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

# Form 10-K

**(Mark One)**

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

**For the fiscal year ended September 30, 2021**

**OR**

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

**For the transition period from to**

**Commission file number 001-11593**

# 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)**

**Registrant's telephone number, including area code:**
**(**937**)** 644-0011

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

| Title of Each Class | Trading Symbol(s) | Name of Each Exchange on Which Registered |
|---|---|---|
| Common Shares, $0.01 stated value | SMG | NYSE |

**Securities registered pursuant to Section 12(g) of the Act:**
**None**

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

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

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 þ No o

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☑ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| | | Emerging growth company | ☐ |

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

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

The aggregate market value of Common Shares (the only common equity of the registrant) held by non-affiliates (for this purpose, executive officers and directors of the registrant are considered affiliates) as of April 2, 2021 (the last business day of the most recently completed second quarter) was approximately $10,247,688,750.

There were 55,155,114 Common Shares of the registrant outstanding as of November 19, 2021.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the definitive Proxy Statement for the registrant's 2022 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K. Such Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended September 30, 2021.

**The Scotts Miracle-Gro Company**
**Annual Report on Form 10-K**
**For the Fiscal Year Ended September 30, 2021**
**Table of Contents**

## PART I

### ITEM 1. *BUSINESS*

**Company Description and Development of the Business**

The discussion below describes the business conducted by The Scotts Miracle-Gro Company, an Ohio corporation ("Scotts Miracle-Gro" and, together with its subsidiaries, the "Company," "we" or "us"), including general developments in the Company's business during the fiscal year ended September 30, 2021 ("fiscal 2021"). For additional information on recent business developments, see "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Annual Report on Form 10-K ("Form 10-K").

Through our U.S. Consumer and Other segments, we are the leading manufacturer and marketer of branded consumer lawn and garden products in North America. Our products are marketed under some of the most recognized brand names in the industry. Our key consumer lawn and garden brands include Scotts® and Turf Builder® lawn fertilizer and grass seed products; Miracle-Gro® soil, plant food and insecticide, LiquaFeed® plant food and Osmocote®[1] gardening and landscape products; and Ortho®, Home Defense® and Tomcat® branded insect control, weed control and rodent control products. We are the exclusive agent of the Monsanto Company, a subsidiary of Bayer AG ("Monsanto"), for the marketing and distribution of certain of Monsanto's consumer Roundup®[2] branded products within the United States and certain other specified countries. We also have a presence in similar branded consumer products in China. In addition, we own a 50% equity interest in Bonnie Plants, LLC, a joint venture with Alabama Farmers Cooperative, Inc. ("AFC"), focused on planting, growing, developing, manufacturing, distributing, marketing, and selling live plants, plant food, fertilizer and potting soil.

Through our Hawthorne segment, we are the leading manufacturer, marketer and distributor of lighting, nutrients, growing media, growing environments and hardware products for indoor and hydroponic gardening in North America. Our key brands include General Hydroponics®, Gavita®, Botanicare®, Agrolux®, Can-Filters®, Sun System®, Gro Pro®, Mother Earth®, Hurricane®, Grower's Edge® and Hydro-Logic®.

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

**Business Segments**

We divide our business into the following reportable segments:

- U.S. Consumer
- Hawthorne
- Other

U.S. Consumer consists of our consumer lawn and garden business located in the United States. Hawthorne consists of our indoor and hydroponic gardening business. Other primarily consists of our consumer lawn and garden business outside the United States. This division of reportable segments is consistent with how the segments report to and are managed by our Chief Executive Officer (the chief operating decision maker of the Company). In addition, Corporate consists of general and administrative expenses and certain other income and expense items not allocated to the business segments. Financial information about these segments for each of the three fiscal years ended September 30, 2021, 2020 and 2019 is presented in "NOTE 21. SEGMENT INFORMATION" of the Notes to Consolidated Financial Statements included in this Form 10-K.

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[1] Osmocote® is a registered trademark of Everris International B.V., a subsidiary of Israel Chemicals Ltd.
[2] Roundup® is a registered trademark of Monsanto Technology LLC, a company affiliated with Monsanto Company.

**Principal Products and Services**

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

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

*Gardening and Landscape:* The gardening and landscape category is designed to help consumers grow and enjoy flower and vegetable gardens and beautify landscaped areas. Products within this category include a complete line of water-soluble plant foods under the Miracle-Gro® brand and sub-brands such as LiquaFeed®, continuous-release plant foods under the Miracle-Gro®, Scotts® and Osmocote® brands and sub-brands of Miracle-Gro® such as Shake 'N Feed®; potting mixes and garden soils under the Miracle-Gro®, Scotts®, Hyponex®, Earthgro®, SuperSoil® and Fafard® brand names; mulch and decorative groundcover products under the Scotts® brand, including the sub-brands Nature Scapes®, Earthgro® and Hyponex®; plant-related pest and disease control products under the Ortho® brand; organic garden products under the Miracle-Gro® Performance Organics®, Miracle-Gro® Organic Choice®, Scotts®, Whitney Farms® and EcoScraps® brand names; and live goods and seeding solutions under the Miracle-Gro® brand. Hydroponic gardening focused growing media and nutrients products are marketed under the Mother Earth®, Botanicare®, General Hydroponics® and Vermicrop® brand names as well as brands owned by third parties for which we serve as distributor.

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

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

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

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

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

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

**COVID-19**

The COVID-19 pandemic has had, and continues to have, an impact on financial markets, economic conditions, and portions of our business and industry. We have actively addressed the pandemic's ongoing impact on our employees, operations, customers, consumers, and communities, by, among other things, implementing contingency plans, making operational adjustments where necessary, and providing assistance to organizations that support front-line workers. The first priority of our pandemic response has been and remains the health, safety and well-being of our employees. Many of our employees continue to work from home. In those instances where our employees cannot perform their work at home, we have implemented additional health and safety measures and social distancing protocols, consistent with government recommendations and/or requirements, to help to ensure their safety. In addition, we implemented an interim premium pay allowance for certain associates in our field sales force and our manufacturing or distribution centers, which has paid out nearly $50.0 million since the inception of the COVID-19 pandemic.

During fiscal 2021, we continued to experience increased demand for many of our products compared to periods before the pandemic. The extent to which the COVID-19 pandemic will impact our business, results of operations, financial condition and cash flows in the future will depend on future developments, including the duration, spread and intensity of the pandemic, our continued ability to manufacture and distribute our products, as well as any future government actions affecting consumers and the economy generally, all of which are uncertain and difficult to predict considering the rapidly evolving landscape. We are not able to predict the impact, if any, that the COVID-19 pandemic may have on the seasonality of our business.

Although we currently expect to be able to continue operating our business as described above and we intend to continue to work with government authorities and to follow the necessary protocols to maintain the health and safety of our employees, uncertainty resulting from COVID-19 could result in an unforeseen additional disruption to our business, including our global supply chain and retailer network, and/or require us to incur additional operational costs.

**Acquisitions and Divestitures**

On August 13, 2021, our Hawthorne segment completed the acquisition of substantially all of the assets of Rhizoflora, Inc., manufacturer of terpene enhancing nutrient products Terpinator® and Purpinator®, for $33.7 million.

During fiscal 2021, we announced the creation of a newly formed subsidiary, The Hawthorne Collective, Inc., which will focus on strategic minority non-equity investments in areas of the cannabis industry not currently pursued by our Hawthorne segment. This initiative is designed to allow us, in the future, to participate directly in a larger marketplace as the legal environment changes over time. On August 24, 2021, we made our initial investment under this initiative in the form of a $150.0 million six-year convertible note issued to us by Toronto-based RIV Capital Inc. ("RIV Capital") (CSE: RIV) (OTC: CNPOF), a cannabis investment and acquisition firm listed on the Canadian Securities Exchange. The note accrues interest at 2 percent annually for the first two years and provides additional follow-on investment rights. The conversion feature, which is based upon the RIV Capital closing stock price on August 9, 2021, would provide us with approximately 42 percent ownership of RIV Capital if we exercise the conversion feature. In connection with our investment, RIV Capital increased the size of its Board of Directors from four to seven members, and added three nominees of the Company to the Board of Directors. We do not have control of or an active day-to-day role in RIV Capital nor any of the companies in which RIV Capital invests. RIV Capital has agreed to use the funds for general corporate and other lawful purposes, which could include acquisitions, and has agreed that the funds will not be used in connection with or for any cannabis or cannabis-related operations in the U.S. unless and until such operations comply with all applicable U.S. federal laws. During the fourth quarter of fiscal 2021, The Hawthorne Collective, Inc. made additional minority non-equity investments of $43.1 million in other entities focused on branded cannabis and high quality genetics. These additional investments also include conversion features that would provide us with minority ownership interests in these entities if we exercise the conversion features. The additional investments include restrictions that the funds will not be used in connection with or for any cannabis or cannabis-related operations in the U.S. unless and until such operations comply with all applicable U.S. federal laws.

On August 27, 2021, our Hawthorne segment completed the acquisition of substantially all of the assets of Hydro-Logic Purification Systems, Inc., a leading provider of products, accessories and systems for water filtration and purification, for $66.7 million.

On February 26, 2021, we acquired all of the remaining outstanding shares of AeroGrow International, Inc. (“AeroGrow”) for cash consideration of $3.00 per share, or approximately $20.1 million. Prior to closing, SMG Growing Media, Inc., a wholly-owned subsidiary of Scotts Miracle-Gro, was the holder of 80.5% of the outstanding shares of AeroGrow.

During the second quarter of fiscal 2016, we entered into a Marketing, R&D and Ancillary Services Agreement (the “Services Agreement”) and a Term Loan Agreement (the “Term Loan Agreement”) with Bonnie Plants, Inc. and AFC, pursuant to which we provided financing and certain services to Bonnie’s business of planting, growing, developing, manufacturing, distributing, marketing, and selling to retail stores throughout the United States live plants, plant food, fertilizer and potting soil (the “Bonnie Business”), and that included options beginning in fiscal 2020 that provided for either (i) the Company to increase its economic interest in the Bonnie Business or (ii) AFC and Bonnie to repurchase the Company’s economic interest in the Bonnie Business (collectively, the “Bonnie Option”). On December 31, 2020, pursuant to the terms of the Contribution and Unit Purchase Agreement between us and AFC, we acquired a 50% equity interest in a newly formed joint venture with AFC (“Bonnie Plants, LLC”) in exchange for cash payments of $102.3 million, as well as non-cash investing activities that included forgiveness of our outstanding loan receivable with AFC and surrender of the Bonnie Option.

Refer to “NOTE 8. ACQUISITIONS AND INVESTMENTS” of the Notes to the Consolidated Financial Statements included in this Form 10-K for more information regarding these acquisitions and investments.

**Principal Markets and Methods of Distribution**

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

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

**Raw Materials**

We purchase raw materials for our products from various sources. We are subject to market risk as a result of the fluctuating prices of raw materials, including urea and other fertilizer inputs, resins, diesel, gasoline, natural gas, sphagnum peat, bark and grass seed. Our objectives surrounding the procurement of these materials are to ensure continuous supply, minimize costs and improve predictability. We seek to achieve these objectives through negotiation of contracts with favorable terms directly with vendors. When appropriate, we commit to purchase a certain percentage of our needs in advance of the lawn and garden season to secure pre-determined prices. We also hedge certain commodities, particularly diesel, resin and urea, to improve cost predictability and control. Sufficient raw materials were available during fiscal 2021.

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

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

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

**Seasonality and Backlog**

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

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

**Significant Customers**

Home Depot and Lowe's are our two largest customers and are the only customers that individually represent more than 10% of reported consolidated net sales during any of the three most recent fiscal years. For additional details regarding significant customers, see "ITEM 1A. RISK FACTORS — Risks Related to Our Business — *Because of the concentration of our sales to a small number of retail customers, the loss of one or more of, or a significant reduction in orders from, our top customers could adversely affect our financial results*" of this Annual Report on Form 10-K and "NOTE 21. SEGMENT INFORMATION" of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

**Competitive Marketplace**

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

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

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

**Research and Development**

We continually invest in research and development, both in the laboratory and at the consumer level, to improve our products, manufacturing processes, packaging and delivery systems. Spending on research and development was $45.4 million, $39.7 million and $39.6 million in fiscal 2021, fiscal 2020 and fiscal 2019, respectively, including product registration costs of $12.3 million, $11.0 million and $11.0 million, respectively. In addition to the benefits of our own research and development, we actively seek ways to leverage the research and development activities of our suppliers and other business partners.

**Regulatory Considerations**

National, state and local laws and regulations affect the manufacture, sale, distribution, use and/or application of our products in several ways. For example, in the United States, all pesticide products must comply with the Federal Insecticide, Fungicide, and Rodenticide Act ("FIFRA"), and most pesticide products require registration with the U.S. Environmental Protection Agency (the "U.S. EPA") and similar state agencies before they can be sold or distributed. In addition, the use of certain pesticide products is regulated by various local, state and federal environmental and/or public health agencies. These regulations may include requirements that only certified or professional users apply the product, that certain products be used only on certain types of locations (such as "not for use on sod farms or golf courses"), may require users to post notices on properties to which products have been or will be applied, may require notification to individuals in the vicinity that products will be applied in the future, or may ban the use of certain ingredients or categories of products altogether. Analogous regulatory regimes apply to certain pesticides that we sell or distribute in other countries.

Fertilizer and growing media products are also subject to state and foreign regulations, as well, some of which require registration, mandate labeling requirements, and/or govern the sale and distribution of the products. Our grass seed products are regulated in the U.S. by the Federal Seed Act and various state regulations. In addition, federal, state and foreign agencies regulate the disposal, transport, handling and storage of waste, the remediation of contaminated sites, air and water discharges from our facilities, and workplace health and safety.

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

In addition, on October 18, 2021, the Biden Administration announced a multi-agency plan to address per- and polyfluoroalkyl substances ("PFAS") contamination nationwide. Agencies, including the U.S. EPA, the Department of Defense, the Food and Drug Administration, the U.S. Department of Agriculture, the Department of Homeland Security, and the Department of Health and Human Services, will take actions to prevent the release of PFAS into the air, drinking systems, and food supply and to expand cleanup efforts to remediate the impacts of PFAS pollution. As part of this announcement, the U.S. EPA released its PFAS Strategic Roadmap: EPA's Commitments to Action 2021-2024, which sets timelines by which the U.S. EPA plans to take specific actions during the first term of the Biden Administration. It is possible that some of these actions may have an impact – direct or indirect – on our business.

The growth and expansion of our business has expanded the regulatory oversight to which we are subject. As we enters new product categories and/or new jurisdictions, we expect there will be additional applicable federal, state and foreign regulatory considerations.

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

#### *Regulatory Matters*

We are subject to various environmental proceedings, the majority of which are for site remediation. At September 30, 2021, $3.6 million was accrued for such environmental matters. During fiscal 2021, fiscal 2020 and fiscal 2019, we expensed $0.5 million, $0.5 million and $1.4 million, respectively, for such environmental matters. We had no material capital expenditures during the last three fiscal years related to environmental or regulatory matters.

### Human Capital

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

This discussion includes information regarding human capital matters that we believe may be of interest to shareholders generally. We recognize that certain other stakeholders (such as customers, employees and non-governmental organizations), as well as certain of our shareholders, may be interested in more detailed information on these topics. We encourage you to review the "People" section of our 2021 Corporate Responsibility Report, located in the Investor Relations section of our website at www.scottsmiraclegro.com, for more detailed information regarding our human capital programs and initiatives.

#### *Associates*

As of September 30, 2021, we employed approximately 7,300 employees worldwide. During peak sales and production periods in fiscal 2021, our personnel (all approximate) numbered 8,800, comprised of 7,400 associates including seasonal associates, with the remaining 1,400 consisting of temporary labor. During fiscal 2021, we employed a total of 2,400 full-time and seasonal in-store associates within the United States to help our retail partners merchandise their lawn and garden departments directly to consumers of our products.

#### *Engagement*

We utilize engagement surveys to develop action plans, invite external thought leaders to speak on topics of importance and provide forums for associates to dialogue with leadership and develop together. In addition, our leadership team also holds regular town hall meetings to share and receive information with our associates.

#### *Employee Resource Groups*

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

*Diversity*

We foster a safe, healthy and inclusive workplace culture that permits all associates to thrive. This means cultivating a diverse and inclusive workplace that reflects the communities where we operate. We value our associates' diversity from gender, race, national origin and sexual orientation to thoughts, interests, languages and beliefs. We encourage associates to leverage their varied life experiences to build a strong organization.

*Training and Professional Development*

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

*Compensation and Benefits*

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

Specific examples of our commitment to our associates include:

- Our decision to allocate a percentage of the savings from the 2019 Tax Cuts and Jobs Act to associates by increasing our 401(k) company match. Our 401(k) participation rate at the end of fiscal 2021 was 91% for our full-time non-seasonal associates.
- We established an annual 401(k) profit-sharing matching program whereby if we reach or exceed profitability targets in a given year, certain U.S. associates not eligible for annual bonuses may receive a 401(k) profit-sharing matching contribution early the following year.
- We make ownership of Company stock a reality for as many of our associates as possible through our Discounted Stock Purchase Program ("DSPP"). The DSPP provides a unique opportunity for our associates to buy our Common Shares at a 15% discount.

*Health and Safety*

We have several health and safety programs in place to help protect our associates. Our Environmental Health and Safety ("EHS") management system is one tool that we use to promote the health and safety of our employees. We have a behavioral based safety program where our associates can submit concerns over unsafe conditions or share feedback when they observe unsafe work behaviors. We are focused on tracking and improving the industrial hygiene at our plants. This includes identifying opportunities to reduce workplace hazards and potential exposures in the work environment per Occupational Safety and Health Administration ("OSHA") standards.

For example, our Centennial plant in Vancouver, Washington, which opened in 2018, provides a cool, well-ventilated working environment filled with natural light that associates report contributes positively to their well-being. We are embarking on a multi-year capital improvement project at our largest manufacturing facility in Marysville, Ohio, where the upgrades will support our growth while also enhancing the health and safety of our frontline associates.

*Information Systems*

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

**Environmental, Social and Governance**

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

In fiscal 2021, we demonstrated our ongoing ESG commitment by publishing our 10th Corporate Responsibility Report, prepared in accordance with the Global Reporting Initiative ("GRI") Standards: Core option. This report provides detailed information regarding our ESG strategy, focus areas and governance structure. The Company's ESG focus areas are Product Stewardship and Safety, Operations and Supply Chain, Associate Engagement and Wellness, Community Engagement and Governance and Transparency. The Company is developing a regime for benchmarking, goal setting and continuous improvement around these focus areas.

In addition, we published several ESG-related policies and statements on our corporate website, which can be found at https://scottsmiraclegro.com/environmental-social-and-governance. These policies and statements address environmental, health and safety and human rights concerns. Further ESG initiatives in fiscal 2021 included responding to the Carbon Disclosure Project's climate questionnaire, completing the S&P Corporate Sustainability Assessment and participation in the Human Rights Campaign's Corporate Equality Index annual benchmarking survey.

**Website and General Information**

We maintain a website at http://investor.scotts.com. Information on our websites will not be deemed incorporated by reference into, and do not form any part of, this Form 10-K or any other report or document that we file with or furnish to the SEC. We file reports with the SEC and make available, free of charge, on or through our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as well as our proxy and information statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

## ITEM 1A. *RISK FACTORS*

**Cautionary Note Regarding Forward-Looking Statements**

This Annual Report on Form 10-K, including the exhibits hereto and the information incorporated by reference herein, as well as our 2021 Annual Report to Shareholders (our "2021 Annual Report"), contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to risks and uncertainties. Information regarding activities, events and developments that we expect or anticipate will or may occur in the future, including, but not limited to, information relating to our future growth and profitability targets and strategies designed to increase total shareholder value, are forward-looking statements based on management's estimates, assumptions and projections. Forward-looking statements also include, but are not limited to, statements regarding our future economic and financial condition and results of operations, the plans and objectives of management and our assumptions regarding our performance and such plans and objectives, as well as the amount and timing of repurchases of our Common Shares or other uses of cash flows. Forward-looking statements generally can be identified through the use of words such as "guidance," "outlook," "projected," "believe," "target," "predict," "estimate," "forecast," "strategy," "may," "goal," "expect," "anticipate," "intend," "plan," "foresee," "likely," "will," "should" and other similar words and variations.

Forward-looking statements contained in this Annual Report on Form 10-K and our 2021 Annual Report are predictions only and actual results could differ materially from management's expectations due to a variety of factors, including those described below. All forward-looking statements attributable to us or persons working on our behalf are expressly qualified in their entirety by such risk factors.

The forward-looking statements that we make in this Annual Report on Form 10-K and our 2021 Annual Report are based on management's current views and assumptions regarding future events and speak only as of their dates. We disclaim any obligation to update developments of these risk factors or to announce publicly any revisions to any of the forward-looking statements that we make, or to make corrections to reflect future events or developments, except as required by the federal securities laws.

## Risks Related to Our Business

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

The World Health Organization recognized COVID-19 as a public health emergency of international concern on January 30, 2020 and as a global pandemic on March 11, 2020. Public health responses have included national pandemic preparedness and response plans, travel restrictions, quarantines, curfews, event postponements and cancellations and closures of facilities including local schools and businesses. There have been increases in COVID-19 cases in many areas caused by a combination of the potentially more contagious “Delta” variant of the virus, as well as vaccine hesitancy and low vaccination rates in many areas of the U.S. This development increases the possibility of further shutdowns, production delays, staffing and resource challenges which could materially harm our financial condition and results of operations. The global pandemic and actions taken to contain COVID-19 have disrupted the global economy and financial markets.

We have actively addressed the pandemic’s ongoing impact on our employees, operations, customers, consumers, and communities, by, among other things, implementing contingency plans, making operational adjustments where necessary, and providing assistance to organizations that support front-line workers. The first priority of our pandemic response has been and remains the health, safety and well-being of our employees. Many of our employees continue to work from home. In those instances where our employees cannot perform their work at home, we have implemented additional health and safety measures and social distancing protocols, consistent with government recommendations and/or requirements, to help to ensure their safety. In addition, we implemented an interim premium pay allowance for certain associates in our field sales force and our manufacturing or distribution centers. While we believe that these efforts should enable us to maintain our operations during the COVID-19 pandemic, we can provide no assurance that we will be able to do so as a result of the unpredictability of the ultimate impact of the COVID-19 pandemic, including the responses of local, state, federal and foreign governmental authorities to the pandemic.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our top two retail customers together accounted for 39% of our fiscal 2021 net sales and 42% of our outstanding accounts receivable as of September 30, 2021. The loss of, or reduction in orders from, our top two retail customers, Home Depot and Lowe’s, or any other major customer for any reason (including, for example, changes in a retailer’s strategy, claims or allegations that our products or products we market on behalf of third parties are unsafe, a decline in consumer demand, regulatory, legal or other external pressures or a change in marketing strategy) could have a material adverse effect on our business, financial condition, results of operations and cash flows, as could customer disputes regarding shipments, fees, merchandise condition or related matters. Our inability to collect accounts receivable from one of our major customers, or a significant deterioration in the financial condition of one of these customers, including a bankruptcy filing or a liquidation, could also have a material adverse effect on our financial condition, results of operations and cash flows.

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

***Our manufacturing operations, including our reliance on third-party manufacturers, could harm our business.***

We may not be able to maintain or develop efficient, low-cost manufacturing capability and processes that will enable us to meet the quality, price, design and product standards or production volumes required to successfully manufacture our products. Even if we are successful in maintaining and developing our manufacturing capabilities and processes, we may not be able to do so in time to satisfy the requirements of our customers.

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

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

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

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

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

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

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

Operations at our and our suppliers' facilities are subject to disruption for a variety of reasons, including fire, flooding or other natural disasters, disease outbreaks or pandemics, acts of war, terrorism, government shut-downs and work stoppages. A significant interruption in the operation of our or our suppliers' facilities, including as a result of COVID-19, could significantly impact our capacity to produce products and service our customers in a timely manner, which could have a material adverse effect on our revenues, earnings and financial position. This is especially true for those products that we manufacture at a limited number of facilities, such as our fertilizer and liquid products.

***Disruptions to transportation channels that we use to distribute our products may adversely affect our margins and profitability.***

We may experience disruptions to the transportation channels used to distribute our products, including increased congestion, a lack of transportation capacity, increased fuel expenses, import or export controls or delays, and labor disputes or shortages. Disruptions in our trucking capacity may result in reduced sales or increased costs, including the additional use of more expensive or less efficient alternatives to meet demand. Congestion can affect previously negotiated contracts with shipping companies, resulting in unexpected increases in shipping costs, reduction in our profitability or reduced sales. For example, the COVID-19 pandemic and resulting shifts in demand or changes in our extended supply chain has resulted in several disruptions and delays, as well as quantity limits and price increases, in our transportation channels.

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

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

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

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

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

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

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

We rely on information technology systems in order to conduct business, including communicating with employees and our key retail customers, ordering and managing materials from suppliers, shipping products to retail customers and analyzing and reporting results of operations. While we have taken steps to ensure the security of our information technology systems, our systems may nevertheless be vulnerable to computer viruses, security breaches and other disruptions from unauthorized users. If our information technology systems are damaged or cease to function properly for an extended period of time, whether as a result of a significant cyber incident or otherwise, our ability to communicate internally as well as with our retail customers could be significantly impaired, which may adversely impact our business.

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

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

Climate change continues to receive increasing global attention. The possible effects of climate change could include changes in rainfall patterns, water shortages, changing storm patterns and intensities, changing temperature levels and changes in legislation, regulation and international accords all of which could adversely impact our costs and business operations and the supply and demand for weather sensitive products such as fertilizer, garden soils and pesticide products. In addition, fluctuating climatic conditions may result in unpredictable modifications in the manner in which consumers garden or their attitudes towards gardening, making it more difficult for us to provide appropriate products to appropriate markets in time to meet consumer demand.

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

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

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

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

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

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

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

- fluctuations in currency exchange rates;
- limitations on the remittance of dividends and other payments by foreign subsidiaries;
- additional costs of compliance with local regulations;
- historically, in certain countries, higher rates of inflation than in the United States;

- changes in the economic conditions or consumer preferences or demand for our products in these markets;
- restrictive actions by multinational governing bodies, foreign governments or subdivisions thereof;
- changes in foreign labor laws and regulations affecting our ability to hire and retain employees;
- changes in U.S. and foreign laws regarding trade and investment;
- less robust protection of our intellectual property under foreign laws; and
- difficulty in obtaining distribution and support for our products.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Risks Related to Our M&A, Lending and Financing Activities**

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

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

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

- Cultural challenges associated with integrating employees from the acquired company into our organization, and retention of employees from the businesses we acquire.
- Liability for or reputational harm from activities of the acquired company before the acquisition or from our strategic partners, including patent and trademark infringement claims, violations of laws, commercial disputes, tax liabilities and other known and unknown liabilities.
- Litigation or other claims in connection with the acquired company, including claims from terminated employees, customers, former shareholders or other third parties.

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

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

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

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

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

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

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

As of September 30, 2021, we had $2,315.3 million of debt and $1,480.2 million in available borrowings under our credit facility. Our inability to meet restrictive financial and non-financial covenants associated with that debt, or to generate sufficient cash flow to repay maturing debt, could adversely affect our financial condition. For example, our debt level could:

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

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

In addition, our credit facility and the indentures governing our 5.250% Senior Notes due 2026 (the "5.250% Senior Notes"), our 4.500% Senior Notes due 2029 (the "4.500% Senior Notes"), our 4.000% Senior Notes due 2031 (the "4.000% Senior Notes") and our 4.375% Senior Notes due 2032 (the "4.375% Senior Notes") contain restrictive covenants and cross-default provisions. Our credit facility also requires us to maintain specified financial ratios. Our ability to comply with those covenants and satisfy those financial ratios can be affected by events beyond our control including prevailing economic, financial and industry conditions. A breach of any of those financial ratio covenants or other covenants could result in a default. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, and could cease making further loans and institute foreclosure proceedings against our assets. We cannot provide any assurance that the holders of such indebtedness would waive a default or that we could pay the indebtedness in full if it were accelerated.

Subject to compliance with certain covenants under our credit facility and the indentures governing the 5.250% Senior Notes, the 4.500% Senior Notes, the 4.000% Senior Notes and the 4.375% Senior Notes, we may incur additional debt in the future. If we incur additional debt, the risks described above could intensify.

***Changes in credit ratings issued by nationally recognized statistical rating organizations (NRSROs) could adversely affect our cost of financing and the market price of our 5.250% Senior Notes, 4.500% Senior Notes, 4.000% Senior Notes and 4.375% Senior Notes.***

NRSROs rate the 5.250% Senior Notes, the 4.500% Senior Notes, the 4.000% Senior Notes, the 4.375% Senior Notes and the Company based on factors that include our operating results, actions that we take, their view of the general outlook for our industry and their view of the general outlook for the economy. Actions taken by the NRSROs can include maintaining, upgrading or downgrading the current rating or placing us on a watch list for possible future downgrading. Downgrading the credit rating of the 5.250% Senior Notes, the 4.500% Senior Notes, the 4.000% Senior Notes or the 4.375% Senior Notes or placing us on a watch list for possible future downgrading could increase our cost of financing, limit our access to the capital markets and have an adverse effect on the market price of the 5.250% Senior Notes, the 4.500% Senior Notes, the 4.000% Senior Notes and the 4.375% Senior Notes.

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

Certain of our debt obligations and instruments, including our credit facility and certain hedging arrangements, use the London Interbank Offered Rate ("LIBOR") as a reference rate for establishing the variable interest rate applicable to such debt obligations and instruments. On July 27, 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR by the end of 2021. However, for U.S. dollar LIBOR, the cessation date has been deferred to June 30, 2023 for the most commonly used tenors (overnight and one, three and six months). This extension to 2023 means that many legacy U.S. dollar LIBOR contracts would terminate before related LIBOR rates cease to be published. The Federal Reserve System, in conjunction with the Alternative Reference Rates Committee, has recommended the replacement of LIBOR with a new index, calculated by short-term repurchase agreements collateralized by U.S. Treasury securities, called the Secured Overnight Financing Rate ("SOFR"). At this time, it is not certain that SOFR will prevail as the primary LIBOR replacement.

If LIBOR ceases to exist, we may need to renegotiate our credit facility since it utilizes LIBOR as a reference rate in determining the applicable interest rate. Our credit facility specifies that if it is not possible to ascertain LIBOR or certain other circumstances exist, we will endeavor to establish with the agent an alternative rate of interest that gives due consideration to the then prevailing market convention for determining a rate of interest for syndicated credit facilities in the United States at such time, which alternative rate shall not be objected to by a majority of lenders under our credit facility within a specified period of time. If we are not able to agree on an alternative rate of interest under our credit facility, then our indebtedness under the credit facility will bear interest with reference to the alternate base rate.

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

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

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

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

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

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

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

## Risks Related to Regulation of Our Company

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

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

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

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

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

In addition to the regulations already described, local, state, federal and foreign agencies regulate the disposal, transport, handling and storage of waste, the remediation of contaminated sites, air and water discharges from our facilities, and workplace health and safety. Under certain environmental laws, we may be liable for the costs of investigation and remediation of the presence of certain regulated materials, as well as related costs of investigation and remediation of damage to natural resources, at various properties, including our current and former properties as well as offsite waste handling or disposal sites that we have used. Liability may be imposed upon us without regard to whether we knew of or caused the presence of such materials and, under certain circumstances, on a joint and several basis. There can be no assurances that the presence of such regulated materials at any such locations, or locations that we may acquire in the future, will not result in liability to us under such laws or expose us to third-party actions such as tort suits based on alleged conduct or environmental conditions.

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

In addition, on October 18, 2021, the Biden Administration announced a multi-agency plan to address PFAS contamination nationwide. Agencies, including the U.S. EPA, the Department of Defense, the Food and Drug Administration, the U.S. Department of Agriculture, the Department of Homeland Security, and the Department of Health and Human Services, will take actions to prevent the release of PFAS into the air, drinking systems, and food supply and to expand cleanup efforts to remediate the impacts of PFAS pollution. As part of this announcement, the U.S. EPA released its PFAS Strategic Roadmap: EPA's Commitments to Action 2021-2024, which sets timelines by which the U.S. EPA plans to take specific actions during the first term of the Biden Administration. It is possible that some of these actions may have an impact – direct or indirect – on our business. Until further detail is provided, we cannot predict the outcome or the severity of the impact of these proposed actions.

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

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

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

## Risks Related to Our Common Shares

***Hagedorn Partnership, L.P. beneficially owns approximately 26% of our Common Shares and can significantly influence decisions that require the approval of shareholders.***

Hagedorn Partnership, L.P. beneficially owned approximately 26% of our outstanding Common Shares on a fully diluted basis as of November 19, 2021. As a result, it has sufficient voting power to significantly influence the election of directors and the approval of other actions requiring the approval of our shareholders, including entering into certain business combination transactions. In addition, because of the percentage of ownership and voting concentration in Hagedorn Partnership, L.P., elections of our board of directors will generally be within the control of Hagedorn Partnership, L.P. While all of our shareholders are entitled to vote on matters submitted to our shareholders for approval, the concentration of our Common

Shares and voting control presently lies with Hagedorn Partnership, L.P. As such, it would be difficult for shareholders to propose and have approved proposals not supported by Hagedorn Partnership, L.P. Hagedorn Partnership, L.P.'s interests could differ from, or conflict with, the interests of other shareholders.

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

Our payment of quarterly cash dividends on and repurchase of our Common Shares pursuant to our stock repurchase program are subject to, among other things, our financial position and results of operations, available cash and cash flow, capital requirements, credit facility provisions and other factors. We have, over the past few years, increased the rate of cash dividends on, and repurchases of, our Common Shares. In the fourth quarter of fiscal 2021, we increased the amount of our quarterly cash dividend by 6% to $0.66 per Common Share. On February 6, 2020, the Scotts Miracle-Gro Board of Directors authorized a new share repurchase program allowing for repurchases of up to $750.0 million of Common Shares from April 30, 2020 through March 25, 2023. The total remaining share repurchase authorization as of September 30, 2021 is $636.9 million.

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

## ITEM 1B. *UNRESOLVED STAFF COMMENTS*

None.

## ITEM 2. *PROPERTIES*

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

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

| Location | Owned | Leased |
| --- | --- | --- |
| United States | 35 | 83 |
| Canada | 9 | 14 |
| China | — | 4 |
| The Netherlands | — | 2 |
| Total | 44 | 103 |

We own or lease 72 manufacturing properties, 27 distribution properties and 4 research and development properties in the United States. We own or lease 20 manufacturing and 1 distribution property in Canada, 1 manufacturing property in the Netherlands and 1 manufacturing property in China. Most of the manufacturing properties, which include growing media properties and peat harvesting properties, have production lines, warehouses, offices and field processing areas.

## ITEM 3. *LEGAL PROCEEDINGS*

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

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

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

## ITEM 4. *MINE SAFETY DISCLOSURE*

Not Applicable.

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

The executive officers of Scotts Miracle-Gro, their positions and, as of November 19, 2021, their ages and years with Scotts Miracle-Gro (and its predecessors) are set forth below.

| Name | Age | Position(s) Held | Years with Company |
|---|---|---|---|
| James Hagedorn | 66 | Chief Executive Officer and Chairman of the Board | 34 |
| Michael C. Lukemire | 63 | President and Chief Operating Officer | 25 |
| Christopher J. Hagedorn | 37 | Division President | 10 |
| James D. King | 58 | Executive Vice President, Chief Communications Officer | 20 |
| Cory J. Miller | 48 | Executive Vice President and Chief Financial Officer | 21 |
| Ivan C. Smith | 52 | Executive Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer | 18 |
| Denise S. Stump | 67 | Executive Vice President, Global Human Resources and Chief Ethics Officer | 21 |

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

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

*Mr. Lukemire* was named President and Chief Operating Officer of Scotts Miracle-Gro in February 2016. Prior to this appointment, Mr. Lukemire held several senior leadership positions at the Company.

*Mr. C. Hagedorn* was named Division President of Scotts Miracle-Gro in January 2021. Prior to this appointment, Mr. C. Hagedorn was named President of The Hawthorne Gardening Company, a position he has held since May 2014. Mr. C. Hagedorn is the son of James Hagedorn, the Chairman and CEO of Scotts Miracle-Gro.

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

*Mr. Miller* was named Executive Vice President and Chief Financial Officer of Scotts Miracle-Gro in August 2021. He served as Senior Vice President and Interim Chief Financial Officer from January 2021 until August 2021. Prior to this appointment, he served as Vice President of Finance of The Hawthorne Gardening Company.

*Mr. Smith* was named Executive Vice President, General Counsel and Corporate Secretary of Scotts Miracle-Gro in July 2013 and Chief Compliance Officer of Scotts Miracle-Gro in October 2013. Prior to this appointment, Mr. Smith held several senior leadership positions at the Company.

*Ms. Stump* was named Executive Vice President, Global Human Resources of Scotts Miracle-Gro (or its predecessor) in February 2003 and Chief Ethics Officer of Scotts Miracle-Gro in October 2013. Prior to this appointment, Ms. Stump held several senior leadership positions at the Company.

## PART II

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

The Common Shares trade on the New York Stock Exchange under the symbol "SMG." The payment of future dividends, if any, on the Common Shares will be determined by the Board of Directors in light of conditions then existing, including the Company's earnings, financial condition and capital requirements, restrictions in financing agreements, business conditions and other factors. The fifth amended and restated credit agreement (the "Fifth A&R Credit Agreement") allows the Company to make unlimited restricted payments (as defined in the Fifth A&R Credit Agreement), including dividend payments on, and repurchases of, the Company's Common Shares, as long as the leverage ratio resulting from the making of such restricted payments is 4.00 or less. Otherwise, the Company may make further restricted payments in an aggregate amount for each fiscal year not to exceed $225.0 million. The Company's leverage ratio was 2.70 at September 30, 2021 and restricted payments for fiscal 2021 were within the amounts allowed by the Fifth A&R Credit Agreement. See "NOTE 12. DEBT" of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for further discussion regarding the restrictions on dividend payments.

As of November 19, 2021, there were approximately 282,000 shareholders, including holders of record and our estimate of beneficial holders.

The following table shows the purchases of Common Shares made by or on behalf of Scotts Miracle-Gro or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) of Scotts Miracle-Gro for each of the three fiscal months in the quarter ended September 30, 2021:

| Period | Total Number of Common Shares Purchased(1) | Average Price Paid per Common Share(2) | Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs(3) | Approximate Dollar Value of Common Shares That May Yet be Purchased Under the Plans or Programs(3) |
|---|---|---|---|---|
| July 4, 2021 through July 31, 2021 | 629 | $ 182.45 | — | $ 674,449,356 |
| August 1, 2021 through August 28, 2021 | 127,579 | $ 157.64 | 126,892 | $ 654,447,706 |
| August 29, 2021 through September 30, 2021 | 112,218 | $ 158.02 | 110,699 | $ 636,945,942 |
| Total | 240,426 | $ 157.88 | 237,591 | |

(1) All of the Common Shares purchased during the fourth quarter of fiscal 2021 were purchased in open market transactions. The total number of Common Shares purchased during the quarter includes 2,835 Common Shares purchased by the trustee of the rabbi trust established by the Company as permitted pursuant to the terms of The Scotts Company LLC Executive Retirement Plan (the "ERP").

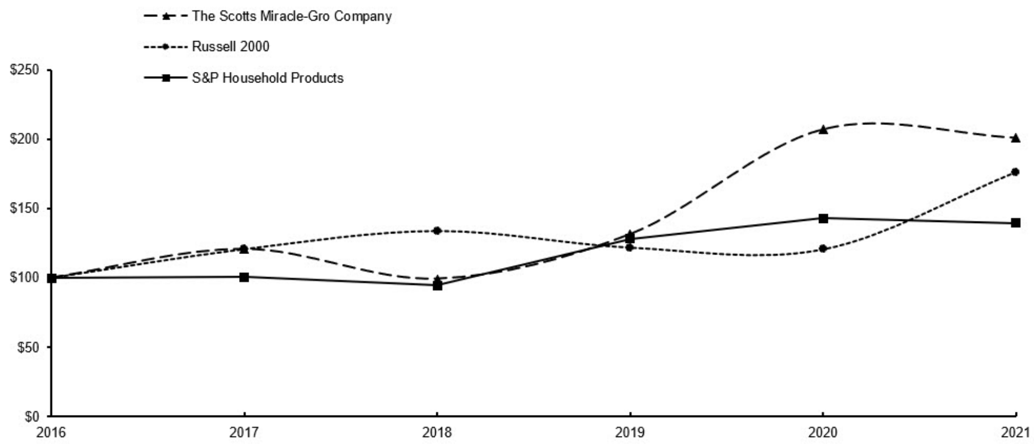
(2) The average price paid per Common Share is calculated on a settlement basis and includes commissions.

(3) On February 6, 2020, the Company announced a new repurchase program allowing for repurchases of up to $750.0 million of Common Shares from April 30, 2020 through March 25, 2023.

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

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

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*




*$100 invested on 9/30/16 in stock or index, including reinvestment of dividends. Fiscal year ending September 30.

**ITEM 6.** ***SELECTED FINANCIAL DATA***

Intentionally omitted.

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

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

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

**Executive Summary**

Through our U.S. Consumer and Other segments, we are the leading manufacturer and marketer of branded consumer lawn and garden products in North America. Our products are marketed under some of the most recognized brand names in the industry. Our key consumer lawn and garden brands include Scotts® and Turf Builder® lawn and grass seed products; Miracle-Gro® soil, plant food and insecticide, LiquaFeed® plant food and Osmocote® gardening and landscape products; and Ortho®, Home Defense® and Tomcat® branded insect control, weed control and rodent control products. We are the exclusive agent of Monsanto for the marketing and distribution of certain of Monsanto's consumer Roundup® branded products within the United States and certain other specified countries. We also have a presence in similar branded consumer products in China. In addition, we own a 50% equity interest in Bonnie Plants, LLC, a joint venture with AFC, focused on planting, growing, developing, manufacturing, distributing, marketing, and selling live plants, plant food, fertilizer and potting soil.

Through our Hawthorne segment, we are the leading manufacturer, marketer and distributor of lighting, nutrients, growing media, growing environments and hardware products for indoor and hydroponic gardening in North America. Our key brands include General Hydroponics®, Gavita®, Botanicare®, Agrolux®, Can-Filters®, Sun System®, Gro Pro®, Mother Earth®, Hurricane®, Grower's Edge® and Hydro-Logic®.

During fiscal 2021, we announced the creation of a newly formed subsidiary, The Hawthorne Collective, Inc., which will focus on strategic minority non-equity investments in areas of the cannabis industry not currently pursued by our Hawthorne segment. This initiative is designed to allow us, in the future, to participate directly in a larger marketplace as the legal environment changes over time. On August 24, 2021, we made our initial investment under this initiative in the form of a $150.0 six-year convertible note issued to us by Toronto-based RIV Capital (CSE: RIV) (OTC: CNPOF), a cannabis investment and acquisition firm listed on the Canadian Securities Exchange. During the fourth quarter of fiscal 2021, we made additional minority non-equity investments of $43.1 million in other entities focused on branded cannabis and high quality genetics. These investments include conversion features that would provide us with minority ownership interests in these entities if we exercise the conversion features.

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

**(Dollars in millions, except per share data)**

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

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

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

| | Percent of Net Sales from Continuing Operations by Quarter | | |
|---|---|---|---|
| | **2021** | **2020** | **2019** |
| First Quarter | 15.2 % | 8.9 % | 9.4 % |
| Second Quarter | 37.1 % | 33.5 % | 37.7 % |
| Third Quarter | 32.7 % | 36.1 % | 37.1 % |
| Fourth Quarter | 15.0 % | 21.5 % | 15.8 % |

We follow a 13-week quarterly accounting cycle pursuant to which the first three fiscal quarters end on a Saturday and the fiscal year always ends on September 30. This fiscal calendar convention requires us to cycle forward the first three fiscal quarter ends every six years. Fiscal 2021 was impacted by this process and, as a result, our first quarter of fiscal 2021 had five additional days and our fourth quarter of fiscal 2021 had six fewer days compared to the respective quarters of fiscal 2020.

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

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

On February 6, 2020, Scotts Miracle-Gro announced that its Board of Directors authorized the repurchase of up to $750.0 of Common Shares from April 30, 2020 through March 25, 2023. There were no share repurchases under this share repurchase authorization during fiscal 2020. During fiscal 2021, Scotts Miracle-Gro repurchased 0.6 million Common Shares under this share repurchase authorization for $113.1.

On July 27, 2020, the Scotts Miracle-Gro Board of Directors approved a special cash dividend of $5.00 per Common Share, which was paid on September 10, 2020 to all shareholders of record at the close of business on August 27, 2020. In addition, on July 27, 2020, the Scotts Miracle-Gro Board of Directors approved an increase in our quarterly cash dividend from $0.58 to $0.62 per Common Share, which was first paid in the fourth quarter of fiscal 2020. On July 30, 2021, the Scotts Miracle-Gro Board of Directors approved an increase in our quarterly cash dividend from $0.62 to $0.66 per Common Share, which was first paid in the fourth quarter of fiscal 2021.

***COVID-19 Response and Impacts***

The COVID-19 pandemic has had, and continues to have, an impact on financial markets, economic conditions, and portions of our business and industry. We have actively addressed the pandemic’s ongoing impact on our employees, operations, customers, consumers, and communities, by, among other things, implementing contingency plans, making operational adjustments where necessary, and providing assistance to organizations that support front-line workers. The first priority of our pandemic response has been and remains the health, safety and well-being of our employees. Many of our employees continue to work from home. In those instances where our employees cannot perform their work at home, we have implemented additional health and safety measures and social distancing protocols, consistent with government recommendations and/or requirements, to help to ensure their safety. In addition, we implemented an interim premium pay allowance for certain associates in our field sales force and our manufacturing or distribution centers, which has paid out nearly $50.0 since the inception of the COVID-19 pandemic.

During fiscal 2021, we continued to experience increased demand for many of our products compared to periods before the pandemic. The extent to which the COVID-19 pandemic will impact our business, results of operations, financial condition and cash flows in the future will depend on future developments, including the duration, spread and intensity of the pandemic, our continued ability to manufacture and distribute our products, as well as any future government actions affecting consumers and the economy generally, all of which are uncertain and difficult to predict considering the rapidly evolving landscape. We are not able to predict the impact, if any, that the COVID-19 pandemic may have on the seasonality of our business.

Although we currently expect to be able to continue operating our business as described above and we intend to continue to work with government authorities and to follow the necessary protocols to maintain the health and safety of our employees, uncertainty resulting from COVID-19 could result in an unforeseen additional disruption to our business, including our global supply chain and retailer network, and/or require us to incur additional operational costs.

(Dollars in millions, except per share data)

### Results of Operations

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

| | Year Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2021 | % of Net Sales | 2020 | % of Net Sales | 2019 | % of Net Sales |
| Net sales | $ 4,925.0 | 100.0 % | $ 4,131.6 | 100.0 % | $ 3,156.0 | 100.0 % |
| Cost of sales | 3,431.3 | 69.7 | 2,768.6 | 67.0 | 2,130.5 | 67.5 |
| Cost of sales—impairment, restructuring and other | 24.7 | 0.5 | 16.0 | 0.4 | 5.9 | 0.2 |
| Gross profit | 1,469.0 | 29.8 | 1,347.0 | 32.6 | 1,019.6 | 32.3 |
| Operating expenses: | | | | | | |
| Selling, general and administrative | 743.5 | 15.1 | 757.8 | 18.3 | 601.3 | 19.1 |
| Impairment, restructuring and other | 4.3 | 0.1 | 0.8 | — | 7.4 | 0.2 |
| Other (income) expense, net | (1.8) | — | 3.2 | 0.1 | 1.3 | — |
| Income from operations | 723.0 | 14.7 | 585.2 | 14.2 | 409.6 | 13.0 |
| Equity in income of unconsolidated affiliates | (14.4) | (0.3) | — | — | (3.3) | (0.1) |
| Costs related to refinancing | — | — | 15.1 | 0.4 | — | — |
| Interest expense | 78.9 | 1.6 | 79.6 | 1.9 | 101.8 | 3.2 |
| Other non-operating income, net | (18.6) | (0.4) | (20.1) | (0.5) | (270.5) | (8.6) |
| Income from continuing operations before income taxes | 677.1 | 13.7 | 510.6 | 12.4 | 581.6 | 18.4 |
| Income tax expense from continuing operations | 159.8 | 3.2 | 123.7 | 3.0 | 144.9 | 4.6 |
| Income from continuing operations | 517.3 | 10.5 | 386.9 | 9.4 | 436.7 | 13.8 |
| Income (loss) from discontinued operations, net of tax | (3.9) | (0.1) | 1.7 | — | 23.5 | 0.7 |
| Net income | $ 513.4 | 10.4 % | $ 388.6 | 9.4 % | $ 460.2 | 14.6 % |

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

#### *Net Sales*

Net sales for fiscal 2021 were $4,925.0, an increase of 19.2% from net sales of $4,131.6 for fiscal 2020. Net sales for fiscal 2020 increased 30.9% from net sales of $3,156.0 for fiscal 2019. These changes in net sales were attributable to the following:

| | Year Ended September 30, | |
|---|---|---|
| | 2021 | 2020 |
| Volume | 16.9 % | 29.2 % |
| Pricing | 1.5 | 1.9 |
| Foreign exchange rates | 0.8 | (0.2) |
| Change in net sales | 19.2 % | 30.9 % |

The increase in net sales for fiscal 2021 as compared to fiscal 2020 was primarily driven by:

- increased sales volume driven by soils, fertilizer, grass seed, mulch, controls, plant food and direct to consumer products in our U.S. Consumer segment; lighting, nutrients, growing media, hardware and growing environment products in our Hawthorne segment; and increased sales in our Other segment;
- increased pricing in our U.S. Consumer, Hawthorne and Other segments;
- increased net sales associated with the Roundup® marketing agreement; and
- the favorable impact of foreign exchange rates as a result of the weakening of the U.S. dollar relative to the euro and the Canadian dollar.

(Dollars in millions, except per share data)

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

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

***Cost of Sales***

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

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| Materials | $ 1,962.5 | $ 1,599.3 | $ 1,196.4 |
| Manufacturing labor and overhead | 714.0 | 615.1 | 485.8 |
| Distribution and warehousing | 684.0 | 492.6 | 394.9 |
| Costs associated with Roundup® marketing agreement | 70.8 | 61.6 | 53.4 |
| Cost of sales | 3,431.3 | 2,768.6 | 2,130.5 |
| Cost of sales—impairment, restructuring and other | 24.7 | 16.0 | 5.9 |
| | $ 3,456.0 | $ 2,784.6 | $ 2,136.4 |

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

| | Year Ended September 30, | |
|---|---|---|
| | 2021 | 2020 |
| Volume, product mix and other | $ 545.9 | $ 643.0 |
| Material cost changes | 83.0 | (8.3) |
| Foreign exchange rates | 24.6 | (4.8) |
| Costs associated with Roundup® marketing agreement | 9.2 | 8.2 |
| | 662.7 | 638.1 |
| Impairment, restructuring and other | 8.7 | 10.1 |
| Change in cost of sales | $ 671.4 | $ 648.2 |

The increase in cost of sales for fiscal 2021 as compared to fiscal 2020 was primarily driven by:

- higher sales volume in our U.S. Consumer, Hawthorne and Other segments;
- higher material prices in our U.S. Consumer, Hawthorne and Other segments;
- higher transportation prices and warehousing costs included within "volume, product mix and other" in our U.S. Consumer and Hawthorne segments;
- the unfavorable impact of foreign exchange rates as a result of the weakening of the U.S. dollar relative to the euro and the Canadian dollar;
- an increase in costs associated with the Roundup® marketing agreement; and
- an increase in impairment, restructuring and other charges as a result of costs associated with the COVID-19 pandemic.

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

- higher sales volume in our U.S. Consumer, Hawthorne and Other segments;

**(Dollars in millions, except per share data)**

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

***Gross Profit***

As a percentage of net sales, our gross profit rate was 29.8%, 32.6% and 32.3% for fiscal 2021, fiscal 2020 and fiscal 2019, respectively. Factors contributing to the change in gross profit rate are outlined in the following table:

| | Year Ended September 30, | |
|---|---|---|
| | 2021 | 2020 |
| Volume, product mix and other | (1.8)% | (0.6)% |
| Material costs | (1.7) | 0.2 |
| Roundup® commissions and reimbursements | — | 0.1 |
| Pricing | 0.8 | 0.8 |
| | (2.7) | 0.5 |
| Impairment, restructuring and other | (0.1) | (0.2) |
| Change in gross profit rate | (2.8)% | 0.3 % |

The decrease in gross profit rate for fiscal 2021 as compared to fiscal 2020 was primarily driven by:

- higher transportation prices and warehousing costs included within “volume, product mix and other” in our U.S. Consumer and Hawthorne segments;
- higher material prices in our U.S. Consumer, Hawthorne and Other segments; and
- unfavorable mix driven by higher sales growth in our Hawthorne segment relative to our U.S. Consumer segment;
- partially offset by favorable leverage of fixed costs driven by higher sales volume in our U.S. Consumer, Hawthorne and Other segments; and
- increased pricing in our U.S. Consumer, Hawthorne and Other segments.

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

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

**(Dollars in millions, except per share data)**

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

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

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| Advertising | $ 165.7 | $ 147.4 | $ 120.3 |
| Advertising as a percentage of net sales | 3.4 % | 3.6 % | 3.8 % |
| Research and development | 45.4 | 39.7 | 39.6 |
| Share-based compensation | 40.6 | 57.9 | 38.4 |
| Amortization of intangibles | 29.1 | 31.5 | 32.9 |
| Other selling, general and administrative | 462.7 | 481.3 | 370.1 |
| | $ 743.5 | $ 757.8 | $ 601.3 |

SG&A decreased $14.3, or 1.9%, during fiscal 2021 compared to fiscal 2020. Share-based compensation expense decreased $17.3, or 29.9%, in fiscal 2021 due to a more significant increase in the expected payout percentage on long-term performance-based awards during fiscal 2020 as compared to fiscal 2021. Advertising expense increased $18.3, or 12.4%, in fiscal 2021 driven by increased media spending in our U.S. Consumer, Hawthorne and Other segments. Other SG&A decreased $18.6, or 3.9%, in fiscal 2021 driven by lower short-term variable cash incentive compensation expense of $48.8 and lower corporate spending, partially offset by increases in various categories supporting the continued growth of the business including information technology, strategy and people costs.

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

***Impairment, Restructuring and Other***

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

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| Cost of sales—impairment, restructuring and other: | | | |
| COVID-19 related costs | $ 25.0 | $ 15.5 | $ — |
| Restructuring and other charges (recoveries), net | (0.3) | (0.1) | 5.1 |
| Intangible asset and property, plant and equipment impairments | — | 0.6 | 0.8 |
| Operating expenses: | | | |
| COVID-19 related costs | 4.2 | 3.9 | — |
| Restructuring and other charges (recoveries), net | 0.1 | (3.1) | 7.4 |
| Impairment, restructuring and other charges from continuing operations | 29.0 | 16.8 | 13.3 |
| Restructuring and other charges (recoveries), net, from discontinued operations | — | (3.1) | (35.8) |
| Total impairment, restructuring and other charges (recoveries) | $ 29.0 | $ 13.7 | $ (22.5) |

***COVID-19***

In response to the COVID-19 pandemic, we implemented measures intended to protect the health and safety of our employees and maintain our ability to provide products to our customers as described in additional detail above under “COVID-19 Response and Impacts.” During fiscal 2021, we incurred costs of $29.2 associated with the COVID-19 pandemic primarily related to premium pay. We incurred costs of $21.2 in our U.S. Consumer segment, $3.2 in our Hawthorne segment and $0.6 in our Other segment in the “Cost of sales—impairment, restructuring and other” line in the Consolidated Statements of Operations during fiscal 2021. We incurred costs of $4.0 in our U.S. Consumer segment and $0.2 in our Other segment in the "Impairment, restructuring and other" line in the Consolidated Statements of Operations during fiscal 2021.

During fiscal 2020, we incurred costs of $19.4 associated with the COVID-19 pandemic primarily related to premium pay. We incurred costs of $12.4 in our U.S. Consumer segment, $2.6 in our Hawthorne segment and $0.5 in our Other segment in the "Cost of sales—impairment, restructuring and other" line in the Consolidated Statements of Operations during fiscal 2020. We incurred costs of $3.8 in our U.S. Consumer segment and $0.1 in our Other segment in the "Impairment, restructuring and other" line in the Consolidated Statements of Operations during fiscal 2020.

***Project Catalyst***

During fiscal 2018 we announced the launch of an initiative called Project Catalyst, which was a company-wide restructuring effort to reduce operating costs throughout our U.S. Consumer, Hawthorne and Other segments and drive synergies from acquisitions within our Hawthorne segment. Costs incurred during fiscal 2021 and fiscal 2020 related to Project Catalyst were not material. Costs incurred to date since the inception of Project Catalyst are $24.5 for our Hawthorne segment, $13.9 for our U.S. Consumer segment, $1.3 for our Other segment and $2.8 for Corporate. Additionally, during fiscal 2020, we received $2.6 from the final settlement of escrow funds related to a previous acquisition within the Hawthorne segment that was recognized in the "Impairment, restructuring and other" line in the Consolidated Statements of Operations.

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

***Other***

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

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

Other (income) expense is comprised of activities outside our normal business operations, such as royalty income from the licensing of certain of our brand names, foreign exchange transaction gains and losses and gains and losses from the disposition of non-inventory assets. Other (income) expense was $(1.8), $3.2 and $1.3 in fiscal 2021, fiscal 2020 and fiscal 2019, respectively. The change for fiscal 2021 was primarily due to foreign exchange transaction gains and losses. The change for fiscal 2020 was primarily due to losses on long-lived assets.

***Income from Operations***

Income from operations was $723.0 in fiscal 2021, an increase of 23.5% compared to $585.2 in fiscal 2020. The increase was driven by higher net sales, lower SG&A and higher other income, partially offset by a decrease in gross profit rate and higher impairment, restructuring and other charges.

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

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

Equity in income of unconsolidated affiliates was $14.4, zero and $3.3 in fiscal 2021, fiscal 2020 and fiscal 2019, respectively. We acquired a 50% equity interest in Bonnie Plants, LLC on December 31, 2020. Our interest is accounted for using the equity method of accounting, with our proportionate share of Bonnie Plants, LLC earnings subsequent to December 31, 2020 reflected in the Consolidated Statements of Operations. The decrease for fiscal 2020 was attributable to the April 1, 2019 sale of our noncontrolling equity interest in an unconsolidated subsidiary whose products support the professional U.S. industrial, turf and ornamental market (the "IT&O Joint Venture"). Refer to "NOTE 9. INVESTMENT IN UNCONSOLIDATED AFFILIATES" of the Notes to the Consolidated Financial Statements included in this Form 10-K for more information regarding the IT&O Joint Venture.

***Costs Related to Refinancing***

Costs related to refinancing were zero, $15.1 and zero in fiscal 2021, fiscal 2020 and fiscal 2019, respectively. The costs incurred in fiscal 2020 were associated with the redemption of our 6.000% Senior Notes due 2023 (the "6.000% Senior Notes"), and are comprised of $12.0 of redemption premium and $3.1 of unamortized bond issuance costs that were written off. Refer to "NOTE 12. DEBT" of the Notes to the Consolidated Financial Statements included in this Annual Report on Form 10-K for more information regarding the redemption of the 6.000% Senior Notes.

***Interest Expense***

Interest expense was $78.9 in fiscal 2021, a decrease of 0.9% compared to $79.6 in fiscal 2020. The decrease was driven by a decrease in our weighted average interest rate of 61 basis points, partially offset by an increase in average borrowings of $289.0. The decrease in our weighted average interest rate was driven by lower borrowing rates on the Fifth A&R Credit Agreement. The increase in average borrowings was primarily driven by higher inventory production, capital expenditures and acquisition activity.

Interest expense was $79.6 in fiscal 2020, a decrease of 21.8% compared to $101.8 in fiscal 2019. The decrease was driven by a decrease in average borrowings of $256.4 and a decrease in our weighted average interest rate of 50 basis points. The decrease in average borrowings was primarily driven by the application of the proceeds from the sale of our approximately 30% equity interest in Outdoor Home Services Holdings LLC, a lawn services joint venture between the Company and TruGreen Holding Corporation (the "TruGreen Joint Venture"), the payoff of second lien term loan financing by the TruGreen Joint Venture, the sale of our noncontrolling equity interest in the IT&O Joint Venture and the sale of the Roundup® brand extension assets to reduce our indebtedness. The decrease in our weighted average interest rate was driven by lower borrowing rates on the Fifth A&R Credit Agreement, the issuance of the 4.500% Senior Notes and the redemption of the 6.000% Senior Notes. Refer to "NOTE 9. INVESTMENT IN UNCONSOLIDATED AFFILIATES" of the Notes to the Consolidated Financial Statements included in this Form 10-K for more information regarding the TruGreen Joint Venture.

***Other Non-Operating Income, net***

Other non-operating income was $18.6, $20.1 and $270.5 in fiscal 2021, fiscal 2020 and fiscal 2019, respectively, which included interest income of $4.1, $7.6 and $8.6 for fiscal 2021, fiscal 2020 and fiscal 2019, respectively.

On December 31, 2020, we acquired a 50% equity interest in Bonnie Plants, LLC in exchange for cash payments of $102.3, forgiveness of our outstanding loan receivable with AFC and surrender of our options to increase our economic interest in the Bonnie Plants business. Our loan receivable with AFC, which was previously recognized in the "Other assets" line in the Consolidated Balance Sheets, had a carrying value of $66.4 on December 31, 2020. We recognized a gain of $12.5 during the first quarter of fiscal 2021 to write-up the value of the loan to its closing date fair value of $78.9.

During the fourth quarter of fiscal 2020, we recognized an increase in the fair value of the Bonnie Option of $12.0 driven by an increase in sales and profits of the Bonnie Business.

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

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

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

(Dollars in millions, except per share data)

***Income Tax Expense from Continuing Operations***

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

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| Statutory income tax rate | 21.0 % | 21.0 % | 21.0 % |
| Effect of foreign operations | (0.1) | (0.7) | 0.3 |
| State taxes, net of federal benefit | 3.9 | 3.5 | 1.8 |
| Effect of other permanent differences | (1.1) | — | (0.2) |
| Research and Experimentation and other federal tax credits | (0.2) | (0.3) | (0.3) |
| Effect of tax contingencies | — | 0.1 | 1.9 |
| Other | 0.1 | 0.6 | 0.4 |
| Effective income tax rate | 23.6 % | 24.2 % | 24.9 % |

***Income from Continuing Operations***

Income from continuing operations was $517.3, or $9.03 per diluted share, in fiscal 2021 compared to $386.9, or $6.78 per diluted share, in fiscal 2020. The increase was driven by higher net sales, lower SG&A, higher other income, higher equity in income of unconsolidated affiliates and lower costs related to refinancing, partially offset by a decrease in gross profit rate and higher impairment, restructuring and other charges.

Diluted average common shares used in the diluted income per common share calculation were 57.2 million for fiscal 2021 compared to 56.9 million for fiscal 2020. The increase was primarily the result of the exercise and issuance of share-based compensation awards, partially offset by Common Share repurchase activity. Dilutive equivalent shares for fiscal 2021 and fiscal 2020 were 1.5 million and 1.2 million, respectively.

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

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

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

Income (loss) from discontinued operations, net of tax, was $(3.9), $1.7 and $23.5 for fiscal 2021, fiscal 2020 and fiscal 2019, respectively. On August 31, 2017, we completed the sale of the International Business. As a result, effective in our fourth quarter of fiscal 2017, we classified our results of operations for all periods presented to reflect the International Business as a discontinued operation. The transaction included contingent consideration with a maximum payout of $23.8 and an initial fair value of $18.2, the payment of which depended on the achievement of certain performance criteria by the International Business following the closing of the transaction through fiscal 2020. During fiscal 2021, we agreed to accept a contingent consideration payout of $6.0, which will be paid to us prior to March 31, 2022. This amount is recorded in the “Prepaid and other current assets” line in the Consolidated Balance Sheets as of September 30, 2021. We recorded a pre-tax charge of $12.2 during fiscal 2021 to write-down the contingent consideration receivable to the agreed upon payout amount.

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

(Dollars in millions, except per share data)

## Segment Results

During the first quarter of fiscal 2021, we changed our internal organization structure such that AeroGrow is now managed by and reported within our U.S. Consumer segment. Within our U.S. Consumer segment, AeroGrow is integrated into our overall direct to consumer focus and strategy. AeroGrow was previously managed by and reported within our Hawthorne segment. The prior period amounts have been reclassified to conform to the new organization structure.

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

The following table sets forth net sales by segment:

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| U.S. Consumer | $ 3,197.7 | $ 2,883.5 | $ 2,311.7 |
| Hawthorne | 1,424.2 | 1,023.1 | 640.6 |
| Other | 303.1 | 225.0 | 203.7 |
| Consolidated | $ 4,925.0 | $ 4,131.6 | $ 3,156.0 |

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

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| U.S. Consumer | $ 726.7 | $ 694.3 | $ 526.7 |
| Hawthorne | 163.8 | 111.9 | 54.6 |
| Other | 42.1 | 11.7 | 10.3 |
| Total Segment Profit (Non-GAAP) | 932.6 | 817.9 | 591.6 |
| Corporate | (149.7) | (183.4) | (135.3) |
| Intangible asset amortization | (30.9) | (32.5) | (33.4) |
| Impairment, restructuring and other | (29.0) | (16.8) | (13.3) |
| Equity in income of unconsolidated affiliates | 14.4 | — | 3.3 |
| Costs related to refinancing | — | (15.1) | — |
| Interest expense | (78.9) | (79.6) | (101.8) |
| Other non-operating income, net | 18.6 | 20.1 | 270.5 |
| Income from continuing operations before income taxes (GAAP) | $ 677.1 | $ 510.6 | $ 581.6 |

### *U.S. Consumer*

U.S. Consumer segment net sales were $3,197.7 in fiscal 2021, an increase of 10.9% from fiscal 2020 net sales of $2,883.5. The increase was driven by the favorable impacts of volume and pricing of 10.2% and 0.7%, respectively. The increase in sales volume for fiscal 2021 was driven by soils, fertilizer, grass seed, mulch, controls, plant food and direct to consumer products as well as increased net sales associated with the Roundup® marketing agreement.

U.S. Consumer Segment Profit was $726.7 in fiscal 2021, an increase of 4.7% from fiscal 2020 Segment Profit of $694.3. The increase for fiscal 2021 was primarily due to higher net sales, partially offset by a lower gross profit rate and higher SG&A.

U.S. Consumer segment net sales were $2,883.5 in fiscal 2020, an increase of 24.7% from fiscal 2019 net sales of $2,311.7. The increase was driven by the favorable impacts of volume and pricing of 23.2% and 1.5%, respectively. The increase in sales volume for fiscal 2020 was driven by soils, fertilizer, grass seed, controls and plant food products, partially offset by decreased sales of mulch products and the loss in sales from the Roundup® brand extension products that were sold to Monsanto during fiscal 2019.

**(Dollars in millions, except per share data)**

U.S. Consumer Segment Profit was $694.3 in fiscal 2020, an increase of 31.8% from fiscal 2019 Segment Profit of $526.7. The increase for fiscal 2020 was primarily due to higher net sales and a higher gross profit rate, partially offset by higher SG&A.

***Hawthorne***

Hawthorne segment net sales were $1,424.2 in fiscal 2021, an increase of 39.2% from fiscal 2020 net sales of $1,023.1. The increase was driven by the favorable impacts of volume, pricing and foreign exchange rates of 35.1%, 3.4% and 0.7%, respectively. The increase in sales volume for fiscal 2021 was driven by lighting, nutrients, growing media, hardware and growing environment products.

Hawthorne Segment Profit was $163.8 in fiscal 2021, an increase of 46.4% from fiscal 2020 Segment Profit of $111.9. The increase for fiscal 2021 was driven by higher net sales, partially offset by a lower gross profit rate and higher SG&A.

Hawthorne segment net sales were $1,023.1 in fiscal 2020, an increase of 59.7% from fiscal 2019 net sales of $640.6. The increase was driven by the favorable impacts of volume and pricing of 56.0% and 3.7%, respectively. The increase in sales volume for fiscal 2020 was driven by lighting, nutrients, hardware and growing environment products.

Hawthorne Segment Profit was $111.9 in fiscal 2020, an increase of 104.9% from fiscal 2019 Segment Profit of $54.6. The increase for fiscal 2020 was driven by higher net sales and a higher gross profit rate, partially offset by higher SG&A.

***Other***

Other segment net sales were $303.1 in fiscal 2021, an increase of 34.7% from fiscal 2020 net sales of $225.0. The increase was driven by the favorable impacts of volume, foreign exchange rates and pricing of 20.6%, 11.2% and 2.9%, respectively.

Other Segment Profit was $42.1 in fiscal 2021, an increase of 259.8% from fiscal 2020 Segment Profit of $11.7. The increase was driven by higher net sales and a higher gross profit rate, partially offset by higher SG&A.

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

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

***Corporate***

Corporate expenses were $149.7 in fiscal 2021, a decrease of 18.4% from fiscal 2020 expenses of $183.4. The decrease was driven by lower short-term variable cash incentive compensation expense, lower corporate spending and lower share-based compensation expense.

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

### Liquidity and Capital Resources

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

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| Net cash provided by operating activities | $ 271.5 | $ 558.0 | $ 226.8 |
| Net cash (used in) provided by investing activities | (538.6) | 46.9 | 255.2 |
| Net cash provided by (used in) financing activities | 494.0 | (607.1) | (496.5) |

***Operating Activities***

Cash provided by operating activities totaled $271.5 for fiscal 2021, a decrease of $286.5 as compared to $558.0 for fiscal 2020. This decrease was driven by higher inventory production, higher short-term variable cash incentive compensation payouts and higher tax payments during fiscal 2021, partially offset by higher net income and lower interest payments. Higher inventory production was driven by the growth in net sales and an effort to build inventory levels to meet expected future demand. Fiscal 2021 was also impacted by extended payment terms with several of our major vendors across the U.S. Consumer and Hawthorne segments, as well as Monsanto, for payments originally due in the final weeks of fiscal 2021 and paid in the first quarter of fiscal 2022.

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

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

***Investing Activities***

Cash used in investing activities totaled $538.6 for fiscal 2021 as compared to cash provided by investing activities of $46.9 for fiscal 2020. Cash used for investments in property, plant and equipment during fiscal 2021 was $106.9. During fiscal 2021, we acquired a 50% equity interest in Bonnie Plants, LLC in exchange for cash payments of $102.3, as well as non-cash investing activities that included forgiveness of the Company's outstanding loan receivable with AFC and surrender of our options to increase our economic interest in the Bonnie Plants business. We also made payments of $127.8 in connection with the acquisitions of Hydro-Logic Purification Systems, Inc., Rhizoflora, Inc. and other contract and license rights, and made payments of $193.1 in connection with minority non-equity convertible debt investments. In addition, we paid cash of $8.7 associated with currency forward contracts during fiscal 2021.

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

For the three fiscal years ended September 30, 2021, our capital spending was allocated as follows: 72% for expansion and maintenance of existing productive assets; 7% for new productive assets; 16% to expand our information technology and transformation and integration capabilities; and 5% for corporate assets. We expect fiscal 2022 capital expenditures to be higher than 2021 due to strategic investments supporting growth and existing infrastructure.

***Financing Activities***

Cash provided by financing activities totaled $494.0 for fiscal 2021 as compared to cash used in financing activities of $607.1 for fiscal 2020. This increase was driven by the issuance of $500.0 aggregate principal amount of 4.000% Senior Notes and $400.0 aggregate principal amount of 4.375% Senior Notes, a decrease in net repayments of our Fifth A&R Credit Facilities (as defined below) of $72.8 and a decrease in dividends paid of $268.2 as a result of the special cash dividend paid in fiscal 2020, partially offset by an increase in repurchases of our Common Shares of $76.1 and payments of $17.5 associated with the acquisition of the remaining outstanding shares of AeroGrow.

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

***Cash and Cash Equivalents***

Our cash and cash equivalents were held in cash depository accounts with major financial institutions around the world or invested in high quality, short-term liquid investments having original maturities of three months or less. The cash and cash equivalents balances of $244.1 and $16.6 at September 30, 2021 and 2020, respectively, included $15.9 and $9.4, respectively, held by controlled foreign corporations. As of September 30, 2021, we maintain our assertion of indefinite reinvestment of the earnings of all material foreign subsidiaries.

***Borrowing Agreements***

***Credit Facilities***

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

At September 30, 2021, we had letters of credit outstanding in the aggregate principal amount of $19.8, and $1,480.2 of borrowing availability under the Fifth A&R Credit Agreement. The weighted average interest rates on average borrowings under the Fifth A&R Credit Agreement were 1.9%, 3.3% and 4.6% for fiscal 2021, fiscal 2020 and fiscal 2019, respectively.

The Fifth A&R Credit Agreement contains, among other obligations, an affirmative covenant regarding our leverage ratio on the last day of each quarter calculated as average total indebtedness divided by our earnings before interest, taxes, depreciation and amortization ("EBITDA"), as adjusted pursuant to the terms of the Fifth A&R Credit Agreement ("Adjusted EBITDA"). The maximum leverage ratio is 4.50. Our leverage ratio was 2.70 at September 30, 2021. The Fifth A&R Credit Agreement also contains an affirmative covenant regarding our interest coverage ratio determined as of the end of each of our fiscal quarters. The interest coverage ratio is calculated as Adjusted EBITDA divided by interest expense, as described in the Fifth A&R Credit Agreement, and excludes costs related to refinancings. The minimum interest coverage ratio was 3.00 for the twelve months ended September 30, 2021. Our interest coverage ratio was 10.63 for the twelve months ended September 30, 2021. As of September 30, 2021, we were in compliance with these financial covenants.

The Fifth A&R Credit Agreement allows us to make unlimited restricted payments (as defined in the Fifth A&R Credit Agreement), including dividend payments on, and repurchases of, our Common Shares, as long as the leverage ratio resulting from the making of such restricted payments is 4.00 or less. Otherwise, we may make further restricted payments in an aggregate amount for each fiscal year not to exceed $225.0. We continue to monitor our compliance with the leverage ratio, interest coverage ratio and other covenants contained in the Fifth A&R Credit Agreement and, based upon our current operating assumptions, we expect to remain in compliance with the permissible leverage ratio and interest coverage ratio throughout fiscal 2022. However, an unanticipated shortfall in earnings, an increase in net indebtedness or other factors could materially affect our ability to remain in compliance with the financial or other covenants of the Fifth A&R Credit Agreement, potentially causing us to have to seek an amendment or waiver from our lending group which could result in repricing of the Fifth A&R Credit Agreement. While we believe we have good relationships with our lending group, we can provide no assurance that such a request would result in a modified or replacement credit agreement on reasonable terms, if at all.

***Senior Notes***

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

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

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

**(Dollars in millions, except per share data)**

On March 17, 2021, we issued $500.0 aggregate principal amount of 4.000% Senior Notes. The net proceeds of the offering were used to reduce borrowings under the Fifth A&R Credit Facilities. The 4.000% Senior Notes represent general unsecured senior obligations and rank equal in right of payment with our existing and future unsecured senior debt. The 4.000% Senior Notes have interest payment dates of April 1 and October 1 of each year, commencing October 1, 2021. All of our domestic subsidiaries that serve as guarantors of the 5.250% Senior Notes also serve as guarantors of the 4.000% Senior Notes.

On August 13, 2021, we issued $400.0 aggregate principal amount of 4.375% Senior Notes due 2032. The net proceeds of the offering were used to reduce borrowings under the Fifth A&R Credit Facilities and for other general corporate purposes. The 4.375% Senior Notes represent general unsecured senior obligations and rank equal in right of payment with our existing and future unsecured senior debt. The 4.375% Senior Notes have interest payment dates of February 1 and August 1 of each year, commencing February 1, 2022. All of our domestic subsidiaries that serve as guarantors of the 5.250% Senior Notes also serve as guarantors of the 4.375% Senior Notes.

***Receivables Facility***

We also maintain a Master Repurchase Agreement (including the annexes thereto, the “Repurchase Agreement”) and a Master Framework Agreement, as amended (the “Framework Agreement” and, together with the Repurchase Agreement, the “Receivables Facility”). Under the Receivables Facility, we may sell a portfolio of available and eligible outstanding customer accounts receivable to the purchasers and simultaneously agree to repurchase the receivables on a weekly basis. The eligible accounts receivable consist of accounts receivable generated by sales to three specified customers. The eligible amount of customer accounts receivables which may be sold under the Receivables Facility is $400.0 and the commitment amount during the seasonal commitment period beginning on February 25, 2022 and ending on June 17, 2022 is $160.0. The Receivables Facility expires on August 19, 2022.

We account for the sale of receivables under the Receivables Facility as short-term debt and continue to carry the receivables on our Consolidated Balance Sheets, primarily as a result of our requirement to repurchase receivables sold. As of September 30, 2021 and 2020, there were zero and $20.0, respectively, in borrowings on receivables pledged as collateral under the Receivables Facility, and the carrying value of the receivables pledged as collateral was zero and $22.3, respectively.

***Interest Rate Swap Agreements***

We enter into interest rate swap agreements with major financial institutions that effectively convert a portion of our variable rate debt to a fixed rate. Interest payments made between the effective date and expiration date are hedged by the swap agreements. Swap agreements that were hedging interest payments as of September 30, 2021 and 2020 had a maximum total U.S. dollar equivalent notional amount of $600.0. The notional amount, effective date, expiration date and rate of each of the swap agreements outstanding at September 30, 2021 are shown in the table below:

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

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

***Availability and Use of Cash***

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

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

The 5.250% Senior Notes, 4.500% Senior Notes, 4.000% Senior Notes and 4.375% Senior Notes (collectively, the "Senior Notes") were issued by Scotts Miracle-Gro on December 15, 2016, October 22, 2019, March 17, 2021 and August 13, 2021, respectively. The Senior Notes are guaranteed by certain consolidated domestic subsidiaries of Scotts Miracle-Gro (collectively, the "Guarantors") and, therefore, we report summarized financial information in accordance with SEC Regulation S-X, Rule 13-01, "Guarantors and Issuers of Guaranteed Securities Registered or Being Registered."

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

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

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

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

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

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

(Dollars in millions, except per share data)

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

| | SEPTEMBER 30, 2021 |
|---|---|
| Current assets | $ 1,834.8 |
| Noncurrent assets [(a)] | 2,484.5 |
| Current liabilities | 1,038.1 |
| Noncurrent liabilities | 2,611.8 |

(a) Includes amounts due from Non-Guarantor subsidiaries of $39.8

| | YEAR ENDED SEPTEMBER 30, 2021 |
|---|---|
| Net sales | $ 4,507.6 |
| Gross profit | 1,380.6 |
| Income (loss) from continuing operations [(a)] | 510.9 |
| Net income (loss) | 510.8 |
| Net income (loss) attributable to controlling interest | 509.9 |

(a) Includes intercompany expense from Non-Guarantor subsidiaries of $(26.3).

#### *Judicial and Administrative Proceedings*

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

#### *Contractual Obligations*

The following table summarizes our future cash outflows for contractual obligations as of September 30, 2021:

| | | Payments Due by Period | | | |
|---|---|---|---|---|---|
| **Contractual Cash Obligations** | **Total** | **Less Than 1 Year** | **1-3 Years** | **3-5 Years** | **More Than 5 Years** |
| Debt obligations | $ 2,281.9 | $ 51.9 | $ 630.0 | $ — | $ 1,600.0 |
| Interest expense on debt obligations | 636.2 | 87.5 | 156.3 | 144.6 | 247.8 |
| Finance lease obligations | 39.6 | 7.0 | 14.2 | 4.8 | 13.6 |
| Operating lease obligations | 328.9 | 75.3 | 123.2 | 76.9 | 53.5 |
| Purchase obligations | 972.7 | 563.6 | 313.9 | 87.8 | 7.4 |
| Other, primarily retirement plan obligations | 63.1 | 9.3 | 15.8 | 16.0 | 22.0 |
| Total contractual cash obligations | $ 4,322.4 | $ 794.6 | $ 1,253.4 | $ 330.1 | $ 1,944.3 |

We had long-term debt obligations and interest payments due primarily under the 5.250% Senior Notes, 4.500% Senior Notes, 4.000% Senior Notes and 4.375% Senior Notes and our credit facilities. Amounts in the table represent scheduled future maturities of debt principal for the periods indicated.

The interest payments for our credit facilities are based on outstanding borrowings as of September 30, 2021. Actual interest expense will likely be higher due to the seasonality of our business and associated higher average borrowings.

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

Other obligations include actuarially determined retiree benefit payments and pension funding to comply with local funding requirements. Pension funding requirements beyond fiscal 2021 are based on preliminary estimates using actuarial assumptions determined as of September 30, 2021. These amounts represent expected payments through 2031. Based on the accounting rules for defined benefit pension plans and retirement health care plans, the liabilities reflected in our Consolidated Balance Sheets differ from these expected future payments (see Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K). The above table excludes liabilities for unrecognized tax benefits and insurance accruals as we are unable to estimate the timing of payments for these items.

### *Off-Balance Sheet Arrangements*

At September 30, 2021, we have letters of credit in the aggregate face amount of $19.8 outstanding.

## Non-GAAP Measures

### *Use of Non-GAAP Measures*

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

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

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

### *Exclusions from Non-GAAP Financial Measures*

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

- Impairments, which are excluded because they do not occur in or reflect the ordinary course of our ongoing business operations and their exclusion results in a metric that provides supplemental information about the sustainability of operating performance.
- Restructuring and employee severance costs, which include charges for discrete projects or transactions that fundamentally change our operations and are excluded because they are not part of the ongoing operations of our underlying business, which includes normal levels of reinvestment in the business.
- Costs related to refinancing, which are excluded because they do not typically occur in the normal course of business and may obscure analysis of trends and financial performance. Additionally, the amount and frequency of these types of charges is not consistent and is significantly impacted by the timing and size of debt financing transactions.

- Discontinued operations and other unusual items, which include costs or gains related to discrete projects or transactions and are excluded because they are not comparable from one period to the next and are not part of the ongoing operations of our underlying business.

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

***Definitions of Non-GAAP Financial Measures***

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

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

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

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

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

- **Adjusted EBITDA:** Net income (loss) before interest, taxes, depreciation and amortization as well as certain other items such as the impact of the cumulative effect of changes in accounting, costs associated with debt refinancing and other non-recurring or non-cash items affecting net income (loss). The presentation of adjusted EBITDA is intended to be consistent with the calculation of that measure as required by our borrowing arrangements, and used to calculate a leverage ratio (maximum of 4.50 at September 30, 2021) and an interest coverage ratio (minimum of 3.00 for the twelve months ended September 30, 2021).

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

**(Dollars in millions, except per share data)**

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

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| **Income from operations (GAAP)** | $ 723.0 | $ 585.2 | $ 409.6 |
| Impairment, restructuring and other charges | 29.0 | 16.8 | 13.3 |
| **Adjusted income from operations (Non-GAAP)** | $ 752.1 | $ 602.0 | $ 422.9 |
| **Income from continuing operations (GAAP)** | $ 517.3 | $ 386.9 | $ 436.7 |
| Impairment, restructuring and other charges | 29.0 | 16.8 | 13.3 |
| Costs related to refinancing | — | 15.1 | — |
| Other non-operating (income) expense, net | (12.6) | 0.8 | (260.2) |
| Adjustment to income tax expense (benefit) from continuing operations | (5.1) | (6.7) | 61.5 |
| **Adjusted income from continuing operations (Non-GAAP)** | $ 528.6 | $ 412.9 | $ 251.3 |
| **Net income attributable to controlling interest (GAAP)** | $ 512.5 | $ 387.4 | $ 460.7 |
| (Income) loss from discontinued operations, net of tax | 3.9 | (1.7) | (23.5) |
| Impairment, restructuring and other charges | 29.0 | 16.8 | 13.3 |
| Costs related to refinancing | — | 15.1 | — |
| Other non-operating (income) expense, net | (12.6) | 0.8 | (260.2) |
| Adjustment to income tax expense (benefit) from continuing operations | (5.1) | (6.7) | 61.5 |
| **Adjusted net income attributable to controlling interest from continuing operations (Non-GAAP)** | $ 527.7 | $ 411.7 | $ 251.8 |

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

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| **Diluted income per share from continuing operations (GAAP)** | $ 9.03 | $ 6.78 | $ 7.77 |
| Impairment, restructuring and other charges | 0.51 | 0.30 | 0.24 |
| Costs related to refinancing | — | 0.27 | — |
| Other non-operating (income) expense, net | (0.22) | 0.01 | (4.62) |
| Adjustment to income tax expense (benefit) from continuing operations | (0.09) | (0.12) | 1.09 |
| **Adjusted diluted income per common share from continuing operations (Non-GAAP)** | $ 9.23 | $ 7.24 | $ 4.47 |
| **Net cash provided by operating activities (GAAP)** | $ 271.5 | $ 558.0 | $ 226.8 |
| Investments in property, plant and equipment | (106.9) | (62.7) | (42.4) |
| **Free cash flow (Non-GAAP)** | $ 164.6 | $ 495.3 | $ 184.4 |

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

We view our credit facility as material to our ability to fund operations, particularly in light of our seasonality. Please refer to “ITEM 1A. RISK FACTORS — Risks Related to Our M&A, Lending and Financing Activities — *Our indebtedness could limit our flexibility and adversely affect our financial condition*” of this Form 10-K for a more complete discussion of the risks associated with our debt and our credit facility and the restrictive covenants therein. Our ability to generate cash flows sufficient to cover our debt service costs is essential to our ability to maintain our borrowing capacity. We believe that Adjusted EBITDA provides additional information for determining our ability to meet debt service requirements. The presentation of Adjusted EBITDA herein is intended to be consistent with the calculation of that measure as required by our borrowing arrangements, and used to calculate a leverage ratio (maximum of 4.50 at September 30, 2021) and an interest coverage ratio (minimum of 3.00 for the twelve months ended September 30, 2021). The leverage ratio is calculated as average total indebtedness divided by Adjusted EBITDA. The interest coverage ratio is calculated as Adjusted EBITDA divided by interest expense, as described in the Fifth A&R Credit Agreement, and excludes costs related to refinancings. Please refer to “ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — Liquidity and Capital Resources — Borrowing Agreements” of this Annual Report on Form 10-K for a discussion of our credit facility.

(Dollars in millions, except per share data)

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

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

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| **Net income (GAAP)** | $ 513.4 | $ 388.6 | $ 460.2 |
| Income tax expense from continuing operations | 159.8 | 123.7 | 144.9 |
| Income tax expense (benefit) from discontinued operations | (8.4) | 0.1 | 11.7 |
| Loss on contingent consideration from discontinued operations | 12.2 | — | — |
| Costs related to refinancing | — | 15.1 | — |
| Interest expense | 78.9 | 79.6 | 101.8 |
| Depreciation | 62.9 | 62.2 | 55.9 |
| Amortization | 30.9 | 32.5 | 33.4 |
| Impairment, restructuring and other charges from continuing operations | 29.0 | 16.8 | 13.3 |
| Impairment, restructuring and other charges (recoveries) from discontinued operations | — | (3.1) | (35.8) |
| Other non-operating (income) expense, net | (12.6) | 0.8 | (260.2) |
| Interest income | (4.1) | (7.6) | (8.6) |
| Expense on certain leases | — | — | 3.2 |
| Share-based compensation expense | 40.6 | 57.9 | 38.4 |
| **Adjusted EBITDA (Non-GAAP)** | $ 902.6 | $ 766.6 | $ 558.2 |

### Regulatory Matters

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

### Critical Accounting Policies and Estimates

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

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

#### *Revenue Recognition and Promotional Allowances*

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

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

***Income Taxes***

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

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

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

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

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

(Dollars in millions, except per share data)

At September 30, 2021, goodwill totaled $605.2, with $243.9, $350.2 and $11.1 for our U.S. Consumer, Hawthorne and Other segments, respectively. We performed annual impairment testing as of the first day of our fiscal fourth quarter and concluded that there were no impairments of goodwill as the estimated fair value of each reporting unit exceeded its carrying value. Based on the results of the annual quantitative evaluation for fiscal 2021, the fair values of our U.S. Consumer, Hawthorne and Other segment reporting units exceeded their respective carrying values by 350%, 225% and 124%, respectively. A 100 basis point change in the discount rate would not have resulted in an impairment for any of our reporting units.

At September 30, 2021, indefinite-lived intangible assets consisted of tradenames of $168.2 and the Roundup ® marketing agreement amendment of $155.7. Based on the results of the annual evaluation for fiscal 2021, the fair values of our indefinite-lived intangible assets exceeded their respective carrying values in a range of 27% to over 1,600%. A 100 basis point change in the discount rate would not have resulted in an impairment of any of our indefinite-lived intangible assets.

### *Other Significant Accounting Policies*

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

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

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

### Interest Rate Risk

The following table summarizes information about our debt instruments and derivative financial instruments that are sensitive to changes in interest rates as of September 30, 2021 and 2020. For debt instruments, the table presents principal cash flows and related weighted-average interest rates by expected maturity dates. For interest rate swap agreements, the table presents expected cash flows based on notional amounts and weighted-average interest rates by contractual maturity dates. We have outstanding interest rate swap agreements with major financial institutions that effectively convert a portion of the Company’s variable-rate debt to a fixed rate. The swap agreements had a maximum total U.S. dollar equivalent notional amount of $600.0 at September 30, 2021 and 2020. Weighted-average variable rates are based on rates in effect at September 30, 2021 and 2020. A change in our variable interest rate of 100 basis points for a full twelve-month period would have a $2.5 impact on interest expense assuming approximately $250 of our average fiscal 2021 variable-rate debt had not been hedged via an interest rate swap agreement.

| | Expected Maturity Date | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | After | Total | Fair Value |
| Long-term debt: | | | | | | | | |
| Fixed rate debt | $ — | $ — | $ — | $ — | $ — | $ 1,600.0 | $ 1,600.0 | $ 1,625.8 |
| Average rate | — | — | — | — | — | 4.4 % | 4.4 % | — |
| Variable rate debt | $ 40.0 | $ 630.0 | $ — | $ — | $ — | $ — | $ 670.0 | $ 670.0 |
| Average rate | 1.1 % | 1.1 % | — | — | — | — | 1.1 % | — |
| Interest rate derivatives: | | | | | | | | |
| Interest rate swaps | $ (4.2) | $ (2.5) | $ 0.7 | $ 0.6 | $ 0.5 | $ — | $ (4.9) | $ (4.9) |
| Average rate | 1.3 % | 1.1 % | 0.8 % | 0.9 % | 0.9 % | — | 1.1 % | — |

(Dollars in millions, except per share data)

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

Excluded from the information provided above are miscellaneous debt instruments of $11.9 and $1.1 and finance lease obligations of $33.4 and $36.1 at September 30, 2021 and 2020, respectively.

**Other Market Risks**

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

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

The financial statements and other information required by this Item are contained in the Consolidated Financial Statements, Notes to Consolidated Financial Statements and Schedules Supporting the Consolidated Financial Statements listed in the “Index to Consolidated Financial Statements and Financial Statement Schedules” on page 56 of this Annual Report on Form 10-K.

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

None.

## ITEM 9A. *CONTROLS AND PROCEDURES*

**Evaluation of Disclosure Controls and Procedures**

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

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

The "Annual Report of Management on Internal Control Over Financial Reporting" required by Item 308(a) of SEC Regulation S-K is included on page 57 of this Annual Report on Form 10-K.

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

The "Report of Independent Registered Public Accounting Firm" required by Item 308(b) of SEC Regulation S-K is included on page 58 of this Annual Report on Form 10-K.

**Changes in Internal Control Over Financial Reporting**

No changes in the Registrant's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the Registrant's fiscal quarter ended September 30, 2021, that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

## ITEM 9B. *OTHER INFORMATION*

None.

## PART III

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

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

The information required by Item 401 of SEC Regulation S-K concerning the directors of Scotts Miracle-Gro and the nominees for election or re-election as directors of Scotts Miracle-Gro at the Annual Meeting of Shareholders to be held on January 24, 2022 (the "2022 Annual Meeting") is incorporated herein by reference from the disclosure which will be included under the caption "PROPOSAL NUMBER 1 — ELECTION OF DIRECTORS" in Scotts Miracle-Gro's definitive Proxy Statement relating to the 2022 Annual Meeting ("Scotts Miracle-Gro's Definitive Proxy Statement"), which will be filed pursuant to SEC Regulation 14A not later than 120 days after the end of Scotts Miracle-Gro's fiscal year ended September 30, 2021.

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

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

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

**Procedures for Recommending Director Nominees**

Information concerning the procedures by which shareholders of Scotts Miracle-Gro may recommend nominees to Scotts Miracle-Gro's Board of Directors is incorporated herein by reference from the disclosures which will be included under the captions "CORPORATE GOVERNANCE — Nominations of Directors" and "MEETINGS AND COMMITTEES OF THE BOARD — Committees of the Board — Nominating and Governance Committee" in Scotts Miracle-Gro's Definitive Proxy Statement. These procedures have not materially changed from those described in Scotts Miracle-Gro's definitive Proxy Statement for the 2021 Annual Meeting of Shareholders held on January 25, 2021.

**Audit Committee**

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

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

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

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

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

## ITEM 11. *EXECUTIVE COMPENSATION*

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

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

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

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

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

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

### Equity Compensation Plan Information

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

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

### Certain Relationships and Related Person Transactions

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

### Director Independence

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

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

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

# PART IV

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

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

1 and 2. Financial Statements and Financial Statement Schedules:

The response to this portion of Item 15 is submitted as a separate section of this Annual Report on Form 10-K. Reference is made to the “Index to Consolidated Financial Statements and Financial Statement Schedules” on page 56 of this Annual Report on Form 10-K.

(b) *EXHIBITS*

The exhibits listed on the “Index to Exhibits” beginning on page 109 of this Annual Report on Form 10-K are filed or furnished with this Annual Report on Form 10-K or incorporated herein by reference as noted in the “Index to Exhibits.”

(c) *FINANCIAL STATEMENT SCHEDULES*

The financial statement schedule filed with this Annual Report on Form 10-K is submitted in a separate section hereof. For a description of such financial statement schedules, see “Index to Consolidated Financial Statements and Financial Statement Schedules” on page 56 of this Annual Report on Form 10-K.

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

None.

## SIGNATURES

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

THE SCOTTS MIRACLE-GRO COMPANY

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

Dated: November 23, 2021

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

| Signature | Title | Date |
|---|---|---|
| /s/ CORY J. MILLER<br>Cory J. Miller | Chief Financial Officer and Executive Vice President<br>(Principal Financial Officer and Principal Accounting Officer) | November 23, 2021 |
| /s/ JAMES HAGEDORN<br>James Hagedorn | Chief Executive Officer, Chairman of the Board and Director<br>(Principal Executive Officer) | November 23, 2021 |
| /s/ DAVID C. EVANS*<br>David C. Evans | Director | November 23, 2021 |
| /s/ BRIAN D. FINN*<br>Brian D. Finn | Director | November 23, 2021 |
| /s/ ADAM HANFT*<br>Adam Hanft | Director | November 23, 2021 |
| /s/ STEPHEN L. JOHNSON*<br>Stephen L. Johnson | Director | November 23, 2021 |
| /s/ THOMAS N. KELLY JR.*<br>Thomas N. Kelly Jr. | Director | November 23, 2021 |
| /s/ KATHERINE HAGEDORN LITTLEFIELD*<br>Katherine Hagedorn Littlefield | Director | November 23, 2021 |

| Signature | Title | Date |
|---|---|---|
| /s/ NANCY G. MISTRETTA*<br>Nancy G. Mistretta | Director | November 23, 2021 |
| /s/ PETER E. SHUMLIN*<br>Peter E. Shumlin | Director | November 23, 2021 |
| /s/ JOHN R. VINES*<br>John R. Vines | Director | November 23, 2021 |
| /s/ GERALD VOLAS*<br>Gerald Volas | Director | November 23, 2021 |

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

By: /s/ CORY J. MILLER
Cory J. Miller, Attorney-in-Fact

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



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

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

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

Management, with the participation of our principal executive officer and principal financial officer, assessed the effectiveness of our internal control over financial reporting as of September 30, 2021, the end of our fiscal year. Management based its assessment on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies and our overall control environment. This assessment is supported by testing and monitoring performed under the direction of management. As allowed by the SEC guidance, management excluded from the assessment the internal control over financial reporting at Hydro-Logic Purification Systems, Inc. and Rhizoflora, Inc., which were acquired in fiscal 2021. These acquisitions constituted 2.1% of total assets and 0% of revenues and net income included in our consolidated financial statements as of and for the fiscal year ended September 30, 2021.

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

Based on our assessment, management has concluded that our internal control over financial reporting was effective as of September 30, 2021, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America. We reviewed the results of management's assessment with the Audit Committee of the Board of Directors of The Scotts Miracle-Gro Company.

Our independent registered public accounting firm, Deloitte & Touche LLP, independently audited our internal control over financial reporting as of September 30, 2021 and has issued their attestation report which appears herein.

| | |
|---|---|
| /s/ JAMES HAGEDORN | /s/ CORY J. MILLER |
| James Hagedorn | Cory J. Miller |
| Chief Executive Officer and Chairman of the Board | Executive Vice President and Chief Financial Officer |
| Dated: November 23, 2021 | Dated: November 23, 2021 |

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of The Scotts Miracle-Gro Company and subsidiaries (the “Company”) as of September 30, 2021 and 2020, the related consolidated statements of operations, comprehensive income (loss), shareholders’ equity, and cash flows, for each of the three years in the period ended September 30, 2021, and the related notes and the schedules listed in the Index at Item 15 (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2021, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of September 30, 2021, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 23, 2021, expressed an unqualified opinion on the Company’s internal control over financial reporting.

### Changes in Accounting Principle

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

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

### Basis for Opinion

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

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

### Critical Audit Matter

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

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

*Critical Audit Matter Description*

When evaluating goodwill for impairment, the Company performs either an initial qualitative or quantitative evaluation for each of its reporting units. For the quantitative evaluation, the Company compares the fair value of each reporting unit to its carrying value. The Company determines the fair value of its reporting units using a combination of income-based and market-based approaches and incorporates assumptions it believes market participants would utilize. Under the income-based approach, the Company determines fair value using a discounted cash flow approach that requires significant judgment with respect to revenue growth rates based upon annual budgets and longer-range strategic plans and the selection of an appropriate discount rate. Under the market-based approach, the Company determines fair value by comparing its reporting units to similar businesses or guideline companies whose securities are actively traded in public markets. The use of different assumptions would increase or decrease discounted cash flows or earnings projections and could, therefore, change impairment determinations. The goodwill balance was $605.2 million as of September 30, 2021, of which $350.2 million was allocated to the Hawthorne reporting unit. The fair value of the Hawthorne reporting unit exceeded its carrying value as of the measurement date and, therefore, no impairment was recognized. Hawthorne’s operations are sensitive to changes in the U.S. retail hydroponic market as the demand for its products depends on the uncertain growth of the market.

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

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

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

- We tested the effectiveness of controls over management’s goodwill impairment evaluation, including those over the determination of the fair value of Hawthorne, such as controls related to the revenue growth rates and the selection of an appropriate discount rate.

- With the assistance of our fair value specialists, we evaluated the reasonableness of the long-term growth rate, including testing the source information underlying the determination of the long-term growth rate, testing the mathematical accuracy of the calculation, and developing a range of independent estimates and comparing those to the long-term growth rate selected by management.

- We evaluated management’s ability to accurately forecast the revenue growth rates by comparing actual results to management’s historical forecasts. We evaluated the reasonableness of management’s forecasts of the revenue growth rates by comparing the forecasts to (1) the historical results of Hawthorne, (2) internal communications to management and the board of directors, (3) external communications made by management to analysts and investors, and (4) industry reports containing analyses of the Company’s markets.

- We considered the impact of changes in the regulatory environment on management’s forecasts of the revenue growth rates.

- With the assistance of our fair value specialists, we evaluated the reasonableness of the discount rate, including testing the source information underlying the determination of the discount rate, testing the mathematical accuracy of the calculation, and developing a range of independent estimates and comparing those to the discount rate selected by management.

/s/ DELOITTE & TOUCHE LLP

Columbus, Ohio
November 23, 2021
We have served as the Company’s auditor since 2005.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

**Opinion on Internal Control over Financial Reporting**

We have audited the internal control over financial reporting of The Scotts Miracle-Gro Company and subsidiaries (the "Company") as of September 30, 2021, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2021, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements as of and for the year ended September 30, 2021, of the Company and our report dated November 23, 2021, expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company's adoption of the Financial Accounting Standards Board Accounting Standards Codification 842, *Leases*, and accounting guidance related to inventory valuation for its change in accounting for a portion of its inventories to the first-in, first-out method which was determined to be a preferable accounting principle for such inventories.

**Basis for Opinion**

As described in the Annual Report of Management on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Hydro-Logic Purification Systems, Inc. and Rhizoflora, Inc., which were acquired in fiscal 2021. These acquisitions constituted 2.1% of total assets and 0% of revenues and net income included in the consolidated financial statements as of and for the fiscal year ended September 30, 2021. Accordingly, our audit did not include the internal control over financial reporting at Hydro-Logic Purification Systems, Inc. and Rhizoflora, Inc.

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

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

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

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

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

/s/ DELOITTE & TOUCHE LLP

Columbus, Ohio
November 23, 2021

## THE SCOTTS MIRACLE-GRO COMPANY

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

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| Net sales | $ 4,925.0 | $ 4,131.6 | $ 3,156.0 |
| Cost of sales | 3,431.3 | 2,768.6 | 2,130.5 |
| Cost of sales—impairment, restructuring and other | 24.7 | 16.0 | 5.9 |
| Gross profit | 1,469.0 | 1,347.0 | 1,019.6 |
| Operating expenses: | | | |
| Selling, general and administrative | 743.5 | 757.8 | 601.3 |
| Impairment, restructuring and other | 4.3 | 0.8 | 7.4 |
| Other (income) expense, net | (1.8) | 3.2 | 1.3 |
| Income from operations | 723.0 | 585.2 | 409.6 |
| Equity in income of unconsolidated affiliates | (14.4) | — | (3.3) |
| Costs related to refinancing | — | 15.1 | — |
| Interest expense | 78.9 | 79.6 | 101.8 |
| Other non-operating income, net | (18.6) | (20.1) | (270.5) |
| Income from continuing operations before income taxes | 677.1 | 510.6 | 581.6 |
| Income tax expense from continuing operations | 159.8 | 123.7 | 144.9 |
| Income from continuing operations | 517.3 | 386.9 | 436.7 |
| Income (loss) from discontinued operations, net of tax | (3.9) | 1.7 | 23.5 |
| Net income | $ 513.4 | $ 388.6 | $ 460.2 |
| Net (income) loss attributable to noncontrolling interest | (0.9) | (1.2) | 0.5 |
| Net income attributable to controlling interest | $ 512.5 | $ 387.4 | $ 460.7 |
| | | | |
| Basic income (loss) per common share: | | | |
| Income from continuing operations | $ 9.27 | $ 6.92 | $ 7.88 |
| Income (loss) from discontinued operations | (0.07) | 0.04 | 0.42 |
| Basic net income per common share | $ 9.20 | $ 6.96 | $ 8.30 |
| Diluted income (loss) per common share: | | | |
| Income from continuing operations | $ 9.03 | $ 6.78 | $ 7.77 |
| Income (loss) from discontinued operations | (0.07) | 0.03 | 0.41 |
| Diluted net income per common share | $ 8.96 | $ 6.81 | $ 8.18 |

See Notes to Consolidated Financial Statements.

**THE SCOTTS MIRACLE-GRO COMPANY**

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

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| Net income | $ 513.4 | $ 388.6 | $ 460.2 |
| Other comprehensive income (loss): | | | |
| Net foreign currency translation adjustment | 4.5 | 11.3 | (8.7) |
| Net unrealized gain (loss) on derivative instruments, net of tax | 19.8 | (14.6) | (14.9) |
| Reclassification of net unrealized (gains) losses on derivative instruments to net income, net of tax | 5.4 | 7.5 | (1.5) |
| Net unrealized loss on securities, net of tax | (2.3) | — | — |
| Net unrealized gain (loss) in pension and other post-retirement benefits, net of tax | 5.1 | (9.6) | (11.1) |
| Pension and other post-retirement benefit adjustments, net of tax | 0.3 | 0.2 | 2.1 |
| Total other comprehensive income (loss) | 32.8 | (5.2) | (34.1) |
| Comprehensive income | 546.2 | 383.4 | 426.1 |
| Comprehensive (income) loss attributable to noncontrolling interest | (0.9) | (1.2) | 0.5 |
| Comprehensive income attributable to controlling interest | $ 545.3 | $ 382.2 | $ 426.6 |

See Notes to Consolidated Financial Statements.

**THE SCOTTS MIRACLE-GRO COMPANY**

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

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| **OPERATING ACTIVITIES** | | | |
| Net income | $ 513.4 | $ 388.6 | $ 460.2 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Costs related to refinancing | — | 15.1 | — |
| Share-based compensation expense | 40.6 | 57.9 | 38.4 |
| Depreciation | 62.9 | 62.2 | 55.9 |
| Amortization | 30.9 | 32.5 | 33.4 |
| Deferred taxes | 22.5 | (11.1) | (33.3) |
| Gain on sale of unconsolidated affiliate | — | — | (262.6) |
| Other, net | (13.4) | 4.2 | 5.9 |
| Changes in assets and liabilities, net of acquisitions: | | | |
| Accounts receivable | 15.5 | (188.1) | 0.6 |
| Inventories | (496.5) | (80.6) | (65.0) |
| Prepaid and other assets | (76.5) | (19.4) | (11.0) |
| Accounts payable | 202.5 | 172.2 | 54.3 |
| Other current liabilities | (19.6) | 154.6 | 49.7 |
| Restructuring and other | (2.0) | (6.0) | (100.2) |
| Other non-current items | (10.1) | (24.8) | (0.3) |
| Other, net | 1.3 | 0.7 | 0.8 |
| Net cash provided by operating activities | 271.5 | 558.0 | 226.8 |
| **INVESTING ACTIVITIES** | | | |
| Proceeds from sale of long-lived assets | 0.2 | 0.4 | 2.1 |
| Investments in property, plant and equipment | (106.9) | (62.7) | (42.4) |
| (Investments in) proceeds from loans receivable | — | (3.4) | 20.8 |
| Proceeds from sale of brand extension assets | — | 115.5 | — |
| (Investments in) proceeds from sale of unconsolidated affiliates | (102.3) | — | 274.3 |
| Payment for acquisitions, net of cash acquired | (127.8) | — | (6.6) |
| Purchase of convertible debt investments | (193.1) | — | — |
| Other investing, net | (8.7) | (2.9) | 7.0 |
| Net cash (used in) provided by investing activities | (538.6) | 46.9 | 255.2 |
| **FINANCING ACTIVITIES** | | | |
| Borrowings under revolving and bank lines of credit and term loans | 1,243.2 | 1,222.7 | 1,056.2 |
| Repayments under revolving and bank lines of credit and term loans | (1,361.5) | (1,413.8) | (1,445.5) |
| Proceeds from issuance of 4.000% Senior Notes | 500.0 | — | — |
| Proceeds from issuance of 4.375% Senior Notes | 400.0 | — | — |
| Proceeds from issuance of 4.500% Senior Notes | — | 450.0 | — |
| Repayment of 6.000% Senior Notes | — | (400.0) | — |
| Financing and issuance fees | (13.1) | (18.7) | (0.2) |
| Dividends paid | (143.0) | (411.2) | (124.5) |
| Purchase of Common Shares | (129.3) | (53.2) | (3.1) |
| Payments on seller notes | — | (0.5) | (0.8) |
| Cash received from exercise of stock options | 15.2 | 17.6 | 21.4 |
| Acquisition of noncontrolling interests | (17.5) | — | — |
| Net cash provided by (used in) financing activities | 494.0 | (607.1) | (496.5) |
| Effect of exchange rate changes on cash | 0.6 | — | (0.6) |
| Net increase (decrease) in cash and cash equivalents | 227.5 | (2.2) | (15.1) |
| Cash and cash equivalents at beginning of year | 16.6 | 18.8 | 33.9 |
| Cash and cash equivalents at end of year | $ 244.1 | $ 16.6 | $ 18.8 |

See Notes to Consolidated Financial Statements.

**THE SCOTTS MIRACLE-GRO COMPANY**

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

| | September 30, 2021 | September 30, 2020 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 244.1 | $ 16.6 |
| Accounts receivable, less allowances of $16.8 in 2021 and $7.5 in 2020 | 483.4 | 474.8 |
| Accounts receivable pledged | — | 22.3 |
| Inventories | 1,126.6 | 621.9 |
| Prepaid and other current assets | 169.9 | 81.0 |
| Total current assets | 2,024.0 | 1,216.6 |
| Investment in unconsolidated affiliates | 207.0 | — |
| Property, plant and equipment, net | 622.2 | 560.0 |
| Goodwill | 605.2 | 544.1 |
| Intangible assets, net | 709.6 | 679.2 |
| Other assets | 632.0 | 380.6 |
| Total assets | $ 4,800.0 | $ 3,380.5 |
| **LIABILITIES AND EQUITY** | | |
| Current liabilities: | | |
| Current portion of debt | $ 57.8 | $ 66.4 |
| Accounts payable | 609.4 | 391.0 |
| Other current liabilities | 473.2 | 493.0 |
| Total current liabilities | 1,140.4 | 950.4 |
| Long-term debt | 2,236.7 | 1,455.1 |
| Other liabilities | 409.6 | 272.1 |
| Total liabilities | 3,786.7 | 2,677.6 |
| Commitments and contingencies (Notes 18, 19 and 20) | | |
| Equity: | | |
| Common shares and capital in excess of $ .01 stated value per share; shares outstanding of 55.6 and 55.8, respectively | 477.0 | 482.5 |
| Retained earnings | 1,605.1 | 1,235.6 |
| Treasury shares, at cost; 12.6 and 12.4 shares, respectively | (1,002.4) | (921.8) |
| Accumulated other comprehensive loss | (66.4) | (99.1) |
| Total equity—controlling interest | 1,013.3 | 697.2 |
| Noncontrolling interest | — | 5.7 |
| Total equity | 1,013.3 | 702.9 |
| Total liabilities and equity | $ 4,800.0 | $ 3,380.5 |

See Notes to Consolidated Financial Statements.

**THE SCOTTS MIRACLE-GRO COMPANY**

**Consolidated Statements of Shareholders' Equity**
**(In millions, except per share data)**

| | Common Shares | | Capital in Excess of Stated Value | Retained Earnings | Treasury Shares | | Accumulated Other Comprehensive Income (Loss) | Total | Non-controlling Interest | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | Shares | Amount | | | | |
| Balance at September 30, 2018 | 68.1 | $ 0.3 | $ 420.0 | $ 919.9 | 12.8 | $ (939.6) | (46.0) | $ 354.6 | $ 5.0 | $ 359.6 |
| Adoption of new accounting pronouncements [(a)(b)] | — | — | — | 22.9 | — | — | (13.8) | 9.1 | — | 9.1 |
| Net income (loss) | — | — | — | 460.7 | — | — | — | 460.7 | (0.5) | 460.2 |
| Other comprehensive income (loss) | — | — | — | — | — | — | (34.1) | (34.1) | — | (34.1) |
| Share-based compensation | — | — | 38.4 | — | — | — | — | 38.4 | — | 38.4 |
| Dividends declared ($2.23 per share) | — | — | — | (128.8) | — | — | — | (128.8) | — | (128.8) |
| Treasury share purchases | — | — | — | — | — | (2.7) | — | (2.7) | — | (2.7) |
| Treasury share issuances | — | — | (16.5) | — | (0.4) | 38.0 | — | 21.5 | — | 21.5 |
| Balance at September 30, 2019 | 68.1 | 0.3 | 441.9 | 1,274.7 | 12.4 | (904.3) | (93.9) | 718.7 | 4.5 | 723.2 |
| Net income (loss) | — | — | — | 387.4 | — | — | — | 387.4 | 1.2 | 388.6 |
| Other comprehensive income (loss) | — | — | — | — | — | — | (5.2) | (5.2) | — | (5.2) |
| Share-based compensation | — | — | 57.9 | — | — | — | — | 57.9 | — | 57.9 |
| Dividends declared ($7.36 per share) | — | — | — | (426.5) | — | — | — | (426.5) | — | (426.5) |
| Treasury share purchases | — | — | — | — | 0.4 | (53.2) | — | (53.2) | — | (53.2) |
| Treasury share issuances | — | — | (17.6) | — | (0.4) | 35.7 | — | 18.1 | — | 18.1 |
| Balance at September 30, 2020 | 68.1 | 0.3 | 482.2 | 1,235.6 | 12.4 | (921.8) | (99.1) | 697.2 | 5.7 | 702.9 |
| Net income (loss) | — | — | — | 512.5 | — | — | — | 512.5 | 0.9 | 513.4 |
| Other comprehensive income (loss) | — | — | — | — | — | — | 32.8 | 32.8 | — | 32.8 |
| Share-based compensation | — | — | 40.6 | — | — | — | — | 40.6 | — | 40.6 |
| Dividends declared ($2.52 per share) | — | — | — | (143.0) | — | — | — | (143.0) | — | (143.0) |
| Treasury share purchases | — | — | — | — | 0.7 | (129.3) | — | (129.3) | — | (129.3) |
| Treasury share issuances | — | — | (32.6) | — | (0.5) | 48.7 | — | 16.1 | — | 16.1 |
| Acquisition of remaining noncontrolling interest in Aerogrow | — | — | (13.4) | — | — | — | — | (13.4) | (6.7) | (20.1) |
| Balance at September 30, 2021 | 68.1 | $ 0.3 | $ 476.7 | $ 1,605.1 | 12.6 | $ (1,002.4) | $ (66.4) | $ 1,013.3 | $ — | $ 1,013.3 |

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

(a) As a result of adopting ASU No. 2014-09, "Revenue from Contracts with Customers (ASC 606)," on October 1, 2018, the Company recorded a $9.1 cumulative effect of initially applying the new guidance as an adjustment to the fiscal year 2019 opening balance of retained earnings.

(b) As a result of adopting ASU No. 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," on October 1, 2018, the Company reclassified $13.8 from accumulated other comprehensive loss to retained earnings in the fiscal year 2019 opening balances.

See Notes to Consolidated Financial Statements.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### ***Nature of Operations***

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

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

The Company follows a 13-week quarterly accounting cycle pursuant to which the first three fiscal quarters end on a Saturday and the fiscal year always ends on September 30. This fiscal calendar convention requires the Company to cycle forward the first three fiscal quarter ends every six years. Fiscal 2021 was impacted by this process and, as a result, the first quarter of fiscal 2021 had five additional days and the fourth quarter of fiscal 2021 had six fewer days compared to the respective quarters of fiscal 2020.

### ***Organization and Basis of Presentation***

The Company's consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The consolidated financial statements include the accounts of Scotts Miracle-Gro and its subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation. The Company's consolidation criteria are based on majority ownership (as evidenced by a majority voting interest in the entity) and an objective evaluation and determination of effective management control. On February 26, 2021, the Company acquired the remaining outstanding shares of AeroGrow International, Inc. ("AeroGrow"). Prior to this date, the equity owned by other shareholders was shown as noncontrolling interest in the Consolidated Balance Sheets, and the other shareholders' portion of net earnings and other comprehensive income was shown as net (income) loss or comprehensive (income) loss attributable to noncontrolling interest in the Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income (Loss), respectively. The results of businesses acquired or disposed of are included in the consolidated financial statements from the date of each acquisition or up to the date of disposal, respectively.

### ***Use of Estimates***

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

### ***Advertising***

Advertising costs incurred during the year are expensed to interim periods in relation to revenues. All advertising costs, except for external production costs, are expensed within the fiscal year in which such costs are incurred. External production costs for advertising programs are deferred until the period in which the advertising is first aired. Costs deferred at September 30, 2021 and 2020 were not material. Advertising expenses were $165.7, $147.4 and $120.3 for fiscal 2021, fiscal 2020 and fiscal 2019, respectively.

### ***Research and Development***

Costs associated with research and development are generally charged to expense as incurred. Expenses for fiscal 2021, fiscal 2020 and fiscal 2019 were $45.4, $39.7 and $39.6, respectively, including product registration costs of $12.3, $11.0 and $11.0, respectively.

### ***Environmental Costs***

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

### ***Earnings per Common Share***

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

***Share-Based Compensation Awards***

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

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

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

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

***Cash and Cash Equivalents***

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

***Accounts Receivable and Allowances***

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

(Dollars in millions, except per share data)

***Inventories***

Inventories are stated at the lower of cost or net realizable value and include the cost of raw materials, labor, manufacturing overhead and freight and inbound handling costs incurred to pre-position goods in the Company's warehouse network. The Company makes provisions for obsolete or slow-moving inventories as necessary to properly reflect inventory at the lower of cost or net realizable value. Inventories are valued using the first in, first out method. Inventories acquired through the acquisition of or subsequently produced by Sunlight Supply (as defined below) were initially recorded at fair value at the date of the acquisition and subsequently were measured using the average costing method of inventory valuation. During fiscal 2020, the Company determined it was preferable to use the first in, first out inventory valuation method and adopted this method for the remaining Sunlight Supply inventories not subject to the first in, first out method. This change in accounting principle resulted in an increase in inventories of $0.2, with a corresponding decrease in cost of goods sold for fiscal 2020. The change in accounting principle was not material to prior periods so it was not retrospectively applied. Adjustments to reflect inventories at net realizable values were $22.5 and $31.3 at September 30, 2021 and 2020, respectively.

***Loans Receivable***

Loans receivable are carried at outstanding principal amount, and are recognized in the "Other assets" line in the Consolidated Balance Sheets. Loans receivable are impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. If it is determined that an impairment has occurred, an impairment loss is recognized for the amount by which the carrying value of the asset exceeds the present value of expected future cash flows. Interest income was $3.8, $7.6 and $8.6 for fiscal 2021, fiscal 2020 and fiscal 2019, respectively. Interest income is recorded on an accrual basis and is classified in the "Other non-operating income, net" line in the Consolidated Statements of Operations.

***Investment in Unconsolidated Affiliates***

Non-marketable equity investments in which the Company has the ability to exercise significant influence, but does not control, are accounted for using the equity method of accounting, with the Company's proportionate share of the earnings and losses of these entities reflected in the Condensed Consolidated Statements of Operations. The Company evaluates its equity method investments for impairment whenever events or changes in circumstances indicate that the carrying amounts of such investments may be impaired. If a decline in the value of an equity method investment is determined to be other than temporary, an impairment loss is recognized in earnings for the amount by which the carrying amount of the investment exceeds its estimated fair value.

***Long-Lived Assets***

Property, plant and equipment are stated at cost. Interest capitalized in property, plant and equipment amounted to $0.8, $0.4 and $0.5 during fiscal 2021, fiscal 2020 and fiscal 2019, respectively. Expenditures for maintenance and repairs are charged to expense as incurred. When properties are retired or otherwise disposed of, the cost of the asset and the related accumulated depreciation are removed from the accounts with the resulting gain or loss being reflected in income from operations.

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

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

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

The Company had non-cash investing activities of $ 41.6, $26.4 and $22.1 during fiscal 2021, fiscal 2020 and fiscal 2019, respectively, representing unpaid liabilities to acquire property, plant and equipment.

***Internal Use Software***

The costs of internal use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage or the post-implementation/operation stage. As of September 30, 2021 and 2020, the Company had $17.0 and $18.8, respectively, in unamortized capitalized internal use software costs. Amortization of these costs was $4.5, $4.0 and $2.9 during fiscal 2021, fiscal 2020 and fiscal 2019, respectively.

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

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

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

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

***Investments in Securities***

Convertible debt investments are classified as "available for sale," are reported at fair value and are presented in the "Other assets" line in the Consolidated Balance Sheets. Unrealized gains and losses on these investments are included in accumulated other comprehensive loss ("AOCL") in the Consolidated Balance Sheets. When a decline in fair value is considered to be other-than-temporary at the balance sheet date, an allowance for credit losses (impairment), including any write-off of accrued interest receivable, is charged to earnings. If management can assert that it does not intend to sell the security and it is not more likely than not that it will have to sell the security before recovering its amortized cost basis (net of allowance), then the impairment allowance is separated into two components: (i) the amount related to credit losses (recorded in earnings) and (ii) the amount related to all other factors (recorded in other comprehensive income). Interest income is recorded on an accrual basis and is classified in the "Other non-operating income, net" line in the Consolidated Statements of Operations.

***Insurance and Self-Insurance***

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

***Income Taxes***

The Company uses the asset and liability method to account for income taxes. Deferred tax assets and liabilities are recognized for the anticipated future tax consequences attributable to differences between financial statement amounts and their respective tax bases. Management reviews the Company's deferred tax assets to determine whether their value can be realized based upon available evidence. A valuation allowance is established when management believes that it is more likely than not that some portion of its deferred tax assets will not be realized. Changes in valuation allowances from period to period are included in the Company's tax provision in the period of change.

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

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

***Translation of Foreign Currencies***

The functional currency for each Scotts Miracle-Gro subsidiary is generally its local currency. Assets and liabilities of these subsidiaries are translated at the exchange rate in effect at each fiscal year-end. Income and expense accounts are translated at the average rate of exchange prevailing during the year. Translation gains and losses arising from the use of differing exchange rates from period to period are included in AOCL within shareholders' equity. Foreign exchange transaction gains and losses are included in the determination of net income and classified as "Other (income) expense, net" in the Consolidated Statements of Operations. The Company recognized foreign exchange transaction (gains) losses of $(1.8), $0.9 and $1.6 during fiscal 2021, fiscal 2020 and fiscal 2019, respectively.

***Derivative Instruments***

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

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

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

During the second quarter of fiscal 2016, the Company entered into definitive agreements with Bonnie Plants, Inc. and its sole shareholder, Alabama Farmers Cooperative, Inc. ("AFC"), that included options beginning in fiscal 2020 providing for either (i) the Company to increase its economic interest in Bonnie's business of planting, growing, developing, manufacturing, distributing, marketing, and selling live plants, plant food, fertilizer and potting soil (the "Bonnie Business") or (ii) AFC and Bonnie to repurchase the Company's economic interest in the Bonnie Business (collectively, the "Bonnie Option"). The Bonnie Option was surrendered at the time of the formation of the Bonnie Plants, LLC joint venture on December 31, 2020.

(Dollars in millions, except per share data)

Prior to this, the Bonnie Option was required to be accounted for as a derivative instrument and was recorded at fair value in the “Other assets” line in the Consolidated Balance Sheets, with changes in fair value recognized in the “Other non-operating income, net” line in the Consolidated Statements of Operations.

***Leases***

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

***Statements of Cash Flows***

Supplemental cash flow information was as follows:

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| Interest paid | $ 61.6 | $ 75.9 | $ 93.5 |
| Income taxes paid | 179.7 | 124.2 | 166.2 |

Fiscal 2021 cash flow from operating activities was impacted by extended payment terms with several major vendors across the U.S. Consumer and Hawthorne segments, as well as Monsanto Company, a subsidiary of Bayer AG (“Monsanto”), for payments originally due in the final weeks of fiscal 2021 and paid in the first quarter of fiscal 2022. During fiscal 2019, the Company paid a post-closing net working capital adjustment obligation of $6.6 related to the fiscal 2018 acquisition of Sunlight Supply, Inc., Sunlight Garden Supply, Inc., Sunlight Garden Supply, ULC, and IP Holdings, LLC, and all of the issued and outstanding equity interests of Columbia River Industrial Holdings, LLC (collectively “Sunlight Supply”), which was classified as an investing activity in the “Payment for acquisitions, net of cash acquired” line in the Consolidated Statements of Cash Flows.

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

**RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS**

In February 2016, the Financial Accounting Standards Board (“FASB”) issued its final standard on lease accounting, ASC 842. This guidance requires lessees to recognize a lease liability for the obligation to make lease payments and a ROU asset for the right to use the underlying asset for the lease term. The Company elected the optional transition method and adopted the new guidance on October 1, 2019 on a modified retrospective basis with no restatement of prior period amounts. Fiscal 2019 balances and related disclosures supporting those comparative period balances continue to be presented under ASC 840, “Leases.” As allowed under the new accounting standard, the Company elected to apply practical expedients to carry forward the original lease determinations, lease classifications and accounting of initial direct costs for all asset classes at the time of adoption. The Company also elected to exclude short-term leases from its Consolidated Balance Sheets. The Company’s adoption of the new standard resulted in the recognition of ROU assets of $129.6 in the “Other assets” line in the Consolidated Balance Sheets, liabilities of $45.4 in the “Other current liabilities” line in the Consolidated Balance Sheet and liabilities of $88.8 in the “Other liabilities” line in the Consolidated Balance Sheets as of the October 1, 2019 adoption date. Adoption of the new standard did not result in a material cumulative effect adjustment to equity as of the date of adoption and did not have a material impact on the Company’s Consolidated Statements of Operations or Cash Flows. Refer to “NOTE 18. LEASES” for more information.

In June 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-13, “Financial Instruments - Credit Losses (Topic 326),” which changes the impairment model for most financial assets to require measurement and recognition of expected credit losses for financial assets held. The Company adopted this guidance on October 1, 2020. The adoption of this guidance did not have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

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

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

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In December 2019, the FASB issued ASU No. 2019-12, “Income taxes (Topic 740): Simplifying the Accounting for Income Taxes,” which simplifies the accounting for income taxes by removing certain exceptions to the general principles in ASC 740 and also clarifies and amends existing guidance to improve consistent application. The provisions are effective for the Company’s financial statements no later than the fiscal year beginning October 1, 2021. Adoption of this guidance is not expected to have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

## NOTE 2. REVENUE RECOGNITION

***Nature of Goods and Services***

The Company’s revenue is primarily generated from sales of branded and private label lawn and garden care and indoor and hydroponic gardening finished products to home centers, mass merchandisers, warehouse clubs, large hardware chains, independent hardware stores, nurseries, garden centers, e-commerce platforms, food and drug stores, indoor gardening and hydroponic product distributors, retailers and growers. In addition to product sales, the Company acts as the exclusive agent of Monsanto for the marketing and distribution of certain of Monsanto’s consumer Roundup® branded products in the United States and certain other specified countries, and performs certain other services under ancillary agreements with Monsanto. Prior to December 31, 2020, the Company also provided marketing, research and development and certain ancillary services to Bonnie. Refer to “NOTE 21. SEGMENT INFORMATION” for disaggregated revenue information and “NOTE 7. MARKETING AGREEMENT” for revenue information related to the Monsanto agreements.

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

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

Under the terms of the Second Amended and Restated Exclusive Agency and Marketing Agreement (the “Restated Marketing Agreement”), as amended by the Third Amended and Restated Exclusive Agency and Marketing Agreement (the “Third Restated Agreement”), pursuant to which the Company serves as the exclusive agent of Monsanto for the marketing and distribution of certain of Monsanto’s consumer Roundup® branded products in the United States and certain other specified countries, the Company is entitled to receive an annual commission from Monsanto as consideration for the performance of the

Company's duties as agent. The Restated Marketing Agreement and Third Restated Agreement also require the Company to make annual payments to Monsanto as a contribution against the overall expenses of its consumer Roundup® business. The gross commission earned under the Restated Marketing Agreement and Third Restated Agreement and the contribution payments to Monsanto are included in the "Net sales" line in the Consolidated Statements of Operations. The Company performs other services, including conversion services, pursuant to ancillary agreements with Monsanto. The actual costs incurred for these activities are charged to and reimbursed by Monsanto. The Company records costs incurred for which the Company is the primary obligor on a gross basis, recognizing such costs in the "Cost of sales" line and the reimbursement of these costs in the "Net sales" line in the Consolidated Statements of Operations, with no effect on gross profit dollars or net income.

Prior to December 31, 2020, in exchange for services performed pursuant to the terms of the Marketing, R&D and Ancillary Services Agreement (the "Services Agreement") between the Company and AFC, Bonnie reimbursed the Company for certain costs and provided a commission fee earned based on a percentage of the growth in earnings before interest, income taxes and amortization of the Bonnie Business. The commission earned under the Services Agreement was included in the "Net sales" line in the Consolidated Statements of Operations. Additionally, the Company recorded costs incurred under the Services Agreement for which the Company is the primary obligor on a gross basis, recognizing such costs in the "Cost of sales" line and the reimbursement of these costs in the "Net sales" line in the Consolidated Statements of Operations, with no effect on gross profit dollars or net income.

***Transactional Price and Promotional Allowances***

Revenue for product sales is recorded net of sales returns and allowances. Revenues are measured based on the amount of consideration that the Company expects to receive as derived from a list price, reduced by estimates for variable consideration. Variable consideration includes the cost of current and continuing promotional programs and expected sales returns. Commission income related to the Monsanto and Bonnie agreements is recognized over the program year as the services are performed based upon the commission income formula in the agreements.

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

## NOTE 3. DISCONTINUED OPERATIONS

***International Business***

Prior to August 31, 2017, the Company operated consumer lawn and garden businesses located in Australia, Austria, Belgium, Luxembourg, Czech Republic, France, Germany, Poland and the United Kingdom (the "International Business"). On August 31, 2017, the Company completed the sale of the International Business. As a result, effective in its fourth quarter of fiscal 2017, the Company classified its results of operations for all periods presented to reflect the International Business as a discontinued operation. The sale proceeds were net of seller financing provided by the Company in the form of a $29.7 loan for seven years bearing interest at 5% for the first three years, with annual 2.5% increases thereafter. The seller financing loan receivable is recorded in the "Other assets" line in the Consolidated Balance Sheets as of September 30, 2021. The transaction also included contingent consideration with a maximum payout of $23.8 and an initial fair value of $18.2, the payment of which depended on the achievement of certain performance criteria by the International Business following the closing of the transaction through fiscal 2020. During fiscal 2021, the Company agreed to accept a contingent consideration payout of $6.0, which will be paid to the Company prior to March 31, 2022. This amount is recorded in the "Prepaid and other current assets" line in the Consolidated Balance Sheets as of September 30, 2021. The Company recorded a pre-tax charge of $12.2 during fiscal 2021 to write-down the contingent consideration receivable to the agreed upon payout amount.

***Wild Bird Food***

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

(Dollars in millions, except per share data)

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

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| Operating and exit costs | $ — | $ 1.3 | $ 0.6 |
| Impairment, restructuring and other charges (recoveries) | — | (3.1) | (35.8) |
| Write-down of contingent consideration receivable | 12.2 | — | — |
| Income (loss) from discontinued operations before income taxes | (12.2) | 1.8 | 35.2 |
| Income tax expense (benefit) from discontinued operations | (8.3) | 0.1 | 11.7 |
| Income (loss) from discontinued operations, net of tax | $ (3.9) | $ 1.7 | $ 23.5 |

The Consolidated Statements of Cash Flows do not present the cash flows from discontinued operations separately from cash flows from continuing operations. Cash provided by (used in) operating activities related to discontinued operations was zero, $3.6 and $(38.6) for fiscal 2021, fiscal 2020 and fiscal 2019, respectively. Cash (used in) provided by investing activities related to discontinued operations was zero for fiscal 2021, fiscal 2020 and fiscal 2019.

## NOTE 4. IMPAIRMENT, RESTRUCTURING AND OTHER

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

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| Cost of sales—impairment, restructuring and other: | | | |
| COVID-19 related costs | $ 25.0 | $ 15.5 | $ — |
| Restructuring and other charges (recoveries), net | (0.3) | (0.1) | 5.1 |
| Intangible asset and property, plant and equipment impairments | — | 0.6 | 0.8 |
| Operating expenses: | | | |
| COVID-19 related costs | 4.2 | 3.9 | — |
| Restructuring and other charges (recoveries), net | 0.1 | (3.1) | 7.4 |
| Impairment, restructuring and other charges from continuing operations | 29.0 | 16.8 | 13.3 |
| Restructuring and other charges (recoveries), net, from discontinued operations | — | (3.1) | (35.8) |
| Total impairment, restructuring and other charges (recoveries) | $ 29.0 | $ 13.7 | $ (22.5) |

(Dollars in millions, except per share data)

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

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| Amounts accrued for restructuring and other at beginning of year | $ 3.9 | $ 11.6 | $ 112.2 |
| Restructuring and other charges from continuing operations | 29.0 | 20.0 | 13.4 |
| Restructuring and other charges (recoveries) from discontinued operations | — | — | (22.4) |
| Payments and other | (31.0) | (27.7) | (91.6) |
| Amounts accrued for restructuring and other at end of year | $ 1.9 | $ 3.9 | $ 11.6 |

Included in restructuring accruals, as of September 30, 2021, is $0.8 that is classified as long-term. Payments against the long-term accruals will be incurred as the employees covered by the restructuring plan retire or through the passage of time. The remaining amounts accrued will continue to be paid out over the course of the next twelve months.

***COVID-19***

The COVID-19 pandemic has had, and continues to have, an impact on financial markets, economic conditions, and portions of the Company's business and industry. The Company has actively addressed the pandemic's ongoing impact on its employees, operations, customers, consumers, and communities, by, among other things, implementing contingency plans, making operational adjustments where necessary, and providing assistance to organizations that support front-line workers. Many of the Company's employees continue to work from home. In those instances where the Company's employees cannot perform their work at home, the Company has implemented additional health and safety measures and social distancing protocols, consistent with government recommendations and/or requirements, to help to ensure their safety. In addition, the Company implemented an interim premium pay allowance for certain associates in its field sales force and its manufacturing or distribution centers. During fiscal 2021, the Company incurred costs of $29.2 associated with the COVID-19 pandemic primarily related to premium pay. The Company incurred costs of $21.2 in its U.S. Consumer segment, $3.2 in its Hawthorne segment and $0.6 in its Other segment in the "Cost of sales—impairment, restructuring and other" line in the Consolidated Statements of Operations during fiscal 2021. The Company incurred costs of $4.0 in its U.S. Consumer segment and $0.2 in its Other segment in the "Impairment, restructuring and other" line in the Consolidated Statements of Operations during fiscal 2021.

During fiscal 2020, the Company incurred costs of $19.4 associated with the COVID-19 pandemic primarily related to premium pay. The Company incurred costs of $12.4 in its U.S. Consumer segment, $2.6 in its Hawthorne segment and $0.5 in its Other segment in the "Cost of sales—impairment, restructuring and other" line in the Consolidated Statements of Operations during fiscal 2020. The Company incurred costs of $3.8 in its U.S. Consumer segment and $0.1 in its Other segment in the "Impairment, restructuring and other" line in the Consolidated Statements of Operations during fiscal 2020.

***Project Catalyst***

In connection with the acquisition of Sunlight Supply during the third quarter of fiscal 2018, the Company announced the launch of an initiative called Project Catalyst, which was a company-wide restructuring effort to reduce operating costs throughout the U.S. Consumer, Hawthorne and Other segments and drive synergies from acquisitions within the Hawthorne segment. Costs incurred during fiscal 2021 and fiscal 2020 related to Project Catalyst were not material. Costs incurred to date since the inception of Project Catalyst are $24.5 for the Hawthorne segment, $13.9 for the U.S. Consumer segment, $1.3 for the Other segment and $2.8 for Corporate. Additionally, during fiscal 2020, the Company received $2.6 from the final settlement of escrow funds related to a previous acquisition within the Hawthorne segment that was recognized in the "Impairment, restructuring and other" line in the Consolidated Statements of Operations.

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

(Dollars in millions, except per share data)

***Other***

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

## NOTE 5. GOODWILL AND INTANGIBLE ASSETS, NET

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

| | U.S. Consumer | Hawthorne | Other | Total |
|---|---|---|---|---|
| Goodwill | $ 229.9 | $ 394.6 | $ 10.6 | $ 635.1 |
| Accumulated impairment losses | (1.8) | (94.6) | — | (96.4) |
| **Balance at September 30, 2019** | 228.1 | 300.0 | 10.6 | 538.7 |
| Foreign currency translation | — | 5.5 | (0.1) | 5.4 |
| | | | | |
| Goodwill | $ 229.9 | $ 400.1 | $ 10.5 | $ 640.5 |
| Accumulated impairment losses | (1.8) | (94.6) | — | (96.4) |
| **Balance at September 30, 2020** | 228.1 | 305.5 | 10.5 | 544.1 |
| Acquisitions, net of purchase price adjustments | — | 60.5 | — | 60.5 |
| Foreign currency translation | — | — | 0.6 | 0.6 |
| Reallocation | 15.8 | (15.8) | — | — |
| | | | | |
| Goodwill | $ 245.7 | $ 444.8 | $ 11.1 | $ 701.6 |
| Accumulated impairment losses | (1.8) | (94.6) | — | (96.4) |
| **Balance at September 30, 2021** | $ 243.9 | $ 350.2 | $ 11.1 | $ 605.2 |

The Company performed annual impairment testing as of the first day of its fourth fiscal quarter and concluded that there were no impairments of goodwill as the estimated fair value of each reporting unit exceeded its carrying value.

During fiscal 2021, the Company changed its internal organization structure such that AeroGrow is now managed by and reported within the U.S. Consumer segment. Within the U.S. Consumer segment, AeroGrow is integrated into the Company's overall direct to consumer focus and strategy. AeroGrow was previously managed by and reported within the Hawthorne segment. This change in organization structure resulted in a change in the Company's reporting units. As a result, goodwill included in impacted reporting units was reallocated using a relative fair value approach, resulting in $15.8 of goodwill reallocated from the Hawthorne segment to the U.S. Consumer segment during fiscal 2021. In addition, the Company completed an assessment of potential goodwill impairment immediately before and after the reallocation and determined that no impairment existed.

(Dollars in millions, except per share data)

The following table presents intangible assets, net:

| | September 30, 2021 | | | September 30, 2020 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Finite-lived intangible assets: | | | | | | |
| Tradenames | $ 293.4 | $ (73.3) | $ 220.1 | $ 258.8 | $ (61.7) | $ 197.1 |
| Customer accounts | 228.3 | (91.7) | 136.6 | 212.6 | (77.6) | 135.0 |
| Technology | 49.2 | (41.3) | 7.9 | 49.2 | (39.3) | 9.9 |
| Other | 35.3 | (14.2) | 21.1 | 24.3 | (11.0) | 13.3 |
| Total finite-lived intangible assets, net | | | 385.7 | | | 355.3 |
| Indefinite-lived intangible assets: | | | | | | |
| Indefinite-lived tradenames | | | 168.2 | | | 168.2 |
| Roundup® marketing agreement amendment | | | 155.7 | | | 155.7 |
| Total indefinite-lived intangible assets | | | 323.9 | | | 323.9 |
| Total intangible assets, net | | | $ 709.6 | | | $ 679.2 |

Total amortization expense was $30.9, $32.5 and $33.4 for fiscal 2021, fiscal 2020 and fiscal 2019, respectively. Amortization expense is estimated to be as follows for the years ending September 30:

| | |
|---|---|
| 2022 | $ 35.8 |
| 2023 | 29.4 |
| 2024 | 25.7 |
| 2025 | 23.3 |
| 2026 | 22.3 |

(Dollars in millions, except per share data)

## NOTE 6. DETAIL OF CERTAIN FINANCIAL STATEMENT ACCOUNTS

The following is detail of certain financial statement accounts:

| | September 30, 2021 | September 30, 2020 |
|---|---|---|
| **INVENTORIES:** | | |
| Finished goods | $ 793.7 | $ 390.3 |
| Raw materials | 242.8 | 164.8 |
| Work-in-progress | 90.1 | 66.8 |
| | $ 1,126.6 | $ 621.9 |

| | September 30, 2021 | September 30, 2020 |
|---|---|---|
| **PROPERTY, PLANT AND EQUIPMENT, NET:** | | |
| Land and improvements | $ 144.2 | $ 139.0 |
| Buildings | 268.5 | 260.0 |
| Machinery and equipment | 585.9 | 571.0 |
| Furniture and fixtures | 53.0 | 47.9 |
| Software | 116.2 | 112.8 |
| Finance leases | 42.4 | 39.8 |
| Aircraft | 16.6 | 16.6 |
| Construction in progress | 132.8 | 55.0 |
| | 1,359.6 | 1,242.1 |
| Less: accumulated depreciation | (737.4) | (682.1) |
| | $ 622.2 | $ 560.0 |
| **OTHER ASSETS:** | | |
| Operating lease right-of-use assets | $ 293.0 | $ 156.0 |
| Convertible debt investments | 190.3 | — |
| Accrued pension, postretirement and executive retirement assets | 89.9 | 64.3 |
| Loans receivable | 35.8 | 100.0 |
| Bonnie Option | — | 23.3 |
| Contingent consideration receivable | — | 17.9 |
| Other | 23.0 | 19.1 |
| | $ 632.0 | $ 380.6 |

**(Dollars in millions, except per share data)**

| | September 30, 2021 | September 30, 2020 |
|---|---|---|
| **OTHER CURRENT LIABILITIES:** | | |
| Advertising and promotional accruals | $ 132.7 | $ 117.4 |
| Payroll and other compensation accruals | 91.5 | 144.6 |
| Current operating lease liabilities | 66.4 | 47.5 |
| Accrued taxes | 31.7 | 42.8 |
| Accrued interest | 28.0 | 15.4 |
| Accrued dividends | 21.6 | 21.8 |
| Other | 101.3 | 103.5 |
| | $ 473.2 | $ 493.0 |
| **OTHER NON-CURRENT LIABILITIES:** | | |
| Non-current operating lease liabilities | $ 234.4 | $ 113.3 |
| Accrued pension, postretirement and executive retirement liabilities | 98.2 | 96.2 |
| Deferred tax liabilities | 47.8 | 25.2 |
| Other | 29.2 | 37.4 |
| | $ 409.6 | $ 272.1 |

## NOTE 7. MARKETING AGREEMENT

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

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

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

On January 15, 2021, the Company declined to exercise its Convenience Termination right.

The termination fee structure requires Monsanto to pay a termination fee to the Company in an amount equal to (i) $ 175.0 upon a Convenience Termination, which the Company declined to exercise, (ii) $375.0 upon a Brand Decommissioning Termination, and (iii) the greater of $175.0 or four times an amount equal to the average of the Program EBIT for the three program years before the year of termination, minus $186.4, if Monsanto or its successor terminates the Third Restated Agreement as a result of a Roundup Sale or Change of Control of Monsanto (each, as defined in the Third Restated Agreement).

(Dollars in millions, except per share data)

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

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

| | Year Ended September 30 | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| Gross commission | $ 94.0 | $ 90.4 | $ 58.4 |
| Contribution expenses | (18.0) | (18.0) | (18.0) |
| Net commission | 76.0 | 72.4 | 40.4 |
| Reimbursements associated with Roundup® marketing agreement | 70.8 | 61.6 | 73.4 |
| Total net sales associated with Roundup® marketing agreement | $ 146.8 | $ 134.0 | $ 113.8 |

## NOTE 8. ACQUISITIONS AND INVESTMENTS

***Rhizoflora***

On August 13, 2021, the Company's Hawthorne segment completed the acquisition of substantially all of the assets of Rhizoflora, Inc., manufacturer of terpene enhancing nutrient products Terpinator® and Purpinator®, for $33.7. The valuation of the acquired assets included (i) $0.5 of inventory, (ii) $10.9 of finite-lived identifiable intangible assets and (iii) $ 22.2 of tax-deductible goodwill. Identifiable intangible assets included tradenames, customer relationships and non-compete agreements with useful lives ranging between 5 and 25 years. The estimated fair values of the identifiable intangible assets were determined using an income-based approach, which includes market participant expectations of cash flows that an asset will generate over the remaining useful life discounted to present value using an appropriate discount rate.

***The Hawthorne Collective***

On August 24, 2021, the Company's newly formed subsidiary, The Hawthorne Collective, Inc., made its initial investment under the Company's strategic minority non-equity investment initiative in the form of a $150.0 six-year convertible note issued to the Company by Toronto-based RIV Capital Inc. ("RIV Capital") (CSE: RIV) (OTC: CNPOF), a cannabis investment and acquisition firm listed on the Canadian Securities Exchange. The note accrues interest at 2 percent annually for the first two years and provides additional follow-on investment rights. Accrued interest will be payable to The Hawthorne Collective, Inc. at maturity or will be included in the conversion value of the note at the time of conversion. The conversion feature, which is based upon the RIV Capital closing stock price on August 9, 2021, would provide the Company with approximately 42 percent ownership of RIV Capital if it exercises the conversion feature. In connection with the Company's investment, RIV Capital increased the size of its Board of Directors from four to seven members, and added three nominees of the Company to the Board of Directors. The Company will not have control of or an active day-to-day role in RIV Capital nor any of the companies in which RIV Capital invests. RIV Capital has agreed to use the funds for general corporate and other lawful purposes, which could include acquisitions, and has agreed that the funds will not be used in connection with or for any cannabis or cannabis-related operations in the U.S. unless and until such operations comply with all applicable U.S. federal laws.

During the fourth quarter of fiscal 2021, The Hawthorne Collective, Inc. made additional minority non-equity investments of $ 43.1 million in other entities focused on branded cannabis and high quality genetics. These additional investments also include conversion features that would provide the Company with minority ownership interests if it exercises the conversion features. The investments include restrictions that the funds will not be used in connection with or for any cannabis or cannabis-related operations in the U.S. unless and until such operations comply with all applicable U.S. federal laws.

***Hydro-Logic***

On August 27, 2021, the Company's Hawthorne segment completed the acquisition of substantially all of the assets of Hydro-Logic Purification Systems, Inc., a leading provider of products, accessories and systems for water filtration and purification, for $66.7. The purchase price is subject to a post-closing net working capital adjustment for which the Company has accrued its expected obligation of $1.7 as of September 30, 2021 in the "Other current liabilities" line in the Consolidated Balance Sheets. The valuation of the acquired assets included (i) $6.1 of inventory and accounts receivable, (ii) $ 1.7 of noncurrent assets, (iii) $2.5 of other liabilities, (iv) $ 23.1 of finite-lived identifiable intangible assets and (v) $38.3 of tax-deductible goodwill. Identifiable intangible assets included tradenames, customer relationships and non-complete agreements 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.

***AeroGrow***

On November 11, 2020, the Company entered into an agreement and plan of merger to acquire the remaining outstanding shares of AeroGrow for cash consideration of $3.00 per share, or approximately $ 20.1. The merger closed on February 26, 2021. Prior to closing, SMG Growing Media, Inc., a wholly-owned subsidiary of Scotts Miracle-Gro, was the holder of 80.5% of the outstanding shares of AeroGrow. The closing date carrying value of the noncontrolling interest was $6.7 and the $13.4 difference between the purchase price and carrying value was recognized in the "Common shares and capital in excess of $0.01 stated value per share" line within "Total equity—controlling interest" in the Consolidated Balance Sheets.

**NOTE 9. INVESTMENT IN UNCONSOLIDATED AFFILIATES**

On December 31, 2020, pursuant to the terms of the Contribution and Unit Purchase Agreement between the Company and AFC, the Company acquired a 50% equity interest in the Bonnie Plants business of planting, growing, developing, manufacturing, distributing, marketing, and selling live plants, plant food, fertilizer and potting soil through a newly formed joint venture with AFC ("Bonnie Plants, LLC") in exchange for cash payments of $102.3, as well as non-cash investing activities that included forgiveness of the Company's outstanding loan receivable with AFC and surrender of the Company's options to increase its economic interest in the Bonnie Plants business. The Company's loan receivable with AFC, which was previously recognized in the "Other assets" line in the Consolidated Balance Sheets, had a carrying value of $66.4 on December 31, 2020 and the Company recognized a gain of $ 12.5 during the first quarter of fiscal 2021 to write-up the value of the loan to its closing date fair value of $78.9 in the "Other non-operating income, net" line in the Consolidated Statements of Operations. The Company's options to increase its economic interest in the Bonnie Plants business were previously recognized in the "Other assets" line in the Consolidated Balance Sheets and had an estimated fair value of $23.3 on December 31, 2020. The Company's interest in Bonnie Plants, LLC had an initial fair value of $202.9 and is recorded in the "Investment in unconsolidated affiliates" line in the Consolidated Balance Sheets. The estimated fair value of the loan receivable with AFC was determined using an income-based approach, which includes market participant expectations of cash flows over the remaining useful life discounted to present value using an appropriate discount rate. The fair value estimate utilized significant unobservable inputs and thus represents a Level 3 nonrecurring fair value measurement.

The Company's interest is accounted for using the equity method of accounting, with the Company's proportionate share of Bonnie Plants, LLC earnings subsequent to December 31, 2020 reflected in the Consolidated Statements of Operations. During fiscal 2021, the Company recorded equity in income of unconsolidated affiliates of $14.4 associated with Bonnie Plants, LLC. The Company also received a distribution of $12.0 from Bonnie Plants, LLC during fiscal 2021, which was classified as an operating activity in the Consolidated Statements of Cash Flows.

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

During the fourth quarter of fiscal 2017, the Company made a $ 29.4 investment in an unconsolidated subsidiary whose products support the professional U.S. industrial, turf and ornamental market (the "IT&O Joint Venture"). On April 1, 2019, the Company sold all of its noncontrolling equity interest in the IT&O Joint Venture for cash proceeds of $36.6. During fiscal

(Dollars in millions, except per share data)

2019, the Company recognized a pre-tax gain of $ 2.9 related to this sale in the "Other non-operating income, net" line in the Consolidated Statements of Operations. During fiscal 2019, the Company received a distribution of net earnings from the IT&O Joint Venture of $4.9, which was classified as an operating activity in the Consolidated Statements of Cash Flows.

## NOTE 10. RETIREMENT PLANS

The Company sponsors a defined contribution 401(k) plan for substantially all U.S. associates. The Company matches 200% of associates' initial 3% contribution and 50% of their remaining contribution up to 6%. The Company may make additional discretionary profit sharing matching contributions to eligible employees on their initial 4% contribution. The Company recorded charges of $30.1, $27.7 and $18.9 under the plan in fiscal 2021, fiscal 2020 and fiscal 2019, respectively.

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

During fiscal 2021, a defined benefit pension plan associated with the former business in the United Kingdom entered into a buy-in insurance policy in exchange for a premium payment of $67.7, which is subject to adjustment as a result of subsequent data cleansing activities. Under the terms of this buy-in insurance policy, the insurer is liable to pay the benefits to the plan but the plan still retains full legal responsibility to pay the benefits to the members of the plan using the insurance payments. The buy-in policy will be treated as an asset of the plan going forward until such time as the buy-in policy is converted to a buy-out policy, which is when individual insurance policies will be assigned to each member of the plan and the plan will no longer have legal responsibility to pay the benefits to the members.

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

| | U.S. Defined Benefit Pension Plans | | International Defined Benefit Pension Plans | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| **Change in projected benefit obligation:** | | | | |
| Benefit obligation at beginning of year | $ 109.8 | $ 108.0 | $ 193.7 | $ 185.2 |
| Interest cost | 1.5 | 2.6 | 2.6 | 2.7 |
| Actuarial (gain) loss | (4.1) | 6.4 | (2.9) | 4.0 |
| Benefits paid | (7.0) | (7.2) | (7.6) | (7.7) |
| Foreign currency translation | — | — | 7.8 | 9.5 |
| Projected benefit obligation ("PBO") at end of year | $ 100.2 | $ 109.8 | $ 193.6 | $ 193.7 |
| **Accumulated benefit obligation ("ABO") at end of year** | $ 100.2 | $ 109.8 | $ 193.6 | $ 193.7 |
| **Change in plan assets:** | | | | |
| Fair value of plan assets at beginning of year | $ 81.5 | $ 81.3 | $ 209.9 | $ 196.6 |
| Actual return on plan assets | 5.9 | 5.1 | 2.1 | 3.9 |
| Employer contribution | 1.3 | 2.3 | 7.9 | 7.3 |
| Benefits paid | (7.0) | (7.2) | (7.6) | (7.7) |
| Foreign currency translation | — | — | 9.3 | 9.8 |
| Fair value of plan assets at end of year | $ 81.7 | $ 81.5 | $ 221.6 | $ 209.9 |
| **Overfunded (underfunded) status at end of year** | $ (18.5) | $ (28.3) | $ 28.0 | $ 16.2 |

(Dollars in millions, except per share data)

| | U.S. Defined Benefit Pension Plans | | International Defined Benefit Pension Plans | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| **Information for pension plans with an ABO in excess of plan assets:** | | | | |
| Accumulated benefit obligation | $ 100.2 | $ 109.8 | $ 16.9 | $ 18.3 |
| Fair value of plan assets | 81.7 | 81.5 | — | — |
| **Information for pension plans with a PBO in excess of plan assets:** | | | | |
| Projected benefit obligation | $ 100.2 | $ 109.8 | $ 16.9 | $ 18.3 |
| Fair value of plan assets | 81.7 | 81.5 | — | — |
| **Amounts recognized in the Consolidated Balance Sheets consist of:** | | | | |
| Noncurrent assets | $ — | $ — | $ 44.9 | $ 34.5 |
| Current liabilities | (0.2) | (0.2) | (0.9) | (0.9) |
| Noncurrent liabilities | (18.3) | (28.1) | (16.0) | (17.4) |
| Total amount accrued | $ (18.5) | $ (28.3) | $ 28.0 | $ 16.2 |
| **Amounts recognized in AOCL consist of:** | | | | |
| Actuarial loss | $ 39.2 | $ 47.9 | $ 51.4 | $ 50.2 |
| Prior service cost | — | — | 2.7 | 2.6 |
| Total amount recognized | $ 39.2 | $ 47.9 | $ 54.1 | $ 52.8 |

| | U.S. Defined Benefit Pension Plans | | International Defined Benefit Pension Plans | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| **Total change in other comprehensive loss attributable to:** | | | | |
| Net gain (loss) during the period | $ 6.6 | $ (5.3) | $ (0.6) | $ (7.0) |
| Reclassification to net income | 2.1 | 1.8 | 1.3 | 1.0 |
| Foreign currency translation | — | — | (2.0) | (2.5) |
| Total change in other comprehensive loss | $ 8.7 | $ (3.5) | $ (1.3) | $ (8.5) |
| **Weighted average assumptions used in development of projected benefit obligation:** | | | | |
| Discount rate | 2.37 % | 2.05 % | 1.90 % | 1.51 % |

| | U.S. Defined Benefit Pension Plans | | | International Defined Benefit Pension Plans | | |
|---|---|---|---|---|---|---|
| | 2021 | 2020 | 2019 | 2021 | 2020 | 2019 |
| **Components of net periodic benefit cost (income):** | | | | | | |
| Interest cost | $ 1.5 | $ 2.6 | $ 3.5 | $ 2.6 | $ 2.7 | $ 4.0 |
| Expected return on plan assets | (3.4) | (3.9) | (4.0) | (5.5) | (6.9) | (7.1) |
| Net amortization | 2.1 | 1.8 | 1.4 | 1.3 | 1.0 | 0.8 |
| Net periodic benefit cost (income) | $ 0.2 | $ 0.5 | $ 0.9 | $ (1.6) | $ (3.2) | $ (2.3) |
| **Weighted average assumptions used in development of net periodic benefit cost (income):** | | | | | | |
| Weighted average discount rate - interest cost | 1.43 % | 2.44 % | 3.67 % | 1.26 % | 1.42 % | 2.34 % |
| Expected return on plan assets | 4.25 % | 5.00 % | 5.25 % | 2.45 % | 3.39 % | 3.94 % |

(Dollars in millions, except per share data)

***Investment Strategy***

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

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

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

| | U.S. Defined Benefit Pension Plans | International Defined Benefit Pension Plans |
|---|---|---|
| **Other information:** | | |
| Plan asset allocations: | | |
| Target for September 30, 2022: | | |
| Equity securities | 22 % | 20 % |
| Debt securities | 74 % | 50 % |
| Real estate securities | 4 % | — % |
| Insurance contracts | — % | 30 % |
| September 30, 2021 | | |
| Equity securities | 20 % | 22 % |
| Debt securities | 73 % | 48 % |
| Real estate securities | 4 % | — % |
| Cash and cash equivalents | 3 % | — % |
| Insurance contracts | — % | 30 % |
| September 30, 2020 | | |
| Equity securities | 21 % | 27 % |
| Debt securities | 73 % | 73 % |
| Real estate securities | 4 % | — % |
| Cash and cash equivalents | 2 % | — % |
| | | |
| Expected company contributions in fiscal 2022 | $ 0.2 | $ 7.8 |
| Expected future benefit payments: | | |
| 2022 | $ 7.7 | $ 5.9 |
| 2023 | 7.3 | 6.3 |
| 2024 | 7.2 | 6.6 |
| 2025 | 7.1 | 6.9 |
| 2026 | 6.9 | 7.2 |
| 2027 – 2031 | 31.0 | 38.2 |

(Dollars in millions, except per share data)

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

| | Fair Value Hierarchy Level | U.S. Defined Benefit Pension Plans 2021 | U.S. Defined Benefit Pension Plans 2020 | International Defined Benefit Pension Plans 2021 | International Defined Benefit Pension Plans 2020 |
|---|---|---|---|---|---|
| Cash and cash equivalents | Level 1 | $ 2.9 | $ 1.8 | $ 0.2 | $ 0.5 |
| Insurance contracts | Level 3 | — | — | 66.7 | — |
| Total assets in the fair value hierarchy | | $ 2.9 | $ 1.8 | $ 66.9 | $ 0.5 |
| Common collective trusts measured at net asset value | | | | | |
| Real estate | | $ 3.4 | $ 2.9 | $ — | $ — |
| Equities | | 16.0 | 17.5 | 48.3 | 57.3 |
| Fixed income | | 59.4 | 59.3 | 106.4 | 152.1 |
| Total common collective trusts measured at net asset value | | 78.8 | 79.7 | 154.7 | 209.4 |
| Total assets at fair value | | $ 81.7 | $ 81.5 | $ 221.6 | $ 209.9 |

The carrying value of cash equivalents approximated their aggregate fair value as of September 30, 2021 and 2020. The valuation for the buy-in insurance policy is calculated on an insurer pricing basis and is estimated using unobservable inputs. Common collective trusts are not publicly traded and were valued at a net asset value unit price determined by the portfolio's sponsor based on the fair value of underlying assets held by the common collective trust on September 30, 2021 and 2020. The common collective trusts hold underlying investments that have prices derived from quoted prices in active markets. The underlying assets are principally marketable equity and fixed income securities.

**NOTE 11. ASSOCIATE MEDICAL BENEFITS**

The Company provides comprehensive major medical benefits to its associates. The Company is self-insured for certain health benefits up to $0.7 per occurrence per individual. The cost of such benefits is recognized as expense in the period the claim is incurred. This cost was $43.7, $34.2 and $31.4 in fiscal 2021, fiscal 2020 and fiscal 2019, respectively.

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

(Dollars in millions, except per share data)

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

| | 2021 | 2020 |
|---|---|---|
| **Change in Accumulated Plan Benefit Obligation (APBO):** | | |
| Benefit obligation at beginning of year | $ 22.4 | $ 22.8 |
| Service cost | 0.2 | 0.2 |
| Interest cost | 0.4 | 0.6 |
| Plan participants' contributions | 0.4 | 0.4 |
| Actuarial (gain) loss | (0.8) | 0.7 |
| Benefits paid | (2.4) | (2.3) |
| Benefit obligation at end of year | $ 20.1 | $ 22.4 |
| **Change in plan assets:** | | |
| Fair value of plan assets at beginning of year | $ — | $ — |
| Employer contribution | 2.0 | 1.9 |
| Plan participants' contributions | 0.4 | 0.4 |
| Gross benefits paid | (2.4) | (2.3) |
| Fair value of plan assets at end of year | $ — | $ — |
| Unfunded status at end of year | $ (20.1) | $ (22.4) |

| | 2021 | 2020 |
|---|---|---|
| **Amounts recognized in the Consolidated Balance Sheets consist of:** | | |
| Current liabilities | $ (1.5) | $ (1.6) |
| Noncurrent liabilities | (18.6) | (20.8) |
| Total amount accrued | $ (20.1) | $ (22.4) |
| **Amounts recognized in AOCL consist of:** | | |
| Actuarial loss | $ 2.5 | $ 3.6 |
| Prior service credit | (1.4) | (2.5) |
| Total amount recognized | $ 1.1 | $ 1.1 |
| **Total change in other comprehensive loss attributable to:** | | |
| Gain (loss) during the period | $ 0.8 | $ (0.7) |
| Reclassification to net income | (0.8) | (0.9) |
| Total change in other comprehensive loss | $ — | $ (1.6) |
| | | |
| **Discount rate used in development of APBO** | 2.66 % | 2.48 % |

Net periodic benefit cost (income) was $( 0.2) during fiscal 2021 and $( 0.1) during fiscal 2020 and fiscal 2019. For measurement as of September 30, 2021, management has assumed that health care costs will increase at an annual rate of 5.75%, and thereafter decreasing to an ultimate trend rate of 4.75% in 2026.

(Dollars in millions, except per share data)

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

| | Gross Benefit Payments | Retiree Contributions | Net Company Payments |
|---|---|---|---|
| 2022 | $ 2.0 | $ (0.5) | $ 1.5 |
| 2023 | 2.1 | (0.5) | 1.6 |
| 2024 | 2.0 | (0.5) | 1.5 |
| 2025 | 2.0 | (0.5) | 1.5 |
| 2026 | 2.1 | (0.6) | 1.5 |
| 2027 – 2031 | 10.4 | (3.6) | 6.8 |

**NOTE 12. DEBT**

The components of debt are as follows:

| | September 30, 2021 | September 30, 2020 |
|---|---|---|
| Credit Facilities: | | |
| Revolving loans | $ — | $ 64.0 |
| Term loans | 670.0 | 710.0 |
| Senior Notes – 4.000% | 500.0 | — |
| Senior Notes – 4.375% | 400.0 | — |
| Senior Notes – 4.500% | 450.0 | 450.0 |
| Senior Notes – 5.250% | 250.0 | 250.0 |
| Receivables facility | — | 20.0 |
| Finance lease obligations | 33.4 | 36.1 |
| Other | 11.9 | 1.1 |
| Total debt | 2,315.3 | 1,531.2 |
| Less current portions | 57.8 | 66.4 |
| Less unamortized debt issuance costs | 20.8 | 9.7 |
| Long-term debt | $ 2,236.7 | $ 1,455.1 |

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

| | |
|---|---|
| 2022 | $ 51.9 |
| 2023 | 630.0 |
| 2024 | — |
| 2025 | — |
| 2026 | — |
| Thereafter | 1,600.0 |
| | $ 2,281.9 |

***Credit Facilities***

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

At September 30, 2021, the Company had letters of credit outstanding in the aggregate principal amount of $ 19.8, and $1,480.2 of borrowing availability under the Fifth A&R Credit Agreement. The weighted average interest rates on average borrowings under the Fifth A&R Credit Agreement were 1.9%, 3.3% and 4.6% for fiscal 2021, fiscal 2020 and fiscal 2019, respectively.

The Fifth A&R Credit Agreement contains, among other obligations, an affirmative covenant regarding the Company's leverage ratio on the last day of each quarter calculated as average total indebtedness, divided by the Company's earnings before interest, taxes, depreciation and amortization ("EBITDA"), as adjusted pursuant to the terms of the Fifth A&R Credit Agreement ("Adjusted EBITDA"). The maximum leverage ratio is 4.50. The Company's leverage ratio was 2.70 at September 30, 2021. The Fifth A&R Credit Agreement also contains an affirmative covenant regarding the Company's interest coverage ratio determined as of the end of each of its fiscal quarters. The interest coverage ratio is calculated as Adjusted EBITDA divided by interest expense, as described in the Fifth A&R Credit Agreement, and excludes costs related to refinancings. The minimum interest coverage ratio was 3.00 for the twelve months ended September 30, 2021. The Company's interest coverage ratio was 10.63 for the twelve months ended September 30, 2021.

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

***Senior Notes***

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

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

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

On March 17, 2021, Scotts Miracle-Gro issued $ 500.0 aggregate principal amount of 4.000% Senior Notes due 2031 (the " 4.000% Senior Notes"). The net proceeds of the offering were used to reduce borrowings under the Fifth A&R Credit Facilities. The 4.000% Senior Notes represent general unsecured senior obligations and rank equal in right of payment with the Company's existing and future unsecured senior debt. The 4.000% Senior Notes have interest payment dates of April 1 and October 1 of each year, commencing October 1, 2021. All of Scotts Miracle-Gro's domestic subsidiaries that serve as guarantors of the 5.250% Senior Notes also serve as guarantors of the 4.000% Senior Notes.

On August 13, 2021, Scotts Miracle-Gro issued $ 400.0 aggregate principal amount of 4.375% Senior Notes due 2032 (the " 4.375% Senior Notes"). The net proceeds of the offering were used to reduce borrowings under the Fifth A&R Credit Facilities and for other general corporate purposes. The 4.375% Senior Notes represent general unsecured senior obligations and rank equal in right of payment with the Company's existing and future unsecured senior debt. The 4.375% Senior Notes have interest payment dates of February 1 and August 1 of each year, commencing February 1, 2022. All of Scotts Miracle-Gro's domestic subsidiaries that serve as guarantors of the 5.250% Senior Notes also serve as guarantors of the 4.375% Senior Notes.

***Receivables Facility***

On April 7, 2017, the Company entered into a Master Repurchase Agreement (including the annexes thereto, the "Repurchase Agreement") and a Master Framework Agreement, as amended (the "Framework Agreement" and, together with the Repurchase Agreement, the "Receivables Facility"). Under the Receivables Facility, the Company may sell a portfolio of available and eligible outstanding customer accounts receivable to the purchasers and simultaneously agree to repurchase the receivables on a weekly basis. The eligible accounts receivable consist of accounts receivable generated by sales to three specified customers. The eligible amount of customer accounts receivables which may be sold under the Receivables Facility is

$400.0 and the commitment amount during the seasonal commitment period beginning on February 25, 2022 and ending on June 17, 2022 is $160.0. The Receivables Facility expires on August 19, 2022.

The Company accounts for the sale of receivables under the Receivables Facility as short-term debt and continues to carry the receivables on its Consolidated Balance Sheets, primarily as a result of the Company's requirement to repurchase receivables sold. As of September 30, 2021 and 2020, there were zero and $20.0, respectively, in borrowings on receivables pledged as collateral under the Receivables Facility, and the carrying value of the receivables pledged as collateral was zero and $22.3, respectively.

***Interest Rate Swap Agreements***

The Company has outstanding interest rate swap agreements with major financial institutions that effectively convert a portion of the Company's variable-rate debt to a fixed rate. Interest payments made between the effective date and expiration date are hedged by the swap agreements. Swap agreements that were hedging interest payments as of September 30, 2021 and 2020 had a maximum total U.S. dollar equivalent notional amount of $600.0. The notional amount, effective date, expiration date and rate of each of the swap agreements outstanding at September 30, 2021 are shown in the table below:

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

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

***Weighted Average Interest Rate***

The weighted average interest rates on the Company's debt were 3.7%, 4.3% and 4.8% for fiscal 2021, fiscal 2020 and fiscal 2019, respectively.

## NOTE 13. EQUITY

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

| | September 30, 2021 | September 30, 2020 |
|---|---|---|
| Preferred shares, no par value: | | |
| Authorized | 0.2 shares | 0.2 shares |
| Issued | 0.0 shares | 0.0 shares |
| Common shares, no par value, $ 0.01 stated value per share: | | |
| Authorized | 100.0 shares | 100.0 shares |
| Issued | 68.1 shares | 68.1 shares |

In fiscal 1995, The Scotts Company merged with Stern's Miracle-Gro Products, Inc. ("Miracle-Gro"). At September 30, 2021, the former shareholders of Miracle-Gro, including the Hagedorn Partnership, L.P., owned approximately 26% of Scotts Miracle-Gro's outstanding Common Shares on a fully diluted basis and, thus, have the ability to significantly influence the election of directors and other actions requiring the approval of Scotts Miracle-Gro's shareholders.

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

(Dollars in millions, except per share data)

***Accumulated Other Comprehensive Loss***

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

| | Foreign Currency Translation Adjustments | Net Unrealized Gain (Loss) On Derivative Instruments | Net Unrealized Loss On Securities | Net Unrealized Gain (Loss) in Pension and Other Post-Retirement Benefits | Accumulated Other Comprehensive Income (Loss) |
|---|---|---|---|---|---|
| **Balance at September 30, 2018** | $ (8.7) | $ 8.3 | $ — | $ (45.6) | $ (46.0) |
| Other comprehensive income (loss) before reclassifications | (11.2) | (20.1) | — | (15.0) | (46.3) |
| Amounts reclassified from accumulated other comprehensive net income (loss) | 2.5 | (2.0) | — | 2.8 | 3.3 |
| Income tax benefit (expense) | — | 5.7 | — | 3.2 | 8.9 |
| Net current period other comprehensive income (loss) | (8.7) | (16.4) | — | (9.0) | (34.1) |
| Adoption of new accounting pronouncements | — | — | — | (13.8) | (13.8) |
| **Balance at September 30, 2019** | (17.4) | (8.1) | — | (68.4) | (93.9) |
| Other comprehensive income (loss) before reclassifications | 10.5 | (19.7) | — | (12.9) | (22.1) |
| Amounts reclassified from accumulated other comprehensive net income (loss) | 0.8 | 10.1 | — | 0.3 | 11.2 |
| Income tax benefit (expense) | — | 2.5 | — | 3.2 | 5.7 |
| Net current period other comprehensive income (loss) | 11.3 | (7.1) | — | (9.4) | (5.2) |
| **Balance at September 30, 2020** | (6.2) | (15.1) | — | (77.8) | (99.1) |
| Other comprehensive income (loss) before reclassifications | 4.5 | 26.8 | (3.1) | 6.9 | 35.1 |
| Amounts reclassified from accumulated other comprehensive net income (loss) | — | 7.3 | — | 0.4 | 7.7 |
| Income tax benefit (expense) | — | (8.9) | 0.8 | (1.9) | (10.0) |
| Net current period other comprehensive income (loss) | 4.5 | 25.2 | (2.3) | 5.4 | 32.8 |
| **Balance at September 30, 2021** | $ 1.7 | $ 10.2 | $ (2.3) | $ 72.5 | $ (66.4) |

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

***Dividends***

On July 27, 2020, the Scotts Miracle-Gro Board of Directors approved an increase in the Company’s quarterly cash dividend from $ 0.58 to $0.62 per Common Share. In addition, on July 27, 2020, the Scotts Miracle-Gro Board of Directors approved a special cash dividend of $5.00 per Common Share, which was paid on September 10, 2020 to all shareholders of record at the close of business on August 27, 2020. On July 30, 2021, the Scotts Miracle-Gro Board of Directors approved an increase in the Company’s quarterly cash dividend from $0.62 to $0.66 per Common Share, which was first paid in the fourth quarter of fiscal 2021.

***Share Repurchases***

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

(Dollars in millions, except per share data)

On February 6, 2020, Scotts Miracle-Gro announced that its Board of Directors authorized the repurchase of up to $ 750.0 of Common Shares from April 30, 2020 through March 25, 2023. The authorization provides the Company with flexibility to purchase Common Shares from time to time in open market purchases or through privately negotiated transactions. All or part of the repurchases may be made under Rule 10b5-1 plans, which the Company may enter into from time to time and which enable the repurchases to occur on a more regular basis, or pursuant to accelerated share repurchases. The share repurchase authorization may be suspended or discontinued by the Board of Directors at any time, and there can be no guarantee as to the timing or amount of any repurchases. There were no share repurchases under this share repurchase authorization during fiscal 2020. During fiscal 2021, Scotts Miracle-Gro repurchased 0.6 million Common Shares under this share repurchase authorization for $113.1. The "Treasury share purchases" lines in the Consolidated Statements of Shareholders' Equity includes cash paid to tax authorities to satisfy statutory income tax withholding obligations related to share-based compensation of $16.3, $4.9 and $2.7 for fiscal 2021, fiscal 2020 and fiscal 2019, respectively.

***Share-Based Awards***

A maximum of 7.3 million Common Shares are available for issuance under share-based award plans. At September 30, 2021, approximately 2.6 million Common Shares were not subject to outstanding awards and were available to underlie the grant of new share-based awards. Common Shares held in treasury totaling 0.4 million, 0.4 million and 0.5 million were reissued in support of share-based compensation awards and employee purchases under the employee stock purchase plan during fiscal 2021, fiscal 2020 and fiscal 2019, respectively. Performance-based award units with performance periods ending September 30, 2021 achieved a weighted average of 240 percent of the target performance share units granted and will result in the reissuance of 1.2 million Common Shares held in treasury, and a corresponding reduction in the number of shares available to underlie new share-based awards in the future, upon vesting during fiscal 2022.

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

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| Employees | | | |
| Options | 183,553 | 37,255 | — |
| Restricted stock units | 70,936 | 119,726 | 166,534 |
| Performance units | 1,903 | 37,570 | 131,644 |
| Non-Employee Directors | | | |
| Restricted and deferred stock units | 9,173 | 18,948 | 32,101 |
| Total share-based awards | 265,565 | 213,499 | 330,279 |
| Aggregate fair value at grant dates | $ 30.2 | $ 21.5 | $ 25.5 |

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

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| Share-based compensation | $ 40.6 | $ 57.9 | $ 38.4 |
| Related tax benefit recognized | 7.4 | 14.6 | 9.5 |

Excess tax benefits related to share-based compensation were $ 18.3, $5.8 and $2.8 for fiscal 2021, fiscal 2020 and fiscal 2019, respectively.

(Dollars in millions, except per share data)

***Stock Options***

Stock option activity was as follows:

| | No. of Options | Wtd. Avg. Exercise Price |
|---|---|---|
| Awards outstanding at September 30, 2020 | 619,225 | $ 57.90 |
| Granted | 183,553 | 236.53 |
| Exercised | (234,587) | 51.18 |
| Awards outstanding at September 30, 2021 | 568,191 | 118.38 |
| Exercisable | 384,638 | 62.00 |

At September 30, 2021, the total pre-tax compensation cost, net of estimated forfeitures, related to nonvested stock options not yet recognized was $3.7, which is expected to be recognized over a weighted-average period of 2.3 years. The total intrinsic value of stock options exercised was $41.8, $21.9 and $17.5 during fiscal 2021, fiscal 2020 and fiscal 2019, respectively. Cash received from the exercise of stock options, including amounts received from employee purchases under the employee stock purchase plan, was $15.2, $17.6 and $21.4 for fiscal 2021, fiscal 2020 and fiscal 2019, respectively. The following summarizes certain information pertaining to stock option awards outstanding and exercisable at September 30, 2021:

| | Awards Outstanding | | | Awards Exercisable | | |
|---|---|---|---|---|---|---|
| Range of Exercise Price | No. of Options | Wtd. Avg. Remaining Life | Wtd. Avg. Exercise Price | No. of Options | Wtd. Avg. Remaining Life | Wtd. Avg. Exercise Price |
| $42.60 - $42.60 | 3,706 | 0.30 | $ 42.60 | 3,706 | 0.30 | $ 42.60 |
| $59.62 - $64.55 | 380,932 | 3.85 | 62.18 | 380,932 | 3.85 | 62.18 |
| $236.53 - $236.53 | 183,553 | 9.35 | 236.53 | — | 0.00 | — |
| | 568,191 | 5.60 | 118.38 | 384,638 | 3.82 | 62.00 |

The intrinsic values of the stock option awards outstanding and exercisable at September 30, 2021 were as follows:

| | 2021 |
|---|---|
| Outstanding | $ 32.4 |
| Exercisable | 32.4 |

The weighted average assumptions for stock option awards granted in fiscal 2021 are as follows:

| | |
|---|---|
| Expected market price volatility | 31.9 % |
| Risk-free interest rate | 0.7 % |
| Expected dividend yield | 1.8 % |
| Expected life of stock options in years | 6.06 |
| Estimated weighted-average fair value per stock option | $ 61.15 |

(Dollars in millions, except per share data)

***Restricted share-based awards***

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

| | No. of Shares | Wtd. Avg. Grant Date Fair Value per Share |
|---|---|---|
| Awards outstanding at September 30, 2020 | 500,237 | $ 94.53 |
| Granted | 80,109 | 230.95 |
| Vested | (194,105) | 92.70 |
| Forfeited | (10,416) | 96.54 |
| Awards outstanding at September 30, 2021 | 375,825 | 124.50 |

At September 30, 2021, the total pre-tax compensation cost, net of estimated forfeitures, related to nonvested restricted share units not yet recognized was $11.3, which is expected to be recognized over a weighted-average period of 1.8 years. The total fair value of restricted stock units and deferred stock units vested was $41.8, $15.2 and $6.3 during fiscal 2021, fiscal 2020 and fiscal 2019, respectively.

***Performance-based awards***

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

| | No. of Units | Wtd. Avg. Grant Date Fair Value per Unit |
|---|---|---|
| Awards outstanding at September 30, 2020 | 666,128 | $ 92.85 |
| Granted | 1,903 | 236.53 |
| Vested [(a)] | (26,729) | 87.99 |
| Forfeited | (68,745) | 95.49 |
| Awards outstanding at September 30, 2021 | 572,557 | 95.09 |

(a) Vested at a weighted average of 196 percent of the target performance share units granted.

At September 30, 2021, the total pre-tax compensation cost, net of estimated forfeitures, related to nonvested performance-based units not yet recognized was $8.6, which is expected to be recognized over a weighted-average period of 0.9 years. The total fair value of performance-based units vested was $11.9 during fiscal 2021 and $ 3.9 during fiscal 2020 and fiscal 2019 .

(Dollars in millions, except per share data)

## NOTE 14. EARNINGS PER COMMON SHARE

The following table presents information necessary to calculate basic and diluted income per Common Share.

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| Income from continuing operations | $ 517.3 | $ 386.9 | $ 436.7 |
| Net (income) loss attributable to noncontrolling interest | (0.9) | (1.2) | 0.5 |
| Income attributable to controlling interest from continuing operations | 516.4 | 385.7 | 437.2 |
| Income (loss) from discontinued operations, net of tax | (3.9) | 1.7 | 23.5 |
| Net income attributable to controlling interest | $ 512.5 | $ 387.4 | $ 460.7 |
| **Basic Income (Loss) Per Common Share:** | | | |
| Weighted-average Common Shares outstanding during the period | 55.7 | 55.7 | 55.5 |
| Income from continuing operations | $ 9.27 | $ 6.92 | $ 7.88 |
| Income (loss) from discontinued operations | (0.07) | 0.04 | 0.42 |
| Basic net income per Common Share | $ 9.20 | $ 6.96 | $ 8.30 |
| **Diluted Income (Loss) Per Common Share:** | | | |
| Weighted-average Common Shares outstanding during the period | 55.7 | 55.7 | 55.5 |
| Dilutive potential Common Shares | 1.5 | 1.2 | 0.8 |
| Weighted-average number of Common Shares outstanding and dilutive potential Common Shares | 57.2 | 56.9 | 56.3 |
| Income from continuing operations | $ 9.03 | $ 6.78 | $ 7.77 |
| Income (loss) from discontinued operations | (0.07) | 0.03 | 0.41 |
| Diluted net income per Common Share | $ 8.96 | $ 6.81 | $ 8.18 |

Stock options with exercise prices greater than the average market price of the underlying Common Shares are excluded from the computation of diluted income per Common Share because they are out-of-the-money and the effect of their inclusion would be anti-dilutive. For fiscal 2021, the average number of out-of-the money options was 0.1 million. There were no out-of-the-money options for fiscal 2020 or fiscal 2019.

## NOTE 15. INCOME TAXES

The provision (benefit) for income taxes allocated to continuing operations consisted of the following:

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| Current: | | | |
| Federal | $ 113.7 | $ 104.3 | $ 169.3 |
| State | 31.6 | 25.3 | 20.3 |
| Foreign | 2.7 | 0.3 | 4.2 |
| Total Current | 148.0 | 129.9 | 193.8 |
| Deferred: | | | |
| Federal | 9.1 | (1.6) | (40.6) |
| State | 1.5 | (2.0) | (5.4) |
| Foreign | 1.2 | (2.6) | (2.9) |
| Total Deferred | 11.8 | (6.2) | (48.9) |
| Income tax expense from continuing operations | $ 159.8 | $ 123.7 | $ 144.9 |

(Dollars in millions, except per share data)

The domestic and foreign components of income from continuing operations before income taxes were as follows:

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| Domestic | $ 670.2 | $ 483.7 | $ 554.7 |
| Foreign | 6.9 | 26.9 | 26.9 |
| Income from continuing operations before income taxes | $ 677.1 | $ 510.6 | $ 581.6 |

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

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| Statutory income tax rate | 21.0 % | 21.0 % | 21.0 % |
| Effect of foreign operations | (0.1) | (0.7) | 0.3 |
| State taxes, net of federal benefit | 3.9 | 3.5 | 1.8 |
| Effect of other permanent differences | (1.1) | — | (0.2) |
| Research and Experimentation and other federal tax credits | (0.2) | (0.3) | (0.3) |
| Effect of tax contingencies | — | 0.1 | 1.9 |
| Other | 0.1 | 0.6 | 0.4 |
| Effective income tax rate | 23.6 % | 24.2 % | 24.9 % |

Deferred income taxes arise from temporary differences between financial reporting and tax reporting bases of assets and liabilities, and operating loss and tax credit carryforwards for tax purposes. The components of the deferred income tax assets and liabilities were as follows:

| | September 30, | |
|---|---|---|
| | 2021 | 2020 |
| **DEFERRED TAX ASSETS** | | |
| Lease liabilities | $ 71.0 | $ 37.0 |
| Accrued liabilities | 65.6 | 63.0 |
| Inventories | 16.8 | 15.1 |
| Foreign tax credit carryovers | 14.9 | 17.2 |
| Net operating loss carryovers | 14.2 | 14.7 |
| Accounts receivable | 8.5 | 5.9 |
| Postretirement benefits | 0.9 | 6.5 |
| Other | 4.1 | 7.2 |
| Gross deferred tax assets | 196.0 | 166.6 |
| Valuation allowance | (32.3) | (33.8) |
| Total deferred tax assets | 163.7 | 132.8 |
| **DEFERRED TAX LIABILITIES** | | |
| Intangible assets | (73.3) | (65.6) |
| Lease right-of-use assets | (69.6) | (35.9) |
| Property, plant and equipment | (55.8) | (52.7) |
| Outside basis difference in equity investments | (7.2) | — |
| Other | (5.6) | (3.8) |
| Total deferred tax liabilities | (211.5) | (158.0) |
| Net deferred tax liability | $ (47.8) | $ (25.2) |

(Dollars in millions, except per share data)

GAAP requires that a valuation allowance be recorded against a deferred tax asset if it is more likely than not that the tax benefit associated with the asset will not be realized in the future. As shown in the table above, valuation allowances were recorded against $32.3 and $33.8 of deferred tax assets as of September 30, 2021 and 2020, respectively. Most of these valuation allowances relate to certain credits and net operating losses (“NOLs”), as explained further below.

Deferred tax assets related to foreign tax credits were $ 14.9 and $17.2 at September 30, 2021 and 2020, respectively. A full valuation allowance has been established against these foreign tax credits at September 30, 2021 as the Company does not expect to utilize them prior to their expiration. Tax benefits associated with state tax credits will also expire if not utilized and amounted to $1.4 at September 30, 2021 and 2020. A valuation allowance in the amount of $1.2 has been established at September 30, 2021 related to state credits the Company does not expect to utilize.

Deferred tax assets related to certain federal NOLs subject to limitation under IRC §382 from current and prior ownership changes were $10.8 at September 30, 2021 and 2020. These NOLs will be subject to expiration gradually from fiscal year end 2022 through fiscal year end 2032. The Company determined that $10.5 of these deferred tax assets will expire unutilized due to the closing of statutes of limitation and has established a valuation allowance accordingly at September 30, 2021.

Deferred tax assets related to foreign NOLs of certain controlled foreign corporations were $ 1.8 as of September 30, 2021, the majority of which have indefinite carryforward periods. Due to a history of losses in many of these entities, a valuation allowance has been established against $1.7 of these deferred tax assets at September 30, 2021. A valuation allowance has also been established against deferred tax assets related to other foreign items of $2.6 at September 30, 2021.

Deferred tax assets related to state NOLs were $ 1.7 as of September 30, 2021, with carryforward periods ranging from 5 to 20 years. Any losses not utilized within a specific state’s carryforward period will expire. A valuation allowance was recorded against $1.3 of these deferred tax assets as of September 30, 2021 for state NOLs that the Company does not expect to realize within their respective carryforward periods.

As of September 30, 2021, the Company maintains its assertions of indefinite reinvestment of the earnings of all material foreign subsidiaries.

The Company had $24.1, $30.2 and $29.5 of gross unrecognized tax benefits related to uncertain tax positions at September 30, 2021, 2020 and 2019, respectively. Of these amounts, $0.2, $6.4 and $6.7 of gross unrecognized tax benefits are related to discontinued operations at September 30, 2021, 2020 and 2019, respectively. Included in the September 30, 2021, 2020 and 2019 balances were $19.9, $25.9 and $25.2, respectively, of unrecognized tax benefits that, if recognized, would have an impact on the effective tax rate.

A reconciliation of the unrecognized tax benefits is as follows:

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| Balance at beginning of year | $ 30.2 | $ 29.5 | $ 13.9 |
| Additions for tax positions of the current year | 0.3 | 0.3 | 13.8 |
| Additions for tax positions of prior years | 6.1 | 4.5 | 4.4 |
| Reductions for tax positions of prior years | (5.9) | (2.4) | (1.7) |
| Settlements with tax authorities | 0.2 | 0.3 | (0.7) |
| Expiration of statutes of limitation | (6.8) | (2.0) | (0.2) |
| Balance at end of year | $ 24.1 | $ 30.2 | $ 29.5 |

The Company continues to recognize accrued interest and penalties related to unrecognized tax benefits as a component of the provision for income taxes. As of September 30, 2021, 2020 and 2019, the Company had $2.7, $2.8 and $2.1, respectively, accrued for the payment of interest that, if recognized, would impact the effective tax rate. As of September 30, 2021, 2020 and 2019, the Company had $1.6, $1.6 and $0.4, respectively, accrued for the payment of penalties.

Scotts Miracle-Gro or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. Subject to the following exceptions, the Company is no longer subject to examination by these tax authorities for fiscal years prior to 2018. There are currently no ongoing audits with respect to the U.S. federal jurisdiction. With respect to the foreign jurisdictions, a German audit covering fiscal years 2014 through 2017 is in process with no known material impact to the financial statements. The Company is currently under examination by certain U.S. state and local tax authorities covering various periods from fiscal years 2012 through 2020. In addition to the aforementioned audits, certain other tax deficiency notices and refund claims for previous years remain unresolved.

(Dollars in millions, except per share data)

The Company currently anticipates that few of its open and active audits will be resolved within the next twelve months. The Company is unable to make a reasonably reliable estimate as to when or if cash settlements with taxing authorities may occur. Although the outcomes of such examinations and the timing of any payments required upon the conclusion of such examinations are subject to significant uncertainty, the Company does not anticipate that the resolution of these tax matters or any events related thereto will result in a material change to its consolidated financial position, results of operations or cash flows.

## NOTE 16. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to market risks, such as changes in interest rates, currency exchange rates and commodity prices. To manage a portion of the volatility related to these exposures, the Company enters into various financial transactions. The utilization of these financial transactions is governed by policies covering acceptable counterparty exposure, instrument types and other hedging practices. The Company does not hold or issue derivative financial instruments for speculative trading purposes.

***Exchange Rate Risk Management***

The Company uses currency forward contracts to manage the exchange rate risk associated with intercompany loans and certain other balances denominated in foreign currencies. Currency forward contracts are valued using observable forward rates in commonly quoted intervals for the full term of the contracts. The notional amount of outstanding currency forward contracts was $180.3 and $160.1 at September 30, 2021 and 2020, respectively. Contracts outstanding at September 30, 2021 will mature over the next fiscal quarter.

***Interest Rate Risk Management***

The Company enters into interest rate swap agreements as a means to hedge its variable interest rate risk on debt instruments. Net amounts to be received or paid under the swap agreements are reflected as adjustments to interest expense. The Company has outstanding interest rate swap agreements with major financial institutions that effectively convert a portion of the Company's variable-rate debt to a fixed rate. Interest rate swap agreements are valued based on the present value of the estimated future net cash flows using implied rates in the applicable yield curve as of the valuation date. The swap agreements had a maximum total U.S. dollar equivalent notional amount of $600.0 at September 30, 2021 and 2020. Refer to "NOTE 12. DEBT" for the terms of the swap agreements outstanding at September 30, 2021. Included in the AOCL balance at September 30, 2021 was a loss of $4.0 related to interest rate swap agreements that is expected to be reclassified to earnings during the next twelve months, consistent with the timing of the underlying hedged transactions.

***Commodity Price Risk Management***

The Company enters into hedging arrangements designed to fix the price of a portion of its projected future urea, diesel and resin requirements. Commodity contracts are valued using observable commodity exchange prices in active markets. Included in the AOCL balance at September 30, 2021 was a gain of $9.4 related to commodity hedges that is expected to be reclassified to earnings during the next twelve months, consistent with the timing of the underlying hedged transactions.

The Company had the following outstanding commodity contracts that were entered into to hedge forecasted purchases:

| | September 30, | |
|---|---|---|
| | 2021 | 2020 |
| **Commodity** | | |
| Urea | 94,500 tons | 76,500 tons |
| Resin | — pounds | 9,100,000 pounds |
| Diesel | 5,880,000 gallons | 5,838,000 gallons |
| Heating Oil | 2,268,000 gallons | 2,142,000 gallons |

(Dollars in millions, except per share data)

***Fair Values of Derivative Instruments***

The fair values of the Company's derivative instruments, which represent Level 2 fair value measurements, were as follows:

| | | Assets / (Liabilities) | |
|---|---|---|---|
| | | 2021 | 2020 |
| **Derivatives Designated As Hedging Instruments** | **Balance Sheet Location** | Fair Value | |
| Interest rate swap agreements | Other assets | $ 3.3 | $ — |
| | Other current liabilities | (5.7) | (10.4) |
| | Other liabilities | (2.5) | (9.7) |
| Commodity hedging instruments | Prepaid and other current assets | 13.9 | 0.9 |
| | Other current liabilities | — | (0.7) |
| Total derivatives designated as hedging instruments | | $ 9.0 | $ (19.9) |
| | | | |
| **Derivatives Not Designated As Hedging Instruments** | **Balance Sheet Location** | | |
| Currency forward contracts | Prepaid and other current assets | $ 3.4 | $ 0.5 |
| | Other current liabilities | (0.2) | (1.9) |
| Commodity hedging instruments | Prepaid and other current assets | 1.3 | — |
| | Other current liabilities | — | (0.9) |
| Total derivatives not designated as hedging instruments | | 4.5 | (2.3) |
| Total derivatives | | $ 13.5 | $ (22.2) |

The effect of derivative instruments on AOCL, net of tax, and the Consolidated Statements of Operations for the years ended September 30 was as follows:

| | Amount Of Gain / (Loss) Recognized In AOCL | |
|---|---|---|
| **Derivatives In Cash Flow Hedging Relationships** | 2021 | 2020 |
| Interest rate swap agreements | $ 3.4 | $ (13.3) |
| Commodity hedging instruments | 16.4 | (1.3) |
| Total | $ 19.8 | $ (14.6) |

| | Reclassified From AOCL Into | Amount Of Gain / (Loss) | |
|---|---|---|---|
| **Derivatives In Cash Flow Hedging Relationships** | **Statement Of Operations** | 2021 | 2020 |
| Interest rate swap agreements | Interest expense | $ (7.7) | $ (6.6) |
| Commodity hedging instruments | Cost of sales | 2.3 | (0.9) |
| Total | | $ (5.4) | $ (7.5) |

| | Recognized In | Amount Of Gain / (Loss) | |
|---|---|---|---|
| **Derivatives Not Designated As Hedging Instruments** | **Statement of Operations** | 2021 | 2020 |
| Currency forward contracts | Other income / expense, net | $ (4.2) | $ (5.3) |
| Commodity hedging instruments | Cost of sales | 4.5 | (3.1) |
| Total | | $ 0.3 | $ (8.4) |

## NOTE 17. FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or the most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. A three-level fair value hierarchy prioritizes the inputs used to measure fair value. The hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

*Level 1* — Quoted prices in active markets for identical assets or liabilities.

*Level 2* — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

*Level 3* — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The following describes the valuation methodologies used for financial assets and liabilities measured or disclosed at fair value on a recurring basis, as well as the general classification within the valuation hierarchy.

***Cash Equivalents***

Cash equivalents consist of highly liquid financial instruments with original maturities of three months or less. The carrying value of these cash equivalents approximates fair value due to their short-term maturities.

***Other***

Investment securities in non-qualified retirement plan assets are valued using observable market prices in active markets. The fair value of the Bonnie Option was determined using a simulation approach, whereby the total value of the loan receivable and optional exchange for additional equity was estimated considering a distribution of possible future cash flows discounted to present value using an appropriate discount rate. During the fourth quarter of fiscal 2020, the Company recognized an increase in the fair value of the Bonnie Option of $12.0 in the “Other non-operating income, net” line in the Consolidated Statements of Operations driven by an increase in sales and profits of the Bonnie Business. Loans receivable are carried at outstanding principal amount. The estimated fair value is determined using an income-based approach, which includes market participant expectations of cash flows over the remaining useful life discounted to present value using an appropriate discount rate. The estimate requires subjective assumptions to be made, including those related to credit risk and discount rates.

The fair values of convertible debt investments are determined using scenario-based internally developed valuation models that consider a probability-weighted assessment of possible future cash flows related to the debt component and the conversion component of the instruments, discounted to present value using an appropriate discount rate. The probability of amendments to federal laws in the United States to allow for the general cultivation, distribution, and possession of cannabis, and the impact of such amendments on the value of the underlying investments are important assumptions in the fair value estimates and incorporate assumptions the Company believes market participants would utilize. The valuation models and related assumptions require significant judgment. These and other assumptions are impacted by economic conditions and expectations of management and may change in the future based on period specific facts and circumstances. The cost basis of convertible debt investments purchased during fiscal 2021 was $193.1. During fiscal 2021, the Company recorded an unrealized loss of $3.1 in AOCL and recorded investment income of $ 0.3 associated with its Level 3 convertible debt investments. The amortized cost basis of convertible debt investments was $193.4 at September 30, 2021.

***Debt Instruments***

Debt instruments are recorded at cost. The interest rate on borrowings under the Fifth A&R Credit Agreement fluctuates in accordance with the terms of the Fifth A&R Credit Agreement and thus the carrying value is a reasonable estimate of fair value. The fair values of the 4.000% Senior Notes, 4.375% Senior Notes, 4.500% Senior Notes and 5.250% Senior Notes are determined based on quoted market prices. The interest rate on the short-term debt associated with accounts receivable pledged under the Receivables Facility fluctuates in accordance with the terms of the Receivables Facility and thus the carrying value is a reasonable estimate of fair value.

(Dollars in millions, except per share data)

The following table summarizes the fair value of the Company's assets and liabilities for which disclosure of fair value is required:

| | | 2021 | | 2020 | |
|---|---|---|---|---|---|
| | **Fair Value Hierarchy Level** | **Carrying Amount** | **Estimated Fair Value** | **Carrying Amount** | **Estimated Fair Value** |
| **Assets** | | | | | |
| Cash equivalents | Level 1 | $ 222.5 | $ 222.5 | $ 2.4 | $ 2.4 |
| Other | | | | | |
| Investment securities in non-qualified retirement plan assets | Level 1 | 45.0 | 45.0 | 29.8 | 29.8 |
| Bonnie Option | Level 3 | — | — | 23.3 | 23.3 |
| Loans receivable | Level 3 | 35.8 | 35.8 | 100.0 | 112.8 |
| Convertible debt investments | Level 3 | 190.3 | 190.3 | — | — |
| **Liabilities** | | | | | |
| Debt instruments | | | | | |
| Credit facilities – revolving loans | Level 2 | — | — | 64.0 | 64.0 |
| Credit facilities – term loans | Level 2 | 670.0 | 670.0 | 710.0 | 710.0 |
| Senior Notes – 4.000% | Level 2 | 500.0 | 498.8 | — | — |
| Senior Notes – 4.375% | Level 2 | 400.0 | 402.0 | — | — |
| Senior Notes – 4.500% | Level 2 | 450.0 | 466.9 | 450.0 | 476.4 |
| Senior Notes – 5.250% | Level 2 | 250.0 | 258.1 | 250.0 | 266.6 |
| Receivables facility | Level 2 | — | — | 20.0 | 20.0 |
| Other debt | Level 2 | 11.9 | 11.9 | 1.1 | 1.1 |

## NOTE 18. LEASES

The Company leases certain property and equipment from third parties under various non-cancelable lease agreements, including industrial, commercial and office properties and equipment that support the management, manufacturing, distribution and research and development of products marketed and sold by the Company. The lease agreements generally require that the Company pay taxes, insurance and maintenance expenses related to the leased assets. At September 30, 2021, there were no material operating leases that the Company had entered into that were yet to commence. From time to time, the Company will sublease portions of its facilities, resulting in sublease income. Sublease income and the related cash flows were not material to the consolidated financial statements for fiscal 2021.

The Company leases certain vehicles (primarily cars and light trucks) under agreements that are cancellable after the first year, but typically continue on a month-to-month basis until canceled by the Company. The vehicle leases and certain other non-cancelable operating leases contain residual value guarantees that create a contingent obligation on the part of the Company to compensate the lessor if the leased asset cannot be sold for an amount in excess of a specified minimum value at the conclusion of the lease term. If all such vehicle leases had been canceled as of September 30, 2021, the Company's residual value guarantee would have approximated $5.0.

(Dollars in millions, except per share data)

Supplemental balance sheet information related to the Company's leases was as follows:

| | Balance Sheet Location | September 30, 2021 | September 30, 2020 |
|---|---|---|---|
| **Operating leases:** | | | |
| Right-of-use assets | Other assets | $ 293.0 | $ 156.0 |
| | | | |
| Current lease liabilities | Other current liabilities | 66.4 | 47.5 |
| Non-current lease liabilities | Other liabilities | 234.4 | 113.3 |
| Total operating lease liabilities | | $ 300.8 | $ 160.8 |
| | | | |
| **Finance leases:** | | | |
| Right-of-use assets | Property, plant and equipment, net | $ 31.3 | $ 34.7 |
| | | | |
| Current lease liabilities | Current portion of debt | 5.9 | 5.2 |
| Non-current lease liabilities | Long-term debt | 27.5 | 30.9 |
| Total finance lease liabilities | | $ 33.4 | $ 36.1 |

Components of lease cost were as follows:

| | Year Ended September 30, 2021 | 2020 |
|---|---|---|
| Operating lease cost [(a)] | $ 70.3 | $ 54.3 |
| Variable lease cost | 29.4 | 11.3 |
| | | |
| Finance lease cost | | |
| Amortization of right-of-use assets | 6.0 | 5.1 |
| Interest on lease liabilities | 1.4 | 1.4 |
| Total finance lease cost | $ 7.4 | $ 6.5 |

(a) Operating lease cost includes amortization of ROU assets of $ 62.3 and $48.4 for fiscal 2021 and fiscal 2020, respectively. Short-term lease expense is excluded from operating lease cost and is not material.

Supplemental cash flow information and non-cash activity related to the Company's leases were as follows:

| | Year Ended September 30, 2021 | 2020 |
|---|---|---|
| **Cash paid for amounts included in the measurement of lease liabilities:** | | |
| Operating cash flows from operating leases, net | $ 66.9 | $ 54.4 |
| Operating cash flows from finance leases | 1.4 | 1.4 |
| Financing cash flows from finance leases | 5.3 | 3.8 |
| | | |
| **Right-of-use assets obtained in exchange for lease obligations:** | | |
| Operating leases | $ 200.0 | $ 72.3 |
| Finance leases | 2.6 | 14.4 |

(Dollars in millions, except per share data)

Weighted-average remaining lease term and discount rate for the Company's leases were as follows:

| | September 30, 2021 |
|---|---|
| **Weighted-average remaining lease term (in years):** | |
| Operating leases | 5.7 |
| Finance leases | 7.8 |
| | |
| **Weighted-average discount rate:** | |
| Operating leases | 3.2 % |
| Finance leases | 4.2 % |

Maturities of lease liabilities by fiscal year for the Company's leases as of September 30, 2021 were as follows:

| Year | Operating Leases | Finance Leases |
|---|---|---|
| 2022 | $ 75.3 | $ 7.0 |
| 2023 | 65.6 | 7.1 |
| 2024 | 57.6 | 7.1 |
| 2025 | 46.3 | 2.9 |
| 2026 | 30.6 | 1.9 |
| Thereafter | 53.5 | 13.6 |
| Total lease payments | 328.9 | 39.6 |
| Less: Imputed interest | (28.1) | (6.2) |
| Total lease liabilities | $ 300.8 | $ 33.4 |

**NOTE 19. COMMITMENTS**

The Company has the following unconditional purchase obligations due during each of the next five fiscal years that have not been recognized in the Consolidated Balance Sheet at September 30, 2021:

| | |
|---|---|
| 2022 | $ 563.6 |
| 2023 | 193.7 |
| 2024 | 120.2 |
| 2025 | 64.5 |
| 2026 | 23.3 |
| Thereafter | 7.4 |
| | $ 972.7 |

Purchase obligations primarily represent commitments for materials used in the Company's manufacturing processes, including urea and packaging, as well as commitments for warehouse services, grass seed, marketing services and information technology services.

**NOTE 20. CONTINGENCIES**

Management regularly evaluates the Company's contingencies, including various lawsuits and claims which arise in the normal course of business, product and general liabilities, workers' compensation, property losses and other liabilities for which the Company is self-insured or retains a high exposure limit. Self-insurance accruals are established based on actuarial loss estimates for specific individual claims plus actuarially estimated amounts for incurred but not reported claims and adverse development factors applied to existing claims. Legal costs incurred in connection with the resolution of claims, lawsuits and other contingencies generally are expensed as incurred. In the opinion of management, the assessment of contingencies is reasonable and related accruals, in the aggregate, are adequate; however, there can be no assurance that final resolution of these matters will not have a material effect on the Company's financial condition, results of operations or cash flows.

***Regulatory Matters***

At September 30, 2021, $3.6 was accrued in the “Other liabilities” line in the Consolidated Balance Sheets for environmental actions, the majority of which are for site remediation. The Company believes that the amounts accrued are adequate to cover such known environmental exposures based on current facts and estimates of likely outcomes. Although it is reasonably possible that the costs to resolve such known environmental exposures will exceed the amounts accrued, any variation from accrued amounts is not expected to be material.

***Other***

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

In connection with the sale of wild bird food products that were the subject of a voluntary recall in 2008, the Company, along with its Chief Executive Officer, had been named as defendants in four actions filed on and after June 27, 2012, which were consolidated, and, on March 31, 2017, certified as a class action in the United States District Court for the Southern District of California as *In re Morning Song Bird Food Litigation*, Lead Case No. 3:12-cv-01592-JAH-AGS. The plaintiffs alleged various statutory and common law claims associated with the Company’s sale of wild bird food products and a plea agreement entered into in previously pending government proceedings associated with such sales. The plaintiffs alleged, among other things, a class action on behalf of all persons and entities in the United States who purchased certain bird food products. The plaintiffs asserted: (i) hundreds of millions of dollars in monetary damages (actual, compensatory, consequential, and restitution); (ii) punitive and treble damages; (iii) injunctive and declaratory relief; (iv) pre-judgment and post-judgment interest; and (v) costs and attorneys’ fees. The Company and its Chief Executive Officer disputed the plaintiffs’ assertions and have vigorously defended the consolidated action. The parties reached an agreement to settle this matter, which the parties memorialized in a settlement agreement submitted to the Court for approval on December 7, 2018. On January 31, 2019, the Court preliminarily approved the settlement, and on June 11, 2019, the Court granted final approval of the settlement. The settlement became effective on July 12, 2019. During the second quarter of fiscal 2019, the Company paid $42.5 to the settlement fund in accordance with the settlement agreement, and the final payment of $20.0 was made during the fourth quarter of fiscal 2019. During fiscal 2018, the Company recognized a pre-tax charge of $85.0 for a probable loss related to this matter in the “Income (loss) from discontinued operations, net of tax” line in the Consolidated Statements of Operations. During fiscal 2019, the Company recognized a favorable adjustment of $22.5 in the “Income (loss) from discontinued operations, net of tax” line in the Consolidated Statements of Operations as a result of the final resolution of the previously disclosed settlement agreement. In addition, during fiscal 2020 and fiscal 2019, the Company recognized insurance recoveries of $1.5 and $13.4, respectively, related to this matter in the “Income (loss) from discontinued operations, net of tax” line in the Consolidated Statements of Operations.

The Company is involved in other lawsuits and claims which arise in the normal course of business. These claims individually and in the aggregate are not expected to result in a material effect on the Company’s financial condition, results of operations or cash flows.

**NOTE 21. SEGMENT INFORMATION**

The Company divides its operations into three reportable segments: U.S. Consumer, Hawthorne and Other. U.S. Consumer consists of the Company’s consumer lawn and garden business in the United States. Hawthorne consists of the Company’s indoor and hydroponic gardening business. Other primarily consists of the Company’s consumer lawn and garden business outside the United States. This identification of reportable segments is consistent with how the segments report to and are managed by the chief operating decision maker of the Company. In addition, Corporate consists of general and administrative expenses and certain other income and expense items not allocated to the business segments.

During the first quarter of fiscal 2021, the Company changed its internal organization structure such that AeroGrow is now managed by and reported within the U.S. Consumer segment. Within the U.S. Consumer segment, AeroGrow is integrated into the Company’s overall direct to consumer focus and strategy. AeroGrow was previously managed by and reported within the Hawthorne segment. The prior period amounts have been reclassified to conform to the new organization structure. This change in organization structure resulted in a change in the Company's reporting units. As a result, goodwill included in impacted reporting units was reallocated using a relative fair value approach, resulting in $15.8 of goodwill reallocated from the Hawthorne segment to the U.S. Consumer segment during fiscal 2021. In addition, the Company completed an assessment of potential goodwill impairment immediately before and after the reallocation and determined that no impairment existed.

(Dollars in millions, except per share data)

The performance of each reportable segment is evaluated based on several factors, including income (loss) from continuing operations before income taxes, amortization, impairment, restructuring and other charges ("Segment Profit (Loss)"). Senior management uses Segment Profit (Loss) to evaluate segment performance because the Company believes this measure is indicative of performance trends and the overall earnings potential of each segment.

The following tables present financial information for the Company's reportable segments for the periods indicated:

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| Net Sales: | | | |
| U.S. Consumer | $ 3,197.7 | $ 2,883.5 | $ 2,311.7 |
| Hawthorne | 1,424.2 | 1,023.1 | 640.6 |
| Other | 303.1 | 225.0 | 203.7 |
| Consolidated | $ 4,925.0 | $ 4,131.6 | $ 3,156.0 |
| Segment Profit: | | | |
| U.S. Consumer | $ 726.7 | $ 694.3 | $ 526.7 |
| Hawthorne | 163.8 | 111.9 | 54.6 |
| Other | 42.1 | 11.7 | 10.3 |
| Total Segment Profit | 932.6 | 817.9 | 591.6 |
| Corporate | (149.7) | (183.4) | (135.3) |
| Intangible asset amortization | (30.9) | (32.5) | (33.4) |
| Impairment, restructuring and other | (29.0) | (16.8) | (13.3) |
| Equity in income of unconsolidated affiliates | 14.4 | — | 3.3 |
| Costs related to refinancing | — | (15.1) | — |
| Interest expense | (78.9) | (79.6) | (101.8) |
| Other non-operating income, net | 18.6 | 20.1 | 270.5 |
| Income from continuing operations before income taxes | $ 677.1 | $ 510.6 | $ 581.6 |
| Depreciation and amortization: | | | |
| U.S. Consumer | $ 48.6 | $ 48.0 | $ 46.2 |
| Hawthorne | 30.3 | 31.7 | 33.5 |
| Other | 7.0 | 7.5 | 5.9 |
| Corporate | 7.9 | 7.5 | 3.7 |
| | $ 93.8 | $ 94.7 | $ 89.3 |
| Capital expenditures: | | | |
| U.S. Consumer | $ 78.3 | $ 52.3 | $ 28.6 |
| Hawthorne | 25.0 | 7.8 | 10.1 |
| Other | 3.6 | 2.6 | 3.7 |
| | $ 106.9 | $ 62.7 | $ 42.4 |

(Dollars in millions, except per share data)

| | September 30, 2021 | September 30, 2020 |
|---|---|---|
| Total assets: | | |
| U.S. Consumer | $ 2,333.1 | $ 2,002.2 |
| Hawthorne | 1,442.8 | 1,054.9 |
| Other | 209.6 | 166.6 |
| Corporate | 814.5 | 156.8 |
| Consolidated | $ 4,800.0 | $ 3,380.5 |

The following table presents net sales by product category for the periods indicated:

| | Year Ended September 30, 2021 | 2020 | 2019 |
|---|---|---|---|
| U.S. Consumer: | | | |
| Growing media and mulch | $ 1,286.7 | $ 1,164.0 | $ 942.5 |
| Lawn care | 1,060.6 | 943.3 | 781.6 |
| Controls | 402.4 | 383.7 | 310.8 |
| Roundup® marketing agreement | 145.2 | 132.7 | 112.1 |
| Other, primarily gardening | 302.8 | 259.8 | 164.7 |
| Hawthorne: | | | |
| Lighting | 452.4 | 328.7 | 214.8 |
| Nutrients | 307.8 | 232.6 | 154.5 |
| Growing environment | 264.0 | 154.2 | 82.7 |
| Growing media | 192.6 | 148.9 | 91.1 |
| Other, primarily hardware | 207.4 | 158.7 | 97.5 |
| Other: | | | |
| Growing media | 116.7 | 90.6 | 77.8 |
| Lawn care | 99.2 | 73.7 | 69.2 |
| Other, primarily gardening and controls | 87.2 | 60.7 | 56.7 |
| Total net sales | $ 4,925.0 | $ 4,131.6 | $ 3,156.0 |

The Company's two largest customers accounted for the following percentages of net sales for the fiscal years ended September 30:

| | Percentage of Net Sales 2021 | 2020 | 2019 |
|---|---|---|---|
| Home Depot | 24 % | 26 % | 30 % |
| Lowe's | 15 % | 18 % | 19 % |

Accounts receivable for these two largest customers as a percentage of consolidated accounts receivable were 42% and 58% as of September 30, 2021 and 2020, respectively.

The following table presents net sales by geographic area for the periods indicated:

| | Year Ended September 30, 2021 | 2020 | 2019 |
|---|---|---|---|
| Net sales: | | | |
| United States | $ 4,507.0 | $ 3,773.4 | $ 2,851.9 |
| International | 418.0 | 358.2 | 304.1 |
| | $ 4,925.0 | $ 4,131.6 | $ 3,156.0 |

Other than the United States, no other country accounted for more than 10% of the Company's net sales for any period presented above.

(Dollars in millions, except per share data)

The following table presents long-lived assets (property, plant and equipment and finite-lived intangibles) by geographic area:

| | September 30, 2021 | September 30, 2020 |
|---|---|---|
| Long-lived assets: | | |
| United States | $ 868.8 | $ 773.5 |
| International | 139.1 | 141.8 |
| | $ 1,007.9 | $ 915.3 |

### Schedule II—Valuation and Qualifying Accounts
### for the fiscal year ended September 30, 2021

| Column A | Column B | Column C | Column D | Column E | Column F |
|---|---|---|---|---|---|
| Classification | Balance at Beginning of Period | Reserves Acquired | Additions Charged to Expense | Deductions Credited and Write-Offs | Balance at End of Period |
| | | | (In millions) | | |
| Valuation and qualifying accounts deducted from the assets to which they apply: | | | | | |
| Allowance for doubtful accounts | $ 7.5 | $ — | $ 11.1 | $ (1.8) | $ 16.8 |
| Income tax valuation allowance | 33.8 | — | 3.0 | (4.5) | 32.3 |

### Schedule II—Valuation and Qualifying Accounts
### for the fiscal year ended September 30, 2020

| Column A | Column B | Column C | Column D | Column E | Column F |
|---|---|---|---|---|---|
| Classification | Balance at Beginning of Period | Reserves Acquired | Additions Charged to Expense | Deductions Credited and Write-Offs | Balance at End of Period |
| | | | (In millions) | | |
| Valuation and qualifying accounts deducted from the assets to which they apply: | | | | | |
| Allowance for doubtful accounts | $ 4.2 | $ — | $ 7.2 | $ (3.9) | $ 7.5 |
| Income tax valuation allowance | 35.8 | — | 0.5 | (2.5) | 33.8 |

### Schedule II—Valuation and Qualifying Accounts
### for the fiscal year ended September 30, 2019

| Column A | Column B | Column C | Column D | Column E | Column F |
|---|---|---|---|---|---|
| Classification | Balance at Beginning of Period | Reserves Acquired | Additions Charged to Expense | Deductions Credited and Write-Offs | Balance at End of Period |
| | | | (In millions) | | |
| Valuation and qualifying accounts deducted from the assets to which they apply: | | | | | |
| Allowance for doubtful accounts | $ 3.6 | $ — | $ 1.4 | $ (0.8) | $ 4.2 |
| Income tax valuation allowance | 33.6 | — | 2.4 | (0.2) | 35.8 |

**The Scotts Miracle-Gro Company**

**Index to Exhibits**

| Exhibit No. | Description | Incorporated by Reference Form | Exhibit | Filing Date | Filed Herewith |
|---|---|---|---|---|---|
| 3.1(a) | Initial Articles of Incorporation of The Scotts Miracle-Gro Company as filed with the Ohio Secretary of State on November 22, 2004 | 8-K | 3.1 | March 24, 2005 | |
| 3.1(b) | Certificate of Amendment by Shareholders to Articles of Incorporation of The Scotts Miracle-Gro Company as filed with the Ohio Secretary of State on March 18, 2005 | 8-K | 3.2 | March 24, 2005 | |
| 3.2 | Code of Regulations of The Scotts Miracle-Gro Company | 8-K | 3.3 | March 24, 2005 | |
| 4.1(a) | Indenture, dated as of December 15, 2016, by and among The Scotts Miracle-Gro Company, the Guarantors (as defined therein) and U.S. Bank National Association, as trustee | 8-K | 4.1 | December 16, 2016 | |
| 4.1(b) | First Supplemental Indenture, dated July 17, 2018, by and among The Scotts Miracle-Gro Company, the Guarantors (as defined therein) and U.S. Bank National Association, as trustee | 10-Q | 10.4 | August 8, 2018 | |
| 4.1(c) | Second Supplemental Indenture, dated March 24, 2020, by and among The Scotts Miracle-Gro Company, the Guarantors (as defined therein) and U.S. Bank National Association, as trustee | 10-Q | 4.2 | May 6, 2020 | |
| 4.1(d) | Third Supplemental Indenture, dated March 29, 2021, by and among The Scotts Miracle-Gro Company, the Guarantors (as defined therein) and U.S. Bank National Association, as trustee | 10-Q | 4.2 | May 12, 2021 | |
| 4.1(e) | Fourth Supplemental Indenture, dated June 24, 2021, by and among The Scotts Miracle-Gro Company, the Guarantors (as defined therein) and U.S. Bank National Association, as trustee | 10-Q | 4.1 | August 11, 2021 | |
| 4.1(f) | Form of 5.250% Senior Notes due 2026 (included in Exhibit 4.1) | 8-K | 4.2 | December 16, 2016 | |
| 4.2(a) | Indenture, dated as of October 22, 2019, by and among The Scotts Miracle-Gro Company, the Guarantors (as defined therein) and U.S. Bank National Association, as trustee | 8-K | 4.1 | October 28, 2019 | |
| 4.2(b) | First Supplemental Indenture, dated March 24, 2020, by and among The Scotts Miracle-Gro Company, the Guarantors (as defined therein) and U.S. Bank National Association, as trustee | 10-Q | 4.1 | May 6, 2020 | |
| 4.2(c) | Second Supplemental Indenture, dated March 29, 2021, by and among The Scotts Miracle-Gro Company, the Guarantors (as defined therein) and U.S. Bank National Association, as trustee | 10-Q | 4.3 | May 12, 2021 | |
| 4.2(d) | Third Supplemental Indenture, dated June 24, 2021, by and among The Scotts Miracle-Gro Company, the Guarantors (as defined therein) and U.S. Bank National Association, as trustee | 10-Q | 4.2 | August 11, 2021 | |
| 4.2(e) | Form of 4.500% Senior Notes due 2029 (included in Exhibit 4.1) | 8-K | 4.2 | October 28, 2019 | |
| 4.3(a) | Indenture, dated as of March 17, 2021, by and among The Scotts Miracle-Gro Company, the Guarantors (as defined therein) and U.S. Bank National Association, as trustee | 8-K | 4.1 | March 17, 2021 | |
| 4.3(b) | First Supplemental Indenture, dated as of June 24, 2021, by and among The Scotts Miracle-Gro Company, the Guarantors (as defined therein) and U.S. Bank National Association, as trustee | 10-Q | 4.3 | August 11, 2021 | |
| 4.3(c) | Form of 4.000% Senior Notes due 2031 (included in Exhibit 4.1) | 8-K | 4.2 | March 17, 2021 | |
| 4.3(d) | Registration Rights Agreement, dated as of March 17, 2021, by and among The Scotts Miracle-Gro Company, the guarantors named therein and J.P. Morgan Securities LLC, as representative of the several initial purchasers named therein | 8-K | 4.3 | March 17, 2021 | |
| 4.4(a) | Indenture, dated as of August 13, 2021, by and among The Scotts Miracle-Gro Company, the Guarantors (as defined therein) and U.S. Bank National Association, as trustee | 8-K | 4.1 | August 13, 2021 | |

| Exhibit No. | Description | Incorporated by Reference Form | Exhibit | Filing Date | Filed Herewith |
|---|---|---|---|---|---|
| 4.4(b) | Form of 4.375% Senior Notes due 2032 (included in Exhibit 4.1) | 8-K | 4.2 | August 13, 2021 | |
| 4.4(c) | Registration Rights Agreement, dated as of August 13, 2021, by and among The Scotts Miracle-Gro Company, the guarantors named therein and Wells Fargo Securities, LLC, as representative of the several initial purchasers named therein | 8-K | 4.3 | August 13, 2021 | |
| 4.5 | Agreement to furnish copies of instruments and agreements defining rights of holders of long-term debt | | | | X |
| 4.6 | Description of Capital Stock | 10-K | 4.4 | November 27, 2019 | |
| 10.1(a)(i) | Fifth Amended and Restated Credit Agreement, dated as of July 5, 2018, by and among The Scotts Miracle-Gro Company, as a Borrower; the Subsidiary Borrowers (as defined therein); JPMorgan Chase Bank, N.A., as Administrative Agent; Wells Fargo Bank, National Association, and Mizuho Bank, Ltd. as Co-Syndication Agents; CoBank, ACB, Bank of America, N.A., Fifth Third Bank, Coöperatieve Rabobank U.A., New York Branch, Sumitomo Mitsui Banking Corporation and TD Bank N.A., as Co-Documentation Agents; and the several other banks and other financial institutions from time to time parties thereto | 8-K | 10.1 | July 11, 2018 | |
| 10.1(a)(ii) | Amendment No. 1, dated August 3, 2021, to Fifth Amended and Restated Credit Agreement, dated as of July 5, 2018, by and among The Scotts Miracle-Gro Company, as a Borrower; the Subsidiary Borrowers (as defined therein); JPMorgan Chase Bank, N.A., as Administrative Agent; Wells Fargo Bank, National Association, and Mizuho Bank, Ltd. as Co-Syndication Agents; CoBank, ACB, Bank of America, N.A., Fifth Third Bank, Coöperatieve Rabobank U.A., New York Branch, Sumitomo Mitsui Banking Corporation and TD Bank N.A., as Co-Documentation Agents; and the several other banks and other financial institutions from time to time parties thereto | 10-Q | 10 | August 11, 2021 | |
| 10.1(b) | Fifth Amended and Restated Guarantee and Collateral Agreement, dated as of July 5, 2018, made by The Scotts Miracle-Gro Company, each domestic Subsidiary Borrower under the Fifth Amended and Restated Credit Agreement, and certain of its and their domestic subsidiaries, in favor of JPMorgan Chase Bank, N.A., as Administrative Agent | 8-K | 10.2 | July 11, 2018 | |
| 10.2(a)† | The Scotts Miracle-Gro Company Long-Term Incentive Plan (reflects amendment and restatement of plan formerly known as The Scotts Miracle-Gro Company 2006 Long-Term Incentive Plan) [January 17, 2013 through January 26, 2017 version] | 8-K | 10.1 | January 24, 2013 | |
| 10.2(b)† | Form of Nonqualified Stock Option Award Agreement for Employees used to evidence grants made under The Scotts Miracle-Gro Company Long-Term Incentive Plan [January 17, 2013 through January 26, 2017 version] | 10-Q | 10.7 | May 7, 2015 | |
| 10.3(a)† | The Scotts Miracle-Gro Company Long-Term Incentive Plan (effective as of January 27, 2017) | 8-K | 10.1 | January 30, 2017 | |
| 10.3(b)(i)† | Form of Project Focus Performance Unit Award Agreement which may be made under The Scotts Miracle-Gro Company Long-Term Incentive Plan | 8-K | 10.2 | January 30, 2017 | |
| 10.3(b)(ii)† | Form of Amendment to Project Focus Amendment Award Agreement which may be made under The Scotts Miracle-Gro Company Long-Term Incentive Plan | 8-K | 10.1 | January 30, 2019 | |
| 10.3(c)† | Form of Standard Restricted Stock Unit Award Agreement which may be made under The Scotts Miracle-Gro Company Long-Term Incentive Plan | 8-K | 10.4 | January 30, 2017 | |
| 10.3(d)† | Form of Standard Non-Qualified Stock Option Award Agreement which may be made under The Scotts Miracle-Gro Company Long-Term Incentive Plan | 8-K | 10.5 | January 30, 2017 | |

| Exhibit No. | Description | Incorporated by Reference Form | Exhibit | Filing Date | Filed Herewith |
|---|---|---|---|---|---|
| 10.3(e)† | Form of Deferred Stock Unit Award Agreement for Nonemployee Directors Retainer Deferrals (with Related Dividend Equivalents) used to evidence grants which may be made under The Scotts Miracle-Gro Company Long-Term Incentive Plan | 10-K | 10.3(g) | November 29, 2018 | |
| 10.3(f)(i)† | Form of Restricted Stock Unit Award Agreement for Third Party Service-Providers (with Related Dividend Equivalents) which may be used to evidence grants made under The Scotts Miracle-Gro Company Long-Term Incentive Plan | 10-K | 10.3(h)(i) | November 29, 2018 | |
| 10.3(f)(ii)† | Form of Standard Restricted Stock Unit Award Agreement for Nonemployee Directors (with Related Dividend Equivalents) used to evidence grants which may be made under The Scotts Miracle-Gro Company Long-Term Incentive Plan [January 30, 2014 through February 2, 2020] | 10-K | 10.3(h)(ii) | November 29, 2018 | |
| 10.3(f)(iii)† | Form of Standard Restricted Stock Form of Standard Restricted Stock Unit Award Agreement for Nonemployee Directors (with Related Dividend Equivalents) used to evidence grants which may be made under The Scotts Miracle-Gro Company Long-Term Incentive Plan [post-February 2, 2020] | 10-K | 10.3(h)(iii) | November 24, 2020 | |
| 10.4(a)† | The Scotts Company LLC Amended and Restated Executive Incentive Plan (effective as of October 1, 2019) | 10-Q | 10 | August 5, 2020 | |
| 10.4(b)† | Form of Employee Confidentiality, Noncompetition, Nonsolicitation Agreement for employees participating in The Scotts Company LLC Executive/Management Incentive Plan (now known as The Scotts Company LLC Amended and Restated Executive Incentive Plan) | 10-Q | 10.1 | August 10, 2006 | |
| 10.5† | The Scotts Company LLC Executive Retirement Plan, as Amended and Restated as of January 1, 2015 (executed December 31, 2014) | 10-Q | 10.2 | February 5, 2015 | |
| 10.6(a)† | Employee Confidentiality, Noncompetition, Nonsolicitation Agreement, dated as of December 12, 2013, by and between The Scotts Company LLC, all companies controlled by, controlling or under common control with The Scotts Company LLC, and James Hagedorn | 8-K | 10.2 | December 17, 2013 | |
| 10.6(b)† | Executive Severance Agreement, dated as of December 11, 2013, by and between The Scotts Company LLC and James Hagedorn | 8-K | 10.1 | December 17, 2013 | |
| 10.7† | Summary of Compensation for Nonemployee Directors of The Scotts Miracle-Gro Company (effective as of January 27, 2017) | 10-K | 10.7 | November 27, 2019 | |
| 10.8(a)† | Consulting Agreement dated January 15, 2020, between The Scotts Company LLC and Hanft Projects LLC | 10-Q | 10 | February 5, 2020 | |
| 10.8(b)† | Consulting Agreement, dated February 15, 2021, between The Scotts Company LLC and Hanft Ideas LLC | 10-Q | 10.3 | May 12, 2021 | |
| 10.9(a)† | The Scotts Company LLC Executive Severance Plan, adopted on April 25, 2017 | 10-Q | 10.9 | May 10, 2017 | |
| 10.9(b)† | Form of Tier 1 Participation Agreement under The Scotts Company LLC Executive Severance Plan | 10-Q | 10.10 | May 10, 2017 | |
| 10.10 | Third Amended and Restated Exclusive Agency and Marketing Agreement, entered into on July 29, 2019 and effective as of August 1, 2019, between Monsanto Company and The Scotts Company LLC | 8-K | 10.2 | July 31, 2019 | |
| 10.11 | Brand Extension Agreement Asset Purchase Agreement, entered into on July 29, 2019 and effective as of August 1, 2019, between Monsanto Company and The Scotts Company LLC | 8-K | 10.4 | July 31, 2019 | |
| 10.12(a) | Master Repurchase Agreement, and Annex I thereto, with Coöperatieve Rabobank, U.A. (New York Branch), as agent and purchaser, and Sumitomo Mitsui Banking Corporation (New York Branch), as purchaser, dated as of April 7, 2017 | 8-K | 10.1 | April 13, 2017 | |
| 10.12(b) | Amendment No. 1 to Master Repurchase Agreement with Coöperatieve Rabobank, U.A. (New York Branch), as agent and purchaser, and Sumitomo Mitsui Banking Corporation (New York Branch), as purchaser, dated as of August 24, 2018 | 8-K | 10.1 | August 24, 2018 | |

| Exhibit No. | Description | Incorporated by Reference Form | Exhibit | Filing Date | Filed Herewith |
|---|---|---|---|---|---|
| 10.12(c) | Amendment No. 2 to Master Repurchase Agreement with Coöperatieve Rabobank, U.A. (New York Branch), as agent and purchaser, and Sumitomo Mitsui Banking Corporation (New York Branch), as purchaser, dated as of August 21, 2020 | 8-K | 10.1 | August 25, 2020 | |
| 10.12(d) | Amendment No. 3 to Master Repurchase Agreement with Coöperatieve Rabobank, U.A. (New York Branch), as agent and purchaser, and Sumitomo Mitsui Banking Corporation (New York Branch), as purchaser, dated as of August 20, 2021 | 8-K | 10.1 | August 20, 2021 | |
| 10.13(a) | Master Framework Agreement with Coöperatieve Rabobank, U.A. (New York Branch), as agent and purchaser, and Sumitomo Mitsui Banking Corporation (New York Branch), as purchaser, dated as of April 7, 2017 | 8-K | 10.2 | April 13, 2017 | |
| 10.13(b) | Amendment No. 1 to Master Framework Agreement with Coöperatieve Rabobank, U.A. (New York Branch), as agent and purchaser, and Sumitomo Mitsui Banking Corporation (New York Branch), as purchaser, dated as of August 25, 2017 | 8-K | 10.1 | August 31, 2017 | |
| 10.13(c) | Amendment No. 2 to Master Framework Agreement with Coöperatieve Rabobank, U.A. (New York Branch), as agent and purchaser, and Sumitomo Mitsui Banking Corporation (New York Branch), as purchaser, dated as of August 24, 2018 | 8-K | 10.2 | August 24, 2018 | |
| 10.13(d) | Amendment No. 3 to Master Framework Agreement with Coöperatieve Rabobank, U.A. (New York Branch), as agent and purchaser, and Sumitomo Mitsui Banking Corporation (New York Branch), as purchaser, dated as of August 23, 2019 | 8-K | 10.1 | August 20, 2019 | |
| 10.13(e) | Amendment No. 4 to Master Framework Agreement with Coöperatieve Rabobank, U.A. (New York Branch), as agent and purchaser, and Sumitomo Mitsui Banking Corporation (New York Branch), as purchaser, dated as of August 21, 2020 | 8-K | 10.2 | August 25, 2020 | |
| 10.13(f) | Amendment No. 5 to Master Framework Agreement with Coöperatieve Rabobank, U.A. (New York Branch), as agent and purchaser, and Sumitomo Mitsui Banking Corporation (New York Branch), as purchaser, dated as of August 20, 2021 | 8-K | 10.2 | August 20, 2021 | |
| 10.14 | Form of Aircraft Time Sharing Agreement for Executive Officers | 10-Q | 10.4 | May 11, 2016 | |
| 10.15† | Retention Agreement, dated August 22, 2018, by and between The Scotts Company LLC and Denise S. Stump | 8-K | 10.3 | August 24, 2018 | |
| 10.16 | Purchase Agreement, dated as of March 11, 2021, by and among The Scotts Miracle-Gro Company, the guarantors named therein and J.P. Morgan Securities LLC, as representative of the several initial purchasers named therein | 8-K | 10.1 | March 17, 2021 | |
| 10.17 | Purchase Agreement, dated as of August 10, 2021, by and among The Scotts Miracle-Gro Company, the guarantors named therein and Wells Fargo Securities, LLC, as representative of the several initial purchasers named therein | 8-K | 10.1 | August 13, 2021 | |
| 10.18† | Separation Agreement and Release of All Claims, effective as of January 22, 2021, by and between The Scotts Company LLC and Thomas Randal Coleman | 8-K | 10.1 | January 28, 2021 | |
| 18 | Preferability Letter provided by Deloitte & Touche LLP, the Registrant's independent registered public accounting firm, to change in accounting principle | 10-Q | 18 | February 5, 2020 | |
| 21 | Subsidiaries of The Scotts Miracle-Gro Company | | | | X |
| 22 | Guarantor Subsidiaries | | | | X |
| 23 | Consent of Independent Registered Public Accounting Firm — Deloitte & Touche LLP | | | | X |
| 24 | Powers of Attorney of Executive Officers and Directors of The Scotts Miracle-Gro Company | | | | X |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certifications (Principal Executive Officer) | | | | X |

| Exhibit No. | Description | Incorporated by Reference | | | Filed Herewith |
|---|---|---|---|---|---|
| | | Form | Exhibit | Filing Date | |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certifications (Principal Financial Officer) | | | | X |
| 32 | Section 1350 Certifications (Principal Executive Officer and Principal Financial Officer) | | | | X |
| 101.SCH | XBRL Taxonomy Extension Schema | | | | X |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase | | | | X |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase | | | | X |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase | | | | X |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase | | | | X |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) | | | | X |

† Management contract, compensatory plan or arrangement.