fiscal 2019 as a result of the sale of the Company’s equity interest.

During the fourth quarter of fiscal 2017, the Company made a \$29.4 investment in an unconsolidated subsidiary whose products support the professional U.S. industrial, turf and ornamental market (the “IT&O Joint Venture”). On April 1, 2019, the Company sold all of its noncontrolling equity interest in the IT&O Joint Venture for cash proceeds of \$36.6. During fiscal 2019, the Company recognized a pre-tax gain of \$2.9 related to this sale in the “Other non-operating (income) expense, net” line in the Consolidated Statements of Operations. During fiscal 2019, the Company received a distribution of net earnings from the IT&O Joint Venture of \$4.9, which was classified as an operating activity in the Consolidated Statements of Cash Flows. The Company provided the IT&O Joint Venture with line of credit financing of \$14.3 during fiscal 2018, which was fully repaid as of September 30, 2018.

**NOTE 10. RETIREMENT PLANS**

The Company sponsors a defined contribution 401(k) plan for substantially all U.S. associates. The Company matches 200% of associates’ initial 3% contribution and 50% of their remaining contribution up to 6%. The Company may make additional discretionary profit sharing matching contributions to eligible employees on their initial 4% contribution. The Company recorded charges of \$27.7, \$18.9 and \$15.3 under the plan in fiscal 2020, fiscal 2019 and fiscal 2018, respectively.

The Company sponsors two defined benefit pension plans for certain U.S. associates and three defined benefit pension plans associated with the former businesses in the United Kingdom and Germany. Benefits under these plans have been frozen and closed to new associates since 1997 for the U.S. plans, 2010 for the United Kingdom plans and 2017 for the Germany plan. The benefits under the plans are based on years of service and compensation levels. The Company’s funding policy, consistent with statutory requirements and tax considerations, is based on actuarial computations using the Projected Unit Credit method.



**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

The following tables present information about benefit obligations, plan assets, annual expense, assumptions and other information about the Company's defined benefit pension plans. The defined benefit pension plans are valued using a September 30 measurement date.

	U.S. Defined Benefit Pension Plans		International Defined Benefit Pension Plans	
	2020	2019	2020	2019
<b>Change in projected benefit obligation:</b>				
Benefit obligation at beginning of year	\$ 108.0	\$ 100.1	\$ 185.2	\$ 175.0
Interest cost	2.6	3.5	2.7	4.0
Actuarial (gain) loss	6.4	11.6	4.0	21.9
Benefits paid	(7.2)	(7.2)	(7.7)	(7.3)
Other	—	—	—	2.6
Foreign currency translation	—	—	9.5	(11.0)
Projected benefit obligation at end of year	<u>\$ 109.8</u>	<u>\$ 108.0</u>	<u>\$ 193.7</u>	<u>\$ 185.2</u>
<b>Accumulated benefit obligation at end of year</b>	<u><u>\$ 109.8</u></u>	<u><u>\$ 108.0</u></u>	<u><u>\$ 193.7</u></u>	<u><u>\$ 185.2</u></u>
<b>Change in plan assets:</b>				
Fair value of plan assets at beginning of year	\$ 81.3	\$ 80.7	\$ 196.6	\$ 181.5
Actual return on plan assets	5.1	7.6	3.9	26.5
Employer contribution	2.3	0.2	7.3	7.4
Benefits paid	(7.2)	(7.2)	(7.7)	(7.3)
Foreign currency translation	—	—	9.8	(11.5)
Fair value of plan assets at end of year	<u>\$ 81.5</u>	<u>\$ 81.3</u>	<u>\$ 209.9</u>	<u>\$ 196.6</u>
<b>Overfunded (underfunded) status at end of year</b>	<u><u>\$ (28.3)</u></u>	<u><u>\$ (26.7)</u></u>	<u><u>\$ 16.2</u></u>	<u><u>\$ 11.4</u></u>

	U.S. Defined Benefit Pension Plans		International Defined Benefit Pension Plans	
	2020	2019	2020	2019
<b>Information for pension plans with an accumulated benefit obligation in excess of plan assets:</b>				
Projected benefit obligation	\$ 109.8	\$ 108.0	\$ 18.3	\$ 18.1
Accumulated benefit obligation	109.8	108.0	18.3	18.1
Fair value of plan assets	81.5	81.3	—	—
<b>Amounts recognized in the Consolidated Balance Sheets consist of:</b>				
Noncurrent assets	\$ —	\$ —	\$ 34.5	\$ 29.5
Current liabilities	(0.2)	(0.2)	(0.9)	(0.9)
Noncurrent liabilities	(28.1)	(26.5)	(17.4)	(17.2)
Total amount accrued	<u>\$ (28.3)</u>	<u>\$ (26.7)</u>	<u>\$ 16.2</u>	<u>\$ 11.4</u>
<b>Amounts recognized in AOCL consist of:</b>				
Actuarial loss	\$ 47.9	\$ 44.4	\$ 50.2	\$ 41.8
Prior service cost	—	—	2.6	2.5
Total amount recognized	<u>\$ 47.9</u>	<u>\$ 44.4</u>	<u>\$ 52.8</u>	<u>\$ 44.3</u>

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

	U.S. Defined Benefit Pension Plans		International Defined Benefit Pension Plans	
	2020	2019	2020	2019
<b>Total change in other comprehensive loss attributable to:</b>				
Pension benefit loss during the period	\$ (5.3)	\$ (8.0)	\$ (7.0)	\$ (2.5)
Reclassification of pension benefit losses to net income	1.8	1.5	1.0	0.8
Prior service cost recognized during the period	—	—	—	(2.6)
Foreign currency translation	—	—	(2.5)	2.6
Total change in other comprehensive loss	<u>\$ (3.5)</u>	<u>\$ (6.5)</u>	<u>\$ (8.5)</u>	<u>\$ (1.7)</u>

**Amounts in AOCL expected to be recognized as components of net periodic benefit cost in fiscal 2021 are as follows:**

Actuarial loss	\$ 2.1	\$ 1.2
Prior service cost	—	0.1
Amount to be amortized into net periodic benefit cost	<u>\$ 2.1</u>	<u>\$ 1.3</u>

**Weighted average assumptions used in development of projected benefit obligation:**

Discount rate	2.05 %	2.77 %	1.51 %	1.60 %
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	U.S. Defined Benefit Pension Plans			International Defined Benefit Pension Plans		
	2020	2019	2018	2020	2019	2018
<b>Components of net periodic benefit cost (income):</b>						
Interest cost	\$ 2.6	\$ 3.5	\$ 3.1	\$ 2.7	\$ 4.0	\$ 4.2
Expected return on plan assets	(3.9)	(4.0)	(4.6)	(6.9)	(7.1)	(7.2)
Net amortization	1.8	1.4	1.5	1.0	0.8	1.1
Net periodic benefit cost (income)	<u>\$ 0.5</u>	<u>\$ 0.9</u>	<u>\$ —</u>	<u>\$ (3.2)</u>	<u>\$ (2.3)</u>	<u>\$ (1.9)</u>

**Weighted average assumptions used in development of net periodic benefit cost (income):**

Weighted average discount rate - interest cost	2.44 %	3.67 %	2.87 %	1.42 %	2.34 %	2.21 %
Expected return on plan assets	5.00 %	5.25 %	5.50 %	3.39 %	3.94 %	4.45 %

***Investment Strategy***

Target allocation percentages among various asset classes are maintained based on an individual investment policy established for each of the various pension plans. Asset allocations are designed to achieve long-term objectives of return while mitigating against downside risk considering expected cash requirements necessary to fund benefit payments. However, the Company cannot predict future investment returns and therefore cannot determine whether future pension plan funding requirements could materially and adversely affect its financial condition, results of operations or cash flows.

***Basis for Long-Term Rate of Return on Asset Assumptions***

The Company's expected long-term rate of return on asset assumptions are derived from studies conducted by third parties. The studies include a review of anticipated future long-term performance of individual asset classes and consideration of the appropriate asset allocation strategy given the anticipated requirements of the plans to determine the average rate of earnings expected. While the studies give appropriate consideration to recent fund performance and historical returns, the assumptions primarily represent expectations about future rates of return over the long term.

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

	<b>U.S. Defined Benefit Pension Plans</b>	<b>International Defined Benefit Pension Plans</b>
<b>Other information:</b>		
Plan asset allocations:		
Target for September 30, 2021:		
Equity securities .....	22 %	20 %
Debt securities .....	74 %	80 %
Real estate securities .....	4 %	— %
Cash and cash equivalents .....	— %	— %
September 30, 2020		
Equity securities .....	21 %	27 %
Debt securities .....	73 %	73 %
Real estate securities .....	4 %	— %
Cash and cash equivalents .....	2 %	— %
September 30, 2019		
Equity securities .....	21 %	27 %
Debt securities .....	72 %	72 %
Real estate securities .....	4 %	— %
Cash and cash equivalents .....	3 %	1 %
Expected company contributions in fiscal 2021 .....	\$ 2.9	\$ 6.6
Expected future benefit payments:		
2021 .....	\$ 7.7	\$ 5.9
2022 .....	7.4	6.1
2023 .....	7.4	6.3
2024 .....	7.3	6.6
2025 .....	7.1	6.9
2026 – 2030 .....	32.3	31.9

The following tables set forth the fair value of the Company's pension plan assets, segregated by level within the fair value hierarchy:

	<b>Fair Value Hierarchy Level</b>	<b>U.S. Defined Benefit Pension Plans</b>		<b>International Defined Benefit Pension Plans</b>	
		<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Cash and cash equivalents .....	Level 1	\$ 1.8	\$ 2.6	\$ 0.5	\$ 1.1
Total assets in the fair value hierarchy .....		\$ 1.8	\$ 2.6	\$ 0.5	\$ 1.1
Common collective trusts measured at net asset value .....					
Real estate .....		\$ 2.9	\$ 3.2	\$ —	\$ —
Equities .....		17.5	16.6	57.3	53.3
Fixed income .....		59.3	58.9	152.1	142.2
Total common collective trusts measured at net asset value .....		79.7	78.7	209.4	195.5
Total assets at fair value .....		\$ 81.5	\$ 81.3	\$ 209.9	\$ 196.6

The carrying value of cash equivalents approximated their aggregate fair value as of September 30, 2020 and 2019. Common collective trusts are not publicly traded and were valued at a net asset value unit price determined by the portfolio's sponsor based on the fair value of underlying assets held by the common collective trust on September 30, 2020 and 2019. The common collective trusts hold underlying investments that have prices derived from quoted prices in active markets. The

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

underlying assets are principally marketable equity and fixed income securities. Common collective trust assets from the prior year were reclassified in the current year presentation.

**NOTE 11. ASSOCIATE MEDICAL BENEFITS**

The Company provides comprehensive major medical benefits to its associates. The Company is self-insured for certain health benefits up to \$0.7 per occurrence per individual. The cost of such benefits is recognized as expense in the period the claim is incurred. This cost was \$34.2, \$31.4 and \$31.2 in fiscal 2020, fiscal 2019 and fiscal 2018, respectively.

The Company also provides comprehensive major medical benefits to certain retired associates and their dependents. Substantially all of the Company's domestic associates who were hired before January 1, 1998 become eligible for these benefits if they retire at age 55 or older with more than ten years of service. The retiree medical plan requires certain minimum contributions from retired associates and includes provisions to limit the overall cost increases the Company is required to cover. The Company funds its portion of retiree medical benefits as claims are paid.

The following tables set forth information about the retiree medical plan for domestic associates. The retiree medical plan is valued using a September 30 measurement date.

	2020	2019
<b>Change in Accumulated Plan Benefit Obligation (APBO):</b>		
Benefit obligation at beginning of year	\$ 22.8	\$ 21.4
Service cost	0.2	0.2
Interest cost	0.6	0.8
Plan participants' contributions	0.4	0.3
Actuarial (gain) loss	0.7	1.9
Benefits paid	(2.3)	(1.8)
Benefit obligation at end of year	\$ 22.4	\$ 22.8
<b>Change in plan assets:</b>		
Fair value of plan assets at beginning of year	\$ —	\$ —
Employer contribution	1.9	1.5
Plan participants' contributions	0.4	0.3
Gross benefits paid	(2.3)	(1.8)
Fair value of plan assets at end of year	\$ —	\$ —
Unfunded status at end of year	\$ (22.4)	\$ (22.8)
	2020	2019
<b>Amounts recognized in the Consolidated Balance Sheets consist of:</b>		
Current liabilities	\$ (1.6)	\$ (1.7)
Noncurrent liabilities	(20.8)	(21.1)
Total amount accrued	\$ (22.4)	\$ (22.8)
<b>Amounts recognized in AOCL consist of:</b>		
Actuarial loss	\$ 3.6	\$ 3.1
Prior service credit	(2.5)	(3.6)
Total amount recognized	\$ 1.1	\$ (0.5)
<b>Total change in other comprehensive loss attributable to:</b>		
Benefit loss during the period	\$ (0.7)	\$ (1.9)
Reclassification of benefit loss and prior service credit to net income	(0.9)	(1.1)
Total change in other comprehensive loss	\$ (1.6)	\$ (3.0)
<b>Discount rate used in development of APBO</b>	2.48 %	3.05 %

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

Net periodic benefit cost (income) was \$(0.1) during fiscal 2020 and fiscal 2019 and \$0.1 during fiscal 2018. The estimated actuarial loss and prior service credit that will be amortized from AOCL into net periodic benefit cost over the next fiscal year is \$0.3 and \$1.1, respectively.

For measurement as of September 30, 2020, management has assumed that health care costs will increase at an annual rate of 6.00%, and thereafter decreasing to an ultimate trend rate of 4.75% in 2026. A 100 basis point change in health cost trend rate assumptions would not have a material effect on service costs, interest costs or the APBO.

The following benefit payments under the plan are expected to be paid by the Company and the retirees for the fiscal years indicated:

	Gross Benefit Payments	Retiree Contributions	Net Company Payments
2021 .....	\$ 2.1	\$ (0.4)	\$ 1.7
2022 .....	2.2	(0.5)	1.7
2023 .....	2.3	(0.6)	1.7
2024 .....	2.2	(0.6)	1.6
2025 .....	2.1	(0.6)	1.5
2026 – 2030 .....	10.6	(3.4)	7.2

**NOTE 12. DEBT**

The components of debt are as follows:

	September 30,	
	2020	2019
Credit Facilities:		
Revolving loans .....	\$ 64.0	\$ 147.2
Term loans .....	710.0	750.0
Senior Notes – 5.250% .....	250.0	250.0
Senior Notes – 6.000% .....	—	400.0
Senior Notes – 4.500% .....	450.0	—
Receivables facility .....	20.0	76.0
Finance / capital lease obligations .....	36.1	25.8
Other .....	1.1	10.3
Total debt .....	1,531.2	1,659.3
Less current portions .....	66.4	128.1
Less unamortized debt issuance costs .....	9.7	7.7
Long-term debt .....	<u>\$ 1,455.1</u>	<u>\$ 1,523.5</u>

The Company's aggregate scheduled maturities of debt, excluding finance lease obligations, are as follows:

2021 .....	\$ 61.1
2022 .....	40.0
2023 .....	694.0
2024 .....	—
2025 .....	—
Thereafter .....	700.0
	<u>\$ 1,495.1</u>

**Credit Facilities**

On July 5, 2018, the Company entered into a fifth amended and restated credit agreement (the "Fifth A&R Credit Agreement"), providing the Company and certain of its subsidiaries with five-year senior secured loan facilities in the aggregate principal amount of \$2,300.0, comprised of a revolving credit facility of \$1,500.0 and a term loan in the original principal amount of \$800.0 (the "Fifth A&R Credit Facilities").

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

At September 30, 2020, the Company had letters of credit outstanding in the aggregate principal amount of \$20.3, and \$1,415.7 of borrowing availability under the Fifth A&R Credit Agreement. The weighted average interest rates on average borrowings under the Fifth A&R Credit Agreement were 3.3%, 4.6% and 4.0% for fiscal 2020, fiscal 2019 and fiscal 2018, respectively.

The Fifth A&R Credit Agreement contains, among other obligations, an affirmative covenant regarding the Company's leverage ratio on the last day of each quarter calculated as average total indebtedness, divided by the Company's earnings before interest, taxes, depreciation and amortization ("EBITDA"), as adjusted pursuant to the terms of the Fifth A&R Credit Agreement ("Adjusted EBITDA"). The maximum leverage ratio was 4.75 for the second quarter of fiscal 2020 through the fourth quarter of fiscal 2020 and is 4.50 for the first quarter of fiscal 2021 and thereafter. The Company's leverage ratio was 2.48 at September 30, 2020. The Fifth A&R Credit Agreement also contains an affirmative covenant regarding the Company's interest coverage ratio determined as of the end of each of its fiscal quarters. The interest coverage ratio is calculated as Adjusted EBITDA divided by interest expense, as described in the Fifth A&R Credit Agreement, and excludes costs related to refinancings. The minimum interest coverage ratio was 3.00 for the twelve months ended September 30, 2020. The Company's interest coverage ratio was 10.12 for the twelve months ended September 30, 2020.

The Fifth A&R Credit Agreement allows the Company to make unlimited restricted payments (as defined in the Fifth A&R Credit Agreement), including dividend payments and repurchases of Common Shares, as long as the leverage ratio resulting from the making of such restricted payments is 4.00 or less. Otherwise, the Company may make further restricted payments in an aggregate amount for each fiscal year not to exceed \$225.0 for fiscal 2020 and thereafter.

**Senior Notes**

On December 15, 2016, Scotts Miracle-Gro issued \$250.0 aggregate principal amount of 5.250% Senior Notes due 2026 (the "5.250% Senior Notes"). The 5.250% Senior Notes represent general unsecured senior obligations and rank equal in right of payment with the Company's existing and future unsecured senior debt. The 5.250% Senior Notes have interest payment dates of June 15 and December 15 of each year. Substantially all of Scotts Miracle-Gro's directly and indirectly owned domestic subsidiaries serve as guarantors of the 5.250% Senior Notes.

On October 22, 2019, Scotts Miracle-Gro issued \$450.0 aggregate principal amount of 4.500% Senior Notes due 2029 (the "4.500% Senior Notes"). The net proceeds of the offering were used to redeem all of the Company's outstanding 6.000% Senior Notes due 2023 (the "6.000% Senior Notes") and for general corporate purposes. The 4.500% Senior Notes represent general unsecured senior obligations and rank equal in right of payment with the Company's existing and future unsecured senior debt. The 4.500% Senior Notes have interest payment dates of April 15 and October 15 of each year. All of Scotts Miracle-Gro's domestic subsidiaries that serve as guarantors of the 5.250% Senior Notes also serve as guarantors of the 4.500% Senior Notes.

On October 23, 2019, Scotts Miracle-Gro redeemed all of its outstanding 6.000% Senior Notes for a redemption price of \$412.5, comprised of \$0.5 of accrued and unpaid interest, \$12.0 of redemption premium, and \$400.0 for outstanding principal amount. The \$12.0 redemption premium was recognized in the "Costs related to refinancing" line on the Consolidated Statements of Operations during the first quarter of fiscal 2020. Additionally, the Company had \$3.1 in unamortized bond issuance costs associated with the 6.000% Senior Notes, which were written-off during the first quarter of fiscal 2020 and were recognized in the "Costs related to refinancing" line in the Consolidated Statements of Operations.

**Receivables Facility**

On April 7, 2017, the Company entered into a Master Repurchase Agreement (including the annexes thereto, the "Repurchase Agreement") and a Master Framework Agreement, as amended annually (the "Framework Agreement" and, together with the Repurchase Agreement, the "Receivables Facility"). Under the Receivables Facility, the Company may sell a portfolio of available and eligible outstanding customer accounts receivable to the purchasers and simultaneously agree to repurchase the receivables on a weekly basis. The eligible accounts receivable consist of accounts receivable generated by sales to three specified customers. The eligible amount of customer accounts receivables which may be sold under the Receivables Facility is \$400.0 and the commitment amount during the seasonal commitment period beginning on February 26, 2021 and ending on June 18, 2021 is \$160.0. The Receivables Facility expires on August 20, 2021.

The Company accounts for the sale of receivables under the Receivables Facility as short-term debt and continues to carry the receivables on its Consolidated Balance Sheets, primarily as a result of the Company's requirement to repurchase receivables sold. As of September 30, 2020 and 2019, there were \$20.0 and \$76.0, respectively, in borrowings on receivables pledged as collateral under the Receivables Facility, and the carrying value of the receivables pledged as collateral was \$22.3 and \$84.5, respectively.

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

**Interest Rate Swap Agreements**

The Company has outstanding interest rate swap agreements with major financial institutions that effectively convert a portion of the Company's variable-rate debt to a fixed rate. The swap agreements had a maximum total U.S. dollar equivalent notional amount of \$600.0 and \$850.0 at September 30, 2020 and 2019, respectively. Interest payments made between the effective date and expiration date are hedged by the swap agreements, except as noted below.

The notional amount, effective date, expiration date and rate of each of these swap agreements outstanding at September 30, 2020 are shown in the table below:

Notional Amount	Effective Date (a)	Expiration Date	Fixed Rate
\$ 100	6/20/2018	10/20/2020	2.15 %
200 (b)	11/7/2018	6/7/2021	2.87 %
100	11/7/2018	7/7/2021	2.96 %
200	11/7/2018	10/7/2021	2.98 %
100	12/21/2020	6/20/2023	1.36 %
300 (b)	1/7/2021	6/7/2023	1.34 %
200	10/7/2021	6/7/2023	1.37 %
200 (b)	1/20/2022	6/20/2024	0.58 %
200	6/7/2023	6/8/2026	0.85 %

(a) The effective date refers to the date on which interest payments are first hedged by the applicable swap agreement.

(b) Notional amount adjusts in accordance with a specified seasonal schedule. This represents the maximum notional amount at any point in time.

**Weighted Average Interest Rate**

The weighted average interest rates on the Company's debt were 4.3%, 4.8% and 4.3% for fiscal 2020, fiscal 2019 and fiscal 2018, respectively.

**NOTE 13. EQUITY**

Authorized and issued shares consisted of the following (in millions):

	September 30,	
	2020	2019
Preferred shares, no par value:		
Authorized .....	0.2 shares	0.2 shares
Issued .....	0.0 shares	0.0 shares
Common shares, no par value, \$0.01 stated value per share:		
Authorized .....	100.0 shares	100.0 shares
Issued .....	68.1 shares	68.1 shares

In fiscal 1995, The Scotts Company merged with Stern's Miracle-Gro Products, Inc. ("Miracle-Gro"). At September 30, 2020, the former shareholders of Miracle-Gro, including the Hagedorn Partnership, L.P., owned approximately 25% of Scotts Miracle-Gro's outstanding Common Shares on a fully diluted basis and, thus, have the ability to significantly influence the election of directors and other actions requiring the approval of Scotts Miracle-Gro's shareholders.

Under the terms of the merger agreement with Miracle-Gro, the former shareholders of Miracle-Gro may not collectively acquire, directly or indirectly, beneficial ownership of Voting Stock (as that term is defined in the Miracle-Gro merger agreement) representing more than 49% of the total voting power of the outstanding Voting Stock, except pursuant to a tender offer for 100% of that total voting power, which tender offer is made at a price per share which is not less than the market price per share on the last trading day before the announcement of the tender offer and is conditioned upon the receipt of at least 50% of the Voting Stock beneficially owned by shareholders of Scotts Miracle-Gro other than the former shareholders of Miracle-Gro and their affiliates and associates.

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

**Accumulated Other Comprehensive Loss**

Changes in AOCL by component were as follows for the fiscal years ended September 30:

	Foreign Currency Translation Adjustments	Net Unrealized Gain (Loss) On Derivative Instruments	Net Unrealized Gain (Loss) in Pension and Other Post- Retirement Benefits	Accumulated Other Comprehensive Income (Loss)
<b>Balance at September 30, 2017</b>	\$ (16.7)	\$ 2.0	\$ (54.5)	\$ (69.2)
Other comprehensive income (loss) before reclassifications	(3.7)	12.7	10.0	19.0
Amounts reclassified from accumulated other comprehensive net income (loss)	11.7	(4.2)	1.7	9.2
Income tax benefit (expense)	—	(2.2)	(2.8)	(5.0)
Net current period other comprehensive income (loss)	<u>8.0</u>	<u>6.3</u>	<u>8.9</u>	<u>23.2</u>
<b>Balance at September 30, 2018</b>	(8.7)	8.3	(45.6)	(46.0)
Other comprehensive income (loss) before reclassifications	(11.2)	(20.1)	(15.0)	(46.3)
Amounts reclassified from accumulated other comprehensive net income (loss)	2.5	(2.0)	2.8	3.3
Income tax benefit (expense)	—	5.7	3.2	8.9
Net current period other comprehensive income (loss)	<u>(8.7)</u>	<u>(16.4)</u>	<u>(9.0)</u>	<u>(34.1)</u>
Adoption of new accounting pronouncements (see Note 1)	—	—	(13.8)	(13.8)
<b>Balance at September 30, 2019</b>	(17.4)	(8.1)	(68.4)	(93.9)
Other comprehensive income (loss) before reclassifications	10.5	(19.7)	(12.9)	(22.1)
Amounts reclassified from accumulated other comprehensive net income (loss)	0.8	10.1	0.3	11.2
Income tax benefit (expense)	—	2.5	3.2	5.7
Net current period other comprehensive income (loss)	<u>11.3</u>	<u>(7.1)</u>	<u>(9.4)</u>	<u>(5.2)</u>
<b>Balance at September 30, 2020</b>	<u>\$ (6.2)</u>	<u>\$ (15.1)</u>	<u>\$ (77.8)</u>	<u>\$ (99.1)</u>

The sum of the components may not equal due to rounding.

During the second quarter of fiscal 2019, the Company recognized a charge of \$2.5 in the “Other non-operating (income) expense, net” line in the Consolidated Statements of Operations related to the write-off of accumulated foreign currency translation loss adjustments of a foreign subsidiary that was substantially liquidated. During the second quarter of fiscal 2018, the Company repatriated cash from a foreign subsidiary resulting in the liquidation of substantially all of the assets of the subsidiary and the write-off of accumulated foreign currency translation loss adjustments of \$11.7 within the “Other non-operating (income) expense, net” line in the Consolidated Statements of Operations.

**Dividends**

On July 30, 2019, the Scotts Miracle-Gro Board of Directors approved an increase in the Company’s quarterly cash dividend from \$0.55 to \$0.58 per Common Share. On July 27, 2020, the Scotts Miracle-Gro Board of Directors approved an increase in the Company’s quarterly cash dividend from \$0.58 to \$0.62 per Common Share. In addition, on July 27, 2020, the Scotts Miracle-Gro Board of Directors approved a special cash dividend of \$5.00 per Common Share, which was paid on September 10, 2020 to all shareholders of record at the close of business on August 27, 2020.

**Share Repurchases**

On August 11, 2014, Scotts Miracle-Gro announced that its Board of Directors authorized the repurchase of up to \$500.0 of Common Shares over a five-year period (effective November 1, 2014 through September 30, 2019). On August 3, 2016, Scotts Miracle-Gro announced that its Board of Directors authorized a \$500.0 increase to the share repurchase authorization ending on September 30, 2019. On August 2, 2019, the Scotts Miracle-Gro Board of Directors authorized an extension of the share repurchase authorization through March 28, 2020. The amended authorization allowed for repurchases of Common Shares of up to an aggregate amount of \$1,000.0 through March 28, 2020. During fiscal 2020 through March 28, 2020, Scotts Miracle-Gro repurchased 0.4 million Common Shares under the share repurchase authorization for \$48.2. There were no share repurchases under the share repurchase authorization during fiscal 2019. During fiscal 2018, Scotts Miracle-Gro repurchased



**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

3.5 million Common Shares for \$323.1. From the effective date of the share repurchase authorization in the fourth quarter of fiscal 2014 through March 28, 2020, Scotts Miracle-Gro repurchased approximately 8.7 million Common Shares for \$762.8.

On February 6, 2020, the Company announced a new share repurchase program allowing for repurchases of up to \$750.0 of Common Shares from April 30, 2020 through March 25, 2023. The authorization provides the Company with flexibility to purchase Common Shares from time to time in open market purchases or through privately negotiated transactions. All or part of the repurchases may be made under Rule 10b5-1 plans, which the Company may enter into from time to time and which enable the repurchases to occur on a more regular basis, or pursuant to accelerated share repurchases. The share repurchase authorization may be suspended or discontinued by the Board of Directors at any time, and there can be no guarantee as to the timing or amount of any repurchases. Effective March 30, 2020, management elected to temporarily suspend share repurchase activity in order to enhance the Company's financial flexibility in response to the COVID-19 pandemic. Accordingly, there were no share repurchases under this share repurchase authorization during fiscal 2020. Subsequent to September 30, 2020, management has elected to commence share repurchase activity. The "Treasury share purchases" lines in the Consolidated Statements of Shareholders' Equity includes cash paid to tax authorities to satisfy statutory income tax withholding obligations related to share-based compensation of \$4.9, \$2.7 and \$3.0 for fiscal 2020, fiscal 2019 and fiscal 2018, respectively.

**Acquisition of Sunlight Supply**

On June 4, 2018, Scotts Miracle-Gro issued 0.3 million Common Shares, which represented a carrying value of \$20.7, out of its treasury shares for payment of a portion of the purchase price for the acquisition of Sunlight Supply.

**Gavita**

On October 2, 2017, the Company's Hawthorne segment acquired the remaining 25% noncontrolling interest in Gavita, including Agrolux, for \$69.2, plus payment of contingent consideration of \$3.0. The carrying value of the 25% noncontrolling interest consisted of long-term debt of \$55.6 and noncontrolling interest of \$7.9. The difference between purchase price and carrying value of \$5.7 was recognized in the "Common shares and capital in excess of \$0.01 stated value per share" line within "Total equity—controlling interest" in the Consolidated Balance Sheets.

**Share-Based Awards**

On January 30, 2017, the Company issued 0.5 million upfront performance-based award units, covering a five-year performance period, with an estimated fair value of \$43.3 on the date of grant to certain senior executives as part of its Project Focus initiative. These awards provide for a five-year vesting period based on achievement of specific performance goals aligned with the strategic objectives of the Company's Project Focus initiatives. Based on the extent to which the targets are achieved, vested shares may range from 50 to 250 percent of the target award amount. The performance goals include a combination of five year cumulative operating cash flow less capital expenditures; five year average annual non-GAAP diluted EPS growth; and dividend yield.

A maximum of 7.3 million Common Shares are available for issuance under share-based award plans. At September 30, 2020, approximately 2.7 million Common Shares were not subject to outstanding awards and were available to underlie the grant of new share-based awards. Common Shares held in treasury totaling 0.4 million, 0.5 million and 0.4 million were reissued in support of share-based compensation awards and employee purchases under the employee stock purchase plan during fiscal 2020, fiscal 2019 and fiscal 2018, respectively.

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

The following is a summary of the share-based awards granted during each of the periods indicated:

	Year Ended September 30,		
	2020	2019	2018
Employees			
Options .....	37,255	—	—
Restricted stock units .....	119,726	166,534	198,807
Performance units .....	37,570	131,644	246,430
Non-Employee Directors			
Restricted and deferred stock units .....	18,948	32,101	25,858
Total share-based awards .....	<u>213,499</u>	<u>330,279</u>	<u>471,095</u>
Aggregate fair value at grant dates .....	\$ 21.5	\$ 25.5	\$ 43.5

Total share-based compensation was as follows for each of the periods indicated:

	Year Ended September 30,		
	2020	2019	2018
Share-based compensation .....	\$ 57.9	\$ 38.4	\$ 40.5
Related tax benefit recognized .....	14.6	9.5	10.5

Excess tax benefits related to share-based compensation were \$5.8, \$2.8 and \$4.5 for fiscal 2020, fiscal 2019 and fiscal 2018, respectively.

**Stock Options**

Aggregate stock option activity was as follows:

	No. of Options	Wtd. Avg. Exercise Price
Awards outstanding at September 30, 2019 .....	862,388	\$ 59.52
Granted .....	37,255	57.89
Exercised .....	(280,418)	55.19
Awards outstanding at September 30, 2020 .....	<u>619,225</u>	57.90
Exercisable .....	619,225	57.90

At September 30, 2020, the total pre-tax compensation cost, net of estimated forfeitures, related to nonvested stock options not yet recognized was zero. The total intrinsic value of stock options exercised was \$21.9, \$17.5 and \$17.2 during fiscal 2020, fiscal 2019 and fiscal 2018, respectively. Cash received from the exercise of stock options, including amounts received from employee purchases under the employee stock purchase plan, was \$17.6, \$21.4 and \$10.5 for fiscal 2020, fiscal 2019 and fiscal 2018, respectively. The following summarizes certain information pertaining to stock option awards outstanding and exercisable at September 30, 2020 (options in millions):

Range of Exercise Price	Awards Outstanding			Awards Exercisable		
	No. of Options	Wtd. Avg. Remaining Life	Wtd. Avg. Exercise Price	No. of Options	Wtd. Avg. Remaining Life	Wtd. Avg. Exercise Price
\$42.60 - \$42.60 .....	0.1	1.30	\$ 42.60	0.1	1.30	\$ 42.60
\$59.62 - \$64.55 .....	0.5	4.90	62.47	0.5	4.90	62.47
	<u>0.6</u>	4.07	57.90	<u>0.6</u>	4.07	57.90

The intrinsic values of the stock option awards outstanding and exercisable at September 30, 2020 were as follows:

	2020
Outstanding .....	\$ 58.8
Exercisable .....	58.8

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

***Restricted share-based awards***

Restricted share-based award activity (including restricted stock units and deferred stock units) was as follows:

	No. of Shares	Wtd. Avg. Grant Date Fair Value per Share
Awards outstanding at September 30, 2019 .....	488,409	\$ 85.94
Granted .....	138,674	121.78
Vested .....	(126,096)	91.21
Forfeited .....	(750)	100.12
Awards outstanding at September 30, 2020 .....	<u>500,237</u>	94.53

At September 30, 2020, the total pre-tax compensation cost, net of estimated forfeitures, related to nonvested restricted share units not yet recognized was \$10.7, which is expected to be recognized over a weighted-average period of 1.6 years. The total fair value of restricted stock units and deferred stock units vested was \$15.2 during fiscal 2020 and \$6.3 during fiscal 2019 and fiscal 2018.

***Performance-based awards***

Performance-based award activity was as follows (based on target award amounts):

	No. of Units	Wtd. Avg. Grant Date Fair Value per Unit
Awards outstanding at September 30, 2019 .....	648,131	\$ 90.13
Granted .....	37,570	123.82
Vested <sup>(a)</sup> .....	(19,421)	92.73
Forfeited .....	(152)	98.81
Awards outstanding at September 30, 2020 .....	<u>666,128</u>	92.85

(a) Vested at a weighted average of 166 percent of the target performance share units granted.

At September 30, 2020, the total pre-tax compensation cost, net of estimated forfeitures, related to nonvested performance-based units not yet recognized was \$28.3, which is expected to be recognized over a weighted-average period of 1.6 years. The total fair value of performance-based units vested was \$3.9 during fiscal 2020 and fiscal 2019 and \$3.4 during fiscal 2018.

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

**NOTE 14. EARNINGS PER COMMON SHARE**

The following table presents information necessary to calculate basic and diluted income per Common Share.

	Year Ended September 30,		
	2020	2019	2018
Income from continuing operations	\$ 386.9	\$ 436.7	\$ 127.6
Net (income) loss attributable to noncontrolling interest	(1.2)	0.5	—
Income attributable to controlling interest from continuing operations	385.7	437.2	127.6
Income (loss) from discontinued operations, net of tax	1.7	23.5	(63.9)
Net income attributable to controlling interest	<u>\$ 387.4</u>	<u>\$ 460.7</u>	<u>\$ 63.7</u>

**BASIC INCOME PER COMMON SHARE:**

Weighted-average Common Shares outstanding during the period	55.7	55.5	56.2
Income from continuing operations	\$ 6.92	\$ 7.88	\$ 2.27
Income (loss) from discontinued operations	0.04	0.42	(1.14)
Net income	<u>\$ 6.96</u>	<u>\$ 8.30</u>	<u>\$ 1.13</u>

**DILUTED INCOME PER COMMON SHARE:**

Weighted-average Common Shares outstanding during the period	55.7	55.5	56.2
Dilutive potential Common Shares	1.2	0.8	0.9
Weighted-average number of Common Shares outstanding and dilutive potential Common Shares	56.9	56.3	57.1
Income from continuing operations	\$ 6.78	\$ 7.77	\$ 2.23
Income (loss) from discontinued operations	0.03	0.41	(1.11)
Net income	<u>\$ 6.81</u>	<u>\$ 8.18</u>	<u>\$ 1.12</u>

Stock options with exercise prices greater than the average market price of the underlying Common Shares are excluded from the computation of diluted income per Common Share because they are out-of-the-money and the effect of their inclusion would be anti-dilutive. There were no out-of-the-money options for the year ended September 30, 2020, 2019 or 2018.

**NOTE 15. INCOME TAXES**

The provision (benefit) for income taxes allocated to continuing operations consisted of the following:

	Year Ended September 30,		
	2020	2019	2018
Current:			
Federal	\$ 104.3	\$ 169.3	\$ 47.7
State	25.3	20.3	10.3
Foreign	0.3	4.2	0.2
Total Current	<u>129.9</u>	<u>193.8</u>	<u>58.2</u>
Deferred:			
Federal	(1.6)	(40.6)	(58.4)
State	(2.0)	(5.4)	(2.0)
Foreign	(2.6)	(2.9)	(9.7)
Total Deferred	<u>(6.2)</u>	<u>(48.9)</u>	<u>(70.1)</u>
Income tax expense (benefit) from continuing operations	<u>\$ 123.7</u>	<u>\$ 144.9</u>	<u>\$ (11.9)</u>

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

The domestic and foreign components of income from continuing operations before income taxes were as follows:

	Year Ended September 30,		
	2020	2019	2018
Domestic .....	\$ 483.7	\$ 554.7	\$ 159.5
Foreign .....	26.9	26.9	(43.8)
Income from continuing operations before income taxes .....	<u>\$ 510.6</u>	<u>\$ 581.6</u>	<u>\$ 115.7</u>

A reconciliation of the federal corporate income tax rate and the effective tax rate on income from continuing operations before income taxes is summarized below:

	Year Ended September 30,		
	2020	2019	2018
Statutory income tax rate .....	21.0 %	21.0 %	24.5 %
Effect of foreign operations .....	(0.7)	0.3	7.4
State taxes, net of federal benefit .....	3.5	1.8	6.5
Domestic Production Activities Deduction permanent difference .....	—	—	(4.4)
Effect of other permanent differences .....	—	(0.2)	(3.0)
Research and Experimentation and other federal tax credits .....	(0.3)	(0.3)	(1.7)
Effect of tax contingencies .....	0.1	1.9	1.3
Effect of tax reform .....	—	—	(38.7)
Other .....	0.6	0.4	(2.2)
Effective income tax rate .....	<u>24.2 %</u>	<u>24.9 %</u>	<u>(10.3)%</u>

On December 22, 2017, the Act was signed into law. The Act made broad and complex changes to the Code that affected the Company's financial results in two primary ways.

First, effective January 1, 2018, the Act reduced the U.S. federal corporate statutory income tax rate from 35% to 21%. As the Company's fiscal year end falls on September 30, the federal corporate statutory tax rate for fiscal 2018 was prorated to 24.5%, with the statutory rate for fiscal 2019 and beyond at 21%. As a result of the lower tax rate, the Company remeasured its U.S. deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future and recognized a one-time \$44.6 net tax benefit adjustment reflecting the revaluation of its net deferred tax liability at the lower tax rate.

Second, due to the move to a territorial tax system, the Act required companies to pay a mandatory one-time U.S. transition tax on deemed repatriation of certain undistributed earnings of foreign subsidiaries. The Company recorded a provisional U.S. transition tax of \$21.2 for the year ended September 30, 2018 based on \$97.8 of undistributed earnings of foreign subsidiaries. This expense was largely offset by \$18.2 of foreign tax credits, \$0.5 of which was carried forward from prior periods and offset by a full valuation allowance. The transitional impact was finalized during the fiscal year ended September 30, 2019, with no material change to tax expense.

In addition, the Act established new tax provisions that became effective for the Company beginning October 1, 2018, including (i) eliminating the U.S. manufacturing deduction; (ii) establishing new limitations on deductible interest expense and certain executive compensation; (iii) creating the base erosion anti-abuse tax ("BEAT"); (iv) creating a new provision designed to tax global intangible low-tax income ("GILTI"); (v) establishing a deduction for foreign-derived intangible income ("FDII"); and (vi) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries. The net effects of these provisions of the Act were immaterial to the Company's tax provision for the year ended September 30, 2019.

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

Deferred income taxes arise from temporary differences between financial reporting and tax reporting bases of assets and liabilities, and operating loss and tax credit carryforwards for tax purposes. The components of the deferred income tax assets and liabilities were as follows:

	September 30,	
	2020	2019
<b>DEFERRED TAX ASSETS</b>		
Accrued liabilities .....	\$ 63.0	\$ 46.7
Lease liabilities .....	37.0	—
Foreign tax credit carryovers .....	17.2	16.8
Inventories .....	15.1	10.2
Net operating loss carryovers .....	14.7	17.6
Postretirement benefits .....	6.5	8.4
Accounts receivable .....	5.9	5.1
Other .....	7.2	4.5
Gross deferred tax assets .....	166.6	109.3
Valuation allowance .....	(33.8)	(35.8)
Total deferred tax assets .....	132.8	73.5
<b>DEFERRED TAX LIABILITIES</b>		
Intangible assets .....	(65.6)	(65.5)
Property, plant and equipment .....	(52.7)	(40.2)
Lease right-of-use assets .....	(35.9)	—
Other .....	(3.8)	(4.1)
Total deferred tax liabilities .....	(158.0)	(109.8)
Net deferred tax liability .....	\$ (25.2)	\$ (36.3)

GAAP requires that a valuation allowance be recorded against a deferred tax asset if it is more likely than not that the tax benefit associated with the asset will not be realized in the future. As shown in the table above, valuation allowances were recorded against \$33.8 and \$35.8 of deferred tax assets as of September 30, 2020 and 2019, respectively. Most of these valuation allowances relate to certain credits and net operating losses (“NOLs”), as explained further below.

Deferred tax assets related to foreign tax credits were \$17.2 and \$16.8 at September 30, 2020 and 2019, respectively. A full valuation allowance has been established against these foreign tax credits at September 30, 2020 as the Company does not expect to utilize them prior to their expiration. Tax benefits associated with state tax credits will also expire if not utilized and amounted to \$1.4 and \$1.7 at September 30, 2020 and 2019, respectively. A valuation allowance in the amount of \$1.2 has been established at September 30, 2020 related to state credits the Company does not expect to utilize.

Deferred tax assets related to certain federal NOLs subject to limitation under IRC §382 from current and prior ownership changes were \$10.8 and \$10.9 at September 30, 2020 and 2019, respectively. These NOLs will be subject to expiration gradually from fiscal year end 2022 through fiscal year end 2032. The Company determined that \$10.5 of these deferred tax assets will expire unutilized due to the closing of statutes of limitation and has established a valuation allowance accordingly at September 30, 2020.

Deferred tax assets related to foreign NOLs of certain controlled foreign corporations were \$2.1 as of September 30, 2020, the majority of which have indefinite carryforward periods. Due to a history of losses in many of these entities, a valuation allowance has been established against \$1.8 of these deferred tax assets at September 30, 2020. A valuation allowance has also been established against deferred tax assets related to other foreign items of \$2.0 at September 30, 2020.

Deferred tax assets related to state NOLs were \$1.8 as of September 30, 2020, with carryforward periods ranging from 5 to 20 years. Any losses not utilized within a specific state’s carryforward period will expire. A valuation allowance was recorded against \$1.1 of these deferred tax assets as of September 30, 2020 for state NOLs that the Company does not expect to realize within their respective carryforward periods.

As of September 30, 2020, the Company maintains its assertions of indefinite reinvestment of the earnings of all material foreign subsidiaries with the exception of the cumulative earnings of Scotts Luxembourg Sarl, which have generally been taxed on a current basis under “Subpart F” of the Code which prevents deferral of recognition of U.S. taxable income through the use of foreign entities. As of September 30, 2020, Scotts Luxembourg Sarl is disregarded as separate from its U.S. parent due to the filing of an entity classification election as part of a plan of liquidation.

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

The Company had \$30.2, \$29.5 and \$13.9 of gross unrecognized tax benefits related to uncertain tax positions at September 30, 2020, 2019 and 2018, respectively. Of these amounts, \$6.4, \$6.7 and \$4.8 of gross unrecognized tax benefits are related to discontinued operations at September 30, 2020, 2019 and 2018, respectively. Included in the September 30, 2020, 2019 and 2018 balances were \$25.9, \$25.2 and \$12.6, respectively, of unrecognized tax benefits that, if recognized, would have an impact on the effective tax rate.

A reconciliation of the unrecognized tax benefits is as follows:

	Year Ended September 30,		
	2020	2019	2018
Balance at beginning of year	\$ 29.5	\$ 13.9	\$ 10.2
Additions for tax positions of the current year	0.3	13.8	0.9
Additions for tax positions of prior years	4.5	4.4	6.1
Reductions for tax positions of prior years	(2.4)	(1.7)	(0.8)
Settlements with tax authorities	0.3	(0.7)	(1.9)
Expiration of statutes of limitation	(2.0)	(0.2)	(0.6)
Balance at end of year	<u>\$ 30.2</u>	<u>\$ 29.5</u>	<u>\$ 13.9</u>

The Company continues to recognize accrued interest and penalties related to unrecognized tax benefits as a component of the provision for income taxes. As of September 30, 2020, 2019 and 2018, the Company had \$2.8, \$2.1 and \$1.5, respectively, accrued for the payment of interest that, if recognized, would impact the effective tax rate. As of September 30, 2020, 2019 and 2018, the Company had \$1.6, \$0.4 and \$0.4, respectively, accrued for the payment of penalties.

Scotts Miracle-Gro or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. Subject to the following exceptions, the Company is no longer subject to examination by these tax authorities for fiscal years prior to 2017. There are currently no ongoing audits with respect to the U.S. federal jurisdiction. With respect to the foreign jurisdictions, a German audit covering fiscal years 2014 through 2017 is underway with no known material impact to the financial statements. The Company is currently under examination by certain U.S. state and local tax authorities covering various periods from fiscal years 2011 through 2019. In addition to the aforementioned audits, certain other tax deficiency notices and refund claims for previous years remain unresolved.

The Company currently anticipates that few of its open and active audits will be resolved within the next twelve months. The Company is unable to make a reasonably reliable estimate as to when or if cash settlements with taxing authorities may occur. Although the outcomes of such examinations and the timing of any payments required upon the conclusion of such examinations are subject to significant uncertainty, the Company does not anticipate that the resolution of these tax matters or any events related thereto will result in a material change to its consolidated financial position, results of operations or cash flows.

**NOTE 16. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

The Company is exposed to market risks, such as changes in interest rates, currency exchange rates and commodity prices. To manage a portion of the volatility related to these exposures, the Company enters into various financial transactions. The utilization of these financial transactions is governed by policies covering acceptable counterparty exposure, instrument types and other hedging practices. The Company does not hold or issue derivative financial instruments for speculative trading purposes.

**Exchange Rate Risk Management**

The Company uses currency forward contracts to manage the exchange rate risk associated with intercompany loans and certain other balances denominated in foreign currencies. Currency forward contracts are valued using observable forward rates in commonly quoted intervals for the full term of the contracts. The notional amount of outstanding currency forward contracts was \$160.1 and \$120.0 at September 30, 2020 and 2019, respectively. Contracts outstanding at September 30, 2020 will mature over the next fiscal quarter.

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

**Interest Rate Risk Management**

The Company enters into interest rate swap agreements as a means to hedge its variable interest rate risk on debt instruments. Net amounts to be received or paid under the swap agreements are reflected as adjustments to interest expense. The Company has outstanding interest rate swap agreements with major financial institutions that effectively convert a portion of the Company's variable-rate debt to a fixed rate. Interest rate swap agreements are valued based on the present value of the estimated future net cash flows using implied rates in the applicable yield curve as of the valuation date. The swap agreements had a maximum total U.S. dollar equivalent notional amount of \$600.0 and \$850.0 at September 30, 2020 and 2019, respectively. Refer to "NOTE 12. DEBT" for the terms of the swap agreements outstanding at September 30, 2020. Included in the AOCL balance at September 30, 2020 was a loss of \$7.6 related to interest rate swap agreements that is expected to be reclassified to earnings during the next twelve months, consistent with the timing of the underlying hedged transactions.

**Commodity Price Risk Management**

The Company enters into hedging arrangements designed to fix the price of a portion of its projected future urea, diesel and resin requirements. Commodity contracts are measured using observable commodity exchange prices in active markets. Included in the AOCL balance at September 30, 2020 was a loss of \$0.8 related to commodity hedges that is expected to be reclassified to earnings during the next twelve months, consistent with the timing of the underlying hedged transactions.

The Company had the following outstanding commodity contracts that were entered into to hedge forecasted purchases:

	<u>September 30,</u>	
	<u>2020</u>	<u>2019</u>
<b>Commodity</b>		
Urea .....	76,500 tons	78,500 tons
Resin .....	9,100,000 pounds	14,900,000 pounds
Diesel .....	5,838,000 gallons	4,956,000 gallons
Heating Oil .....	2,142,000 gallons	1,344,000 gallons

**Fair Values of Derivative Instruments**

The fair values of the Company's derivative instruments, which represent Level 2 fair value measurements, were as follows:

	<u>Balance Sheet Location</u>	<u>Assets / (Liabilities)</u>	
		<u>2020</u>	<u>2019</u>
<b>Derivatives Designated As Hedging Instruments</b>			
Interest rate swap agreements .....	Other current liabilities .....	\$ (10.4)	\$ (5.5)
	Other liabilities .....	(9.7)	(5.3)
Commodity hedging instruments .....	Prepaid and other current assets ...	0.9	—
	Other current liabilities .....	(0.7)	(0.8)
Total derivatives designated as hedging instruments .....		<u>\$ (19.9)</u>	<u>\$ (11.6)</u>
<b>Derivatives Not Designated As Hedging Instruments</b>			
Currency forward contracts .....	Prepaid and other current assets ...	\$ 0.5	\$ 1.7
	Other current liabilities .....	(1.9)	(0.4)
Commodity hedging instruments .....	Other current liabilities .....	(0.9)	(0.4)
Total derivatives not designated as hedging instruments .....		<u>(2.3)</u>	<u>0.9</u>
Total derivatives .....		<u>\$ (22.2)</u>	<u>\$ (10.7)</u>



**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

The effect of derivative instruments on AOCL, net of tax, and the Consolidated Statements of Operations for the years ended September 30 was as follows:

<b>Derivatives In Cash Flow Hedging Relationships</b>		<b>Amount Of Gain / (Loss) Recognized In AOCL</b>	
		<b>2020</b>	<b>2019</b>
Interest rate swap agreements		\$ (13.3)	\$ (11.1)
Commodity hedging instruments		(1.3)	(3.8)
Total		<u>\$ (14.6)</u>	<u>\$ (14.9)</u>

<b>Derivatives In Cash Flow Hedging Relationships</b>		<b>Reclassified From AOCL Into Statement Of Operations</b>	<b>Amount Of Gain / (Loss)</b>	
			<b>2020</b>	<b>2019</b>
Interest rate swap agreements	Interest expense		\$ (6.6)	\$ (0.4)
Commodity hedging instruments	Cost of sales		(0.9)	1.9
Total			<u>\$ (7.5)</u>	<u>\$ 1.5</u>

<b>Derivatives Not Designated As Hedging Instruments</b>		<b>Recognized In Statement of Operations</b>	<b>Amount Of Gain / (Loss)</b>	
			<b>2020</b>	<b>2019</b>
Currency forward contracts	Other income / expense, net		\$ (5.3)	\$ 9.1
Commodity hedging instruments	Cost of sales		(3.1)	(2.9)
Total			<u>\$ (8.4)</u>	<u>\$ 6.2</u>

**NOTE 17. FAIR VALUE MEASUREMENTS**

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or the most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. A three-level fair value hierarchy prioritizes the inputs used to measure fair value. The hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

*Level 1* — Quoted prices in active markets for identical assets or liabilities.

*Level 2* — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

*Level 3* — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The following describes the valuation methodologies used for financial assets and liabilities measured or disclosed at fair value on a recurring basis, as well as the general classification within the valuation hierarchy.

**Cash Equivalents**

Cash equivalents consist of highly liquid financial instruments with original maturities of three months or less. The carrying value of these cash equivalents approximates fair value due to their short-term maturities.

**Other**

Investment securities in non-qualified retirement plan assets are valued using observable market prices in active markets. The fair value of the Bonnie Option is determined using a simulation approach, whereby the total value of the loan receivable and optional exchange for additional equity is estimated considering a distribution of possible future cash flows discounted to present value using an appropriate discount rate. The value of the equity of the Bonnie Business is an important assumption in the fair value estimate and is developed using a combination of income-based and market-based approaches and incorporates assumptions the Company believes market participants would utilize. These approaches depend upon internally-developed forecasts that are based upon annual budgets and longer-range strategic plans and require significant judgment with respect to revenue and profitability growth rates. The Company uses discount rates that are commensurate with the risks and uncertainties inherent in the underlying business and in the internally-developed forecasts. These and other assumptions are impacted by

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

economic conditions and expectations of management and may change in the future based on period specific facts and circumstances. During the fourth quarter of fiscal 2020, the Company recognized an increase in the fair value of the Bonnie Option of \$12.0 in the “Other non-operating (income) expense, net” line in the Consolidated Statements of Operations driven by an increase in sales and profits of the Bonnie Business. Loans receivable are carried at outstanding principal amount. The estimated fair value is determined using an income-based approach, which includes market participant expectations of cash flows over the remaining useful life discounted to present value using an appropriate discount rate. The estimate requires subjective assumptions to be made, including those related to credit risk and discount rates.

**Debt Instruments**

Debt instruments are recorded at cost. The interest rate on borrowings under the Fifth A&R Credit Agreement fluctuates in accordance with the terms of the Fifth A&R Credit Agreement and thus the carrying value is a reasonable estimate of fair value. The fair values of the 4.500% Senior Notes, 5.250% Senior Notes and 6.000% Senior Notes were determined based on quoted market prices. The interest rate on the short-term debt associated with accounts receivable pledged under the Receivables Facility fluctuates in accordance with the terms of the Receivables Facility and thus the carrying value is a reasonable estimate of fair value.

The following table summarizes the fair value of the Company’s assets and liabilities for which disclosure of fair value is required:

	Fair Value Hierarchy Level	2020		2019	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Assets</b>					
Cash equivalents	Level 1	\$ 2.4	\$ 2.4	\$ 2.0	\$ 2.0
Other					
Investment securities in non-qualified retirement plan assets	Level 1	29.8	29.8	21.6	21.6
Bonnie Option	Level 3	23.3	23.3	11.3	11.3
Loans receivable	Level 3	100.0	112.8	95.1	105.4
<b>Liabilities</b>					
Debt instruments					
Credit facilities – revolving loans	Level 2	64.0	64.0	147.2	147.2
Credit facilities – term loans	Level 2	710.0	710.0	750.0	750.0
Senior Notes – 4.500%	Level 2	450.0	476.4	—	—
Senior Notes – 5.250%	Level 2	250.0	266.6	250.0	263.4
Senior Notes – 6.000%	Level 2	—	—	400.0	412.5
Receivables facility	Level 2	20.0	20.0	76.0	76.0
Other debt	Level 2	1.1	1.1	10.3	10.3

**NOTE 18. LEASES**

The Company leases certain property and equipment from third parties under various non-cancelable lease agreements, including industrial, commercial and office properties and equipment that support the management, manufacturing, distribution and research and development of products marketed and sold by the Company. The lease agreements generally require that the Company pay taxes, insurance and maintenance expenses related to the leased assets. At September 30, 2020, the Company had entered into operating leases that were yet to commence with a combined total expected lease liability of \$19.6. From time to time, the Company will sublease portions of its facilities, resulting in sublease income. Sublease income and the related cash flows were not material to the consolidated financial statements for fiscal 2020.

The Company leases certain vehicles (primarily cars and light trucks) under agreements that are cancelable after the first year, but typically continue on a month-to-month basis until canceled by the Company. The vehicle leases and certain other non-cancelable operating leases contain residual value guarantees that create a contingent obligation on the part of the Company to compensate the lessor if the leased asset cannot be sold for an amount in excess of a specified minimum value at the

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

conclusion of the lease term. If all such vehicle leases had been canceled as of September 30, 2020, the Company's residual value guarantee would have approximated \$4.1.

Supplemental balance sheet information related to the Company's leases was as follows:

	<u>Balance Sheet Location</u>	<u>September 30, 2020</u>
<b>Operating leases:</b>		
Right-of-use assets	Other assets	\$ 156.0
Current lease liabilities	Other current liabilities	47.5
Non-current lease liabilities	Other liabilities	113.3
Total operating lease liabilities		<u>\$ 160.8</u>
<b>Finance leases:</b>		
Right-of-use assets	Property, plant and equipment, net	\$ 34.7
Current lease liabilities	Current portion of debt	5.2
Non-current lease liabilities	Long-term debt	30.9
Total finance lease liabilities		<u>\$ 36.1</u>

Components of lease cost were as follows:

	<u>Twelve Months Ended</u> <u>September 30, 2020</u>
Operating lease cost <sup>(a)</sup>	\$ 54.3
Variable lease cost	11.3
Finance lease cost	
Amortization of right-of-use assets	5.1
Interest on lease liabilities	1.4
Total finance lease cost	<u>\$ 6.5</u>

(a) Operating lease cost for fiscal 2020 includes amortization of ROU assets of \$48.4.

Supplemental cash flow information and non-cash activity related to the Company's leases were as follows:

	<u>Twelve Months Ended</u> <u>September 30, 2020</u>
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>	
Operating cash flows from operating leases, net	\$ 54.4
Operating cash flows from finance leases	1.4
Financing cash flows from finance leases	3.8
<b>Right-of-use assets obtained in exchange for lease obligations:</b>	
Operating leases	\$ 72.3
Finance leases	14.4

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

Weighted-average remaining lease term and discount rate for the Company's leases were as follows:

	September 30, 2020
<b>Weighted-average remaining lease term (in years):</b>	
Operating leases .....	4.6
Finance leases .....	8.4
<b>Weighted-average discount rate:</b>	
Operating leases .....	3.7 %
Finance leases .....	4.2 %

Maturities of lease liabilities by fiscal year for the Company's leases as of September 30, 2020 were as follows:

Year	Operating Leases	Finance Leases
2021 .....	\$ 52.5	\$ 6.5
2022 .....	42.8	6.5
2023 .....	28.5	6.6
2024 .....	20.4	6.6
2025 .....	14.6	2.4
Thereafter .....	17.1	14.8
Total lease payments .....	175.9	43.4
Less: Imputed interest .....	(15.1)	(7.3)
Total lease liabilities .....	\$ 160.8	\$ 36.1

The future minimum annual lease payments required under the Company's existing non-cancelable operating and capital lease agreements as of September 30, 2019 prior to the adoption of ASC 842 were as follows:

Year	Operating Leases	Finance Leases
2020 .....	\$ 52.8	\$ 3.0
2021 .....	40.3	3.5
2022 .....	28.1	3.5
2023 .....	15.4	3.6
2024 .....	7.9	3.6
Thereafter .....	12.6	15.4
Total lease payments .....	\$ 157.1	\$ 32.6

Rent expense for operating leases under ASC 840 for fiscal 2019 and fiscal 2018 totaled \$68.4 and \$62.5, respectively.

**NOTE 19. COMMITMENTS**

The Company has the following unconditional purchase obligations due during each of the next five fiscal years that have not been recognized in the Consolidated Balance Sheet at September 30, 2020:

2021 .....	\$	283.1
2022 .....		124.1
2023 .....		54.5
2024 .....		28.5
2025 .....		15.2
Thereafter .....		7.4
	\$	512.8

Purchase obligations primarily represent commitments for materials used in the Company's manufacturing processes, including urea and packaging, as well as commitments for warehouse services, grass seed, marketing services and information technology services.

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

**NOTE 20. CONTINGENCIES**

Management regularly evaluates the Company's contingencies, including various lawsuits and claims which arise in the normal course of business, product and general liabilities, workers' compensation, property losses and other liabilities for which the Company is self-insured or retains a high exposure limit. Self-insurance accruals are established based on actuarial loss estimates for specific individual claims plus actuarially estimated amounts for incurred but not reported claims and adverse development factors applied to existing claims. Legal costs incurred in connection with the resolution of claims, lawsuits and other contingencies generally are expensed as incurred. In the opinion of management, the assessment of contingencies is reasonable and related accruals, in the aggregate, are adequate; however, there can be no assurance that final resolution of these matters will not have a material effect on the Company's financial condition, results of operations or cash flows.

**Regulatory Matters**

At September 30, 2020, \$4.2 was accrued in the "Other liabilities" line in the Consolidated Balance Sheets for environmental actions, the majority of which are for site remediation. The Company believes that the amounts accrued are adequate to cover such known environmental exposures based on current facts and estimates of likely outcomes. Although it is reasonably possible that the costs to resolve such known environmental exposures will exceed the amounts accrued, any variation from accrued amounts is not expected to be material.

**Other**

The Company has been named as a defendant in a number of cases alleging injuries that the lawsuits claim resulted from exposure to asbestos-containing products, apparently based on the Company's historic use of vermiculite in certain of its products. In many of these cases, the complaints are not specific about the plaintiffs' contacts with the Company or its products. The cases vary, but complaints in these cases generally seek unspecified monetary damages (actual, compensatory, consequential and punitive) from multiple defendants. The Company believes that the claims against it are without merit and is vigorously defending against them. No accruals have been recorded in the Company's consolidated financial statements as the likelihood of a loss is not probable at this time; and the Company does not believe a reasonably possible loss would be material to, nor the ultimate resolution of these cases will have a material adverse effect on, the Company's financial condition, results of operations or cash flows. There can be no assurance that future developments related to pending claims or claims filed in the future, whether as a result of adverse outcomes or as a result of significant defense costs, will not have a material effect on the Company's financial condition, results of operations or cash flows.

In connection with the sale of wild bird food products that were the subject of a voluntary recall in 2008, the Company, along with its Chief Executive Officer, had been named as defendants in four actions filed on and after June 27, 2012, which were consolidated, and, on March 31, 2017, certified as a class action in the United States District Court for the Southern District of California as *In re Morning Song Bird Food Litigation*, Lead Case No. 3:12-cv-01592-JAH-AGS. The plaintiffs alleged various statutory and common law claims associated with the Company's sale of wild bird food products and a plea agreement entered into in previously pending government proceedings associated with such sales. The plaintiffs alleged, among other things, a class action on behalf of all persons and entities in the United States who purchased certain bird food products. The plaintiffs asserted: (i) hundreds of millions of dollars in monetary damages (actual, compensatory, consequential, and restitution); (ii) punitive and treble damages; (iii) injunctive and declaratory relief; (iv) pre-judgment and post-judgment interest; and (v) costs and attorneys' fees. The Company and its Chief Executive Officer disputed the plaintiffs' assertions and have vigorously defended the consolidated action. The parties reached an agreement to settle this matter, which the parties memorialized in a settlement agreement submitted to the Court for approval on December 7, 2018. On January 31, 2019, the Court preliminarily approved the settlement, and on June 11, 2019, the Court granted final approval of the settlement. The settlement became effective on July 12, 2019. During the second quarter of fiscal 2019, the Company paid \$42.5 to the settlement fund in accordance with the settlement agreement, and the final payment of \$20.0 was made during the fourth quarter of fiscal 2019. During fiscal 2018, the Company recognized a pre-tax charge of \$85.0 for a probable loss related to this matter in the "Income (loss) from discontinued operations, net of tax" line in the Consolidated Statements of Operations. During fiscal 2019, the Company recognized a favorable adjustment of \$22.5 in the "Income (loss) from discontinued operations, net of tax" line in the Consolidated Statements of Operations as a result of the final resolution of the previously disclosed settlement agreement. In addition, during fiscal 2020 and fiscal 2019, the Company recognized insurance recoveries of \$1.5 and \$13.4, respectively, related to this matter in the "Income (loss) from discontinued operations, net of tax" line in the Consolidated Statements of Operations.

The Company was named as a defendant in *In re Scotts EZ Seed Litigation*, Case No. 12-cv-4727 (VB), a New York and California class action lawsuit filed August 9, 2012 in the United States District Court for the Southern District of New York that asserted claims under false advertising and other legal theories based on a marketing statement on the Company's EZ Seed grass seed product from 2009 to 2012. The plaintiffs sought, on behalf of themselves and purported class members, various

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

forms of monetary and non-monetary relief, including statutory damages that they contend could amount to hundreds of millions of dollars. The Company defended the action vigorously, and disputed the plaintiffs' claims and theories, including the recoverability of statutory damages. In 2017, the Court eliminated certain claims, narrowed the case in certain respects, and permitted the case to continue proceeding as a class action. On August 7, 2017, the Court requested briefs on the Company's request for interlocutory review of issues relating to the recoverability of statutory damages in a class action by the United States Court of Appeals for the Second Circuit and, on August 31, 2017, approved that request. On January 8, 2018, however, the Second Circuit denied the interlocutory appeal request. The parties engaged in mediation on April 9, 2018 and agreed in principle to a preliminary settlement of the outstanding claims on April 10, 2018. The preliminary settlement required the Company to pay certain attorneys' and administrative fees and provide certain payments to the class members. The preliminary settlement was approved by the court on December 19, 2018. This case is now settled and the Company made final payment of the claims made by class members during the second quarter of fiscal 2019. During fiscal 2018, the Company recognized a charge of \$11.7 for a probable loss related to this matter in the "Impairment, restructuring and other" line in the Consolidated Statements of Operations. During fiscal 2019, the Company recognized a favorable adjustment of \$0.4 related to this matter in the "Impairment, restructuring and other" line in the Consolidated Statements of Operations as a result of the final payment of the claims made by class members.

The Company is involved in other lawsuits and claims which arise in the normal course of business. These claims individually and in the aggregate are not expected to result in a material effect on the Company's financial condition, results of operations or cash flows.

**NOTE 21. SEGMENT INFORMATION**

The Company divides its operations into three reportable segments: U.S. Consumer, Hawthorne and Other. U.S. Consumer consists of the Company's consumer lawn and garden business located in the geographic United States. Hawthorne consists of the Company's indoor and hydroponic gardening business. Other consists of the Company's consumer lawn and garden business in geographies other than the U.S. and the Company's product sales to commercial nurseries, greenhouses and other professional customers. In addition, Corporate consists of general and administrative expenses and certain other income and expense items not allocated to the business segments. This identification of reportable segments is consistent with how the segments report to and are managed by the chief operating decision maker of the Company.

The performance of each reportable segment is evaluated based on several factors, including income (loss) from continuing operations before income taxes, amortization, impairment, restructuring and other charges ("Segment Profit (Loss)"). Senior management uses Segment Profit (Loss) to evaluate segment performance because the Company believes this measure is indicative of performance trends and the overall earnings potential of each segment.

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

The following tables present financial information for the Company's reportable segments for the periods indicated:

	Year Ended September 30,		
	2020	2019	2018
Net sales:			
U.S. Consumer	\$ 2,823.1	\$ 2,281.1	\$ 2,109.6
Hawthorne	1,083.5	671.2	344.9
Other	225.0	203.7	208.9
Consolidated	<u>\$ 4,131.6</u>	<u>\$ 3,156.0</u>	<u>\$ 2,663.4</u>
Segment Profit (Loss):			
U.S. Consumer	\$ 686.1	\$ 527.8	\$ 496.6
Hawthorne	120.1	53.5	(6.1)
Other	11.7	10.3	11.2
Total Segment Profit	<u>817.9</u>	<u>591.6</u>	<u>501.7</u>
Corporate	(183.4)	(135.3)	(120.8)
Intangible asset amortization	(32.5)	(33.4)	(29.2)
Impairment, restructuring and other	(16.8)	(13.3)	(152.8)
Equity in income of unconsolidated affiliates	—	3.3	4.9
Costs related to refinancing	(15.1)	—	—
Interest expense	(79.6)	(101.8)	(86.4)
Other non-operating income (expense), net	20.1	270.5	(1.7)
Income from continuing operations before income taxes	<u>\$ 510.6</u>	<u>\$ 581.6</u>	<u>\$ 115.7</u>
Depreciation and amortization:			
U.S. Consumer	\$ 46.0	\$ 44.4	\$ 46.7
Hawthorne	33.7	35.3	27.8
Other	7.5	5.9	5.6
Corporate	7.5	3.7	3.3
	<u>\$ 94.7</u>	<u>\$ 89.3</u>	<u>\$ 83.4</u>
Capital expenditures:			
U.S. Consumer	\$ 50.8	\$ 27.6	\$ 53.2
Hawthorne	9.3	11.1	8.7
Other	2.6	3.7	6.3
	<u>\$ 62.7</u>	<u>\$ 42.4</u>	<u>\$ 68.2</u>

	September 30,	
	2020	2019
Total assets:		
U.S. Consumer	\$ 1,957.0	\$ 1,765.1
Hawthorne	1,100.1	958.5
Other	166.6	155.1
Corporate	156.8	150.0
Consolidated	<u>\$ 3,380.5</u>	<u>\$ 3,028.7</u>

**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

The following table presents net sales by product category for the periods indicated:

	Year Ended September 30,		
	2020	2019	2018
U.S. Consumer:			
Growing media and mulch .....	\$ 1,164.0	\$ 942.5	\$ 846.9
Lawn care .....	943.3	781.6	706.1
Controls .....	383.7	310.8	309.0
Roundup® marketing agreement .....	132.7	112.1	114.4
Other, primarily gardening .....	199.4	134.1	133.2
Hawthorne:			
Lighting .....	328.7	214.8	135.2
Nutrients .....	232.6	154.5	103.2
Growing media .....	148.9	91.1	24.0
Other, primarily hardware and growing environments .....	373.3	210.8	82.5
Other:			
Growing media .....	90.6	77.8	81.7
Lawn care .....	73.7	69.2	65.6
Other, primarily gardening and controls .....	60.7	56.7	61.6
Total net sales .....	<u>\$ 4,131.6</u>	<u>\$ 3,156.0</u>	<u>\$ 2,663.4</u>

The Company's two largest customers accounted for the following percentages of net sales for the fiscal years ended September 30:

	Percentage of Net Sales		
	2020	2019	2018
Home Depot .....	26 %	30 %	35 %
Lowe's .....	18 %	19 %	17 %

Accounts receivable for these two largest customers as a percentage of consolidated accounts receivable were 58% and 53% as of September 30, 2020 and 2019, respectively.

The following table presents net sales by geographic area for the periods indicated:

	Year Ended September 30,		
	2020	2019	2018
Net sales:			
United States .....	\$ 3,773.4	\$ 2,851.9	\$ 2,375.5
International .....	358.2	304.1	287.9
	<u>\$ 4,131.6</u>	<u>\$ 3,156.0</u>	<u>\$ 2,663.4</u>

Other than the United States, no other country accounted for more than 10% of the Company's net sales for any period presented above.

The following table presents long-lived assets (property, plant and equipment and finite-lived intangibles) by geographic area:

	September 30,	
	2020	2019
Long-lived assets:		
United States .....	\$ 773.5	\$ 784.1
International .....	141.8	145.5
	<u>\$ 915.3</u>	<u>\$ 929.6</u>



**THE SCOTTS MIRACLE-GRO COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Dollars in millions, except per share data)

**NOTE 22. QUARTERLY CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)**

The following is a summary of the unaudited quarterly results of operations:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
<b>FISCAL 2020</b>					
Net sales	\$ 365.8	\$ 1,382.8	\$ 1,492.7	\$ 890.3	\$ 4,131.6
Gross profit	54.2	550.2	526.7	216.0	1,347.0
Income (loss) from continuing operations	(71.3)	249.8	204.3	4.2	386.9
Income (loss) from discontinued operations, net of tax	—	2.6	(1.0)	—	1.7
Net income (loss)	(71.3)	252.4	203.3	4.2	388.6
Net income (loss) attributable to controlling interest	(71.4)	252.2	202.8	3.9	387.4
Basic income (loss) per Common Share:					
Income (loss) from continuing operations	\$ (1.28)	\$ 4.48	\$ 3.67	\$ 0.07	\$ 6.92
Income (loss) from discontinued operations	—	0.05	(0.02)	—	0.04
Basic net income (loss) per Common Share	<u>\$ (1.28)</u>	<u>\$ 4.53</u>	<u>\$ 3.65</u>	<u>\$ 0.07</u>	<u>\$ 6.96</u>
Common Shares used in basic EPS calculation	55.8	55.7	55.6	55.8	55.7
Diluted income (loss) per Common Share:					
Income (loss) from continuing operations	\$ (1.28)	\$ 4.43	\$ 3.57	\$ 0.07	\$ 6.78
Income (loss) from discontinued operations	—	0.04	(0.02)	—	0.03
Diluted net income (loss) per Common Share	<u>\$ (1.28)</u>	<u>\$ 4.47</u>	<u>\$ 3.55</u>	<u>\$ 0.07</u>	<u>\$ 6.81</u>
Common Shares and dilutive potential Common Shares used in diluted EPS calculation	55.8	56.4	57.1	57.6	56.9
<b>FISCAL 2019</b>					
Net sales	\$ 298.1	\$ 1,189.9	\$ 1,170.3	\$ 497.7	\$ 3,156.0
Gross profit	34.5	472.1	423.4	89.5	1,019.6
Income (loss) from continuing operations	(82.6)	396.9	178.0	(55.5)	436.7
Income (loss) from discontinued operations, net of tax	2.9	(0.5)	23.6	(2.6)	23.5
Net income (loss)	(79.7)	396.4	201.6	(58.1)	460.2
Net income (loss) attributable to controlling interest	(79.6)	396.5	201.7	(57.9)	460.7
Basic income (loss) per Common Share:					
Income (loss) from continuing operations	\$ (1.49)	\$ 7.17	\$ 3.21	\$ (0.99)	\$ 7.88
Income (loss) from discontinued operations	0.05	(0.01)	0.42	(0.05)	0.42
Basic net income (loss) per Common Share	<u>\$ (1.44)</u>	<u>\$ 7.16</u>	<u>\$ 3.63</u>	<u>\$ (1.04)</u>	<u>\$ 8.30</u>
Common Shares used in basic EPS calculation	55.3	55.4	55.5	55.7	55.5
Diluted income (loss) per Common Share:					
Income (loss) from continuing operations	\$ (1.49)	\$ 7.10	\$ 3.15	\$ (0.99)	\$ 7.77
Income (loss) from discontinued operations	0.05	(0.01)	0.41	(0.05)	0.41
Diluted net income (loss) per Common Share	<u>\$ (1.44)</u>	<u>\$ 7.09</u>	<u>\$ 3.56</u>	<u>\$ (1.04)</u>	<u>\$ 8.18</u>
Common Shares and dilutive potential Common Shares used in diluted EPS calculation	55.3	55.9	56.6	55.7	56.3

The sum of the quarters may not equal full year due to rounding.

Common Share equivalents, such as share-based awards, are excluded from the diluted loss per Common Share calculation in periods where there is a loss from continuing operations because the effect of their inclusion would be anti-dilutive. Quarterly adjustments are of a normal, recurring nature, except as discussed in the accompanying notes.

**Schedule II—Valuation and Qualifying Accounts  
for the fiscal year ended September 30, 2020**

<b>Column A</b>	<b>Column B</b>	<b>Column C</b>	<b>Column D</b>	<b>Column E</b>	<b>Column F</b>
<b>Classification</b>	<b>Balance at Beginning of Period</b>	<b>Reserves Acquired</b>	<b>Additions Charged to Expense</b>	<b>Deductions Credited and Write-Offs</b>	<b>Balance at End of Period</b>
			<b>(In millions)</b>		
Valuation and qualifying accounts deducted from the assets to which they apply:					
Allowance for doubtful accounts .....	\$ 4.2	\$ —	\$ 7.2	\$ (3.9)	\$ 7.5
Income tax valuation allowance .....	35.8	—	0.5	(2.5)	33.8

**Schedule II—Valuation and Qualifying Accounts  
for the fiscal year ended September 30, 2019**

<b>Column A</b>	<b>Column B</b>	<b>Column C</b>	<b>Column D</b>	<b>Column E</b>	<b>Column F</b>
<b>Classification</b>	<b>Balance at Beginning of Period</b>	<b>Reserves Acquired</b>	<b>Additions Charged to Expense</b>	<b>Deductions Credited and Write-Offs</b>	<b>Balance at End of Period</b>
			<b>(In millions)</b>		
Valuation and qualifying accounts deducted from the assets to which they apply:					
Allowance for doubtful accounts .....	\$ 3.6	\$ —	\$ 1.4	\$ (0.8)	\$ 4.2
Income tax valuation allowance .....	33.6	—	2.4	(0.2)	35.8

**Schedule II—Valuation and Qualifying Accounts  
for the fiscal year ended September 30, 2018**

<b>Column A</b>	<b>Column B</b>	<b>Column C</b>	<b>Column D</b>	<b>Column E</b>	<b>Column F</b>
<b>Classification</b>	<b>Balance at Beginning of Period</b>	<b>Reserves Acquired</b>	<b>Additions Charged to Expense</b>	<b>Deductions Credited and Write-Offs</b>	<b>Balance at End of Period</b>
			<b>(In millions)</b>		
Valuation and qualifying accounts deducted from the assets to which they apply:					
Allowance for doubtful accounts .....	\$ 3.1	\$ —	\$ 0.8	\$ (0.3)	\$ 3.6
Income tax valuation allowance .....	29.7	—	12.3	(8.4)	33.6

## The Scotts Miracle-Gro Company

### Index to Exhibits

Exhibit No.	Description	Incorporated by Reference			Filed Herewith
		Form	Exhibit	Filing Date	
3.1(a)	Initial Articles of Incorporation of The Scotts Miracle-Gro Company as filed with the Ohio Secretary of State on November 22, 2004	8-K	3.1	March 24, 2005	
3.1(b)	Certificate of Amendment by Shareholders to Articles of Incorporation of The Scotts Miracle-Gro Company as filed with the Ohio Secretary of State on March 18, 2005	8-K	3.2	March 24, 2005	
3.2	Code of Regulations of The Scotts Miracle-Gro Company	8-K	3.3	March 24, 2005	
4.1(a)	Indenture, dated as of December 15, 2016, by and among The Scotts Miracle-Gro Company, the Guarantors (as defined therein) and U.S. Bank National Association, as trustee	8-K	4.1	December 16, 2016	
4.1(b)	First Supplemental Indenture, dated July 17, 2018, by and among The Scotts Miracle-Gro Company, the Guarantors (as defined therein) and U.S. Bank National Association, as trustee	10-Q	10.4	August 8, 2018	
4.1(c)	Second Supplemental Indenture, dated March 24, 2020, by and among The Scotts Miracle-Gro Company, the Guarantors (as defined therein) and U.S. Bank National Association, as trustee	10-Q	4.2	May 6, 2020	
4.1(d)	Form of 5.250% Senior Notes due 2026	8-K	4.2	December 16, 2016	
4.2(a)	Indenture, dated as of October 22, 2019, by and among The Scotts Miracle-Gro Company, the Guarantors (as defined therein) and U.S. Bank National Association, as trustee	8-K	4.1	October 28, 2019	
4.2(b)	First Supplemental Indenture, dated March 24, 2020, by and among The Scotts Miracle-Gro Company, the Guarantors (as defined therein) and U.S. Bank National Association, as trustee	10-Q	4.1	May 6, 2020	
4.2(c)	Form of 4.500% Senior Notes due 2029	8-K	4.2	October 28, 2019	
4.2(d)	Registration Rights Agreement, dated as of October 22, 2019, by and among The Scotts Miracle-Gro Company, the guarantors named therein and J.P. Morgan Securities LLC, as representative of the several initial purchasers named therein	8-K	4.3	October 28, 2019	
4.3	Agreement to furnish copies of instruments and agreements defining rights of holders of long-term debt				X
4.4	Description of Capital Stock	10-K	4.4	November 27, 2019	
10.1(a)	Fifth Amended and Restated Credit Agreement, dated as of July 5, 2018, by and among The Scotts Miracle-Gro Company, as a Borrower; the Subsidiary Borrowers (as defined therein); JPMorgan Chase Bank, N.A., as Administrative Agent; Wells Fargo Bank, National Association, and Mizuho Bank, Ltd. as Co-Syndication Agents; CoBank, ACB, Bank of America, N.A., Fifth Third Bank, Coöperatieve Rabobank U.A., New York Branch, Sumitomo Mitsui Banking Corporation and TD Bank N.A., as Co-Documentation Agents; and the several other banks and other financial institutions from time to time parties thereto	8-K	10.1	July 11, 2018	
10.1(b)	Fifth Amended and Restated Guarantee and Collateral Agreement, dated as of July 5, 2018, made by The Scotts Miracle-Gro Company, each domestic Subsidiary Borrower under the Fifth Amended and Restated Credit Agreement, and certain of its and their domestic subsidiaries, in favor of JPMorgan Chase Bank, N.A., as Administrative Agent	8-K	10.2	July 11, 2018	
10.2(a)†	The Scotts Miracle-Gro Company Long-Term Incentive Plan (reflects amendment and restatement of plan formerly known as The Scotts Miracle-Gro Company 2006 Long-Term Incentive Plan) [January 17, 2013 through January 26, 2017 version]	8-K	10.1	January 24, 2013	

Exhibit No.	Description	Incorporated by Reference			Filed Herewith
		Form	Exhibit	Filing Date	
10.2(b)(i)†	Form of Nonqualified Stock Option Award Agreement for Employees used to evidence grants of Nonqualified Stock Options made under The Scotts Miracle-Gro Company Amended and Restated 2006 Long-Term Incentive Plan (now known as The Scotts Miracle-Gro Company Long-Term Incentive Plan) [January 20, 2012 through January 16, 2013 version]	10-Q	10.3	February 8, 2012	
10.2(b)(ii)†	Form of Nonqualified Stock Option Award Agreement for Employees used to evidence grants made under The Scotts Miracle-Gro Company Long-Term Incentive Plan [January 17, 2013 through January 26, 2017 version]	10-Q	10.7	May 7, 2015	
10.3(a)†	The Scotts Miracle-Gro Company Long-Term Incentive Plan (effective as of January 27, 2017)	8-K	10.1	January 30, 2017	
10.3(b)(i)†	Form of Project Focus Performance Unit Award Agreement which may be made under The Scotts Miracle-Gro Company Long-Term Incentive Plan	8-K	10.2	January 30, 2017	
10.3(b)(ii)†	Form of Amendment to Project Focus Amendment Award Agreement which may be made under The Scotts Miracle-Gro Company Long-Term Incentive Plan	8-K	10.1	January 30, 2019	
10.3(c)†	Form of Standard Performance Unit Award Agreement which may be made under The Scotts Miracle-Gro Company Long-Term Incentive Plan	8-K	10.3	January 30, 2017	
10.3(d)†	Form of Standard Restricted Stock Unit Award Agreement which may be made under The Scotts Miracle-Gro Company Long-Term Incentive Plan	8-K	10.4	January 30, 2017	
10.3(e)†	Form of Standard Non-Qualified Stock Option Award Agreement which may be made under The Scotts Miracle-Gro Company Long-Term Incentive Plan	8-K	10.5	January 30, 2017	
10.3(f)†	Form of Deferred Stock Unit Award Agreement for Nonemployee Directors (with Related Dividend Equivalents) used to evidence grants which may be made under The Scotts Miracle-Gro Company Long-Term Incentive Plan	10-K	10.3(f)	November 29, 2018	
10.3(g)†	Form of Deferred Stock Unit Award Agreement for Nonemployee Directors Retainer Deferrals (with Related Dividend Equivalents) used to evidence grants which may be made under The Scotts Miracle-Gro Company Long-Term Incentive Plan	10-K	10.3(g)	November 29, 2018	
10.3(h)(i)†	Form of Restricted Stock Unit Award Agreement for Third Party Service-Providers (with Related Dividend Equivalents) which may be used to evidence grants made under The Scotts Miracle-Gro Company Long-Term Incentive Plan	10-K	10.3(h)(i)	November 29, 2018	
10.3(h)(ii)†	Form of Standard Restricted Stock Unit Award Agreement for Nonemployee Directors (with Related Dividend Equivalents) used to evidence grants which may be made under The Scotts Miracle-Gro Company Long-Term Incentive Plan [January 30, 2014 through February 2, 2020]	10-K	10.3(h)(ii)	November 29, 2018	
10.3(h)(iii)†	Form of Standard Restricted Stock Form of Standard Restricted Stock Unit Award Agreement for Nonemployee Directors (with Related Dividend Equivalents) used to evidence grants which may be made under The Scotts Miracle-Gro Company Long-Term Incentive Plan [post-February 2, 2020]				X
10.4(a)†	The Scotts Company LLC Amended and Restated Executive Incentive Plan (effective as of October 1, 2019)	10-Q	10	August 5, 2020	
10.4(b)†	Form of Employee Confidentiality, Noncompetition, Nonsolicitation Agreement for employees participating in The Scotts Company LLC Executive/Management Incentive Plan (now known as The Scotts Company LLC Amended and Restated Executive Incentive Plan)	10-Q	10.1	August 10, 2006	
10.5†	The Scotts Company LLC Executive Retirement Plan, as Amended and Restated as of January 1, 2015 (executed December 31, 2014)	10-Q	10.2	February 5, 2015	

Exhibit No.	Description	Incorporated by Reference			Filed Herewith
		Form	Exhibit	Filing Date	
10.6(a)†	Employee Confidentiality, Noncompetition, Nonsolicitation Agreement, dated as of December 12, 2013, by and between The Scotts Company LLC, all companies controlled by, controlling or under common control with The Scotts Company LLC, and James Hagedorn	8-K	10.2	December 17, 2013	
10.6(b)†	Executive Severance Agreement, dated as of December 11, 2013, by and between The Scotts Company LLC and James Hagedorn	8-K	10.1	December 17, 2013	
10.7†	Summary of Compensation for Nonemployee Directors of The Scotts Miracle-Gro Company (effective as of January 27, 2017)	10-K	10.7	November 27, 2019	
10.8†	Consulting Agreement, dated January 15, 2020, between The Scotts Company LLC and Hanft Projects LLC	10-Q	10	February 5, 2020	
10.9(a)†	The Scotts Company LLC Executive Severance Plan, adopted on April 25, 2017	10-Q	10.9	May 10, 2017	
10.9(b)†	Form of Tier 1 Participation Agreement under The Scotts Company LLC Executive Severance Plan	10-Q	10.10	May 10, 2017	
10.11	Third Amended and Restated Exclusive Agency and Marketing Agreement, entered into on July 29, 2019 and effective as of August 1, 2019, between Monsanto Company and The Scotts Company LLC	8-K	10.2	July 31, 2019	
10.12	Brand Extension Agreement Asset Purchase Agreement, entered into on July 29, 2019 and effective as of August 1, 2019, between Monsanto Company and The Scotts Company LLC	8-K	10.4	July 31, 2019	
10.13(a)(i)	Master Repurchase Agreement, and Annex I thereto, with Coöperatieve Rabobank, U.A. (New York Branch), as agent and purchaser, and Sumitomo Mitsui Banking Corporation (New York Branch), as purchaser, dated as of April 7, 2017	8-K	10.1	April 13, 2017	
10.13(a)(ii)	Amendment No. 1 to Master Repurchase Agreement with Coöperatieve Rabobank, U.A. (New York Branch), as agent and purchaser, and Sumitomo Mitsui Banking Corporation (New York Branch), as purchaser, dated as of August 24, 2018	8-K	10.1	August 24, 2018	
10.13(a)(iii)	Amendment No. 2 to Master Repurchase Agreement with Coöperatieve Rabobank, U.A. (New York Branch), as agent and purchaser, and Sumitomo Mitsui Banking Corporation (New York Branch), as purchaser, dated as of August 21, 2020	8-K	10.1	August 25, 2020	
10.14(a)(i)	Master Framework Agreement with Coöperatieve Rabobank, U.A. (New York Branch), as agent and purchaser, and Sumitomo Mitsui Banking Corporation (New York Branch), as purchaser, dated as of April 7, 2017	8-K	10.2	April 13, 2017	
10.14(a)(ii)	Amendment No. 1 to Master Framework Agreement with Coöperatieve Rabobank, U.A. (New York Branch), as agent and purchaser, and Sumitomo Mitsui Banking Corporation (New York Branch), as purchaser, dated as of August 25, 2017	8-K	10.1	August 31, 2017	
10.14(a)(iii)	Amendment No. 2 to Master Framework Agreement with Coöperatieve Rabobank, U.A. (New York Branch), as agent and purchaser, and Sumitomo Mitsui Banking Corporation (New York Branch), as purchaser, dated as of August 24, 2018	8-K	10.2	August 24, 2018	
10.14(a)(iv)	Amendment No. 3 to Master Framework Agreement with Coöperatieve Rabobank, U.A. (New York Branch), as agent and purchaser, and Sumitomo Mitsui Banking Corporation (New York Branch), as purchaser, dated as of August 23, 2019	8-K	10.1	August 20, 2019	
10.14(a)(v)	Amendment No. 4 to Master Framework Agreement with Coöperatieve Rabobank, U.A. (New York Branch), as agent and purchaser, and Sumitomo Mitsui Banking Corporation (New York Branch), as purchaser, dated as of August 21, 2020	8-K	10.2	August 25, 2020	
10.15	Form of Aircraft Time Sharing Agreement for Executive Officers	10-Q	10.4	May 11, 2016	
10.16†	Retention Agreement, dated August 22, 2018, by and between The Scotts Company LLC and Denise S. Stump	8-K	10.3	August 24, 2018	

Exhibit No.	Description	Incorporated by Reference			Filed Herewith
		Form	Exhibit	Filing Date	
10.17	Purchase Agreement, dated as of October 8, 2019, among The Scotts Miracle-Gro Company, the subsidiary guarantors named therein and J.P. Morgan Securities LLC, as representative of the several initial purchasers named therein	8-K	10.1	October 15, 2019	
18	Preferability Letter provided by Deloitte & Touche LLP, the Registrant's independent registered public accounting firm, to change in accounting principle	10-Q	18	February 5, 2020	
21	Subsidiaries of The Scotts Miracle-Gro Company				X
22	Guarantor Subsidiaries				X
23	Consent of Independent Registered Public Accounting Firm — Deloitte & Touche LLP				X
24	Powers of Attorney of Executive Officers and Directors of The Scotts Miracle-Gro Company				X
31.1	Rule 13a-14(a)/15d-14(a) Certifications (Principal Executive Officer)				X
31.2	Rule 13a-14(a)/15d-14(a) Certifications (Principal Financial Officer)				X
32	Section 1350 Certifications (Principal Executive Officer and Principal Financial Officer)				X
101.SCH	XBRL Taxonomy Extension Schema				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase				X
101.DEF	XBRL Taxonomy Extension Definition Linkbase				X
101.LAB	XBRL Taxonomy Extension Label Linkbase				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase				X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				X

† Management contract, compensatory plan or arrangement.

**Rule 13a-14(a)/15d-14(a) Certifications  
(Principal Executive Officer)  
CERTIFICATIONS**

I, James Hagedorn, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Scotts Miracle-Gro Company for the fiscal year ended September 30, 2020;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 24, 2020

By: /s/ JAMES HAGEDORN

Printed Name: James Hagedorn

Title: Chief Executive Officer and Chairman of the Board

**Rule 13a-14(a)/15d-14(a) Certifications  
(Principal Financial Officer)  
CERTIFICATIONS**

I, Thomas Randal Coleman, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Scotts Miracle-Gro Company for the fiscal year ended September 30, 2020;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 24, 2020

By: /s/ THOMAS RANDAL COLEMAN

Printed Name: Thomas Randal Coleman

Title: Executive Vice President and Chief Financial Officer



## SECTION 1350 CERTIFICATIONS\*

In connection with the Annual Report on Form 10-K of The Scotts Miracle-Gro Company (the “Company”) for the fiscal year ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned James Hagedorn, Chief Executive Officer and Chairman of the Board of the Company, and Thomas Randal Coleman, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of their knowledge:

- 1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company and its subsidiaries.

/s/ JAMES HAGEDORN

Printed Name: James Hagedorn

Title: Chief Executive Officer and Chairman of the Board

November 24, 2020

/s/ THOMAS RANDAL COLEMAN

Printed Name: Thomas Randal Coleman

Title: Executive Vice President and Chief Financial Officer

November 24, 2020

\* THESE CERTIFICATIONS ARE BEING FURNISHED AS REQUIRED BY RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT OF 1934 (THE “EXCHANGE ACT”) AND SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE, AND SHALL NOT BE DEEMED “FILED” FOR PURPOSES OF SECTION 18 OF THE EXCHANGE ACT OR OTHERWISE SUBJECT TO THE LIABILITY OF THAT SECTION. THESE CERTIFICATIONS SHALL NOT BE DEEMED TO BE INCORPORATED BY REFERENCE INTO ANY FILING UNDER THE SECURITIES ACT OF 1933 OR THE EXCHANGE ACT, EXCEPT TO THE EXTENT THAT THE COMPANY SPECIFICALLY INCORPORATES THESE CERTIFICATIONS BY REFERENCE.