SCOTTS MIRACLE-GRO CO
Form 10-Q
August 08, 2018
Table of Contents

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

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR
o 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

The Scotts Miracle-Gro Company
(Exact name of registrant as specified in its charter)

OHIO	31-1414921
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
14111 SCOTTSLAWN ROAD, MARYSVILLE, OHIO	43041
(Address of principal executive offices)	(Zip Code)

(937) 644-0011
(Registrant’s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)
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 ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ý No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

Large accelerated filer	ý		Accelerated filer	o
Non-accelerated filer	o	(Do not check if a smaller reporting company)	Smaller reporting company	o
Emerging growth company	o			

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. o

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date:

Class	Outstanding at August 3, 2018
Common Shares, $0.01 stated value, no par value	55,433,529 Common Shares

1

Table of Contents

THE SCOTTS MIRACLE-GRO COMPANY
INDEX

		PAGE NO.
PART I. FINANCIAL INFORMATION:		
Item 1.	Financial Statements (Unaudited)	
	Condensed Consolidated Statements of Operations — Three and nine months ended June 30, 2018 and July 1, 2017	3
	Condensed Consolidated Statements of Comprehensive Income (Loss) — Three and nine months ended June 30, 2018 and July 1, 2017	4
	Condensed Consolidated Statements of Cash Flows — Nine months ended June 30, 2018 and July 1, 2017	5
	Condensed Consolidated Balance Sheets — June 30. 2018, July 1, 2017 and September 30, 2017	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	51
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	65
Item 4.	Controls and Procedures	66
PART II. OTHER INFORMATION:		
Item 1.	Legal Proceedings	67
Item 1A.	Risk Factors	67
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	68
Item 6.	Exhibits	69
Index to Exhibits		70
Signatures		71

Table of Contents

PART I—FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidated Statements of Operations
(In millions, except per common share data)
(Unaudited)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2018	JULY 1, 2017	JUNE 30, 2018	JULY 1, 2017
Net sales	$994.6	$973.4	$2,229.5	$2,265.4
Cost of sales	635.9	590.0	1,427.5	1,380.8
Cost of sales—impairment, restructuring and other	11.1	—	11.1	—
Gross profit	347.6	383.4	790.9	884.6
Operating expenses:				
Selling, general and administrative	144.5	153.4	418.7	436.4
Impairment, restructuring and other	19.3	0.4	29.4	1.3
Other income, net	(1.9)	(6.5)	(3.3)	(12.6)
Income from operations	185.7	236.1	346.1	459.5
Equity in (income) loss of unconsolidated affiliates	(1.1)	(7.2)	(3.3)	30.1
Interest expense	23.2	21.8	63.6	58.5
Other non-operating (income) expense, net	(2.6)	—	4.2	—
Income from continuing operations before income taxes	166.2	221.5	281.6	370.9
Income tax expense from continuing operations	40.7	76.9	23.4	130.3
Income from continuing operations	125.5	144.6	258.2	240.6
Income (loss) from discontinued operations, net of tax	(42.7)	7.3	(47.6)	11.7
Net income	$82.8	$151.9	$210.6	$252.3
Net (income) loss attributable to noncontrolling interest	0.1	—	0.1	(0.5)
Net income attributable to controlling interest	$82.9	$151.9	$210.7	$251.8
Basic income (loss) per common share:				
Income from continuing operations	$2.27	$2.44	$4.57	$4.02
Income (loss) from discontinued operations	(0.77)	0.13	(0.84)	0.20
Basic income per common share	$1.50	$2.57	$3.73	$4.22
Weighted-average common shares outstanding during the period	55.4	59.2	56.5	59.7
Diluted income (loss) per common share:				
Income from continuing operations	$2.23	$2.41	$4.50	$3.96
Income (loss) from discontinued operations	(0.76)	0.12	(0.83)	0.20
Diluted income per common share	$1.47	$2.53	$3.67	$4.16
Weighted-average common shares outstanding during the period plus dilutive potential common shares	56.3	60.0	57.4	60.6
Dividends declared per common share	$0.530	$0.500	$1.590	$1.500

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidated Statements of Comprehensive Income (Loss)
(In millions)
(Unaudited)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2018	JULY 1, 2017	JUNE 30, 2018	JULY 1, 2017
Net income	$82.8	$151.9	$210.6	$252.3
Other comprehensive income (loss):				
Net foreign currency translation adjustment	(5.3)	5.8	10.3	3.6
Net unrealized gain (loss) on derivative instruments, net of tax of $0.9, $(0.7), $2.0 and $1.1, respectively	2.2	(1.2)	5.0	1.8
Reclassification of net unrealized (gain) loss on derivatives to net income, net of tax of $(0.4), $0.2, $(0.9) and $1.2, respectively	(1.1)	0.4	(2.3)	1.9
Reclassification of net pension and other post-retirement benefits loss to net income, net of tax of $0.2, $0.3, $0.5 and $0.9, respectively	0.4	0.5	1.2	1.4
Total other comprehensive income (loss)	(3.8)	5.5	14.2	8.7
Comprehensive income	$79.0	$157.4	$224.8	$261.0
Comprehensive income attributable to noncontrolling interest	—	(0.1)	—	(0.6)
Comprehensive income attributable to controlling interest	$79.0	$157.3	$224.8	$260.4

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidated Statements of Cash Flows
(In millions) (Unaudited)

	NINE MONTHS ENDED	
	JUNE 30, 2018	JULY 1, 2017
OPERATING ACTIVITIES		
Net income	$210.6	$252.3
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Impairment, restructuring and other	23.4	—
Share-based compensation expense	30.0	20.5
Depreciation	39.2	41.4
Amortization	21.6	18.4
Deferred taxes	(47.9)	—
Gain on long-lived assets	(0.4)	(2.5)
(Gain) loss on sale / contribution of business	2.8	(0.3)
Recognition of accumulated foreign currency translation loss	11.7	—
Equity in (income) loss and distributions from unconsolidated affiliates	(3.3)	33.7
Changes in assets and liabilities, net of acquired businesses:		
Accounts receivable	(397.8)	(368.6)
Inventories	(5.1)	(5.5)
Prepaid and other assets	(12.7)	(24.8)
Accounts payable	46.3	61.3
Other current liabilities	17.6	88.0
Restructuring and other	74.3	(15.6)
Other non-current items	(12.5)	(7.6)
Other, net	(1.2)	0.9
Net cash (used in) provided by operating activities	(3.4)	91.6
INVESTING ACTIVITIES		
Proceeds from sale of long-lived assets	1.2	5.0
Post-closing working capital payment related to sale of International Business	(35.3)	—
Investments in property, plant and equipment	(40.7)	(42.0)
Investments in loans receivable	(5.3)	—
Net investments in unconsolidated affiliates	—	(0.2)
Investments in acquired businesses, net of cash acquired	(492.9)	(89.2)
Other investing, net	10.7	—
Net cash used in investing activities	(562.3)	(126.4)
FINANCING ACTIVITIES		
Borrowings under revolving and bank lines of credit and term loans	1,617.0	1,362.8
Repayments under revolving and bank lines of credit and term loans	(668.7)	(1,205.3)
Proceeds from issuance of 5.250% Senior Notes	—	250.0
Financing and issuance fees	—	(4.3)
Dividends paid	(89.6)	(89.4)
Distribution paid by AeroGrow to noncontrolling interest	—	(8.1)
Purchase of Common Shares	(313.6)	(183.0)
Payments on seller notes	(8.8)	(28.7)

Excess tax benefits from share-based payment arrangements	—	4.5
Cash received from the exercise of stock options	8.7	3.3
Acquisition of noncontrolling interests	(69.2)	—
Net cash provided by financing activities	475.8	101.8
Effect of exchange rate changes on cash	(1.0)	2.0
Net increase (decrease) in cash and cash equivalents	(90.9)	69.0
Cash and cash equivalents at beginning of period excluding cash classified within assets held for sale	120.5	28.6
Cash and cash equivalents at beginning of period classified within assets held for sale	—	21.5
Cash and cash equivalents at beginning of period	120.5	50.1
Cash and cash equivalents at end of period	$29.6	$119.1

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

THE SCOTTS MIRACLE-GRO COMPANY
Condensed Consolidated Balance Sheets
(In millions, except stated value per share)
(Unaudited)

	JUNE 30, 2018	JULY 1, 2017	SEPTEMBER 30, 2017
ASSETS			
Current assets:			
Cash and cash equivalents	$29.6	$87.9	$ 120.5
Accounts receivable, less allowances of $6.2, $5.5 and $3.1, respectively	387.8	372.1	197.7
Accounts receivable pledged	316.7	277.8	88.9
Inventories	500.5	413.2	407.5
Assets held for sale	—	295.0	—
Prepaid and other current assets	84.4	78.4	67.1
Total current assets	1,319.0	1,524.4	881.7
Investment in unconsolidated affiliates	34.4	65.7	31.1
Property, plant and equipment, net of accumulated depreciation of $629.5, $583.2 and $591.1, respectively	517.6	436.5	467.7
Goodwill	621.2	407.4	441.6
Intangible assets, net	879.6	746.8	748.9
Other assets	192.1	121.3	176.0
Total assets	$3,563.9	$3,302.1	$ 2,747.0
LIABILITIES AND EQUITY			
Current liabilities:			
Current portion of debt	$314.5	$289.1	$ 143.1
Accounts payable	195.6	175.6	153.1
Liabilities held for sale	—	145.3	—
Other current liabilities	315.2	259.5	248.3
Total current liabilities	825.3	869.5	544.5
Long-term debt	1,975.4	1,410.8	1,258.0
Distributions in excess of investment in unconsolidated affiliate	21.9	—	21.9
Other liabilities	210.0	278.8	260.9
Total liabilities	3,032.6	2,559.1	2,085.3
Commitments and contingencies (Note 12)			
Equity:			
Common shares and capital in excess of $.01 stated value per share; 55.4, 58.6 and 58.1 shares issued and outstanding, respectively	411.4	405.7	407.6
Retained earnings	1,097.5	1,043.1	978.2
Treasury shares, at cost; 12.7, 9.5 and 10.0 shares, respectively	(927.5)	(610.1)	(667.8)
Accumulated other comprehensive loss	(55.0)	(108.3)	(69.2)
Total equity—controlling interest	526.4	730.4	648.8
Noncontrolling interest	4.9	12.6	12.9
Total equity	531.3	743.0	661.7
Total liabilities and equity	$3,563.9	$3,302.1	$ 2,747.0

See Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 branded products for lawn and garden care and indoor and hydroponic gardening. The Company's primary customers include home centers, mass merchandisers, warehouse clubs, large hardware chains, independent hardware stores, nurseries, garden centers, food and drug stores, indoor gardening and hydroponic product distributors and retailers. The Company's products are sold primarily in North America, Europe and Asia.

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 April 29, 2017, the Company received a binding and irrevocable conditional offer (the "Offer") from Exponent Private Equity LLP ("Exponent") to purchase the International Business. On July 5, 2017, the Company accepted the Offer and entered into the Share and Business Sale Agreement (the "Agreement") contemplated by the Offer. Pursuant to the Agreement, Scotts-Sierra Investments LLC, an indirect wholly-owned subsidiary of the Company ("Sierra") and certain of its direct and indirect subsidiaries, entered into separate stock or asset sale transactions with respect to the 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 and classified the assets and liabilities of the International Business as held for sale. See "NOTE 2. DISCONTINUED OPERATIONS" for further discussion. Refer to "NOTE 15. SEGMENT INFORMATION" for discussion of the Company's new reportable segments effective in the fourth quarter of fiscal 2017.

Due to the nature of the consumer lawn and garden business, the majority of the Company's sales to customers occur in the Company's second and third fiscal quarters. On a combined basis, net sales for the second and third quarters of the last three fiscal years represented in excess of 75% of the Company's annual net sales.

Organization and Basis of Presentation

The Company's unaudited condensed consolidated financial statements for the three and nine months ended June 30, 2018 and July 1, 2017 are presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The condensed 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 Condensed 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 Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Comprehensive Income (Loss), respectively. In the opinion of management, interim results reflect all normal and recurring adjustments and are not necessarily indicative of results for a full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted or condensed pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, this report should be read in conjunction with Scotts Miracle-Gro's Annual Report on Form 10-K for the fiscal year ended September 30, 2017 (the "2017 Annual Report"), which includes a complete set of footnote disclosures, including the Company's significant accounting policies.

The Company's Condensed Consolidated Balance Sheet at September 30, 2017 has been derived from the Company's audited Consolidated Balance Sheet at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

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 condensed 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.

Table of Contents

Loans Receivable

Loans receivable are carried at outstanding principal amount, and are recognized in the “Other assets” line in the Condensed 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 applicable 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 and recorded in operating expenses in the Condensed Consolidated Statements of Operations.

Interest income is recorded on an accrual basis. For the three and nine months ended June 30, 2018, the Company has classified interest income on loans receivable of $2.6 million and $7.5 million, respectively, in the “Other non-operating (income) expense, net” line in the Condensed Consolidated Statements of Operations. For the three and nine months ended July 1, 2017, interest income on loans receivable of $3.0 million and $7.8 million, respectively, is classified in the “Other income, net” line in the Condensed Consolidated Statements of Operations.

Long-Lived Assets

The Company had non-cash investing activities of $4.5 million and $2.9 million during the nine months ended June 30, 2018 and July 1, 2017, respectively, representing unpaid liabilities incurred during each period to acquire property, plant and equipment.

Inventories

Inventories are stated at the lower of cost or net realizable value, principally determined by the first in, first out method of accounting. Inventories acquired through the recent acquisition of Sunlight Supply (as defined in “NOTE 3. ACQUISITIONS AND INVESTMENTS”), which represent approximately 18% of consolidated inventories, were initially recorded at fair value and subsequently will be measured using the average costing method of inventory valuation. Inventories include the cost of raw materials, labor, manufacturing overhead and freight and in-bound 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 and net realizable value. Adjustments to reflect inventories at net realizable values were $12.6 million at June 30, 2018, $10.3 million at July 1, 2017 and $10.5 million at September 30, 2017.

Statements of Cash Flows

Supplemental cash flow information was as follows:

	NINE MONTHS ENDED	
	JUNE 30, 2018	JULY 1, 2017
	(In millions)	
Interest paid	$(68.2)	$(53.0)
Income taxes paid	(54.8)	(72.0)
Property and equipment acquired under capital leases	—	(0.9)

During the nine months ended June 30, 2018, the Company paid contingent consideration of $3.0 million and $5.2 million, respectively, related to the fiscal 2016 acquisition of Gavita Holdings B.V., and its subsidiaries (collectively, “Gavita”), and the fiscal 2017 acquisition of Agrolux Holding B.V., and its subsidiaries (collectively, “Agrolux”). During the nine months ended July 1, 2017, the Company paid contingent consideration of $6.7 million, $6.5 million and $15.5 million, respectively, related to the fiscal 2014 acquisition of Fafard & Brothers Ltd. (“Fafard”), the fiscal 2016 acquisition of a Canadian growing media operation and the fiscal 2017 acquisition of American Agritech, L.L.C., d/b/a Botanicare (“Botanicare”).

The Company uses the “cumulative earnings” approach for determining cash flow presentation of distributions from unconsolidated affiliates. Distributions received are included in the Condensed 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 Condensed Consolidated Statements of Cash Flows.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Income Taxes

On December 22, 2017, H.R.1 (the “Act,” formerly known as the “Tax Cuts and Jobs 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

Table of Contents

Act implements a territorial tax system, imposes a one-time transition tax on deemed repatriated earnings of foreign subsidiaries, and permanently reduces the federal corporate tax rate to 21% effective January 1, 2018.

Additionally, the SEC released Staff Accounting Bulletin No. 118 (“SAB 118”) which provides guidance on accounting for the Act’s impact under Accounting Standards Codification (“ASC”) Topic 740, Income Taxes (“ASC 740”). The guidance in SAB 118 addresses certain fact patterns where the accounting for changes in tax laws or tax rates under ASC 740 is incomplete upon issuance of an entity's financial statements for the reporting period in which the Act is enacted. Under the staff guidance in SAB 118, in the financial reporting period in which the Act is enacted, the income tax effects of the Act for which the accounting under ASC 740 is incomplete would be reported as a provisional amount based on a reasonable estimate (to the extent a reasonable estimate can be determined), which would be subject to adjustment during a “measurement period” until the accounting under ASC 740 is complete. The measurement period is limited to no more than one year beyond the enactment date under the staff's guidance. SAB 118 also describes supplemental disclosures that should accompany the provisional amounts, including the reasons for the incomplete accounting, the additional information or analysis that is needed, and other information relevant to why the registrant was not able to complete the accounting required under ASC 740 in a timely manner.

For discussion of the impacts of the Act that are material to the Company and required disclosures related to the Act pursuant to the guidance provided under SAB 118, refer to “NOTE 11. INCOME TAXES.”

Share-Based Compensation

In March 2016, the Financial Accounting Standards Board (“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 Company adopted this guidance effective October 1, 2017. The impact resulting from the adoption of this amended guidance is summarized below.

The amended accounting guidance requires all excess tax benefits and tax deficiencies to be recognized as income tax benefit or expense on a prospective basis in the period of adoption. The adoption of this provision of the amended accounting guidance resulted in the recognition of excess tax benefits of $3.4 million and $5.4 million in the “Income tax expense (benefit) from continuing operations” line in the Condensed Consolidated Statement of Operations for the three and nine months ended June 30, 2018, respectively. As the Company adopted the guidance on a prospective basis, prior year activity has not been adjusted to conform with the current presentation and excess tax benefits of $0.5 million and $4.5 million have been recognized in the “Capital in excess of stated value” line within “Total equity—controlling interest” in the Condensed Consolidated Balance Sheets for the three and nine months ended July 1, 2017, respectively.

The amended accounting guidance requires excess tax benefits to be classified as an operating activity in the statement of cash flows. Previously, excess tax benefits were presented as a cash inflow from financing activities and cash outflow from operating activities. The Company has elected to present these changes on a prospective basis and therefore the nine months ended July 1, 2017 has not been adjusted to conform with the current presentation.

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. The Company’s retrospective adoption of this provision of the amended accounting guidance resulted in the classification of payments of $3.0 million and $9.2 million as cash outflows from financing activities for the nine months ended June 30, 2018 and July 1, 2017, respectively.

The Company has elected to continue to estimate the number of awards expected to vest, as permitted by the amended accounting guidance, rather than electing to account for forfeitures as they occur.

Derivatives and Hedging

In August 2017, the FASB issued an accounting standard update that modifies hedge accounting by making more hedge strategies eligible for hedge accounting, amending presentation and disclosure requirements, and changing how companies assess effectiveness. The intent is to simplify application of hedge accounting and increase transparency of information about an entity’s risk management activities. The Company early adopted this guidance effective October 1, 2017 using a modified retrospective transition approach for cash flow hedges existing at the date of adoption and a prospective approach for presentation and disclosure requirements. The adoption of this guidance did not have a

significant impact on the Company’s consolidated financial position, results of operations or cash flows.

Table of Contents

Inventory

In July 2015, the FASB issued an accounting standard update that requires inventory to be measured “at the lower of cost and net realizable value,” thereby simplifying the previous guidance that requires inventory to be measured at the lower of cost or market (market in this context is defined as one of three different measures, one of which is net realizable value). The Company adopted this guidance on a prospective basis effective October 1, 2017. The adoption of this guidance did not have a significant impact on the Company’s consolidated financial position, results of operations or cash flows.

Income Taxes

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. The Company adopted this guidance on a retrospective basis during the fourth quarter of fiscal 2017. As a result, deferred tax assets totaling $42.1 million have been presented net within other liabilities in the Condensed Consolidated Balance Sheet as of July 1, 2017. This amount was previously reported within prepaid and other current assets.

Goodwill

In January 2017, the FASB issued an accounting standard update which removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. Goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of the goodwill. The Company adopted this guidance on a prospective basis during the third quarter of fiscal 2018. The adoption of this guidance did not have a significant impact on the Company’s consolidated financial position, results of operations or cash flows.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Revenue Recognition from Contracts with Customers

In May 2014, the FASB issued amended accounting guidance that replaces most existing revenue recognition guidance under GAAP. This guidance requires companies to recognize revenue in a manner that depicts the transfer of promised goods or services to customers in amounts that reflect the consideration to which a company expects to be entitled in exchange for those goods or services. The standard involves a five-step process that includes identifying the contract with the customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract and recognizing revenue when the entity satisfies the performance obligations. The new standard also will result in enhanced disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Subsequently, additional guidance was issued on several areas including guidance intended to improve the operability and understandability of the implementation of principal versus agent considerations and clarifications on the identification of performance obligations and implementation of guidance related to licensing.

The Company has made progress on its evaluation of the amended guidance, including identification of revenue streams and customer contract reviews. The Company is applying the five-step model to those contracts and revenue streams to evaluate the quantitative and qualitative impacts the new standard will have on its business and reported revenues. The provisions are effective for the Company in the first quarter of fiscal 2019 and the Company expects to adopt the guidance under the modified retrospective approach, which recognizes the cumulative effect of adoption as an adjustment to retained earnings at the date of initial application. The Company’s revenue is primarily 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. Although the Company is continuing to assess the impact of the amended guidance, it generally anticipates that its timing of recognition of revenue will be substantially unchanged under the amended guidance. During the remainder of fiscal 2018 the Company will implement any additional required changes to processes to meet the new accounting, reporting and disclosure requirements, conclude the update of its internal controls and policies, and finalize the method of adoption.

Leases

In February 2016, the FASB issued an accounting standard update which significantly changes the accounting for leases. This guidance requires lessees to recognize a lease liability for the obligation to make lease payments and a

right-of-use asset for the right to use the underlying asset for the lease term. The provisions are effective for the Company's financial statements no later than the fiscal year beginning October 1, 2019 and require a modified retrospective transition approach for leases that exist as of or are entered into after the beginning of either (i) the date of adoption or (ii) the earliest comparative period presented in the financial statements. The Company is currently evaluating available transition methods and the impact of this standard on its consolidated results of operations, financial position and cash flows. The Company has made progress on its evaluation of the amended guidance, including identification of the population of leases affected, determining the information required to calculate the lease liability and right-of-use asset and evaluating models to assist in future reporting.

Table of Contents

Cash Flow Presentation

In August 2016, the FASB issued an accounting standard update that amends the guidance on the classification of certain cash receipts and payments in the statement of cash flows. The provisions are effective retrospectively for the Company's financial statements no later than the fiscal year beginning October 1, 2018, and are not expected to have a significant impact on the Company's consolidated cash flows.

Business Combinations

In January 2017, the FASB issued an accounting standard update that clarifies the definition of a business to provide additional guidance to assist in evaluating whether transactions should be accounted for as an acquisition (or disposal) of either an asset or business. The provisions are effective prospectively for the Company's financial statements no later than the fiscal year beginning October 1, 2018, and are not expected to have a significant impact on the Company's consolidated financial position, results of operations or cash flows.

Employee Benefit Plans

In March 2017, the FASB issued an accounting standard update which requires entities to (1) disaggregate the current-service-cost component from the other components of net benefit cost (the "other components") and present the current-service-cost with other current compensation costs for related employees in the income statement, (2) present the other components elsewhere in the income statement and outside of income from operations if that subtotal is presented and (3) limit the amount of costs eligible for capitalization (e.g., as part of inventory or property, plant, and equipment) to only the service-cost component of net benefit cost. The provisions are effective for the Company's financial statements no later than the fiscal year beginning October 1, 2018, and are required to be applied retrospectively for the presentation of cost components in the income statement and prospectively for the capitalization of cost components. The provisions are not expected to have a significant impact on the Company's consolidated financial position, results of operations or cash flows.

Reporting Comprehensive Income

In February 2018, the FASB issued an accounting standard update that would allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Act. The provisions are effective for the Company's financial statements no later than the fiscal year beginning October 1, 2018. The update may be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Act is recognized. The Company is continuing to assess the impact of the amended guidance.

NOTE 2. DISCONTINUED OPERATIONS

International Business

On August 31, 2017, the Company completed the sale of the International Business for cash proceeds of $150.6 million at closing, which is net of seller financing provided by the Company in the form of a $29.7 million 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, a non-cash investing activity, with a maximum payout of $23.8 million and an initial fair value of $18.2 million, 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 seller financing loan and the contingent consideration receivable are recorded in the "Other assets" line in the Condensed Consolidated Balance Sheets. The cash proceeds from the sale were subject to post-closing adjustments and the Company originally accrued $27.8 million at September 30, 2017 in the "Other current liabilities" line in the Condensed Consolidated Balance Sheets related to the expected working capital adjustment obligation in respect of the actual closing date financial position of the International Business. The Company recorded a pre-tax gain on the sale of the International Business of $32.7 million, partially offset by the provision for income taxes of $12.0 million, during fiscal 2017. The fiscal 2017 pre-tax gain included a write-off of accumulated foreign currency translation loss adjustments of $18.5 million. During the three and nine months ended June 30, 2018, the Company recorded an increase to the pre-tax gain of $0.8 million and a decrease to the pre-tax gain of $2.8 million, respectively, related to the resolution of the post-closing working capital adjustment obligation.

In connection with the transaction, the Company entered into certain ancillary agreements including a transition services agreement and a material supply agreement, which are not material, as well as a licensing agreement for the

use of certain of the Company’s brand names with an initial fair value of $14.1 million.

During the three and nine months ended June 30, 2018, the Company recognized $0.1 million and $1.6 million, respectively, as compared to $3.7 million and $7.6 million for the three and nine months ended July 1, 2017, respectively, in transaction related costs associated with the sale of the International Business.

Table of Contents

Scotts LawnService®

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 a newly formed subsidiary of TruGreen Holdings (the "TruGreen Joint Venture") in exchange for a minority equity interest of approximately 30% in the TruGreen Joint Venture. As a result, effective in its second quarter of fiscal 2016, the Company classified its results of operations for all periods presented to reflect the SLS Business as a discontinued operation and classified the assets and liabilities of the SLS Business as held for sale.

During the three and nine months ended July 1, 2017, the Company recognized $0.1 million and $0.8 million, respectively, in transaction related costs associated with the divestiture of the SLS Business. In addition, during the nine months ended July 1, 2017, the Company recorded a reduction to the gain on the contribution of the SLS Business of $0.3 million related to a post-closing working capital adjustment.

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 the three and nine months ended June 30, 2018, the Company recognized a pre-tax charge of $65.0 million for a probable loss related to the previously disclosed legal matter In re Morning Song Bird Food Litigation. This matter relates to a pending 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. Refer to "NOTE 12. CONTINGENCIES" for more information.

The following table summarizes the results of discontinued operations for each of the periods presented:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2018	JULY 1, 2017	JUNE 30, 2018	JULY 1, 2017
	(In millions)			
Net sales	$—	$ 104.6	$—	$ 262.8
Operating and exit costs	—	91.4	1.5	238.1
Impairment, restructuring and other	65.1	3.8	66.6	8.3
Other expense, net	—	—	—	0.1
(Gain) loss on sale / contribution of business	(0.8)	—	2.8	0.3
Interest expense	—	—	—	0.4
Income (loss) from discontinued operations before income taxes	(64.3)	9.4	(70.9)	15.6
Income tax expense (benefit) from discontinued operations	(21.6)	2.1	(23.3)	3.9
Income (loss) from discontinued operations, net of tax	$(42.7)	$ 7.3	$(47.6)	$ 11.7

Table of Contents

The following table summarizes the major classes of assets and liabilities held for sale:

	JULY 1, 2017 (In millions)
Cash and cash equivalents	$ 31.2
Accounts receivable, net	102.2
Inventories	53.4
Prepaid and other current assets	7.6
Property, plant and equipment, net	24.3
Goodwill and intangible assets, net	61.1
Other assets	15.2
Assets held for sale	$ 295.0
Accounts payable	$ 48.4
Other current liabilities	68.0
Long-term debt	8.9
Other liabilities	20.0
Liabilities held for sale	$ 145.3

The Condensed 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 totaled $2.1 million and $(16.0) million for the nine months ended June 30, 2018 and July 1, 2017, respectively. Cash used in investing activities related to discontinued operations totaled $35.3 million and $4.2 million for the nine months ended June 30, 2018 and July 1, 2017, respectively.

NOTE 3. 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, 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"). Sunlight Supply, based in Vancouver, Washington, is a leading developer, manufacturer, marketer and distributer of horticultural, organics, lighting, and hydroponics products. Prior to the transaction, Sunlight Supply served as a non-exclusive distributor of the Company. The estimated purchase price of Sunlight Supply was $459.1 million, a portion of which was paid by the issuance of 0.3 million common shares of Scotts Miracle-Gro ("Common Shares"), a non-cash investing and financing activity, with a fair value of $23.4 million based on the average share price at the time of payment. The purchase price included contingent consideration, a non-cash investing activity, with an estimated fair value of $3.1 million and a maximum payout of $20.0 million, which will be paid by the Company contingent on the achievement of certain performance metrics of the Company through the one year anniversary of the closing date. The purchase price is also subject to a post-closing net working capital adjustment for which the Company has accrued $7.4 million at June 30, 2018 in the "Other current liabilities" line in the Condensed Consolidated Balance Sheets related to the expected obligation for this net working capital adjustment.

The preliminary valuation of the acquired assets included (i) $7.9 million of cash, prepaid and other current assets, (ii) $20.5 million of accounts receivable, (iii) $85.2 million of inventory, (iv) $65.2 million of fixed assets, (v) $13.3 million of accounts payable and other current liabilities, (vi) $164.4 million of finite-lived identifiable intangible assets, and (vii) $129.2 million of tax-deductible goodwill. Identifiable intangible assets included tradenames of $64.6 million, customer relationships of $96.9 million and non-competes of $2.9 million 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. Certain estimated values for the acquisition,

including goodwill, intangible assets, and property, plant and equipment, are not yet finalized and are subject to revision as additional information becomes available and more detailed analysis is completed. The contingent consideration related to the Sunlight Supply acquisition is required to be accounted for as a derivative instrument and is recorded at fair value in the "Other current liabilities" line in the Condensed Consolidated Balance Sheets, with changes in fair value recognized in the "Other income, net" line in the Condensed Consolidated Statements of Operations. The estimated fair

Table of Contents

value of the contingent consideration was $3.1 million as of June 30, 2018 and the fair value measurement was classified in Level 3 of the fair value hierarchy.

The acquisition of Sunlight Supply also resulted in the settlement of certain previously acquired customer relationships, which resulted in a non-cash impairment charge of $17.5 million recognized in the “Impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations to reduce the carrying value of these previously acquired customer relationship intangible assets to an estimated fair value of $30.9 million. 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 at June 30, 2018. Additionally, the Company reduced the value of deferred tax liabilities associated with the write-off of these previously acquired customer relationship intangible assets by $7.3 million, which was recognized in the “Income tax expense from continuing operations” line in the Condensed Consolidated Statement of Operations for the three and nine months ended June 30, 2018.

Net sales for Sunlight Supply included within the Hawthorne segment for the three and nine months ended June 30, 2018 were $23.5 million. 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) increased cost of good sold for fiscal 2017 and 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 non-cash impairment charge of $17.5 million for the three and nine months ended June 30, 2018 related to the write-off of previously acquired customer relationship intangible assets 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 is it necessarily an indication of future operating results.

Unaudited Consolidated Pro Forma Results	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2018	JULY 1, 2017	JUNE 30, 2018	JULY 1, 2017
	(In millions, except per common share data)			
Proforma net sales	$1,048.7	$1,086.0	$2,445.8	$2,561.0
Proforma net income attributable to controlling interest	100.7	159.2	229.9	258.8
Proforma diluted net income per common share	1.78	2.64	3.98	4.25

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. The loan was recorded at fair value in the “Long-term debt” line in the Condensed Consolidated Balance Sheets. On October 2, 2017, the Company’s 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. The carrying value of the 25% noncontrolling interest consisted of long-term debt of $55.6 million and noncontrolling interest of $7.9 million. The difference between purchase price and carrying value was recognized in the “Capital in excess of stated value” line within “Total equity—controlling interest” in the Condensed Consolidated Balance Sheets. For the three months ended December 30, 2017 and the six months ended March 31, 2018, this payment of $69.2 million was incorrectly

classified as an investing activity within the "Investments in acquired businesses, net of cash acquired" line in the Condensed Consolidated Statements of Cash Flows. For the nine months ended June 30, 2018, this payment has been classified as a financing activity within the "Acquisition of noncontrolling interests" line in the Condensed Consolidated Statements of Cash Flows in accordance with GAAP.

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") for $74.1 million. Based in British Columbia, Can-Filters is a leading wholesaler of ventilation products for indoor and hydroponic gardening and industrial markets worldwide. The preliminary valuation of the acquired assets included (i) $2.1 million of cash, prepaid and other current assets, (ii) $7.7 million of inventory and accounts receivable, (iii) $4.4 million of fixed assets, (iv) $0.7 million of accounts payable and other current liabilities, (v) $39.7 million of finite-lived identifiable intangible assets, and (vi) $20.9 million 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 the three and nine months ended June 30, 2018 were $2.7 million and $10.7 million, respectively.

FISCAL 2017

Agrolux

On May 26, 2017, the Company's majority-owned subsidiary Gavita completed the acquisition of Agrolux for $21.8 million. Based in the Netherlands, Agrolux is a worldwide supplier of horticultural lighting. The purchase price included contingent consideration, a non-cash investing activity, with a maximum payout and estimated fair value of $5.2 million, which was paid during the third quarter of fiscal 2018. The valuation of the acquired assets included (i) $8.0 million of cash, prepaid and other current assets, (ii) $10.1 million of inventory and accounts receivable, (iii) $0.5 million of fixed assets, (iv) $8.6 million of accounts payable and other current liabilities, (v) $6.7 million of short term debt, (vi) $16.1 million of finite-lived identifiable intangible assets, (vii) $6.4 million of non-deductible goodwill, and (viii) $4.0 million of deferred tax liabilities. Identifiable intangible assets included tradenames and customer relationships with useful lives ranging between 10 and 20 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. Net sales for Agrolux included within the Hawthorne segment for the three and nine months ended June 30, 2018 were $2.3 million and $28.3 million, respectively, as compared to $3.5 million for the three and nine months ended July 1, 2017.

Botanicare

On October 3, 2016, the Company's Hawthorne segment completed the acquisition of Botanicare, an Arizona-based leading producer of plant nutrients, plant supplements and growing systems used for hydroponic gardening, for $92.6 million. The purchase price included contingent consideration, a non-cash investing activity, of $15.5 million, which was paid during the third quarter of fiscal 2017. The valuation of the acquired assets included (i) $1.2 million of cash, prepaid and other current assets, (ii) $8.4 million of inventory and accounts receivable, (iii) $1.4 million of fixed assets, (iv) $2.3 million of accounts payable and other current liabilities, (v) $53.0 million of finite-lived identifiable intangible assets, and (vi) $30.9 million of tax-deductible goodwill. Identifiable intangible assets included tradenames, customer relationships and non-compete arrangements 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.

Other

On August 11, 2017, the Company's 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. The valuation of the acquired assets included (i) $0.3 million of inventory, (ii) $5.0 million of finite-lived identifiable intangible assets, and (iii) $26.7 million of tax-deductible goodwill. Identifiable intangible assets included manufacturing know-how and non-compete agreements with useful lives ranging between 5 and 10 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.

During the first quarter of fiscal 2017, the Company’s U.S. Consumer segment completed two acquisitions of companies whose products support the Company’s focus on the emerging areas of water positive landscapes and internet-enabled technology for an aggregate purchase price of $3.2 million. The valuation of the acquired assets for the transactions included finite-lived identifiable intangible assets and goodwill of $2.8 million. During the third quarter of fiscal 2017, the Company’s Hawthorne segment completed the acquisition of a company focused on the technology supporting hydroponic growing systems for an aggregate purchase price of $3.5 million, which included finite-lived identifiable intangible assets of $3.2 million.

The condensed consolidated financial statements include the results of operations for these business combinations from the date of each acquisition.

Table of Contents

NOTE 4. INVESTMENT IN UNCONSOLIDATED AFFILIATES

As of June 30, 2018, the Company held a minority equity interest of approximately 30% in the TruGreen Joint Venture. In addition, the Company and TruGreen Holdings are parties to a limited liability company agreement (the "LLC Agreement") governing the management of the TruGreen Joint Venture, as well as certain ancillary agreements including a transition services agreement. The LLC Agreement provides the Company with minority representation on the board of directors of the TruGreen Joint Venture. The Company's interest had an initial fair value of $294.0 million and was previously accounted for using the equity method of accounting, with the Company's proportionate share of the TruGreen Joint Venture earnings reflected in the Condensed Consolidated Statements of Operations. In the first quarter of fiscal 2018, the Company's net investment and advances were reduced to a liability and the Company will no longer record its proportionate share of the TruGreen Joint Venture earnings until the Company's net investment and advances are no longer a liability. The Company does not have any contractual obligations to fund losses of the TruGreen Joint Venture.

In connection with the closing of the transactions contemplated by the Contribution Agreement on April 13, 2016, the Company invested $18.0 million in second lien term loan financing to the TruGreen Joint Venture. The second lien term loan receivable had a carrying value of $18.1 million and $18.0 million at June 30, 2018 and July 1, 2017, respectively, and is recorded in the "Other assets" line in the Condensed Consolidated Balance Sheets. The Company was reimbursed $0.3 million and $0.8 million during the three and nine months ended June 30, 2018, respectively, and had accounts receivable of $0.7 million at June 30, 2018 for expenses incurred pursuant to a short-term transition services agreement and for payments on claims associated with insurance programs. The Company did not receive distributions from unconsolidated affiliates during the three and nine months ended June 30, 2018. The Company was reimbursed $1.3 million and $35.0 million during the three and nine months ended July 1, 2017, respectively, and had accounts receivable of $8.3 million at July 1, 2017 for expenses incurred pursuant to a short-term transition services agreement and an employee leasing agreement. The Company received distributions from unconsolidated affiliates intended to cover required tax payments of $1.4 million and $3.6 million during the three and nine months ended July 1, 2017, respectively. The Company also had an indemnification asset of $2.5 million and $6.6 million at June 30, 2018 and July 1, 2017, respectively, for future payments on claims associated with insurance programs. The Company has received cumulative distributions from the TruGreen Joint Venture in excess of its investment balance, which resulted in an amount recorded in the "Distributions in excess of investment in unconsolidated affiliate" line in the Condensed Consolidated Balance Sheets of $21.9 million at June 30, 2018. In accordance with the applicable accounting guidance, the Company reclassified the negative balance to the liability section of the Condensed Consolidated Balance Sheet.

During the fourth quarter of fiscal 2017, the Company 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"). At June 30, 2018, the Company had an investment in line of credit financing to the IT&O Joint Venture of $5.0 million, which is recorded in the "Other assets" line in the Condensed Consolidated Balance Sheets. During the three and nine months ended June 30, 2018, respectively, the Company received repayments of $2.4 million and invested $5.0 million in this line of credit financing.

The following table presents summarized financial information of the Company's unconsolidated affiliates:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2018	JULY 1, 2017	JUNE 30, 2018	JULY 1, 2017
	(In millions)			
Revenue	$488.2	$471.6	$936.1	$878.5
Gross margin	195.2	180.1	279.6	250.9
Selling and administrative expenses	105.5	115.9	221.9	208.8
Amortization expense	19.5	7.9	41.9	49.8
Interest expense	19.2	18.5	54.7	52.0

Restructuring and other charges	0.8	13.6	12.7	40.2
Net income (loss)	$50.2	$ 24.2	$(51.6)	$(99.9)

Due to the seasonal nature of the lawn, tree and shrub care business, the TruGreen Joint Venture anticipates a net loss during the Company’s first and second fiscal quarters. Net income (loss) does not include income taxes, which are recognized and paid by the partners of the unconsolidated affiliates. The income taxes associated with the Company’s share of net income (loss) have been recorded in the “Income tax expense from continuing operations” line in the Condensed Consolidated Statements of Operations.

The Company recognized equity in (income) loss of unconsolidated affiliates of $(1.1) million and $(3.3) million for the three and nine months ended June 30, 2018, respectively, as compared to $(7.2) million and $30.1 million and for the three and nine months ended July 1, 2017, respectively. The Company’s share of restructuring and other charges incurred by the TruGreen

16

Table of Contents

Joint Venture was $5.0 million and $16.7 million for the three and nine months ended July 1, 2017, respectively. For the three and nine months ended July 1, 2017, these charges included $1.1 million for transaction costs, $3.0 million and $10.9 million, respectively, for nonrecurring integration and separation costs and $0.9 million and $4.7 million, respectively, for a non-cash purchase accounting fair value write-down adjustment related to deferred revenue and advertising.

NOTE 5. 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 Condensed Consolidated Statements of Operations.

The following table details impairment, restructuring and other charges for each of the periods presented:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2018	JULY 1, 2017	JUNE 30, 2018	JULY 1, 2017
	(In millions)			
Cost of sales—impairment, restructuring and other:				
Restructuring and other charges	$5.2	$ —	$5.2	$ —
Property, plant and equipment impairments	5.9	—	5.9	—
Operating expenses:				
Restructuring and other charges	1.8	0.4	11.9	1.3
Intangible asset impairments	17.5	—	17.5	—
Impairment, restructuring and other charges from continuing operations	$30.4	$ 0.4	$40.5	$ 1.3
Restructuring and other charges from discontinued operations	65.1	3.8	66.6	8.3
Total impairment, restructuring and other charges	$95.5	$ 4.2	$107.1	$ 9.6

The following table summarizes the activity related to liabilities associated with restructuring and other, excluding insurance reimbursement recoveries, during the nine months ended June 30, 2018 (in millions):

Amounts accrued for restructuring and other at September 30, 2017	$12.1
Restructuring and other charges from continuing operations	17.1
Restructuring and other charges from discontinued operations	66.6
Payments and other	(9.4)
Amounts accrued for restructuring and other at June 30, 2018	$86.4

Included in restructuring accruals, as of June 30, 2018, is $0.9 million 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.

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. Project Catalyst is a company-wide restructuring effort to reduce operating costs throughout the U.S. Consumer, Hawthorne and Other segments and drive synergies from recent acquisitions within Hawthorne. The Company recognized charges of $30.4 million related to Project Catalyst for the three and nine months ended June 30, 2018. During the three and nine months ended June 30, 2018, the Company's Hawthorne segment executed facility closures and consolidations, terminated employees in duplicate roles, and recognized employee termination benefits of $0.4 million, impairment of property, plant and equipment of $2.4 million, and facility closure costs of $3.8 million in the "Cost of sales—impairment, restructuring and other" line in the Condensed Consolidated Statements of Operations. The Company's U.S. Consumer segment, in connection with an announced facility closure, recognized employee termination benefits of $1.0 million and impairment of property, plant and equipment of $3.5 million during the three and nine months ended June 30, 2018 in the "Cost of sales—impairment, restructuring and other" line in the Condensed Consolidated Statements of Operations. The

Company’s Hawthorne segment also recognized a non-cash impairment charge of $17.5 million related to the write-off of previously acquired customer relationship intangible assets due to the acquisition of Sunlight Supply, and employee termination benefits of $1.8 million during the three and nine months ended June 30, 2018 in the “Impairment, restructuring and other” line in the Condensed Consolidated Statements of Operations. Costs incurred to date since the inception of Project Catalyst are $25.9 million for the Hawthorne segment and $4.5 million for the U.S. Consumer segment.

Table of Contents

Project Focus

In the first quarter of fiscal 2016, the Company announced a series of initiatives called Project Focus designed to maximize the value of its non-core assets and focus on emerging categories of the lawn and garden industry in its core U.S. business. During the three and nine months ended June 30, 2018, the Company's U.S. Consumer segment recognized adjustments of zero and $0.1 million, respectively, related to previously recognized termination benefits associated with Project Focus in the "Impairment, restructuring and other" line in the Condensed Consolidated Statements of Operations. During the three and nine months ended July 1, 2017, the Company's U.S. Consumer segment recognized charges of $0.4 million and $1.3 million, respectively, related to termination benefits associated with Project Focus in the "Impairment, restructuring and other" line in the Condensed Consolidated Statements of Operations. Costs incurred to date since the inception of the current Project Focus initiatives are $9.9 million for the U.S. Consumer segment, $1.0 million for the Hawthorne segment and $1.2 million for the Other segment, related to transaction activity, termination benefits and facility closure costs.

On April 13, 2016, as part of Project Focus, the Company completed the contribution of the SLS Business to the TruGreen Joint Venture. Refer to "NOTE 2. DISCONTINUED OPERATIONS" for more information. During the three and nine months ended July 1, 2017, the Company recognized $0.1 million and $0.8 million, respectively, in transaction related costs associated with the divestiture of the SLS Business in the "Income (loss) from discontinued operations, net of tax" line in the Condensed Consolidated Statements of Operations.

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 and classified the assets and liabilities of the International Business as held for sale. Refer to "NOTE 2. DISCONTINUED OPERATIONS" for more information. During the three and nine months ended June 30, 2018, the Company recognized $0.1 million and $1.6 million, respectively, as compared to $3.7 million and $7.6 million for the three and nine months ended July 1, 2017, respectively, in transaction related costs associated with the sale of the International Business in the "Income (loss) from discontinued operations, net of tax" line in the Condensed Consolidated Statements of Operations.

Other

The Company recognized a pre-tax charge of $65.0 million for a probable loss related to the previously disclosed legal matter In re Morning Song Bird Food Litigation for the three and nine months ended June 30, 2018 in the "Income (loss) from discontinued operations, net of tax" line in the Condensed Consolidated Statements of Operations. Refer to "NOTE 2. DISCONTINUED OPERATIONS" and "NOTE 12. CONTINGENCIES" for more information.

During the second quarter of fiscal 2018, the Company recognized a charge of $10.2 million for a probable loss on a previously disclosed legal matter in the "Impairment, restructuring and other" line in the Condensed Consolidated Statements of Operations. Refer to "NOTE 12. CONTINGENCIES" for more information.

NOTE 6. INVENTORIES

Inventories consisted of the following for each of the periods presented:

	JUNE 30, 2018	JULY 1, 2017	SEPTEMBER 30, 2017
	(In millions)		
Finished goods	$ 327.5	$ 243.1	$ 210.6
Work-in-process	53.4	45.1	57.6
Raw materials	119.6	125.0	139.3
Total inventories	$ 500.5	$ 413.2	$ 407.5

Adjustments to reflect inventories at net realizable values were $12.6 million at June 30, 2018, $10.3 million at July 1, 2017 and $10.5 million at September 30, 2017.

NOTE 7. MARKETING AGREEMENT

The Scotts Company LLC ("Scotts LLC") is the exclusive agent of Monsanto for the marketing and distribution of consumer Roundup® non-selective weedkiller products in the consumer lawn and garden market in certain countries pursuant to an Amended and Restated Exclusive Agency and Marketing Agreement (the "Original Marketing Agreement"). In consideration for the rights granted to the Company under the Original Marketing Agreement in 1998,

the Company paid a marketing fee of $32.0 million to Monsanto. The Company deferred this amount on the basis that the payment will provide a future benefit through commissions that will be earned under the Marketing Agreement. The economic useful life over which the marketing fee is being amortized is 20 years, with a remaining unamortized amount of $0.2 million and remaining amortization period of less than one year. On May

Table of Contents

15, 2015, the Company and Monsanto entered into an Amendment to the Original Marketing Agreement (the "Marketing Agreement Amendment"), a Lawn and Garden Brand Extension Agreement (the "Brand Extension Agreement") and a Commercialization and Technology Agreement (the "Commercialization and Technology Agreement"). In consideration for these agreements, the Company paid $300.0 million to Monsanto and recorded this amount as intangible assets for which the related economic useful life is indefinite.

On August 31, 2017, in connection with and as a condition to the consummation of the Company's sale of its International Business, the Company 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 the purchaser of such business of the Company's rights and responsibilities under the Original Marketing Agreement, as amended, and the Brand Extension Agreement relating to those countries subject to the sale. The Company included $32.6 million of the carrying amount of the intangible asset associated with the Marketing Agreement Amendment with the International Business disposal unit on the basis of the asset's historical carrying amount and this amount was disposed of as part of the sale of the International Business.

From 1998 until May 15, 2015, the Original Marketing Agreement covered the United States and other specified countries, including Australia, Austria, Belgium, Canada, France, Germany, the Netherlands and the United Kingdom. The Marketing Agreement Amendment expanded the covered territories and countries to include all countries other than Japan and countries subject to a comprehensive U.S. trade embargo or certain other embargoes and trade restrictions. The Restated Marketing Agreement further revised the covered territories and countries to only include Israel, China and every country throughout the Caribbean and the continents of North America and South America that is not subject to a comprehensive U.S. trade embargo or certain other embargoes and trade restrictions.

Under the terms of the Restated Marketing Agreement, the Company is entitled to receive an annual commission from Monsanto as consideration for the performance of the Company's duties as agent. The annual commission payable under the Restated Marketing Agreement is equal to (1) 50% of the actual earnings before interest and income taxes of the 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 the consumer Roundup® business in the markets covered by the Restated Marketing Agreement in excess of $40.0 million for program years 2019 and thereafter. The Restated Marketing Agreement also requires the Company to make annual payments of $18.0 million to Monsanto as a contribution against the overall expenses of the consumer Roundup® business. Unless Monsanto terminates the Restated Marketing Agreement due to an event of default by the Company, the Restated Marketing Agreement requires a termination fee payable to the Company equal to the greater of (1) $175.0 million or (2) four times (A) the average of the program earnings before interest and income taxes for the three trailing program years prior to the year of termination, minus (B) $186.4 million. The term of the Restated Marketing Agreement will continue indefinitely for all included markets unless and until otherwise terminated in accordance therewith.

The Restated Brand Extension Agreement provides the Company an exclusive license in every country throughout the North American continent, South American continent, Central America, the Caribbean, Israel and China (in each case that is not subject to a comprehensive U.S. trade embargo or certain other embargoes and trade restrictions) to use the Roundup® brand on additional products offered by the Company outside of the non-selective weed category within the residential lawn and garden market. The application of the Roundup® brand to these additional products is subject to a product review and approval process developed between the Company and Monsanto. Monsanto will maintain oversight of its brand, the handling of brand registrations covering these new products and new territories, as well as primary responsibility for brand enforcement. The Restated Brand Extension Agreement has a term of twenty years, which will automatically renew for additional successive twenty year terms, at the Company's sole option, for no additional monetary consideration.

The Commercialization and Technology Agreement provides for the Company and Monsanto to further develop and commercialize new products and technology developed at Monsanto and intended for introduction into the residential lawn and garden market. Under the Commercialization and Technology Agreement, the Company receives an exclusive first look at new Monsanto technology and products and an annual review of Monsanto's developing products and technologies. The Commercialization and Technology Agreement has a term of thirty years (subject to

early termination upon a termination event under the Restated Marketing Agreement or the Restated Brand Extension Agreement).

Under the terms of the Restated Marketing Agreement, the Company performs sales, merchandising, warehousing and other selling and marketing services, on behalf of Monsanto in the conduct of the consumer Roundup® business. The Company performs other services, including manufacturing conversion services, pursuant to ancillary agreements. 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 Condensed Consolidated Statements of Operations, with no effect on gross profit dollars or net income.

Table of Contents

The gross commission earned under the Restated Marketing Agreement, the contribution payments to Monsanto and the amortization of the initial marketing fee paid to Monsanto in 1998 are included in the calculation of net sales in the Company's Condensed Consolidated Statements of Operations. The elements of the net commission and reimbursements earned under the Marketing Agreement and included in "Net sales" are as follows:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2018	JULY 1, 2017	JUNE 30, 2018	JULY 1, 2017
	(In millions)			
Gross commission	$36.1	$ 35.8	$70.7	$78.1
Contribution expenses	(4.5)	(4.5)	(13.5)	(13.5)
Amortization of marketing fee	(0.2)	(0.2)	(0.6)	(0.6)
Net commission	31.4	31.1	56.6	64.0
Reimbursements associated with Marketing Agreement	12.5	14.8	45.0	48.4
Total net sales associated with Marketing Agreement	$43.9	$ 45.9	$101.6	$112.4

NOTE 8. DEBT

The components of debt are as follows:

	JUNE 30, 2018	JULY 1, 2017	SEPTEMBER 30, 2017
	(In millions)		
Credit Facilities:			
Revolving loans	$1,084.5	$464.8	$ 300.5
Term loans	262.5	277.5	273.8
Senior Notes – 5.250%	250.0	250.0	250.0
Senior Notes – 6.000%	400.0	400.0	400.0
Receivables facility	285.0	250.0	80.0
Other	15.5	66.5	105.4
Total debt	2,297.5	1,708.8	1,409.7
Less current portions	314.5	289.1	143.1
Less unamortized debt issuance costs	7.6	8.9	8.6
Long-term debt	$1,975.4	$1,410.8	$ 1,258.0

Credit Facilities

On October 29, 2015, the Company entered into the fourth amended and restated credit agreement (the "former credit agreement"), which provided the Company and certain of its subsidiaries with five-year senior secured loan facilities in the aggregate principal amount of $1.9 billion that were comprised of a revolving credit facility of $1.6 billion and a term loan in the original principal amount of $300.0 million (the "former credit facilities"). The former credit agreement also provided the Company with the right to seek additional committed credit under the agreement in an aggregate amount of up to $500.0 million plus an unlimited additional amount, subject to certain specified financial and other conditions. Under the former credit agreement, the Company had the ability to obtain letters of credit up to $100.0 million. Borrowings under the former credit facilities could be made in various currencies, including U.S. dollars, euro, British pounds, Australian dollars and Canadian dollars. The terms of the former credit agreement included customary representations and warranties, affirmative and negative covenants, financial covenants and events of default.

Under the terms of the former credit agreement, loans bore interest, at the Company's election, at a rate per annum equal to either the ABR or Adjusted LIBO Rate (both as defined in the former credit agreement) plus the applicable margin. The former credit facilities were guaranteed by substantially all of the Company's domestic subsidiaries, and were secured by (i) a perfected first priority security interest in all of the accounts receivable, inventory and equipment

of the Company and the Company's domestic subsidiaries that are guarantors and (ii) the pledge of all of the capital stock of the Company's domestic subsidiaries that are guarantors.

Table of Contents

At June 30, 2018, the Company had letters of credit outstanding in the aggregate principal amount of $22.2 million, and $493.3 million of availability under the former credit agreement. The weighted average interest rates on average borrowings under the former credit agreement were 4.0% and 3.8% for the nine months ended June 30, 2018 and July 1, 2017, respectively.

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 $2.3 billion, comprised of a revolving credit facility of $1.5 billion and a term loan in the original principal amount of $800.0 million (the "Fifth A&R Credit Facilities"). The Fifth A&R Credit Agreement also provides the Company with the right to seek additional committed credit under the agreement in an aggregate amount of up to $500.0 million plus an unlimited additional amount, subject to certain specified financial and other conditions. The Fifth A&R Credit Agreement replaces the former credit agreement, and will terminate on July 5, 2023. The revolving credit facility will be available for issuance of letters of credit up to $75.0 million. Borrowings under the Fifth A&R Credit Facilities may be made in various currencies, including U.S. dollars, euro, British pounds and Canadian dollars. The terms of the Fifth A&R Credit Agreement include customary representations and warranties, customary affirmative and negative covenants, customary financial covenants, and customary events of default. The proceeds of borrowings under the Fifth A&R Credit Facilities may be used: (i) to finance working capital requirements and other general corporate purposes of the Company and its subsidiaries; and (ii) to refinance the amounts outstanding under the former credit agreement. The former credit agreement would have terminated on October 29, 2020, if it had not been amended and restated pursuant to the Fifth A&R Credit Agreement. As of June 30, 2018, the Company classified borrowings under the former credit facilities as long-term debt on the Condensed Consolidated Balance Sheet.

Under the terms of the Fifth A&R Credit Agreement, loans made under the Fifth A&R Credit Facilities bear interest, at the Company's election, at a rate per annum equal to either (i) the Alternate Base Rate plus the Applicable Spread (each, as defined in the Fifth A&R Credit Agreement) or (ii) the Adjusted LIBO Rate for the Interest Period in effect for such borrowing plus the Applicable Spread (all as defined in the Fifth A&R Credit Agreement). Swingline Loans bear i