

Scotts Miracle-Gro(SMG)

\$134.64 (As of 05/26/20)

Price Target (6-12 Months): **\$155.00**

Long Term: 6-12 Months

Zacks Recommendation: **Outperform**

(Since: 04/05/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: C

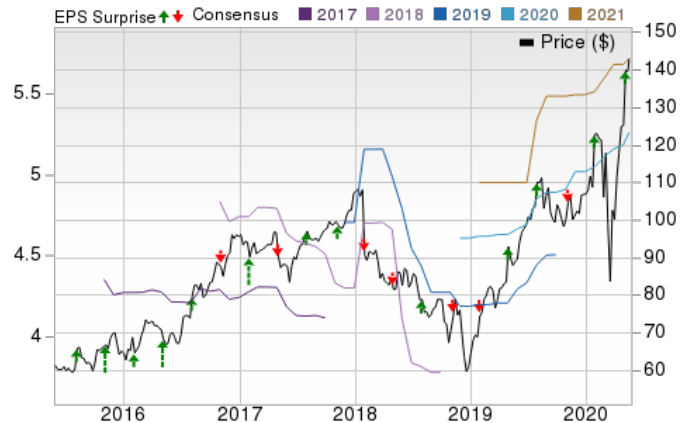
Growth: D

Momentum: A

Summary

Scotts Miracle-Gro's profits declined year over year in the second quarter of fiscal 2020. Adjusted earnings beat the Zacks Consensus Estimate, while sales trailed the same. The company is expected to benefit from the synergies of the Sunlight Supply acquisition. The buyout provides the company with modern and cost-efficient supply chain in the hydroponic industry. Also, the company's prospects for the hydroponic products remain 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. It has also outperformed the industry it belongs to in the past year.

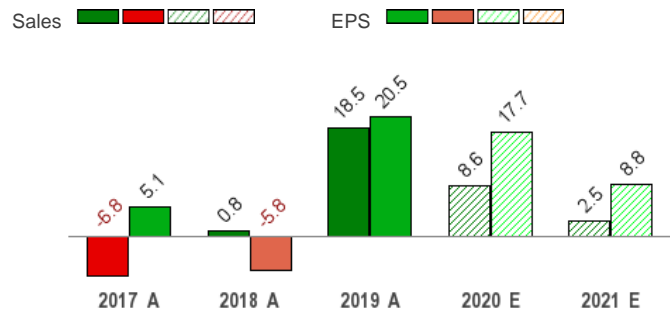
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$151.03 - \$76.50
20 Day Average Volume (sh)	542,140
Market Cap	\$7.5 B
YTD Price Change	26.8%
Beta	0.91
Dividend / Div Yld	\$2.32 / 1.7%
Industry	Fertilizers
Zacks Industry Rank	Bottom 43% (144 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.6%
Last Sales Surprise	-0.5%
EPS F1 Est- 4 week change	1.8%
Expected Report Date	07/29/2020
Earnings ESP	-3.1%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	400 E	1,360 E	1,254 E	575 E	3,512 E
2020	366 A	1,383 A	1,158 E	523 E	3,428 E
2019	298 A	1,190 A	1,170 A	498 A	3,156 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$1.09 E	\$4.34 E	\$3.30 E	-\$0.84 E	\$5.72 E
2020	-\$1.12 A	\$4.50 A	\$2.95 E	-\$0.91 E	\$5.26 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.

P/E TTM	24.1
P/E F1	25.6
PEG F1	2.4
P/S TTM	2.2

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/26/2020. The reports text is as of 05/27/2020.

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.

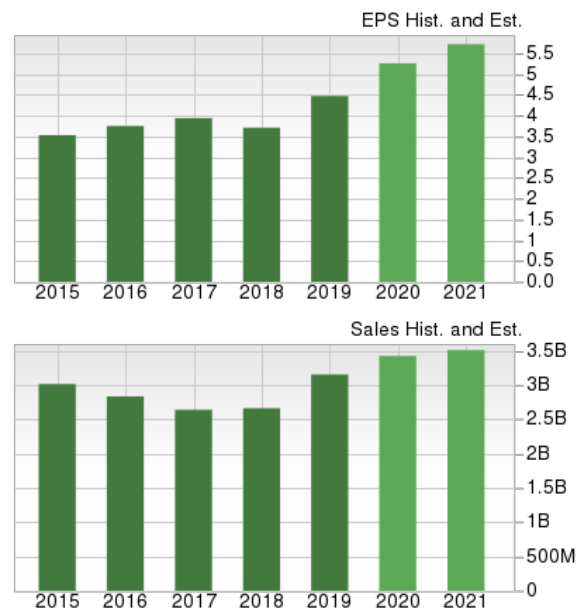
Scotts Miracle-Gro's operations are mainly focused on three reportable business segments — U.S. Consumer, Hawthorne and Other.

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 50.5% in this period against the industry's 23.3% 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 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.
- ▲ 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, net sales in the Hawthorne segment rose 60% year over year in the last reported quarter on the back of strong demand in almost all categories. The company anticipates Hawthorne's sales to grow 30-35% in fiscal 2020.
- ▲ 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. In the last reported quarter, the United States' hydroponics and indoor growing businesses went up 66%. 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.

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

- Scotts Miracle-Gro is exposed to commodity cost headwinds. While the company is somewhat insulated from market movements due to its hedging program, aggregate impact of commodities continues to be a concern. At the end of fiscal first quarter, around 75% of company's commodity costs were locked in for the year. Moreover, it believes that the net effect of tariffs (after the recent signing of the trade deal with China) is expected to remain a headwind as well.
 - The company's high debt level is a concern. At the end of the fiscal second quarter, its long-term debt rose around 4% year over year to \$2,113.8 million and also increased from \$1,970 million in the sequentially prior quarter. Also, its total debt-to-total capital ratio stood at 0.75 as of Mar 31, 2020, higher than the industry's average of 0.41. As such, the company appears to have a higher default risk.
 - 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 16.3 while its industry's trailing 12-month EV/EBITDA multiple is lower at 7.5. As such, investors might not want to pay more for the stock at present.
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Last Earnings Report

Scotts Miracle-Gro's Q2 Earnings Top, Sales Lag Estimates

Scotts Miracle-Gro reported net income from continuing operations of \$249.8 million or \$4.43 per share in second-quarter fiscal 2020, down from \$396.9 million or \$7.10 per share in the year-ago quarter.

Barring one-time items, adjusted earnings per share (EPS) was \$4.50, up 23.6% year over year. The figure beat the Zacks Consensus Estimate of \$4.07.

Net sales rose 16.2% year over year to \$1,382.8 million. However, the figure missed the consensus mark of \$1,389.2 million.

Company-wide gross margin rate (as adjusted) rose to 40% from 39.8% in the year-ago quarter.

Segment Details

In the fiscal second quarter, net sales in the U.S. Consumer division increased 11% year over year to \$1,102.7 million. Profitability in the unit increased 17% year over year to \$372.9 million.

Net sales in the Hawthorne segment rose 60% year over year to \$230 million in the reported quarter, driven by strong demand in almost all categories. The segment's profit surged 148% year over year to \$25.5 million.

Net sales in the Other segment fell 4% year over year to \$50.1 million. The segment's profitability rose 5% year over year to \$4 million in the quarter.

Balance Sheet

In the fiscal second quarter, the company had cash and cash equivalents of \$30.8 million, down 17.9% year over year. Long-term debt was \$2,113.8 million, up 3.7% year over year.

Outlook

For fiscal 2020, the company has reaffirmed its sales growth outlook for the U.S. Consumer unit of 1-3%. It now expects sales in the Hawthorne segment to rise 30-35% in fiscal 2020. Based on these assumptions, it projects company-wide sales growth between 6% and 8% for the full year. The company expects to achieve its adjusted EPS guidance of \$4.95-\$5.15.

Quarter Ending **03/2020**

Report Date	May 06, 2020
Sales Surprise	-0.46%
EPS Surprise	10.57%
Quarterly EPS	4.50
Annual EPS (TTM)	5.58

Recent News

Scotts Miracle-Gro Announces Quarterly Dividend – Apr 27, 2020

Scotts Miracle-Gro's board has declared a quarterly cash dividend payout of 58 cents per share to shareholders. The dividend will be paid out on Jun 10, 2020 to shareholders on record as of May 27, 2020.

Scotts Miracle-Gro Approves Share Repurchase Worth \$750M – Feb 6, 2020

Scotts Miracle-Gro has announced that its board approved a new share repurchase program of up to \$750 million over the next three years.

The company noted that the timing and number of shares to be repurchased will depend upon numerous factors such as business performance, market conditions, share price and alternative investment opportunities.

Per management, over the past few years, it has made substantial improvements in cash flow generation, thereby, offering it the flexibility to invest in growth and return cash to shareholders.

The company does not expect any significant acquisition activity in the near future. Notably, it continues to explore prospects in both U.S. Consumer and Hawthorne segments. Scotts Miracle-Gro also stated that it will suspend or slow down share repurchase activity in the future if it believes that there is a more beneficial use of cash to deliver value to shareholders.

Valuation

Scotts Miracle-Gro's shares are up 26.9% in the year-to-date period and up 50.5% over the trailing 12-month period. Stocks in the Zacks Fertilizers industry and the Zacks Basic Materials sector are down 25.3% and 13.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 23.3% and 5.1%, respectively.

The S&P 500 index is down 7% in the year-to-date period and up 6.5% in the past year.

The stock is currently trading at 24.22X forward 12-month earnings, which compares to 19.74X for the Zacks sub-industry, 16.16X for the Zacks sector and 21.49X 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 19.16X.

Our Outperform recommendation indicates that the stock will perform better than the market. Our \$155 price target reflects 27.88X 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	24.22	19.74	16.16	21.49
	5-Year High	27.14	41.13	21.06	21.49
	5-Year Low	13.73	10.16	9.79	15.23
	5-Year Median	19.16	17.91	13.49	17.49
EV/EBITDA TTM	Current	16.25	7.53	8.69	10.93
	5-Year High	30.3	20.98	18.31	12.86
	5-Year Low	10.85	5.72	6.48	8.28
	5-Year Median	13.91	9.3	10.5	10.78
P/B TTM	Current	9.42	0.89	2.61	4.04
	5-Year High	18.03	2.26	3.43	4.56
	5-Year Low	5.05	0.59	1.22	2.83
	5-Year Median	7.88	1.35	2.18	3.65

As of 05/26/2020

Industry Analysis Zacks Industry Rank: Bottom 43% (144 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Central GardenPet Company (CENT)	Outperform	2
Reckitt Benckiser Group PLC (RBGLY)	Outperform	2
Aurora Cannabis Inc. (ACB)	Neutral	3
Aphria Inc. (APHA)	Neutral	2
Canopy Growth Corporation (CGC)	Neutral	3
Cronos Group Inc. (CRON)	Neutral	2
GW Pharmaceuticals PLC (GWPH)	Neutral	2
Spectrum Brands Holdings Inc. (SPB)	Neutral	3

Industry Comparison Industry: Fertilizers				Industry Peers		
	SMG	X Industry	S&P 500	CENT	RBGLY	SPB
Zacks Recommendation (Long Term)	Outperform	-	-	Outperform	Outperform	Neutral
Zacks Rank (Short Term)	2	-	-	2	2	3
VGM Score	C	-	-	B	A	B
Market Cap	7.47 B	4.61 B	21.18 B	1.92 B	61.54 B	2.03 B
# of Analysts	3	3	14	4	2	3
Dividend Yield	1.72%	0.82%	2.03%	0.00%	2.77%	3.56%
Value Score	C	-	-	B	B	C
Cash/Price	0.00	0.15	0.06	0.18	0.03	0.24
EV/EBITDA	12.37	6.21	12.37	10.89	14.67	12.35
PEG Ratio	2.42	3.03	2.88	3.67	NA	1.20
Price/Book (P/B)	9.42	0.74	2.90	1.93	5.12	1.77
Price/Cash Flow (P/CF)	21.91	4.47	11.55	13.59	5.99	4.73
P/E (F1)	25.60	22.96	21.24	21.65	23.13	16.02
Price/Sales (P/S)	2.19	0.72	2.24	0.79	NA	0.53
Earnings Yield	3.91%	4.10%	4.57%	4.62%	4.32%	6.25%
Debt/Equity	2.66	0.48	0.76	0.77	0.91	2.45
Cash Flow (\$/share)	6.15	3.48	6.96	2.58	2.90	9.99
Growth Score	D	-	-	C	A	B
Hist. EPS Growth (3-5 yrs)	5.81%	-9.50%	10.87%	18.21%	NA	NA
Proj. EPS Growth (F1/F0)	17.67%	-19.83%	-10.31%	1.25%	-16.67%	3.03%
Curr. Cash Flow Growth	15.63%	6.78%	5.46%	-4.06%	178.96%	64.31%
Hist. Cash Flow Growth (3-5 yrs)	4.73%	-1.27%	8.55%	21.71%	29.42%	16.24%
Current Ratio	2.08	1.44	1.29	3.81	0.56	2.39
Debt/Capital	72.68%	34.58%	44.54%	43.49%	47.60%	71.05%
Net Margin	9.49%	3.02%	10.59%	3.57%	NA	-6.31%
Return on Equity	42.92%	4.66%	16.29%	8.69%	NA	10.92%
Sales/Assets	0.97	0.43	0.55	1.16	NA	0.74
Proj. Sales Growth (F1/F0)	8.61%	0.00%	-2.34%	3.05%	-0.65%	-3.95%
Momentum Score	A	-	-	D	B	B
Daily Price Chg	-10.66%	1.77%	2.82%	1.65%	-0.97%	5.80%
1 Week Price Chg	7.98%	5.17%	4.99%	-1.46%	0.46%	14.29%
4 Week Price Chg	7.61%	5.50%	3.55%	6.99%	6.74%	17.70%
12 Week Price Chg	14.91%	-14.53%	-4.95%	30.86%	15.67%	-20.09%
52 Week Price Chg	50.13%	-23.58%	-3.04%	17.33%	7.43%	-21.06%
20 Day Average Volume	542,140	119,510	2,429,758	137,924	755,435	363,436
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	1.84%	-16.08%	-2.27%	-0.15%	2.74%	19.14%
(F1) EPS Est 12 week change	2.98%	-27.06%	-16.39%	-0.15%	-10.18%	-18.68%
(Q1) EPS Est Mthly Chg	-5.67%	-16.36%	-4.03%	-2.80%	NA	4.21%

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	C
Growth Score	D
Momentum Score	A
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.

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