

Scotts Miracle-Gro(SMG)

\$170.77 (As of 08/21/20)

Price Target (6-12 Months): **\$196.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 04/05/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:C

Value: F

Growth: A

Momentum: D

Summary

Scotts Miracle-Gro's profits increased year over year in third-quarter fiscal 2020. Adjusted earnings and sales also beat the respective Zacks Consensus Estimate. The company is expected to benefit from the synergies of the Sunlight Supply acquisition. The buyout provides Scotts Miracle-Gro with modern and cost-efficient supply chain in the hydroponic industry. Also, the company's prospects for the hydroponic products look bright in the long term. The company will gain from long-term prospects and cost-saving opportunities associated with the Hawthorne division. Moreover, Scotts Miracle-Gro is likely to gain from the new line of organic plant food products. The company is witnessing strong growth in its GroundClear and Performance Organics product lines. Scotts Miracle-Gro also outperformed the industry it belongs to in the past year.

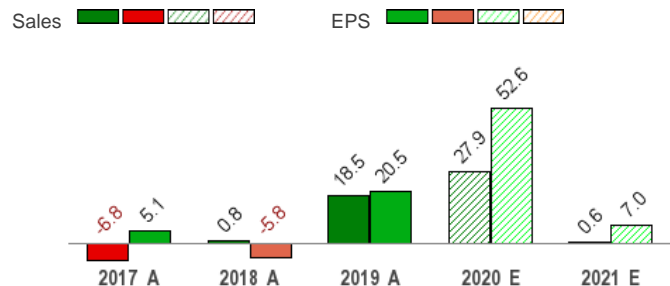
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$171.19 - \$76.50
20 Day Average Volume (sh)	421,834
Market Cap	\$9.5 B
YTD Price Change	60.8%
Beta	0.98
Dividend / Div Yld	\$2.48 / 1.4%
Industry	Fertilizers
Zacks Industry Rank	Top 27% (67 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	13.4%
Last Sales Surprise	12.8%
EPS F1 Est- 4 week change	17.7%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	27.2
P/E F1	25.0
PEG F1	2.4
P/S TTM	2.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	446 E	1,442 E	1,452 E	781 E	4,060 E
2020	366 A	1,383 A	1,493 A	796 E	4,037 E
2019	298 A	1,190 A	1,170 A	498 A	3,156 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$1.14 E	\$4.61 E	\$3.99 E	-\$0.57 E	\$7.30 E
2020	-\$1.12 A	\$4.50 A	\$3.80 A	-\$0.38 E	\$6.82 E
2019	-\$1.39 A	\$3.64 A	\$3.11 A	-\$0.91 A	\$4.47 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/21/2020. The reports text is as of 08/24/2020.

Overview

Based in Marysville, OH, The Scotts Miracle-Gro Company is a leading producer and marketer of branded garden and consumer lawn products. The company makes, markets and sells garden and lawn products in various categories including Lawn Care, Gardening and Landscape, Hydroponics, Controls and Marketing Agreement.

The company's products are marketed under some of the most recognized brand names in North America like Scotts and Turf Builder lawn and grass seed products, LiquaFeed and Osmocote gardening and landscape products.

In the United Kingdom, some of its major brands are Miracle-Gro plant fertilizers, EverGreen lawn fertilizers, Weedol and Pathclear herbicides and Levington gardening and landscape products.

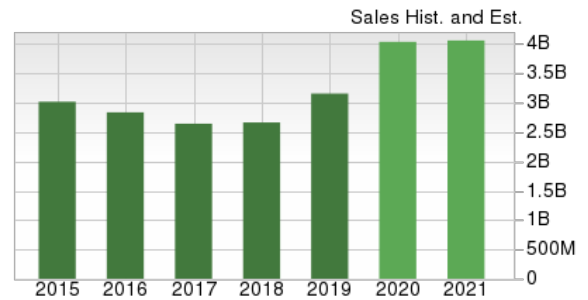
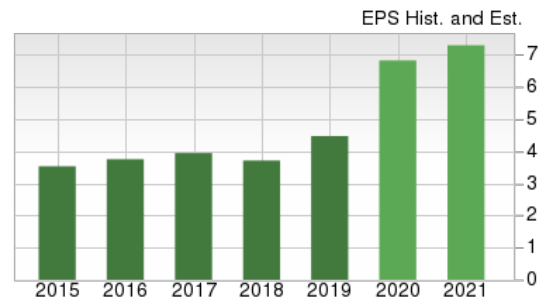
Scotts Miracle-Gro's operations are mainly focused on three reportable business segments — U.S. Consumer, Hawthorne and Other.

U.S. Consumer (72% of Fiscal 2019 Sales) – The division consists of consumer garden and lawn business located in the United States. The lawn care products include lawn fertilizers, grass seed products along with lawn-related pest, weed and disease control products. The landscape and gardening category enable consumers to grow vegetable and flower gardens and beautify landscape. It includes complete array water-soluble plant foods.

Hawthorne (21%) – The segment consists of urban, indoor and hydroponic gardening business. The hydroponic category enables consumers to grow flowers, plants as well as vegetables in an urban and indoor environment using very little or no soil.

Other (7%) – This division consists of consumer lawn and garden business in regions other than the United States and the products are sold to commercial nurseries, greenhouses and other professional customers.

In June 2018, the company's Hawthorne division acquired all the assets along with certain liabilities of Sunlight Supply, Inc and subsidiaries. Notably, Sunlight Supply is the largest distributor of hydroponic products in the United States. The buyout strengthens the Scotts Miracle-Gro's Hawthorne segment.



Reasons To Buy:

- ▲ Scotts Miracle-Gro has outperformed the industry it belongs to in the past year. The company's shares have gained 62.7% in this period against the industry's 13.5% decline. The company should gain from the synergies of the Sunlight Supply acquisition. The buyout creates unique competitive advantages for the company's Hawthorne division. The acquisition provides the company with most modern and cost-efficient supply chain in the hydroponic industry that will benefit its retail customers and end-consumers. As a result of the acquisition, the company expects year-over-year improvement in adjusted earnings per share (EPS) as well as growth in total sales and gross margin. Moreover, net sales in the Hawthorne segment surged 95% in fiscal 2019, partly driven by the favorable impact of Sunlight Supply buyout. Further, Scotts Miracle-Gro now projects adjusted EPS for fiscal 2020 between \$6.65 and \$6.85, higher than \$5.65-\$5.85 expected earlier.
- ▲ Scotts Miracle-Gro is likely to benefit from the continued long-term prospects and cost savings opportunities associated with its Hawthorne division. In third-quarter fiscal 2018, the company announced the launch of an initiative called Project Catalyst. The project is a company-wide restructuring effort to reduce operating costs throughout the Hawthorne, U.S. Consumer and Other units. Also, profitability in the U.S. Consumer and Hawthorne segment rose 14% and 145% year over year, respectively, in the last reported quarter. Notably, revenues in the Hawthorne segment surged 72% year over year in the fiscal third quarter. The company now anticipates Hawthorne's sales to grow 55-60% in fiscal 2020, up from 45-50% expected earlier.
- ▲ The company's prospects for the hydroponic products remain bright in the long-term. It is a leading provider of nutrients, lighting and other materials that are used in the hydroponic growing segment. Also, it is one of the world's leading marketers of indoor and hydroponic growing products. The company remains bullish on the long-term prospects for the division's strong leadership position. The company also believes that there will be growth and investment in the business. The company is focused on bringing new products to the market in the consumer segment. Also, it is likely to gain from legally authorized cannabis production as the cannabis industry grows in the United States and Canada.
- ▲ The company is likely to gain from its new line of organic plant food and growing media products — Miracle-Gro Performance Organics. This is the first organic product line that delivers performance at par with synthetic products. The company believes that Performance Organics will be a major new product and has the potential to transform the gardening industry category. The company is also expected to add new consumers into the space. It is witnessing strong growth in its GroundClear and Performance Organics product lines. Notably, Performance Organics delivered sales of nearly \$40 million in the first year (fiscal 2019). It also helped to drive a 6% improvement in the consumer purchases of the company's branded soils. The company expects the momentum to continue in fiscal 2020. Notably, the Ortho weed control products rose around 5% in the last reported quarter, driven by the GroundClear that continues to boost its market share position in the non-selective weed control space.
- ▲ The company's effort to reduce debt is encouraging. At the end of the fiscal third quarter, its long-term debt fell around 3% year over year to \$1,516 million and declined from \$2,114 million in the sequentially prior quarter. Also, its total debt-to-total capital ratio stood at 0.63 as of Jun 30, 2020, sequentially lower than 0.75 at the end of the prior quarter. As such, the company appears to have a lower default risk.

Scotts Miracle-Gro should benefit from the synergies of the Sunlight Supply acquisition. The company should also gain from the long-term prospects and cost savings opportunities associated with its Hawthorne division.

Risks

- The company's high Selling, General and Administrative (SG&A) expenses are a concern. Its SG&A rose 11% year over year in fiscal 2019. The same surged 43% year over year in the fiscal third quarter. Also, the company expects variable compensation to be \$60-\$70 million higher year over year. The company is also aggressively investing in the Hawthorne unit, which is weighing on SG&A. As such, rising expenses may exert pressure on its margins.
 - Increased investments in supply chain, sales and marketing and other areas are expected to impact the company's margin rate in fiscal 2020. The company also expects margin rate to decline sequentially in the fiscal fourth quarter.
 - The company's stretched valuation is another concern. In case of Scotts Miracle-Gro, the trailing 12-month EV/EBITDA multiple (a preferred valuation metric for cyclical industries) is 17.3 while its industry's trailing 12-month EV/EBITDA multiple is lower at 8.8. As such, investors might not want to pay more for the stock at present.
-

Last Earnings Report

Scotts Miracle-Gro's Q3 Earnings & Sales Top Estimates

Scotts Miracle-Gro reported net income from continuing operations of \$204.3 million or \$3.57 per share in third-quarter fiscal 2020 (ended Jun 27, 2020), up from \$178 million or \$3.15 per share in the year-ago quarter.

Barring one-time items, adjusted earnings per share (EPS) were \$3.80, up 22.2% year over year. The figure beat the Zacks Consensus Estimate of \$3.35.

Net sales rose 27.6% year over year to \$1,492.7 million and beat the consensus mark of \$1,323.6 million.

Company-wide gross margin rate (as adjusted) was 36.1% compared with 36.2% in the year-ago quarter.

Segment Details

In the fiscal third quarter, net sales in the U.S. Consumer division increased 21% year over year to \$1,075.8 million. Profitability in the unit increased 14% year over year to \$310.5 million.

Net sales in the Hawthorne segment rose 72% year over year to \$302.9 million in the reported quarter, driven by strong demand in almost all categories. The segment's profit surged 145% year over year to \$41.1 million.

Net sales in the Other segment increased 9% year over year to \$114 million. The segment's profitability rose 9% year over year to \$14.4 million in the quarter.

Balance Sheet

At the end of the fiscal third quarter, the company had cash and cash equivalents of \$48.3 million, up 32.7% year over year. Long-term debt was \$1,516 million, down 3% year over year.

Outlook

For fiscal 2020, the company revised its sales growth outlook.

In the U.S. Consumer unit, the company projects sales growth of 20-22% for the fiscal, up from 9-11% expected earlier. It now expects sales in the Hawthorne segment to rise 55-60% in fiscal 2020, up from 45-50% expected earlier.

Based on these assumptions, Scotts Miracle-Gro now projects adjusted EPS between \$6.65 and \$6.85 compared with earnings of \$5.65-\$5.85 expected earlier. Adjusted free cash flow is expected to be around \$400 million, up from the earlier projection of roughly \$350 million.

Quarter Ending 06/2020

Report Date	Jul 29, 2020
Sales Surprise	12.77%
EPS Surprise	13.43%
Quarterly EPS	3.80
Annual EPS (TTM)	6.27

Recent News

Scotts Miracle-Gro Introduces Venture Capital Fund

Scotts Miracle-Gro, on **Jun 25, 2020**, announced the launch of 1868 Ventures, which will focus on investments in controlled environment agriculture technologies, natural and organic alternatives for fertilizers and controls, plant genetics as well as sustainable products and packaging.

Per the company, the fund is part of its commitment to discover innovative approaches to address evolving needs of gardeners and professional growers. Further, investments will be targeted toward areas where Scotts Miracle-Gro may be a partner, a logical customer or can add value through expertise in product formulation and development, retail distribution, marketing and branding as well as indoor growing products.

The company also stated that the fund will be stage-agnostic. It will focus on early and growth stage companies that have demonstrated traction in the market and are generating revenues. Initially, the typical investments will be between \$0.25 million and \$2.5 million, including reserves for follow-on investments.

1868 Ventures will mainly pursue investments in companies that operate in North America. The investment efforts will be managed along with Touchdown Ventures, which specializes in corporate venture capital. Touchdown will work closely with Scotts Miracle-Gro's senior executives to operate the fund.

Scotts Miracle-Gro Raises Guidance on Strong Demand

Scotts Miracle-Gro, on **Jun 8, 2020**, issued revised guidance for fiscal 2020 based on higher demand in the U.S. Consumer and Hawthorne segments.

For fiscal 2020 (ending Sep 30, 2020), Scotts Miracle-Gro projects company-wide sales growth in the range of 16-18% compared with 6-8% growth expected earlier. The upbeat view is mainly due to stronger growth in the U.S. Consumer unit, where the company now expects 9-11% growth compared with the previous range of 1-3% increase. In the Hawthorne segment, the company now expects sales growth of 45-50% for fiscal 2020 compared with 30-35% expected earlier.

Based on the above assumptions, the company now projects adjusted EPS in the range of \$5.65-\$5.85 compared with \$4.95-\$5.15 expected earlier. Further, Scotts Miracle-Gro expects adjusted gross margin rate to be flat-to-slightly lower in fiscal 2020 as the strength in Hawthorne has a dilutive impact on the company-wide rate.

Nevertheless, the segments are expected to witness year-over-year improvement in gross margin rate. Hawthorne is also on track to meet or exceed its operating margin rate of 10% based on the unit's income, as a percentage of sales. Moreover, the company expects adjusted free cash flow to be around \$350 million.

Valuation

Scotts Miracle-Gro's shares are up 60.8% in the year-to-date period and up 62.7% over the trailing 12-month period. Stocks in the Zacks Fertilizers industry and the Zacks Basic Materials sector are down 10.7% and 0.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 7.7% and 13.5%, respectively.

The S&P 500 index is up 5.5% in the year-to-date period and up 18.3% in the past year.

The stock is currently trading at 23.57X forward 12-month earnings, which compares to 20.44X for the Zacks sub-industry, 14.25X for the Zacks sector and 22.85X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.14X and as low as 13.73X, with a 5-year median of 19.59X.

Our Outperform recommendation indicates that the stock will perform better than the market. Our \$196 price target reflects 27.05X forward 12-month earnings per share.

The table below shows summary valuation data for SMG:

Valuation Multiples - SMG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	23.57	20.44	14.25	22.85
	5-Year High	27.14	41	21.05	22.85
	5-Year Low	13.73	10.16	9.84	15.25
	5-Year Median	19.59	19.53	13.5	17.58
EV/EBITDA TTM	Current	17.34	8.81	10.9	12.89
	5-Year High	30.3	21.47	18.4	12.89
	5-Year Low	10.85	5.88	6.5	8.25
	5-Year Median	14.48	9.62	10.43	10.91
P/B TTM	Current	9.44	1.09	2.14	4.56
	5-Year High	18.03	2.03	3.07	4.56
	5-Year Low	5.05	0.62	1.22	2.83
	5-Year Median	8.01	1.38	2.19	3.75

As of 08/21/2020

Industry Analysis Zacks Industry Rank: Top 27% (67 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Aphria Inc. (APHA)	Outperform	3
Central GardenPet Company (CENT)	Outperform	1
Spectrum Brands Holdings Inc. (SPB)	Outperform	1
Aurora Cannabis Inc. (ACB)	Neutral	3
Canopy Growth Corporation (CGC)	Neutral	3
Cronos Group Inc. (CRON)	Neutral	3
GW Pharmaceuticals PLC (GWPH)	Neutral	3
Reckitt Benckiser Group PLC (RBGLY)	Neutral	3

Industry Comparison Industry: Fertilizers				Industry Peers		
	SMG	X Industry	S&P 500	CENT	RBGLY	SPB
Zacks Recommendation (Long Term)	Outperform	-	-	Outperform	Neutral	Outperform
Zacks Rank (Short Term)	1	-	-	1	3	1
VGM Score	C	-	-	A	B	C
Market Cap	9.52 B	6.63 B	23.62 B	2.20 B	70.73 B	2.50 B
# of Analysts	3	4	14	3	2	3
Dividend Yield	1.36%	0.00%	1.65%	0.00%	1.76%	2.90%
Value Score	F	-	-	B	C	D
Cash/Price	0.01	0.09	0.07	0.22	0.03	0.19
EV/EBITDA	14.22	6.28	13.29	11.47	16.58	12.71
PEG Ratio	2.37	3.44	3.03	NA	NA	0.99
Price/Book (P/B)	9.49	0.85	3.11	2.08	5.89	1.80
Price/Cash Flow (P/CF)	27.78	5.92	12.69	15.62	6.88	5.81
P/E (F1)	25.04	23.70	21.51	20.67	24.62	16.17
Price/Sales (P/S)	2.55	0.94	2.43	0.86	NA	0.66
Earnings Yield	3.99%	3.99%	4.46%	4.84%	4.06%	6.19%
Debt/Equity	1.51	0.48	0.76	0.72	0.91	1.93
Cash Flow (\$/share)	6.15	3.66	6.93	2.58	2.90	9.99
Growth Score	A	-	-	A	A	C
Hist. EPS Growth (3-5 yrs)	7.37%	-2.52%	10.44%	15.07%	NA	NA
Proj. EPS Growth (F1/F0)	52.65%	-23.39%	-5.53%	21.88%	-10.00%	25.41%
Curr. Cash Flow Growth	15.63%	-5.87%	5.20%	-4.06%	178.96%	64.31%
Hist. Cash Flow Growth (3-5 yrs)	4.73%	-0.94%	8.52%	21.71%	29.42%	16.24%
Current Ratio	1.61	1.86	1.33	3.81	0.56	2.08
Debt/Capital	60.16%	33.31%	44.50%	41.92%	47.60%	65.90%
Net Margin	8.71%	3.10%	10.13%	4.28%	NA	-1.86%
Return on Equity	45.36%	4.26%	14.67%	11.16%	NA	11.34%
Sales/Assets	1.03	0.43	0.51	1.19	NA	0.74
Proj. Sales Growth (F1/F0)	27.92%	0.00%	-1.54%	9.52%	6.87%	0.37%
Momentum Score	D	-	-	A	D	D
Daily Price Chg	0.10%	-0.34%	-0.15%	-2.89%	-1.02%	-0.57%
1 Week Price Chg	3.26%	2.72%	1.09%	-0.70%	-2.30%	0.05%
4 Week Price Chg	17.83%	9.53%	1.64%	8.51%	-2.73%	17.93%
12 Week Price Chg	20.10%	9.59%	6.72%	9.84%	13.75%	20.58%
52 Week Price Chg	56.81%	-0.23%	1.00%	57.15%	32.93%	11.24%
20 Day Average Volume	421,834	91,718	1,873,576	96,433	475,334	434,573
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	17.75%	0.96%	1.79%	20.87%	3.18%	23.54%
(F1) EPS Est 12 week change	29.61%	12.98%	3.35%	20.87%	8.00%	21.72%
(Q1) EPS Est Mthly Chg	58.36%	50.00%	0.42%	-161.29%	NA	34.48%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	A
Momentum Score	D
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.