REDFIELD, BLONSKY & STARINSKY, LLC

Scotts Miracle-Gro
SMG
Investment Notes

Please read Disclaimer at bottom of these notes!

The Scotts Miracle-Gro Company (Scotts Miracle-Gro) is a manufacturer and marketer of branded consumer lawn and garden products. The Company's segments include Global Consumer. In North America, its brands include Scotts and Turf Builder lawn and grass seed products; Miracle-Gro, Nature's Care, Scotts, LiquaFeed and Osmocote gardening and landscape products; and Ortho, Roundup, Home Defense and Tomcat branded insect control, weed control and rodent control products. In the United Kingdom, its brands include Miracle-Gro plant fertilizers; Roundup, Weedol and Pathclear herbicides; EverGreen lawn fertilizers, and Levington gardening and landscape products.

"The Scotts Miracle-Gro Company is the world's largest marketer of branded consumer products for lawn and garden care. The Company's brands are among the most recognized in the industry. The Company's Scotts®, Miracle-Gro® and Ortho® brands are market-leading in their categories, as is the consumer Roundup® brand, which is marketed in the U.S. and certain other countries by Scotts and owned by Monsanto. We maintain a minority interest in TruGreen®, the largest residential lawn care service business, and in Bonnie Plants®, the largest marketer of edible gardening plants in retail channels. The Company's wholly-owned subsidiary, The Hawthorne Gardening Company, is a leading provider of nutrients, lighting and other materials used in the hydroponic growing segment." **8-K 1/30/18**

GAVITA HOLLAND PROFESSIONAL LIGHTING · VERMICROP ORGANICS · agrolux · The Original Can-Filters canfilters.com · AeroGrow · Sunlight Supply, Inc.

October 8, 2019 ($102.00)

2-Minute drill and thesis:

SMG is the largest infrastructure company in the cannabis industry. Via their Sunlight Supply acquisition, they developed a modern and cost-efficient supply chain in the cannabis infrastructure industry. This division in known as the Hawthorne Division. Of course, most of SMG's business is the consumer garden and lawn business. Yet, we are clearly invested in Scotts for the prospect of a very large and profitable supplier to the cannabis industry. We expect cannabis to increase worldwide via the eventual end of cannabis prohibition. Scotts should be an obvious beneficiary if and when the legalization of cannabis occurs.

Scotts certainly has a sizeable debt load, and this is the reason S&P only gives them a 'BB' rating. S&P recently upgraded their credit to 'BB Stable' from Outlook Negative. 'BB' is the Highest Rung of Speculative. My largest concern is with their debt levels, risk of leverage, extended P/E and potential of worsening balance sheet. As of the most recent filing (6/30/19) the company clearly has a potentially concerning balance sheet. The debt to equity ratio is 194.2%. The long-term debt is ~$1.6B.

As far as I can recall, Scotts continues to be the largest company by cannabis related revenues in the world. As more states legalize cannabis recreationally, new licenses will be awarded, and there is absolutely no reason to think that SMG will not be a material beneficiary of such a paradigm. For the first time I can ever recall, the USA is warming up to ending the cannabis prohibition. I expect full decraminilazation in the future, as well as legalization of cannabis.

Scotts calls their cannabis infrastructure division "hydroponics." The term hydroponic includes, all aspects of indoor grows, from supplies, lighting, nutrients, cloning, and virtually every aspect a grower needs. This grower can be industrial size or a home grower. Of course, SMG's focus will be on the larger commercial organizations. Scotts has defined their use of the word hydroponics, as anything related to the cultivation of cannabis.

We very much like when officers and directors have skin in the game, via share ownership. Officers and directors own over 28% of the company as of October 8, 2019.

	Investor Name	% Outstanding	Position	Position Change	Value ($)
1	Hagedorn Partnerships, L.P.	27.13%	15,057,505.00	-517,691.00	1,660,842,801.50
2	Hargreaves (Craig R)	0.46%	257,043.00	+2,441.00	21,051,821.70
3	Hagedorn (James)	0.35%	194,969.00	+62.00	19,851,743.58
4	Hanft (Adam)	0.07%	36,760.00	-20,000.00	3,984,784.00
5	Coleman Thomas Randal	0.04%	24,070.00	-9,547.00	2,647,940.70
6	Finn (Brian D)	0.04%	21,643.00	+248.00	2,210,832.45
7	Kelly (Thomas N Jr)	0.03%	17,018.00	-6,167.00	1,844,751.20
8	Johnson (Stephen L)	0.03%	16,772.00	+62.00	1,713,259.80
9	Mistretta (Nancy G)	0.03%	16,661.00	-2,500.00	1,807,718.50
10	McCann (James F)	0.03%	14,951.00	+2,441.00	1,224,486.90
11	Smith Ivan C	0.02%	13,476.00	+5.00	1,372,126.32
12	Stump (Denise S)	0.02%	13,432.00	+19.00	1,367,646.24
13	Lukemire Michael C	0.02%	12,057.00	-11,443.00	1,326,390.57

When we bought SMG, I thought it was a true "value play." Because of the price increase, that value has dissipated. Yet, of course, I still think owning SMG is worthwhile. I am not so sure I would buy at these levels, but I think selling would be too premature. When we bought SMG, I often thought of and cited the following quote: *"If you wait for the robins, spring will be over."* **Warren E. Buffett October 19, 2008 (during the financial crisis)**

The fundamentals of the valuation seem to be in line, when looking at F2020 forward expected price/earnings ratio of 20.61X, compared to F2020 forward expected return on equity of 29%, and expected forward F2020 return on capital of 12%, as well as the expected forward F2020 dividend pay-out ratio of 49%. I like to see price earnings ratios to be less than return on equity.

Some Fundamental Analysis:

Yield is 2.27% ($2.32). Operating earnings expected at $4.23 (which doesn't include one-time gains of ~$3.72, which would bring expected GAAP earnings per share to $8.15) which would give a P/E of 22.57X. Dividend pay-out has averaged 55.6% for the last 10 years. The payout ratio was 61% in F2017, and 94% in F2018. Dividend payout ratio expected to be 27% and 49% for F2019 and F2020 respectively. ROE has averaged 27.48% for the last 10 years. ROE was 30.5% in F2017, and 36.0% in F2018. ROE is expected to be 25.10% for F2019 and 29.0% for F2020. ROTC has averaged 13.25% for the last 10 years. ROTC was 12.4% in F2017, and 7.6% in F2018. ROTC is expected to be 13.8% for F2019 and 12.0% for F2020. Average P/E for the last 10 years has been 23.14X. Projected eps for F2020 is $4.95 which equates to a forward P/E of 20.61X. VL gives it 'B++' financial strength, and a Safety rating of 3. VL projects a price between $80 - $120 between 2022 – 2024 (9/20/19).

Shares outstanding projected to be 55 at December 31, 2019, and 57 at December 31, 2020.

S&P credit rating is 'BB' Highest Rung of Speculative Outlook Negative (8/27/19)

Moody's credit rating is 'Ba2' Upper Rung of Speculative (1/11/10) Outlook Stable (5/24/18)

Fitch credit rating N/A.

September 9, 2019 ($108.50) 3Q19 earnings report

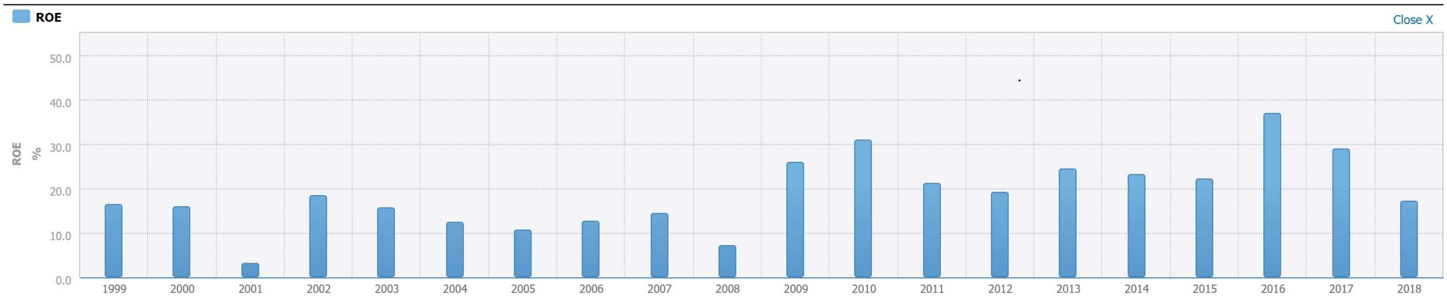
Solid quarter. Hydroponics division gaining traction. 15% of revenues for the quarter were Hydroponic revenues, and 17.3% for the 9 months ended June 30, 2019. I expect cannabis related revenues to be >23% of revenues for F2021. I am expecting F2021 company revenues to be $3.2B.

On August 27, 2019 S&P upgraded SMG to 'BB Stable' from Outlook Negative. 'BB' is the Highest Rung of Speculative.

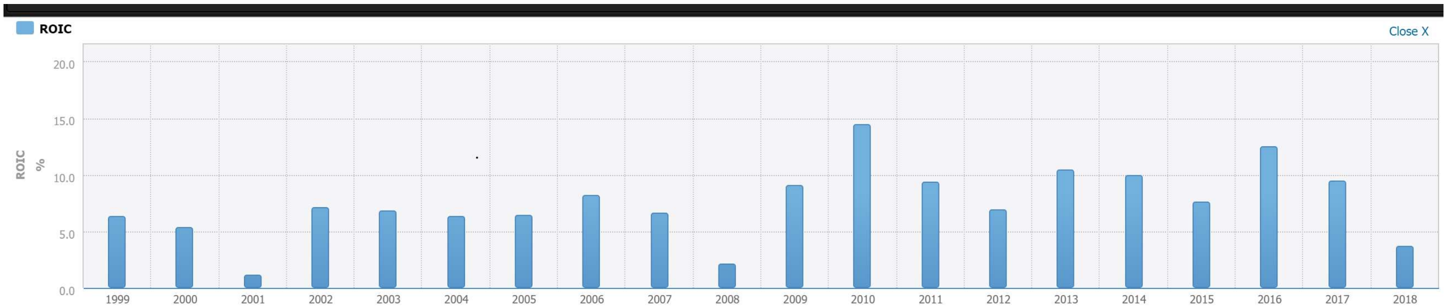
SMG's leverage ratio (total debt-to-EBITDA) was 3.9x at September 30, 2018, up from 2.7x the year before. Total debt-to-capital was 85% on September 30, 2018, up from 66% at the end of FY 2017 and 73% at the end of FY 2016.

Through the end of FY 2018, the company had repurchased a total of $714.6 million under the $1.0 billion plan. In FY 2018, the company repurchased 3.5 million shares, or 6% of the outstanding shares outstanding as of November 23, 2018.

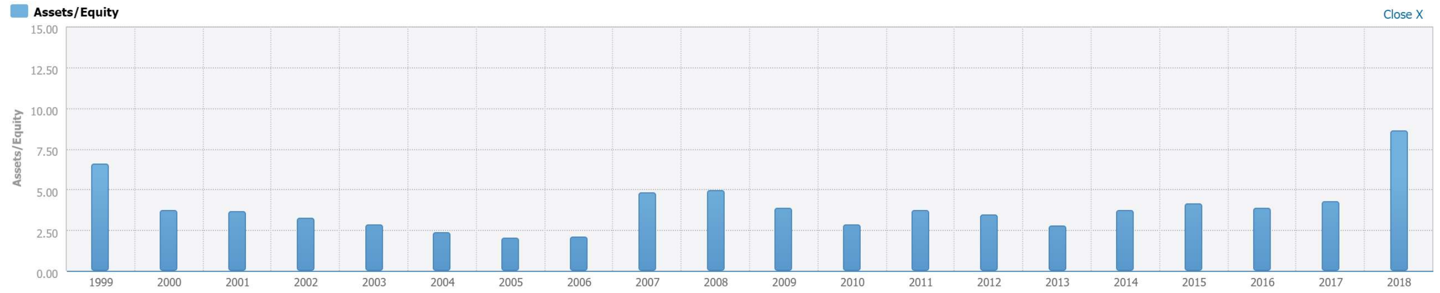
Most metrics look the same as prior, or slightly improved. Guidance at year end September 30th will be important to see future growth possibilities. Most importantly the company needs to generate greater than originally expected earnings to support the stock price. This isn't due to any company failings, as they are firing on all cylinders, but more of growing into the P/E due to stock price growth in excess of 47%. I am optimistically projecting earnings of $5.00 for F2020, which would equate to a forward P/E of 21.8X. Using consensus earnings for F2021 of $5.49, would lead to a forward F2021 P/E of 19.76. As I have discussed previously, the higher P/E could be supported by the companies high ROTC and ROE.

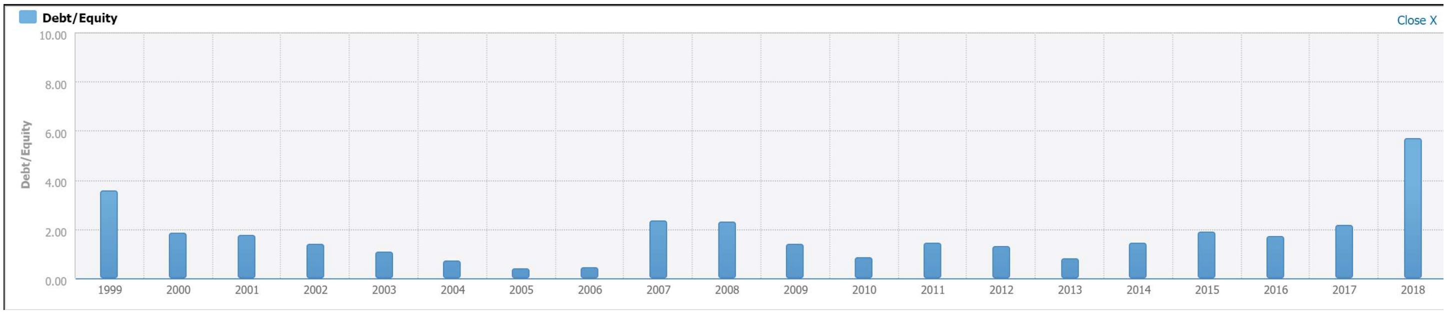


Below is ROIC, which is showing a decline. This will be interesting to watch as Hawthorne develops.



Both Debt to Equity and Assets to Equity are increasing, which of course increases risk. Yet, this is expected and all going as we planned, via the debt levels and infrastructure growth of Hawthorne division.





The company clearly has a potentially concerning balance sheet. The debt to equity ratio is 194.2%. The long-term debt is ~$1.6B.

January 30, 2019 ($71.22) 1Q19 earnings released

These notes are prior to the issuance of the 10-Q. Much could change with the issuance.

GAAP loss of $1.49. Non-GAAP loss was $1.39. This was apparently in-line with expectations.

"The recent performance at Hawthorne is also encouraging as we began to see a return to growth in the U.S. hydroponics business in the second half of the first quarter, a trend that has continued in January. The integration of the Sunlight acquisition also remains on track, including the expected cost savings. These facts renew our confidence in our full-year outlook for Hawthorne and our bullish long-term outlook for our role as the leader in this evolving industry."

Revenues for 1Q19 were $298.1M. This was materially ahead of our estimates of $250M. Sales for the Hawthorne segment (cannabis related) were $140.8M, up 84%. This was driven by the acquisition of Sunlight Supply.

Interest expense increased to $25.2M, from $17.8M a year ago. This was expected due to the Sunlight Supply acquisition.

Weighted average shares outstanding were at 55.3M, as projected.

Hydroponics accounted for 47.23% of revenues, as compared to 34.63% a year ago.

Debt to equity was a whopping 9X equity. This is huge, but not unexpected, due to the Sunlight Supply acquisition.

"Q1 numbers mapped a better story as U.S. hydroponics business and started to show growth in the back half of the quarter. That positive trend continued in January with growth in every product category, the highest growth rate was lighting. So, we've reported a positive comp in 2 of the last 3 months. On a year-to-date basis through January, we're back to flat on an apples-to-apples basis in the U.S. hydroponics business. More importantly, we're getting good feedback that our customers have also begun to see a recovery. If our run rate exiting January holds, we would expect to see positive topline for Q2."

"Let's be clear, I'm not claiming victory. We have a long way to go for that to happen, and we learned the hard way that this industry has a lot of ups and downs. Hawthorne has clearly benefited at the cannabis industry has grown in both the U.S. and Canada particular. The industry is changing rapidly and what's important is that we're changing with it. Markets like Canada, Massachusetts, Michigan and Florida don't look like the Western United States. There are fewer limited licenses in these markets, which means fewer growers but larger ones. That's likely to be true as new markets open in places like New York and New Jersey, both of which have committed to using the legislative process this year to allow for adult use. The evolution of the market requires a greater commitment to innovation to technically proficient sales force to a world-class customer service. Due to series of organizational and process changes we've made over the past several quarters, I believe no 1 in the hydroponics industry is better positioned than Hawthorne. But as I said earlier, our focus as it stands execution and accountability. One last point on Hawthorne is the integration of the Sunlight deal. Nothing has changed. The integration is going as planned, we're achieving the cost savings we expected, and the year-over-year benefits Hawthorne's bottom line remains on track."

"The other important top line stories within Hawthorne. The 84% increase in revenue to $141 million is primarily driven by the addition of Sunlight with our European professional business, which made up by a little more than 20% of overall Hawthorne sales were about 8%. AeroGrow saw a decline of about $5 million as Christmas sales fell short with several retailers."

January 29, 2019 ($69.97)

Yield is 3.14% ($2.20). Earnings expected at $2.23 which would give a P/E of 31.38X. Dividend payout has averaged 51.33% for the last 9 years. The payout ratio was 46% in F2016, and 61% in F2017. Dividend payout ratio expected to be 94% for F2018 and 54% for F2019. ROE has averaged 22.98% for the last 9 years. ROE was 35.5% in F2016, and 30.5% in F2017. ROE is expected to be 36.0% for F2018, and 58.0% for F2019. ROTC has averaged 12.68% for the last 10 years. ROTC was 15.3% in F2016, and 12.4% in F2017. ROTC is expected to be 7.6% for F2018, and 11.0% for F2019. Average P/E for the last 10 years has been 21.26X. Projected eps for F2019 is $4.20 which equates to a forward P/E of 16.65X. VL gives it 'B++' financial strength, and a Safety rating of 3. VL projects a price of $75 -$115, between 2021 – 2023 (12/22/18).

Shares outstanding projected to be 55.3 at December 31, 2018, and 55 at December 31, 2019.

S&P credit rating is 'BB' Highest Rung of Speculative Outlook Negative (8/21/18)

Moody's credit rating is 'Ba2' Upper Rung of Speculative (1/11/10) Outlook Stable (5/24/18)

Fitch credit rating N/A.

December 14, 2018 ($63.25) DEF 14A released

Insider ownership is heavy. I love seeing this, as there is skin in the game by the officers and directors. Directors and officers own > 30% of the common, Hagedorn Partnership owns > 28%.

Vanguard Group, Fidelity and Blackrock own a total of ~20%. That could strain the stock if they had to reduce their holdings. I am not troubled by that, as typically that would be a short-term event.

Executive compensation certainly on the high side (no pun intended).

Name and Principal Position	Year	Salary ($)(1)	Bonus ($)	Stock Awards ($)(3)	Option Awards ($)(4)	Non-Equity Incentive Plan Compensation ($)(5)	and Non-Qualified Deferred Compensation Earnings ($)(6)	All Other Compensation ($)(8)	Total ($)(9)
James Hagedorn Chief Executive Officer and Chairman of the Board	2018	1,100,000	—	2,290,049	—	660,000	— (7)	1,106,520	5,156,569
	2017	1,100,000	—	18,320,035	—	1,546,380	— (7)	1,106,615	22,073,030
	2016	1,100,000	—	2,290,066	1,658,003	2,307,888	40,261 (7)	1,106,248	8,502,466
Thomas R. Coleman Executive Vice President and Chief Financial Officer	2018	675,000	—	650,008	—	253,125	—	89,217	1,667,350
	2017	675,000	—	5,200,092	—	593,072	—	89,715	6,557,879
	2016	568,750	—	487,559	352,959	700,142	—	72,885	2,182,295
Michael C. Lukemire President and Chief Operating Officer	2018	700,000	—	1,100,056	—	280,000	— (7)	90,851	2,170,907
	2017	700,000	—	6,700,139	—	596,400	— (7)	13,853	8,010,392
	2016	687,500	—	800,053	579,214	900,717	3,138 (7)	91,378	3,062,000
Denise S. Stump Executive Vice President, Global Human Resources and Chief Ethics Officer	2018	568,750	—	310,075	—	181,407	—	195,141	1,255,373
	2017	550,000	—	2,480,149	—	386,595	—	191,205	3,607,949
	2016	537,500	150,000 (2)	310,022	—	550,233	—	415,672	1,963,427
Ivan C. Smith Executive Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer	2018	537,500	—	310,075	—	171,563	—	59,998	1,079,136
	2017	495,000	—	2,320,037	—	347,936	—	65,337	3,228,310
	2016	472,500	—	290,036	209,968	450,235	—	53,524	1,476,263

November 7, 2018 ($72.11) 4Q18 earnings released

"I would challenge any of you to name another company in the hydroponics space that's better positioned than Hawthorne." **James S. Hagedorn - The Scotts Miracle-Gro Company - Chairman & CEO**

Reported annual revenues of $2.66B, we were expecting $2.68B. This is essentially in-line.

GAAP Income was $2.29 per share, we were expecting $3.29. Of course, this is a huge miss. SMG is trading up 1.79% at $72.46 as I write this, so obviously the "miss" is explainable. Non-GAAP adjusted earnings were $3.71 per share, compared with $3.94 a share from a year ago. This would explain the positive reaction here. I don't like using non-GAAP items.

There was an Impairment and Restructuring charge of $132.3M, or $2.32 per share.

The company guided F2019 sales growth of 10% - 11%, resulting in non-GAAP operating earnings of $4.10 to $4.30 per share. Not knowing the GAAP adjustments, and assuming immaterial at this point, for lack of a better understanding, this guidance is in-line with our past expectations.

The company remains "bullish on the long-term prospects" of Hawthorne. Sales increased 20% to $344.9M. Excluding acquisitions sales declined 27% for the year.

The full-year diluted share count was 57.1M, we were expecting 56M for F2018, and 55M for F2019. This will be better understood with the issuance of the 10-K. I suspect shares will increase as cash becomes more important due to debt load. During the conference call, the company mentioned, *"a share count of roughly 56.5 million shares."*

Hawthorne was 12.9% of sales, with $344.9M in Sales. The company projects Hawthorne will grow 9% in revenues, hence to $375.9M in F2019. The company guided 10% to 11% total company revenue growth. Hence expected revenues for the company in F2019 are expected to have a mid-point (10.5%) growth to $2.94M. If all that occurs, Hawthorne will have generated 12.8% of total revenues. I had previously projected that Hawthorne revenues would be ~19% of total sales. It looks like my projections were too optimistic.

Current ratio has weakened to 1.45X in F2018 from 1.62X in F2017.

Long-Term debt increased to $1,883.8 in F2018 from $1258.0 in F2017.

Shareholders' Equity decreased to $359.6 in F2018 from $661.7 in F2017.

Long-term debt / Equity increased to 524% in F2018 from 190% in F2017. This is concerning.

Generic Free Cash Flow Calculation:

	F2018	**F2017**
Net Income	$63.7	$218.8
Add: Impairments	121.5	1.2
Depreciation	53.4	55.1
Amortization	30.0	25.0
Less: Capex	(68.2)	(69.6)
Generic Operating Cash Flow	$200.4	$230.5
Dividends Paid	120.0	120.3
Purchase of common shares	327.7	255.2
Cash received from exercise of stock options	10.5	11.0

Generic cash flow is something to watch and study. On one hand, cash flow is much greater than net income. On the other hand, debt levels and ratios are high. This is noted in the credit ratings. I don't imagine agencies will increase ratings based on this report. I see it more possible that ratings could be reduced further from their highly speculative current ratings.

Conference Call Notes:

"Good morning, everyone. I'll get right to the point. I'm glad that fiscal 2018 is behind us."

Claims to be successfully getting price increases to off-set commodity and distribution inflation.

Claims to be marketing agent of Roundup, and hence no exposure to litigation for glyphosate.

"I don't want to suggest we totally turned the corner because we still have work to do. There is a strong possibility that December quarter will also show a negative top line results. But based on the current trends, we currently believe it will be back in positive territory sometime during the March quarter, which is our Q2."

SMG discusses the term "hydroponics."

"Our use of the term mostly refers to small professional growers who happened to buy their growing equipment in retail channels. Now are those small professional growers facing different competition from larger growers? Yes. But it's just another kind of professional grower. What's unique about Hawthorne is that we're the only player in this space that is fully able to meet the needs of all growers. Our challenge is pretty straightforward at this point. It's all about execution. As we look into 2019 for Hawthorne, in addition to Sunlight, we expect organic sales of Hydro products to increase in the mid-single digits. We expect a strong gross margin improvement overall segment profit of roughly $60 million."

"I want to remind everyone listening that my family is the largest shareholder, so I'm no happier than any of you. But I'm committed and look forward to having a more positive story to share with all of you in 2019."

Observations:

Full analysis must be with the issuance of the 10-K.

Bonds are acting well. There has been a slight degradation in the 2026's.

Coupon Maturity Coupon Type	Issue Description Call Information CUSIP	Ratings Outlook Industry		SELL Qty/Min (M)	YTM	YTW	Price
6.000 10-15-2023 Fixed	SCOTTS MIRACLE GRO CO Cont Callable, Next Call 11-23-2018 @ 104.500, Make Whole Calls, THE SCOTTS COMPANY LLC CUSIP: 810186AM8	B1/B+ Industrial	Sell	100/10 200/10 100/5	5.649 5.649 5.753	5.442 5.442 5.608	101.490 101.490 101.042
5.250 12-15-2026 Fixed	SCOTTS MIRACLE GRO CO Cont Callable, Next Call 12-15-2021 @ 102.625, Make Whole Calls, SUBSIDIARY GUARANTORS CUSIP: 810186AP1	B1/B+ Industrial	Sell	80/2 125/5	6.361 6.376	6.361 6.376	93.047 92.953

I suspect that SMG is being cautious and conservative with their guidance. They discussed the need for conservatism when discussing the guidance and tribulations of Hawthorne division. I like very much how Hagedorn's have a material insider ownership. At this point, our thesis remains affirmed. You can search the word "thesis" to see our past thoughts. Certainly, Hawthorne is proceeding slower than we imagined. I was expecting greater sales growth. Yet, with caution in the wind, and 9% projected revenue growth, I am willing to accept the challenges Hawthorne is going through.

We are concerned with the product shift to out of indoor grown quality dried flower to outdoor grown lesser quality as extraction is becoming more popular. It is our understanding that extracted lower quality flower can emulate more expensive indoor grown flower.

October 12, 2018 ($72.21)

Quick Summary of 10/3/18 Zacks report

They rate it a "Sell."

Cites considerable rise in expenses, and of course that would affect margins. They cite commodity inflation, higher than expected distribution costs, and Zacks expects this to remain a continued headwind. *"Moreover, commodities and tariffs could hurt margins. Also, the company does not expect commodity pressure to ease this year."*

They are concerned with the high debt level, which they claim is a debt/equity ratio of 372%. I haven't verified this, but quickly looking at notes below, certainly sounds reasonable, and I would expect Zacks is correct on this ratio. *"The company's high debt level is a concern. The debt-to-equity ratio of the company is 371.8%, much higher than industry's average of 55.4%. Moreover, its cash and cash equivalents were a paltry $29.6 million at the end of the recently reported quarter, down around 66% year over year, while long-term debt was $1,975.4 million, up roughly 40%."*

On the potentially positive sign, they discuss long-term expected positives of Hawthorne division, accompanied by company projected sales growth of 25-30%, and cost synergies through calendar 2019 via "Project Catalyst."

Personally, I think Zacks is behind the curve on this one, as they don't mention the potential of Federal legalization, State legalizations coming on-line or existing for recreational and medical cannabis, nor do they mention G-7 nation, Canada going fully legal on October 17, 2018. Yet, that is merely semantics, as they did write this, *"The gradual shift to a regulated legal market for medical marijuana is likely to have positive impact on the industry as there is continued support for this movement. At the end of fiscal second quarter, 12 out of 58 counties in the state were granting license to dispensaries and growers and 3,200 licenses were issued compared with six counties issuing about 500 licenses during fiscal first quarter. The move is likely to benefit the company's products in the Hawthorne business as it is well-positioned to thrive in the prevailing environment over the long run."*

"The company reiterated its prior guidance for fiscal 2018. It continues to expect sales growth in the range of 0-2% year over year, which includes impact of acquisitions. Adjusted earnings per share are anticipated in the $3.70-$3.90 band."

Bond Discussion:

Coupon Maturity Coupon Type	Issue Description Call Information CUSIP	Ratings Outlook Industry		SELL Qty/Min (M)	YTM	YTW	Price	BUY Price	YTW	YTM
6.000 10-15-2023 Fixed	SCOTTS MIRACLE GRO CO Cont Callable, Next Call 10-29-2018 @ 104.500, Make Whole Calls, THE SCOTTS COMPANY LLC CUSIP: 810186AM8	B1/B+ / Industrial	Sell	200/10	5.655	5.457	101.483	103.666	4.675	5.158
				100/5	5.845	5.756	100.664	103.741	4.648	5.142
				125/5	5.878	5.808	100.520	103.773	4.637	5.134
5.250 12-15-2026 Fixed	SCOTTS MIRACLE GRO CO Cont Callable, Next Call 12-15-2021 @ 102.625, Make Whole Calls, SUBSIDIARY GUARANTORS CUSIP: 810186AP1	B1/B+ / Industrial	Sell	100/2	6.149	6.149	94.287	97.069	5.703	5.703
				10/10	6.166	6.166	94.183	98.987	5.404	5.404
				125/5	6.205	6.205	93.945	101.143	5.031	5.076

If you look at our August 22, 2018 bond pricing below, you will see that pricing has slightly improved. This is interesting, as most bond prices have discounted since the same date, due to interest rate rises, and rising rates for speculative bonds.

August 23, 2018 ($74.48) Review of 3Q18 10Q

Shares outstanding of 55,433,529.

Net income for 9 months ended June 30, 2018, was slightly less than our FCF calculations. This is a positive, but nothing to jump through hoops about.

Share buy-backs of $313.6M for 9 months ended 6/30/18, and $183.0M for 9 months ended 6/30/17.

The cost for the shares for the 9 months ended 6/30/18 was $94.03 per share, as calculated from 10Q quote below. Since inception the cost per share for $701.8M was $86.64 per share.

"Scotts Miracle-Gro repurchased 0.6 million and 3.3 million Common Shares for $53.5 million and $310.3 million, respectively. From the inception of this share repurchase program in the fourth quarter of fiscal 2014 through June 30, 2018, Scotts Miracle-Gro repurchased approximately 8.1 million Common Shares for $701.8 million."

Debt:

The components of debt are as follows:

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

Reportable segments:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30, 2018	JULY 1, 2017	JUNE 30, 2018	JULY 1, 2017
	(In millions)			
Net sales:				
U.S. Consumer	$ 810.9	$ 801.4	$ 1,857.1	$ 1,902.5
Hawthorne	74.2	72.4	192.8	195.2
Other	109.5	99.6	179.6	167.7
Consolidated	$ 994.6	$ 973.4	$ 2,229.5	$ 2,265.4

Hawthorne contributed 8.65% of Net sales for 9 months ended 6/30/18, and 8.62% for 9 months ended 6/30/17. This is prior to the purchase of Sunlight Supply. I project Hawthorne revenues for the year ending September 30, 2018 will be ~13% or greater of Total net sales, and > 19% for F2019.

Hawthorne assets as of June 30, 2018 were $1099.5, or 30.85% of consolidated total assets.

Quick look at bonds on 8/22/18:

Not showing distress. Keep in mind these are speculative issues.

Issue Description Call Information CUSIP	Ratings Outlook Industry		SELL Qty/Min (M)	SELL YTM	SELL YTW	SELL Price	BUY Price	BUY YTW	BUY YTM
SCOTTS MIRACLE GRO CO Cont Callable, Next Call 10-15-2018 @ 104.500, Make Whole Calls, THE SCOTTS COMPANY LLC CUSIP: 810186AM8	B1/B+ Industrial	Sell	100/5	5.818	5.719	100.788	103.521	4.774	5.208
			200/10	5.886	5.823	100.491	103.521	4.774	5.208
			85/2	5.981	5.971	100.074	103.521	4.774	5.208
SCOTTS MIRACLE GRO CO Cont Callable, Next Call 12-15-2021 @ 102.625, Make Whole Calls, SUBSIDIARY GUARANTORS	B1/B+ Industrial	Sell	36/2	6.217	6.217	93.791	96.972	5.712	5.712
							97.224	5.673	5.673

August 21, 2018 ($76.12) S&P revises to Outlook negative, maintains 'BB.'

"Pro forma adjusted leverage is slightly above our 4x downgrade threshold in part due to a sizable, primarily debt-financed acquisition of a hydroponics company and its profit weakness."

With the recent Monsanto and Roundup situation, EBITDA could be deteriorating, making debt reduction a more difficult task.

S&P also concerned due to meaningful inflation expected in lawn and garden, as well as continued weakness in the hydroponic business.

"The negative outlook reflects the potential for a lower rating if we believe credit metrics will not improve, including if we expect adjusted leverage will stay above 4x. It's also unlikely we will revise the outlook to stable unless we have greater confidence that the company will be able to successfully navigate the threats to Roundup, which accounts for around 15% of Scotts' profits."

August 6, 2018 ($78.48) 3Q18 Conference Call Notes

"While the near-term financial performance of the Hawthorne business remains much the same place as it was when we talked with you in May, a lot has changed from an operations perspective since then. The team has moved quickly and smartly on the integration of our 2 businesses and

is taking a series of aggressive actions to possession Hawthorne for a strong recovery when we get through some of the current regulatory and marketplace challenges."

They discussed the $35M in expected synergies is still in place. They are combining workforces, eliminated 175 positions (with apologies), and are recording restructuring charges for such. They claim to be more than halfway through the goal. The remainder should come from facility consolidation. They plan to move all durable manufacturing to Vancouver, WA to a new "best-in-class" facility. They plan on migrating from 11 facilities to 5.

"In addition to the integration, the transformation of the Hawthorne business model is happening at a rapid pace. We are changing the hydroponics goods marketplace and everyone in this industry can see it in the following ways: we're bringing innovation to the market with new lighting products in Gavita and new hardware from Botanicare; we're creating promotional programs for the entire portfolio that are gaining traction in the retail channel unaccustomed to the kind of aggressive and innovative selling we've introduced; we're investing more heavily in a level of technical product support that no one in this industry has seen in the past; we're moving forward with our Canadian research facility to create truly unique Canada-specific R&D platform; we're leading the dialogue with political leaders at both the federal and state level to open new markets and bring a rational approach to legislation in this industry; we're leveraging the competitive strength of our entire business to help our retail customers, consumer and vendor partners be more successful; and we're building stronger product awareness with new players in the emerging professional space on both coasts."

"Another important thing to focus on is what's happening with consumers. Consumption of authorized cannabis products continues to increase in the mid- to high single digits and more states continue to make progress in further expanding the marketplace. As we look to 2019, we believe we'll start to see growth again and are likely to start the year with an assumption of mid-single digit increases. This assumption is based on the fact that we feel like we've hit the bottom. The rate of sales decline improved in Q3 over Q2, and we see even more positive signs in July. This point of view regarding 2019 is real-time for us. It could change again by the time we do our year-end call in November given the volatility of the market. So, while this is far from a commitment, it at least helps you all better understand our current view."

"Sales in the third quarter were up 2% overall with the U.S. Consumer segment up 1% and Hawthorne up 2%, including the impact of acquisition. Hawthorne's sales were down 33% in the quarter, excluding acquisitions. This is a slight improvement from the Q2 organic sales decline. Sales on a year-to-date basis were down 2% companywide, with the U.S. and consumer -- U.S. Consumer and Hawthorne segments down 2% and 1%, respectively. The year-to-date number in the U.S. Consumer segment is in line with where we expect to finish the year, and we expect Hawthorne to be up about 25%, including Sunlight.

I want to add a bit of personal commentary here about the U.S. Consumer segment. Jim talked about the strong recovery we've seen from a POS perspective in the core business. I just want to reiterate that I've never seen a season like this during my 19 years here. But for as long as I've been CFO, I've been telling investors that weather tends to even itself out over the course of the season. In extreme seasons, the weather impact is usually not more than 1 point or 2. And that's exactly what we've seen this year. We're likely to wind up about 2 points below our original guidance despite the slow start to the season in our memories. The team here did an outstanding job staying focused, not [fretting] about the slow start and sticking to the game plan. Given the circumstances, I'm more than pleased with the results we've seen on the top line this season."

The question was asked about the industry possibly shifting away from the smaller growers and potentially contemplates other growing methods like outdoors or greenhouse. James Hagedorn responded by saying that New Jersey, Connecticut and New York are rapidly going towards legalization. He stated he knows this well, and those states will not support outdoor grows because of the weather. Even if they are greenhouse, they will still need lighting. He claims to have *"a lot of innovation coming down the track and particularly with LEDs, which will supplement sort of greenhouse production."* He went on to mention that those 3 states combined are about the size of California. California represents about 52% of Hawthorne's' business.

July 17, 2018 ($81.11) Quick mention

A P/E of 19, is typically rich. On the other hand, if SMG continues with higher ROE's and ROIC's, the P/E is not necessarily extended. If SMG were not in the cannabis business, I don't think I would invest in them. I merely own them as what I think they are best publicly traded company in the cannabis industry. I think as States and Countries start to legalize; SMG is an obvious beneficiary. Yet, not a smooth road, and that is cool.

July 17, 2018 ($81.02) Merrill lowers estimates

F2018 estimate of $3.71, which leads to a P/E of 21.84. F2019 estimate of $4.20, which leads to a P/E of 19.29. They cite great risks in their estimate, as Sunlight targeted accretion could be challenging. They project earnings for F2020 of $4.60.

"Overall, we remain constructive on SMG over the longer term, but in the near- to medium-term, struggle to envision sustained support for shares with risks to earnings estimates, low visibility into the size and pace of a reacceleration in Hawthorne (with valuation already implying a premium), and leverage at 4x limiting additional capital deployment. As such, we reiterate our Underperform rating."

Merrill included the following estimates:

	F2018E	**F2019E**	**F2020E**
ROC	12.8%	11.4%	12.3%
ROE	37.1%	44.2%	43.6%
Net Debt-to-Equity	407.6%	300.5%	305.4%
Revenues	$2,671M	$2,906M	$2,958M
Hawthorne Revenues	$349M	$564M	$592M
Hawthorne / Total	13.07%	19.41%	20.01%

"Key issues for the business remain: (1) oversupply of cannabis is limiting the need to create more production capacity, a key headwind for the durables business which depends on new grows for demand; (2) depressed prices on cannabis product lowering profitability across the supply chain, from growers to retailers; (3) disincentives for illegal operations to become legal given an onerous tax structure, which is allowing illegal players (not paying high taxes) to keep prices on cannabis low, a tough setup for legal players with higher cost structures. Importantly, we see little evidence to suggest this situation is changing in the near-term, creating risks into FY19 as well."

June 26, 2018 ($81.60)

Yield is 2.60% ($2.12). Earnings expected at $4.10 which would give a P/E of 19.90X. Dividend payout has averaged 51.33% for the last 9 years. The payout ratio was 46% in F2016, and 61% in F2017. Dividend payout ratio expected to be 50% for F2018 and 49% for F2019. ROE has averaged 22.98% for the last 9 years. ROE was 35.5% in F2016, and 30.5% in F2017. ROE is expected to be 43.0% for F2018, and 42.0% for F2019. ROTC has averaged 12.68% for the last 10 years. ROTC was 15.3% in F2016, and 12.4% in F2017. ROTC is expected to be 9.5% for F2018, and 11.0% for F2019. Average P/E for the last 10 years has been 21.26X. Projected eps for F2019 is $4.70 which equates to a forward P/E of 17.36X. VL gives it 'B++' financial strength, and a Safety rating of 3. VL projects a price of $75 -$110, between 2021 – 2023 (6/22/18).

Shares outstanding projected to be 56 at December 31, 2018, and 55 at December 31, 2019.

S&P credit rating is 'BB' Highest Rung of Speculative Outlook Stable (11/10/15)

Moody's credit rating is 'Ba2' Upper Rung of Speculative (1/11/10) Outlook Stable (5/24/18)

Fitch credit rating N/A.

June 14, 2018 ($85.76) Notes to June 13, 2018 presentation transcript

The following are quotes I found important to the cannabis business. SMG reiterates that hydroponics, which is basically "*the cultivation of cannabis*," is about 20% of their revenues and expected to grow. SMG hinted they are looking to enter the field of equipment used for extractions, oils, vaporizers and so forth.

I will pound the table on this one, not that one should or should not invest in SMG or any cannabis related company, but pounding the table that cannabis, contrary to what many have mentioned is very material to SMG in revenues and future growth. I am not familiar with another company that has $600M cannabis related revenues.

The following are selected quotes from Thomas Randal Coleman - Executive VP & CFO:

*"I think probably anyone who is following us and familiar with our growth story with Hawthorne, and at this point, we expect that business to be about $600 million business on a pro forma basis after the acquisition that we announced just a few weeks ago of Sunlight Supply. And going forward, **that's about 20% of our total pie when you think about the top line**, and we expect it to be growing very fast again once the growth resumes here, hopefully in the pretty near future."*

"I do want to point out that we have not seen a rebound in our shipments over the last couple of months, since we last talked publicly, but we have seen a lot of momentum in the regulatory situation in California. So, number here says that we have 3,000 licenses issued for cultivation entering June, and as of today that number looks closer to 4,000. So, we are seeing momentum."

"Buying back shares will become part of how we run the business again. In the next 12 to 18 months, we'll be paying down our debt. Our leverage post deal is about 4x. We're going to get that back to 3.5x, and we'll plan to repurchase shares again, get our EPS to an 8% to 10% level. And then, beyond that, our annual dividend, we'll get that up to another 2%, 2.5%. So again, we think 10% to 12% sustainably, predictably year-after-year is what we'll be able to deliver."

The remaining quotes are from Chris Hagedorn - General Manager at The Hawthorne Gardening Company:

"Hydroponics for our definition is really the cultivation of cannabis. It's not hydroponics, strictly speaking, a lot of what we sell is grown in media soil. So just to avoid confusion on that, we're talking about cannabis growing here in large part."

"Now there are 2 components of our business that are not focused on cannabis. Just to get those out of the way, we have an AeroGarden business, which is an 80% investment in a small, OTC, publicly traded called AeroGarden. They sell little kind of countertop hydroponic gardens. That's about 10% of our business. Another 5% is selling light fixtures into European and Russian pro-horticulture greenhouses. So aside from that 15% of the business, we're focused on cannabis here, primarily in North America."

"Obviously lighting, because these fixtures cost anywhere between $500 and $1,000, lighting is by far our largest-dollar item in terms of category. And between Sunlight and Hawthorne, we've got by far the largest and most robust position in space."

"There are some products that we intend to offer, whether it's a distributor or manufacturer, that, that story becomes a little harder to sell. So, I mentioned extraction, so concentrates, oils that get vaporized, that sort of thing. That all requires pretty specialized equipment, which is an area, we're not in currently and there's a lot of opportunity there, but that's something we'll examine as we move forward."

"So finally, look, obviously, it's no secret that we've had a challenging fiscal year to this point, and to be honest, I think, the horn is deep enough, we can't dig out of it for '18. That's said, we wouldn't have made this acquisition, if weren't still super excited about this business and this industry overall. So, as I said, if you go back to the sort of fundamental questions, more people than ever are consuming cannabis, and we don't see that trend changing anytime soon. And as long as we're positioned, which we are, to be the best vendor into the space, we see a tremendous amount of growth here. We're starting to see some other big-money players start to enter the space, but we've got such a head start, I feel confident. The competitive advantages are endless, no one has got the scope or scale that we do. Sunlight has a pretty amazing supply chain that we're going to take advantage of that I think will even offer benefits to the Scotts business. And all these businesses that we've acquired, we've been able to retain key members of the management team, including Sunlight. So, we feel really good about the experience that we have with the management team, me excluded, frankly, in hydroponics. And yes, I think we've built a better business than anyone else has. It would take a tremendous amount to catch up to us. And we intend to make that gap bigger and bigger as we move forward."

June 13, 2018 ($85.65) Investor Update

The Company now expects reported full-year sales to be within a range of flat to 2 percent higher than year-ago levels compared with a previous range of 2 to 4 percent growth. This guidance assumes a decline in U.S. Consumer sales of 1 to 3 percent versus a previous projection of 0 to 2 percent growth. Sales in the Hawthorne segment are expected to increase 25 to 30 percent for fiscal 2018, driven by the recently completed Sunlight Supply acquisition. Excluding Sunlight, but including previous acquisitions, Hawthorne sales are expected to be slightly down from 2017.

Non-GAAP adjusted earnings are expected to range from $3.70 to $3.90 per share, including dilution of approximately $0.30 to $0.40 associated with the Sunlight transaction. In addition to the lower sales guidance, the Company also expects earnings to be impacted by a decline in the gross margin rate of 250 to 300 basis points compared to previous guidance of a decline of 50 to 100 basis points. The addition of Sunlight is expected to negatively impact the rate by roughly 100 basis points, about half of which is due to product mix and half to purchase accounting adjustments. The balance of the increased rate pressure is due to lower volume and higher-than-expected distribution costs company-wide.

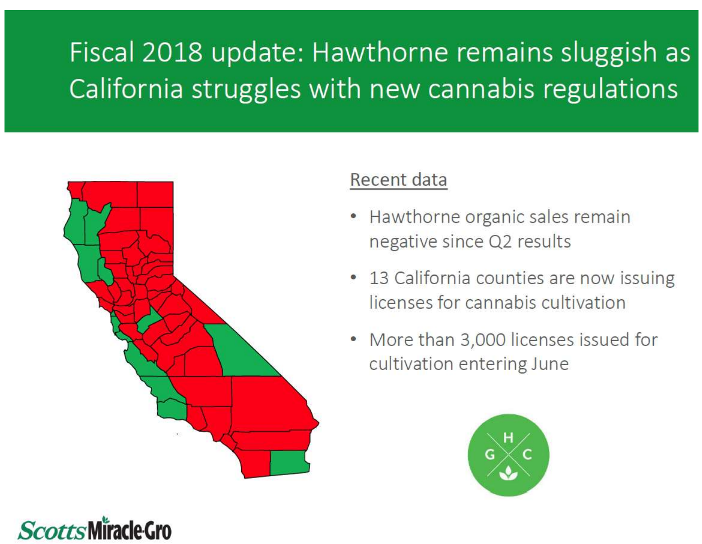
The company also provided the following revisions to its full-year outlook:

Selling, general and administrative expense (SG&A) is expected to be 0 to 2 percent higher than 2017 driven by the impact of the Sunlight deal and offset by benefits from restructuring, lower year-over-year variable compensation and other expense control measures.

Interest expense is now expected to be roughly $90 million, driven by higher borrowing levels associated with acquisitions, including Sunlight.

Share repurchase activity through the third quarter is expected to exceed $300 million, leading to a full-year diluted share count of approximately 57.5 million shares. The Company expects a modest level of repurchase activity during its fiscal fourth quarter.

"While 2018 will fall short of our original expectations, we remain pleased with the stability of our U.S. Consumer business as well as the continued long-term prospects and cost savings opportunities we see with Hawthorne."



FY 2018 sales and EPS guidance revised to reflect new acquisition, Hawthorne performance, and US sales softness

Financial Summary (excludes the impact of non-recurring items)	Prior Guidance	Sunlight Dilution	Revised Guidance
Net Sales	+2% - 4%		+0% - 2%
Gross Margin Rate	-50 to -100 bps		-250 to -300 bps
SG&A (including media & amortization)	0% to +2%		0% to +2%
Operating Other (Income) / Expense	$(4)M		$(4)M
Non-GAAP Operating Margin (**EBIT**)	16% - 17%		13% - 14%
Non-GAAP Non-Operating Other (Income) / Expense	$(10)M		$(10)M
Equity (Income) / Loss	$(2)M		$(2)M
Interest	+$5M - $10M		+$12 - $15M
Non-GAAP Tax Rate	26% - 27%		25% - 26%
Shares	58M		57.5M
Non-GAAP EPS	**$4.60 - $4.80**	**$(0.30) - $(0.40)**	**$3.70 - $3.90**

ScottsMiracle-Gro

Hawthorne Gardening Co: Long-term growth potential in an emerging industry

State legalization of cannabis cultivation driving growth in hydroponics

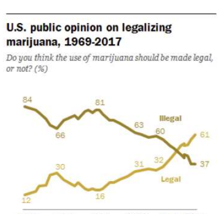
Who is Hawthorne?

- Market-leading brands in nutrients, supplements, air handling and lighting designed for hydroponic growing
- Recent acquisition of Sunlight Supply provides expanded portfolio and direct access to 1,800 hydro retailers
- Annualized sales of approximately $600M
- Strong margin improvement potential

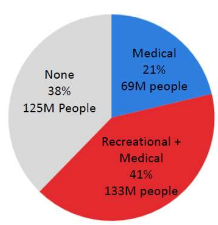
ScottsMiracle-Gro

Recreational & Medicinal Marijuana is growing in popularity across North America

Public Opinion



US State Legalization

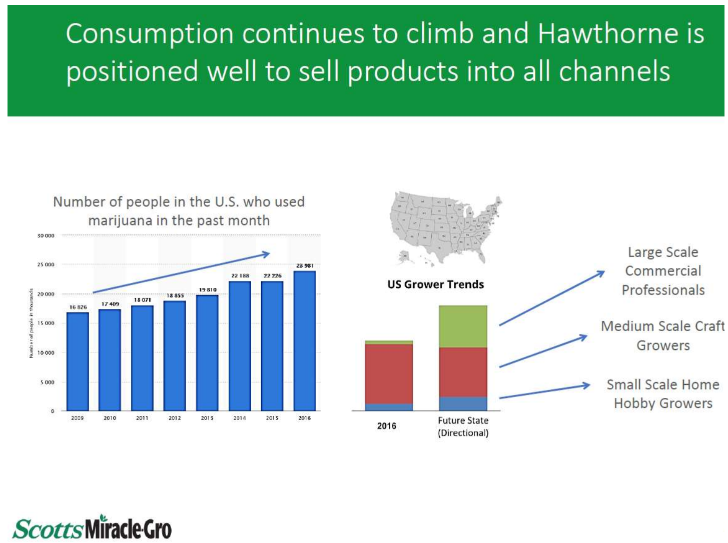


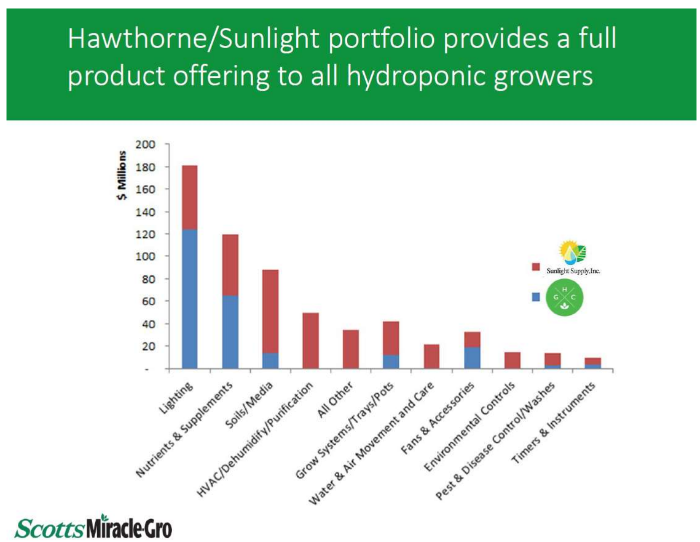
Federal Implementation

Bill C-45 in progress

>105 Licensed Producers in Canada and increasing

ScottsMiracle-Gro





June 5, 2018 ($83.03) Sunlight Supply acquisition complete

The company laid out cost-reduction plans termed Project Catalyst, which it expects will help its Hawthorne segment to achieve $35 million in annual synergies through 2019, which is roughly 5% of 2017 sales on a pro forma basis.

June 1, 2018 ($82.91) Moody's confirms Ba2 outlook stable

The company was under consideration for a potential downgrade. That didn't occur, as outlook is stable and not negative.

May 7, 2018 ($81.44) Past discussions and my rebuttal to such:

1.Does Canopy and large growers use Gavita lights? According to SMG as well as others I have spoken to in the industry, Gavita is the industry standard. It is my understanding that Canopy does use Gavita lights, as do most of the other large growers. It was not mentioned to me directly, but it is my understanding that Aphria as well. Although Gavita is one of many, it has been mentioned to me by several industry sources that they are the industry leader and the industry standard. A commercial organization mentioned to me, how important lighting in, and it isn't merely a deployment of lights, but lights that will live up to the task, etc. It is my understanding, and I could be incorrect, as my notes aren't so tidy, that Gavita has a 30 to 35% market share in lighting for professional growers. Again, I was told by SMG that Canopy uses Gavita lights, and that Canopy is a major customer of SMG.

2. It was mentioned to me correctly, that large commercial growers (heck, smaller ones as well for that matter) do not go to Home Depot and Lowe's for their indoor infrastructure. That is accurate. What was not mentioned is that the commercial growers do go to one of eighteen hundred hydroponic retailers that do sell Hawthorne and SMG products. Sunlight acquisition will supposedly help the commercial grower with more efficient distribution as well.

3. According to a discussion I had with SMG, the products that sell the most to commercial growers is lighting, filtration, irrigation equipment and nutrients. SMG explained that as the professional and commercial marketplace evolves, and via the Sunlight pending acquisition, the purchasing will evolve from retail to a hydroponic retailer that specializes in commercial and professional growers.

4. It was confirmed by SMG that the large commercial grower does often mix their own soil and nutrients. I have concurred with this in all my writings.

5. SMG - agreed with Avis Bulbulyan's claim that SMG sells cultivation equipment that are used by "day-to-day or hobby growers." His assertion is accurate, but he failed to mention that the same type of equipment is used by the commercial and professional organizations.

6. SMG also told me the following in reply to Bulbulyan's mention of, "large-scale commercial operations and can buy their equipment at the wholesale level, bypassing the retail seller altogether." SMG said that is true in a sense, but not true, as the large organizations are going to SMG (I include Sunlight Supply in SMG, although it isn't completed yet), and they do this again via a hydroponic retailer. Again, SMG is looking for Sunlight and Hawthorne to make this a more fluid and game changing process. You can refer to my notes and quotes of recent public discussions SMG had on this subject.

7. It was stated on an investor forum that SMG by their own admission has overpaid and the hydroponic divisions are not running well. That is in my opinion terribly inaccurate, and I have searched and supplied many a SMG statement to support my assertion.

8. I spoke with SMG regarding rolling benches. I mentioned, what about competitors selling benches not 4' X 8', but from 20 to 100 feet in length. SMG claimed to never have heard of such, and asked, "How would they even ship that." I did speak with a commercial grower on this, and they weren't sure. They built and build their own benches and tables.

May 3, 2018 ($78.64) – Clarifications on some questions I posed to IR

Q: What percentage of hydroponic revenues are cannabis related?

A: Apparently, this is a very common question, and IIRC, the most common question SMG gets in relation to hydroponics. SMG can't be sure as to what percentage of the hydroponic revenues are cannabis related. They claim this as SMG really doesn't know what the end retail consumer is doing with it, and there is no known data available. SMG claims the raw number is probably somewhere between 75% to 90+%. Yet, they really can't be certain.

Q: *When we spoke earlier in the week, you gave me an answer to something that isn't sitting well with me. You indicated the $336M debt due in one-year was just ordinary pull on the revolver. Yet, last year short-term debt was only $31M.* (At that point Jim King, CCO told me he has a better answer as he has since reviewed the situation.)

A: *During the last decade, except for F2017, the company has a consortium of banks, whereas they can borrow against their accounts receivable (primarily from Lowe's and Home Depot) at a rate lower than their revolver. Hence, they choose to use that.*

I will have to review this when the 10-Q is released.

May 2, 2018 ($78.51) Stock down 7.25% - Purchased an additional ~1% with average cost of $78.70

I have been researching the cannabis industry since February 2014. My research has been casual over those years, but still concentrated. Going on my 5th year of researching, my thoughts are summed up in this comment. Please understand that this comment is for me, my clients, and in no way should anyone reading this post follow my current conclusion.

My view is that cannabis will eventually legalize world-wide. I had never imagined this in 2013. The industry was plagued with what I consider to be less than stellar operators. I used to clearly but DP in this category, but I am open to relaxing that view. As the industry progresses, larger players will enter the industry. I think most of the current cannabis companies, might very well crash and burn. I think that will occur via a lack of financing, liquidity, impaired investments, stress on operations as the expensive builds will cause great hardship as the industry finds that production will far exceed demand (even in Canada). At some point, and possibly in this decade we will see major corporations enter the fray. Perhaps Philip Morris (PM) will be one of them.

Yet, now is now. If you want to invest in the industry, how do you find value amongst companies are selling at multiples that are bigly. Come on, a company with $3M in annual revenues carrying a market cap of $200M. This is common. Yet, other than finding Canopy at just over ~1.15 USD and a then market cap of under $100M USD, I had never found a suitable value play. My research and thoughts are Scott's Miracle Grow fits the mold of value in the cannabis space.

For me as a cannabis investor, I think I have come across a near blue-chip company, deeply and materially entrenched in the cannabis sector, selling for value prices. I think the company is misunderstood by many, as they think the cannabis related revenues of the company are too small to move the needle, when indeed that is far from the case. I project SMG cannabis related revenues for F2019 (September year-end) will be more than 20%. I also think that their "hydroponic division" revenues are projected to be ~$600M in F2019. Hydroponics is a word that is misunderstood. I have spoken to industry professionals (finance people), who were not aware that "hydroponic" includes all aspects of an indoor grow, the entire infrastructure from lighting, to nutrients, ventilation, cloning, etc. Of course; all growers I have spoken with certainly are familiar. Like the craft beer industry, many users don't know that SMG owns specific Hawthorne brands, just like they might not know their favorite craft brew might be owned by Anheuser Busch (i.e. Goose Island). I think this contributes to value.

Of course, the debt load of SMG is my large concern, and that can certainly kill the stock. Keep in mind that Moody's has SMG on potential downgrade, and I would be surprised if that weren't to occur.

In my view, a serious cannabis investor, why take chances that a company might last to make sense of a valuation that may or may not come to fruition, and let's face it, most will fail, when indeed they can own a well-endowed and known company, such as SMG. I have yet to find another.

You get a company with $2.8B of projected F2019 revenues, of which > 20% is projected to be cannabis related, at a market cap of $4.5B, with a forward 2019 P/E of ~15.5X.

If you have an indoor grow, being a home grower or the largest commercial grower in the world, SMG will power your infrastructure!

Merrill Downgrades – "EPS and multiple risks cloud longer term opportunity; move to Underperform."

"To be clear, we view the long-term setup for SMG as constructive. The company has positioned itself as the preeminent player in the hydroponics space, which we expect to see outsized growth relative to SMG's core business once market disruption in California subsides, excess trade inventories clear, and sell-in better matches sell-through. The US Consumer business should provide a stable base of modest earnings growth and strong FCF generation, which the company can deploy for shareholder friendly actions once leverage post-Sunlight deal returns to normal levels (sub-3.5x)."

May 1, 2018 ($83.53) 2Q18 earnings recap

I spoke with Jim King, CCO today and he stated the following:

1. 57.4M shares outstanding as of today, and the Q will read the same.

2. I asked about debt coming due within one year of $336M. Jim claimed it was normal operating pull on the revolver. I asked, "wouldn't that be in accounts payable?" He asserted that is not the case. He mentioned this is their busy time of year, and the revolver gets hit at that time. I mentioned that a year ago it was on $31.2M. He was insistent that is what it was, and that it would decrease long before one year.

Company-wide sales decrease 7% primarily due to slow start to lawn and garden season.

For the fiscal second quarter, the Company reported sales of $1.01 billion, down 7 percent from $1.08 billion a year earlier. We were expecting $1.12B.

Sales for the Hawthorne segment decreased 29 percent to $41.8 million.

"The challenges we began to see earlier this year in California continue to affect our Hawthorne business segment at the mid-way point in the year," Hagedorn said. *"As we've previously stated, we*

now expect those challenges to last for the balance of the year and now believe Hawthorne sales will likely be, at best, flat in 2018 on a year-over-year basis including the impact of acquisitions."
On a company-wide basis, GAAP income from continuing operations was $152.7 million, or $2.66 per share, compared with $154.1 million, or $2.54 per share for the second quarter of fiscal 2017. These results include impairment, restructuring, and other charges. Excluding these items, non-GAAP adjusted income from continuing operations was $165.2 million, or $2.88 per share, compared with $156.0 million, or $2.57 per share, last year. We were expecting $3.20 per share.

"The slow start to the season and the declines at Hawthorne create challenges for us as we navigate the balance of fiscal 2018," Coleman said. "However, given the amount of consumer activity still in front of us, it is too early to revise our expectations. We currently anticipate providing the investment community an updated outlook for fiscal 2018 in mid-June, a practice consistent with how we have operated in the past."

For the 3-months ended March 31, 2018, Hawthorne revenues were 4.54% of total revenues, and 11.33% of 6-months ended March 31, 2018.

	Three Months Ended			Six Months Ended		
	March 31, 2018	April 1, 2017	% Change	March 31, 2018	April 1, 2017	% Change
Net Sales:						
U.S. Consumer	$ 920.2	$ 974.8	(6)%	$ 1,046.1	$ 1,101.0	(5)%
Hawthorne	41.8	59.1	(29)%	118.5	122.8	(4)%
Other	51.3	50.7	1 %	70.3	68.2	3 %
Consolidated	$ 1,013.3	$ 1,084.6	(7)%	$ 1,234.9	$ 1,292.0	(4)%

Cash balance is $33.0M, whereas short-term debt is $335.8M.

"We are disappointed with the result of Hawthorne." CA continues to struggle becoming a strictly regulated marijuana market. There are only 12 of 58 counties granting licenses. Progress is looking slower than SMG hoped. Industry probably got ahead of themselves during 2017. More cannabis was grown in 2017 that was needed. This will result in a shake-out, which the strong will survive via this temporary situation. This is happening in all legal states. Hence, SMG claims ready to thrive in the long run. SMG via their discussion of course is quite fluent in the marijuana industry. SMG has been modeling worst case scenarios in the Sunlight acquisition. Even with worst case scenarios, the acquisition makes sense.

Share-repurchase efforts are postponed due to leverage levels caused by Hawthorne acquisition of Sunlight Supply.

April 30, 2018 ($84.41) I spoke with an industry insider

I was set up with a grower in a large organization. I just wanted to be in contact and make sure my thinking and understanding was accurate. The grower confirmed all that I seem to be doing is reasonable and customary in the industry.

He mentioned they get much of their supplies from a local co-op. The co-op and them are partners of sort. Much of the co-op products are from Sunlight Supply.

The grower mentioned several potential competitors:

1. HydroFarm - https://www.hydrofarm.com/ They seem to be privately owned and have 10 distribution locations.
2. Bloomington Wholesale - http://www.bwgs.com/ Also privately owned, and they claim to be one of the largest wholesale distributors of indoor, hydroponic, and organic horticultural supplies in the United States.
3. FarmTek - www.farmtek.com This is mostly if not all used for greenhouses. Engineering Services & Products Company owns them.

April 26, 2018 ($83.41) More to add to the thesis on April 25th

A summary of why one would want to invest in SMG (I could be incorrect on all or some of this, so do your own DD).

1. Misunderstood by many. Many think the cannabis section of SMG is too small to move the needle. I don't think those people realize(d) that cannabis currently makes up 15% of SMG revenues. That is pre-Sunshine Supply purchase. Cannabis related revenues should be $600M ++ in F2019 (September year-end), possibly for F2018 as well. The most recent quarter 12/30/17, Hawthorne unit revenues were $76.7M. This was 34.63% of total SMG revenues. This is prior to Sunshine Supply purchase. 35% of total revenues is material, and I would venture to say, surprising to the cannabis investment community, including analysts, unless they study SMG.

2. If cannabis production continues to increase worldwide, is there any major supplier to support indoor grows and infrastructure, other than SMG?

3. Most investors think SMG's hydroponic unit is based on traditional hydro growing in water. They are WRONG! SMG classifies anything used in indoor grows, such as lighting, cloning, propagation, filtration, venting, tents, etc. as hydroponic.

4. SMG in its current form has cannabis related revenues that are 6X greater than any cannabis company which I am familiar with. Again, SMG cannabis related revenues are expected to be and are still close to presently $600M annually.

5. SMG seems to be priced as a "value play." This includes P/E being less than 20, and materially less than trailing and forward ROE. Forward expected P/E is slightly higher than expected Forward and trailing ROA.

6. "If you wait for the robins, spring will be over." Warren E. Buffett

On the negative, and really the only negative I can find, and it is a potentially material and deal killing negative, is the debt load. The current debt to equity is about 200+%. Moody's has indicated potential downgrade is coming, due to Sunshine Supply acquisition. If downgraded, and if solvency is expected in my analysis in the future, I would probably load up on material dips (i.e. under $80).

Hydro business prior to Sunshine Supply announcement was huge for SMG and for the industry. This is not debatable in my opinion. I have not heard any member of SMG say or write anything but positive things on Hawthorne.

Just the facts!

The most recent quarter 12/30/17, Hawthorne unit was $76.7M. This was 34.63% of total SMG revenues. This is prior to Sunshine Supply purchase. 35% of total revenues is material, and I would venture to say, surprising to the cannabis investment community, including analysts, unless they study SMG.

For Fiscal 2017, Hawthorne division did $287.2M, or 11% of revenues. I estimate SMG cannabis related revenues for this fiscal year, will be >$500M, and will be close to 20% of SMG total revenues.

	Year Ended September 30,					
	2017		2016		2015	
	(In millions)					
Net sales:						
U.S. Consumer	$	2,160.5	$	2,204.4	$	2,144.8
Hawthorne		287.2		121.2		48.0
Other		194.4		180.6		178.3
Consolidated	$	2,642.1	$	2,506.2	$	2,371.1
Segment Profit (Loss):						

"Meanwhile, our new hydroponic business, Hawthorne, continues to be a major part of our growth strategy. These changes have improved our rate of profitability, given us greater focus and helped us enable the share price appreciation we've seen over the past 2 years." **James S. Hagedorn - Chairman & CEO January 26, 2018 Annual Shareholders Meeting**

"Hawthorne obviously saw a different outcome in the quarter than we were expecting. The entire hydro segment is seeing a logjam in California due to changes in state law and the downstream impact of the implementation of new rules at the local level. We told you in the past that this business could see significant quarterly short-term swings, and this is one of those times. I'll come back to discuss each of the business segments in a few minutes with a particular focus on Hawthorne. As always, I'll leave the meat of the numbers to Randy, and I'll focus on broader strategic themes." **James S. Hagedorn - Chairman & CEO January 30, 2018 1Q18 CC**

"When we decided to begin investing in Hawthorne in 2014, we never thought we were chasing a 1- or 2-year fad. We believe the long-term trends remain favorable, and we're confident that they will help drive Hawthorne's growth. That said, we've told you in the past we expect some choppiness from time to time, and we saw that in Q1. Hawthorne reported 20% growth in the quarter due to acquisitions. Excluding acquisitions, sales declined $12 million in the quarter. We have continued to see negative pressure on sales throughout January, a trend we now expect to see continue for at least another month and perhaps longer.

Let me explain what we believe has occurred. There were a lot of headlines in the last few months about California's new system for authorizing and regulating production and sale of cannabis. Many of those same stories also reported that county governments are behind schedule in setting up their local rules for issuing licenses for growers and retailers. It appears this has contributed to a short-term slowdown, aggravated by some natural disasters that worked its way into our pipeline late last year.

Given the size of the California market compared to the other states in the Hawthorne sales mix, this issue clearly impacted our results. I can't tell you with certainty when we'll see the numbers reverse. Obviously, we didn't expect the softness when we provided our full year guidance on our last call. I can tell you; we no longer expect to see 10% volume growth for Hawthorne that was outlined in our original guidance. For now, you should assume that number to be flat, perhaps even down from last year, depending on the second half of the year. Obviously, we continue to expect year-over-year growth from acquisitions.

From a bottom-line perspective, Hawthorne team is accelerating some of its integration efforts and contingency plans to offset the shortfall. As always, we have other company-wide contingency plans if it becomes necessary, so I'd encourage you not to overreact here. In fact, there's likely a silver lining for us. Given the breadth of our product line and our financial strength, we are better positioned than anyone in the Hydro growing supply space, not just to weather a temporary downturn in the market, but to potentially benefit from it. I'm not going to predict the future, but I will say that our competitors simply don't have the kind of capital structure that we do.

Additionally, recent trends could actually make the M&A environment more favorable. Because of our long-term optimism about the hydroponic business, we'll be opportunistic if the right deal presents itself.

A final thought before I move on because context does matter here. California clearly has stumbled a bit, as they've tried to put more structure around an industry that was pretty loose in the past. But in the long term, that structure will add legitimacy, and that legitimacy ultimately helps drive the overall market higher, both in California and throughout the United States. So even if the slowdown lasts a couple of quarters, we're still confident in the long-term opportunity." **James S. Hagedorn - Chairman & CEO January 30, 2018 1Q18 CC**

"So, I'll just say that on a company-wide basis, we're up 7% for the quarter, which is only a little behind what we expected because of the backlog at Hawthorne. On a full year basis, we originally guided for sales growth of 4% to 6%. We now believe 2% to 4% is a more reasonable expectation." **Thomas Randal Coleman - Executive VP & CFO**

"We saw a 240 basis-point decline in the gross margin rate for the quarter to 15.3%, largely due to the volume and mix impacts from our Hawthorne business. The rate will get better as the year progresses, and we see more leverage out of our fixed cost, and as the higher gross margin U.S. consumer business begins to accelerate in our much larger second and third quarters." **Thomas Randal Coleman - Executive VP & CFO**

"I also share Jim's optimism about the continued long-term prospects for Hawthorne." **Thomas Randal Coleman - Executive VP & CFO**

"Well, because I know one thing. There are long backlogs, like Humboldt, I just -- because they gave me the numbers of -- after talking to the County, how many applications are waiting to be processed, which is huge, okay? So, I think there's a lot of people applying to be able to cultivate. And so, I think that, that trend is not scary for us. I think if you look at Canada and sort of the work that's happened with the big growing LPs in Canada, with let's say, Canopy, the biggest one up there, we have a fabulous relationship with them. I think this is where I think we've really learned where we can add value with the sort of size of the product line that we carry, the professional expertise that we can bring to helping them actually be more productive and profitable. So, this is not like, I think. This is I know, which is that Canada has really moved forward from a sort of scale

and professionalism point of view. It's not a gigantic market relative to California or the United States, but we have very much benefited from big relationships on across our entire -- where our sales force, our tech people, our ability to innovate, be creative with programs, has come together. So, I think this is one where we view scale as good. And by the way, we're developing products to sort of deal with areas where we think they're going to want to save money. But remember, we've talked for a long time with you guys about how at least 1 layer of distribution has to come out of -- when something leaves our plans and gets to the ultimate consumer that there's just too many places it's traveling and people who are taking value out of that chain. And that part of what we're doing, as we mature our distribution system, is to deal with more direct sales. And that's another way to deal with the sort of the demands of the larger, more professional customer, and it's not something we're surprised or disheartened by. It's one thing we know -- we're just executing our plans, okay?" **James S. Hagedorn - Chairman & CEO January 30, 2018 1Q18 CC**

"So, we expected the operating margins for Hawthorne to approach mid-teens. There's probably a little bit of pressure on that, but we're working through contingency plans that were already laid out when we started the year. We do that both for our consumer business and Hawthorne, so we have room to navigate. So, we're looking at open headcount, discretionary spending plans, investments that right now may not make much sense. When sales are down, you don't need to be as promotional, for example, so we're working through all of that. I'd still expect our operating margins to approach mid-teens, and to try to quantify where we expect the business to land for the year. I'd still say mid-300s, probably a little pressure on that to be low- to mid-300s on the top line for net sales, and still expect EBITDA to be in the $50 million range, give or take a couple of million bucks. So that's what we're looking at right now for fiscal 2018." **Thomas Randal Coleman - Executive VP & CFO**

"*Think of Hawthorne as the complete solution for this category. So, all the things we put together, all the technical capability. So now you're dealing with the grower or a small grower and you are actually being able to provide them all the help that have great success, and basically, what we've put together is that capability with the technical services, and so we're ready to go either way. So -- and to your point about 6 months, but this kind of slowed. We have a list of things we wanted to integrate. We're just accelerating them. So, it actually -- it should help us when it breaks loose. And then if there's pent up demand, it actually could go the other direction to fairly quickly as far as, do we have enough in supply. We'll be much better situated to handle that. So, on the operations side, I am very optimistic when we come out of it. The question is when do we come out of it and how much can we get ready when it comes out?"* **James S. Hagedorn - Chairman & CEO January 30, 2018 1Q18** CC

"I don't think there's anybody better positioned than we are by far." James S. Hagedorn - **Chairman & CEO January 30, 2018 1Q18 CC**

April 25, 2018 ($85.23)

Thesis:

I think SMG has the potential to be a pick and shovel cannabis conglomerate.

I am using shares outstanding of 55M for my F2019 projections. At today's price of $85.23, that would be a market cap of $4.7B. SMG is projected to have F2019 revenues of $2.8B, hence they are trading at 1.68X our projected F2019 revenues. We are expecting (and this can change up or down quickly) F2018 earnings of $4.80 per share, which equates to a current Price Earnings ratio of 17.76X. I like to invest in companies where the ROE is greater than the P/E, which we have here. We also have the unusual situation of the P/E also being about 80% of the forward F2019 P/E.

We recently accumulated a ~3% portfolio position for most of our clients at an average price of ~$81.94 per share. We are buying a company which by far is the largest public or even private company related to the cannabis industry. As more states legalize cannabis recreationally, new licenses will be awarded, and there is absolutely no reason to think that SMG will not be a material beneficiary of such a paradigm. I think the US government is backtracking on the Sessions situation from several months ago, and I would not be surprised to see full U.S. decriminalization in the future. Unlike other cannabis stocks, I do not think that SMG has massive if any over-valuation.

The company has hit a soft spot in this segment which they claim is temporary, and their excuses seem valid. The primary excuse has been the slowness of the California regulators issuing licenses, which if you read on seems to have subsided, and licensing appears to be tepid now, with over 3,000 CA licensees, of which about 1/3rd is for indoor grows. The weather in CA, including the wildfires of last year, and the coldness throughout the U.S. in the spring has affected SMG's hydroponic revenues.

The term hydroponic includes, all aspects of indoor grows, from supplies, lighting, nutrients, cloning, and virtually every aspect a grower needs. This grower can be industrial size or a home grower. Of course, SMG's focus will be on the larger commercial organizations.

The fundamentals of the valuation seem to be in line, when looking at Price/Earnings, Return on Equity, Return on Capital, as well as a dividend pay-out ratio of < 50% is expected in F2018 and F2019. The fiscal year end is September 30th.

Officers and directors certainly have skin in the game as they own over 29% of the shares.

There is a cannabis analyst, who I consider to be the best in the business, who was of the thought that the cannabis related division of SMG was immaterial and couldn't move the needle. I respectfully disagree, as hydroponics is currently about 15% of SMG's total revenues.

My concerns of SMG are their rising debt load from acquisitions. The most recent announcement of purchasing Sunlight Supply gave Moody's a basis for a potential credit rating downgrade. Moody's currently rates SMG with a rating of 'Ba2,' which is a speculative credit rating, and below investment grade. This will be something to monitor as time marches on. We need to see if the acquisitions can materially help to pay down debt and reduce interest costs.

Some information on Sunlight Supply Inc.

https://www.sunlightsupply.com/

"Founded in 1995, Sunlight Supply, Inc., is a Vancouver, WA based manufacturer and distributor of specialty gardening supplies. Our product offering of over 5,000 different products includes everything needed for indoor, hydroponic, organic and greenhouse gardening. We also distribute a wide variety of products for the outdoor gardener. Sunlight Supply is a wholesale only business, selling our products exclusively through our Authorized Dealers.

Our Signature Brands include Sun System brand grow lights, Sun Blaze T5 HO fluorescent grow lights, Galaxy digital ballasts, Gro Pro growing containers, Hurricane fans, Titan Controls, Ideal Air brand air conditioners and dehumidifiers, Mother Earth growing media and amendments, *Adjust a Wings reflectors, Black Ops carbon filters, Ultra Sun horticultural grow lamps, Eco Plus water and air pumps, Ideal H2O water filtration equipment and many more.*

We are a distributor for leading brand name suppliers such as Gavita, Eye Hortilux grow lamps, Grodan rockwool, General Hydroponics, Botanicare, Foxfarm, Quest, Emerald Harvest, Bluelab, Cutting Edge, Central Coast Garden Products, Hygrozyme, Nectar for the Gods, Hydro Dynamics, Roots Organics, Grotek, Humboldt Nutrients, Technaflora, Sungro growing media (Sunshine and Black Gold), Premier Horticulture Pro Mix, EZ Clone, Ushio lamps and many more.

Whether you grow in soil, soilless mixes, Hydroton grow rocks, coco fiber or rockwool, we offer everything you need to be a successful gardener. We also offer a complete line of hydroponic supplies to grow with any method of hydroponics you choose.

Whether you garden as a hobby or commercially, hydroponically or in soil, indoors or outdoors, Sunlight Supply offers all of the products you need for a successful growing experience." **Company website April 25, 2018**

Some Divisions:

Commercial Rolling Bench System: Commercial Rolling Bench Systems allow you to smoothly roll your tables from side to side eliminating the need for multiple aisles in your growing space. Eliminating these unnecessary aisles turns valuable wasted space into usable production space.

Sunlight has a vast **lighting division**, which includes reflectors, ballasts, complete systems, fixtures, Gavita, LED, fluorescents, etc.

They also have a **Growing Environment** section which includes Environmental controllers, ventilation, fans and ducts, Air purification, timers, and interests.

Plant propagation, Nutrition and Health: This division sells Cloning and Seed Starting, Nutrients and Supplements, Pest and Disease Control and Leaf Shines and Washers.

Other divisions include: Growing Media and Containers, Grow Tents, Systems and Trays, Water and Aeration, and Tools and Accessories.

Sunlight Signature Brands:

SUN SYSTEM
America's #1 Brand of Horticultural Lighting Fixtures
Website | Shop »

LEC LIGHT EMITTING CERAMIC
FULL SPECTRUM PLANT GROWTH FIXTURES & LAMPS
Shop »

Sun System 1
1000 WATT DE BALLAST WITH SELF-DIAGNOSTICS
Shop »

GALAXY
RELIABLE LOW-EMISSION DIGITAL BALLASTS
Website | Shop »

SolarFLARE SUNBLAZE
T5 HO FLUORESCENT FIXTURES
Shop »

AGROLED
ENERGY SAVING LED LUMINAIRES
Shop »

TITAN CONTROLS
CONTROLLING YOUR GROWING ENVIRONMENT
Website | Shop »

IDEAL air
PREMIUM QUALITY EQUIPMENT TO COOL, HEAT, HUMIDIFY & DEHUMIDIFY YOUR ENVIRONMENT
Website | Shop »

Hurricane
GROW ROOM FANS FOR VENTILATION & AIR MOVEMENT
Website | Shop »

ECOPLUS
Setting the standard for chillers water pumps & air pumps.
Website | Shop »

GRO PRO
A COMPLETE LINE OF INDOOR & OUTDOOR GROWING CONTAINERS
Website | Shop »

MOTHER EARTH
Website | Shop »

Grower's EDGE
QUALITY PLANT SUPPORT PRODUCTS & GARDENING ACCESSORIES
Website | Shop »

ULTRA SUN
PREMIUM QUALITY VALUE PRICED HORTICULTURAL LAMPS
Website | Shop »

PAR PRO
High Intensity Photosynthetic Grow Lamps
Shop »

iSUNLIGHT
T5 RETROFIT LED LAMPS - by AgroLED
Shop »

SPECTRALUX
THE SMART GROWER'S VALUE LAMP
Shop »

FELIZ
FELIZLIGHT FLUORESCENT GROW LAMPS
Website | Shop »

BLACKOPS
LIGHTWEIGHT RC-4/12 AUSTRALIAN CARBON FILTERS
Website | Shop »

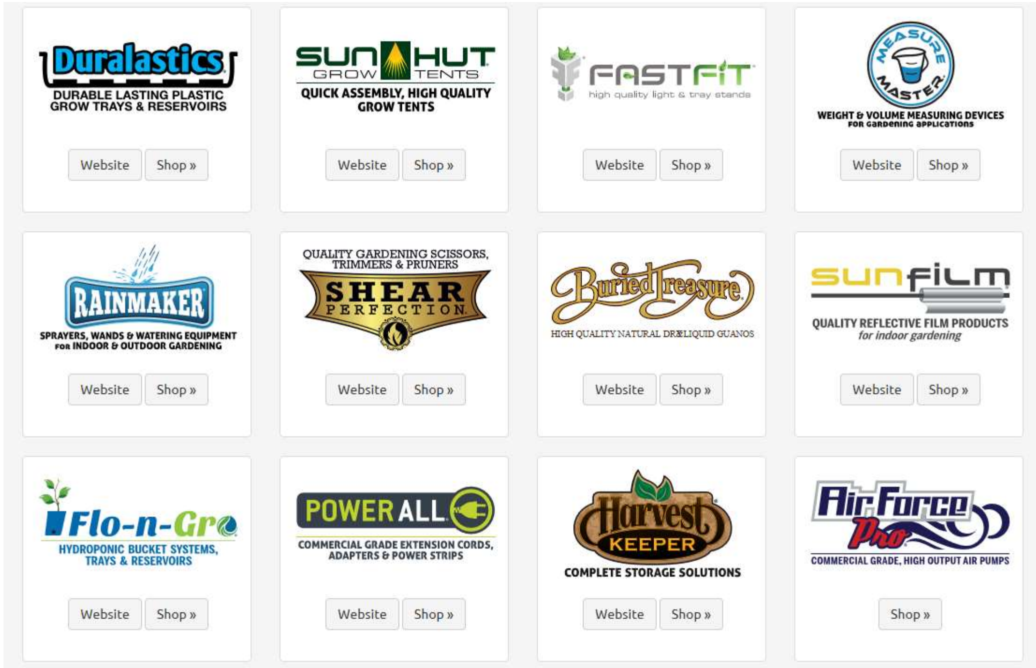
idealH2O
Premium Water Filtration Systems
Website | Shop »

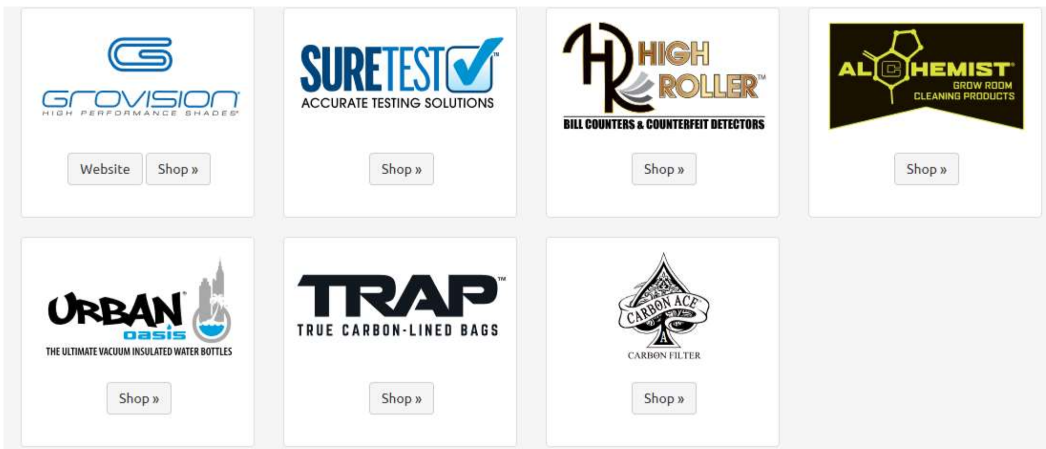
SuperSprouter
PROPAGATION HEAT MATS, DOMES, TRAYS & PLUGS
Website | Shop »

SUN GRIP
LIFT SYSTEMS FOR LIGHTING FIXTURES
Shop »

HydroFlow
Quality, Compatible Irrigation Solutions
Website | Shop »

Hyperfan
HIGHEST CFM PER WATT of any fan in the industry!
Website | Shop »





Hawthorne is SMG's existing hydroponic division. Here are some of their brands.

Our Craft Brands

April 23, 2018 ($83.26)

AB mentioned this on 4/21/18, which in time, I will debate. “Hawthorne as a stand along would be interesting. As part of SMG, it hasn't been a needle-mover (except in the wrong way due to the poor performance). After this acquisition, it is even bigger, obviously, but still not a substantial part of the overall company in my view.”

It is my understanding the number of licenses issued in California continues to accelerate. Of the 3,100 licenses issued in 2019, 2000 have been issued for indoor/mixed light growing. Hence, about 2/3’rds of the licensees will require some form of hydroponics, from artificial lighting to nutrients. I am projecting this acceleration in licenses will have a direct effect on SMG revenues during the second half of Fiscal 2018, despite recent warnings of the 2Q18 Hawthorne division being down 30% in 2Q18. End of the day, the hydroponic division of SMG is expected to produce ~$600M in revenues during F2019. I believe this revenue is by far the largest cannabis-based revenue by any company in the world.

In fiscal 2017, Sunlight Supply had revenue of approximately $460 million and EBITDA of approximately $55 million. The transaction will be funded with $425 million of revolver borrowings and $25 million of equity. The reason the combined revenue of the two divisions is only $600M, assumes that 20% of Sunshine’s revenues were to SMG.

“While we view the recent slowdown within Hawthorne as temporary, it has continued into the second quarter. We now expect full year organic sales growth at Hawthorne will be flat assuming a return to normal market conditions in the second half of the year. Our long-term prospects for this business remain unchanged and we continue to see Hawthorne having strong long-term growth.”
SMG 8-K 1/30/18

For 1Q18, sales for the Hawthorne segment increased 20 percent to $76.7 million. Revenues for this segment were $63.7M in the first quarter (12/31/16) of F2017.

Net profits for 1Q18 for the Hawthorne division were $1.7M, as compared to $6.6M during 1Q17.

Review of 10-Q for period ended December 30, 2017:

Shares outstanding as of February 2, 2018 was ~57M.

Generic Free Cash Flow Calculation:

	3 Months ended 12/30/17	**3 Months ended 12/31/16**
Net (Loss)	($21.2)	($64.9)
Add: Depreciation	12.7	14.0
Amortization	7.1	6.1
Subtract: Capex	(19.4)	(16.1)
Generic Free Cash (Drain)	**($20.8)**	**($60.9)**

Company repurchased shares during 1Q18 of $96.2M, and in 1Q17 of $43.6M.

Other Notes:

There has been some minor insider buying on the open market.

Name, Title	Transaction	Transactions During 2018	# of Shares	Price($)	Type	% of Holdings Traded	Now Holds
Finn, Brian D., DIR	Bought	04/01	301 ▲	90.48	Direct, Non Open Market	2.1	14,374
Hanft, Adam, DIR	Bought	04/01	151 ▲	90.48	Direct, Non Open Market	0.3	50,022
Johnson, Stephen L., DIR	Bought	04/01	76 ▲	90.48	Direct, Non Open Market	0.4	18,231
Shumlin, Peter E, DIR	Bought	04/01	301 ▲	90.48	Direct, Non Open Market	6.5	4,613

April 19, 2018 ($81.30)

On April 17, 2018, SMG announced that Hawthorne Hydroponics entered into a purchase agreement for all the assets and certain specific liabilities of Sunlight Supply Inc.

The transaction was stated to create a direct distribution model for Hawthorne that will service more than 1,800 hydroponic retail customers throughout the United States. *"Hawthorne, which had 2017 sales of approximately $290 million, owns leading hydroponic brands such as Gavita, Botanicare, Can-Filters, and General Hydroponics. Sunlight Supply is the largest distributor of hydroponic products in the United States. Within the last year, Sunlight opened a state-of-the-art 350,000-square foot distribution center in Vancouver, Washington and has eight other distribution facilities across North America."* **Form 8-K 4/17/18**

The Company currently expects it will announce that Hawthorne segment sales declined approximately 30 percent in the second quarter, including the impact of past acquisitions.

Yield is 2.61% ($2.12). Earnings expected at $4.80 which would give a P/E of 16.94X. Dividend payout has averaged 51.33% for the last 9 years. The payout ratio was 46% in F2016, and 61% in F2017. Dividend payout ratio expected to be 43% for F2018 and 45% for F2019. ROE has averaged 22.98% for the last 9 years. ROE was 35.5% in F2016, and 30.5% in F2017. ROE is expected to be 47.0% for F2018, and 41.0% for F2019. ROTC has averaged 12.68% for the last 10 years. ROTC was 15.3% in F2016, and 12.4% in F2017. ROTC is expected to be 12.5% for F2018, and 13.0% for F2019. Average P/E for the last 10 years has been 21.26X. Projected eps for F2019 is $5.05 which equates to a forward P/E of 16.1X. VL gives it 'B++' financial strength, and a Safety rating of 3. VL projects a price of $80 -$120, between 2021 – 2023 (3/23/18).

Shares outstanding projected to be 56 at December 31, 2018, and 55 at December 31, 2019.

S&P credit rating is 'BB' Highest Rung of Speculative Outlook Stable (11/10/15)

Moody's credit rating is 'Ba2' Upper Rung of Speculative (1/11/10) Outlook DNG (4/18/18)

Fitch credit rating N/A.

Scotts Miracle-Gro recently announced a proposal to acquire Sunlight Supply, which is the largest distributor of hydroponic equipment in the United States.

"California distributes commercial licenses to grow marijuana at the county level, versus other states that issue licenses at the state level. Some California counties have yet to begin issuing licenses as the governments set up application rules. As a result, the entire hydroponic equipment supply chain is holding excess inventory that was produced in anticipation of California's new commercial grower demand and Hawthorne's sales have declined in 2018." **Morningstar April 18, 2018**

I am of the belief that the Federal government will start easing up on cannabis, and that could very well be a boom for SMG as they are looking to exploit the hydroponic market.

Over 60% of its sales come from Home Depot, Lowe's, and Walmart. As of 2017, 97% of total sales occur at brick-and-mortar retail.

"The Hawthorne segment, which includes indoor gardening, hydroponics, and lighting contributed about 15% of revenue in 2017. This segment's future growth is closely tied to legalization of cannabis in the U.S. as its products are frequently used by licensed growers. Recent acquisitions in the segment should position Scotts to take advantage of growing demand from states and municipalities where cannabis has been recently legalized." **Morningstar April 18, 2018**

"We think the Hawthorne segment is well positioned to take advantage of increased demand for indoor gardening equipment stemming from the legalization of cannabis and the rise in urban gardening as a recreational activity. We expect the Hawthorne segment to average a low-double-digit revenue growth over the next decade as hydroponics, indoor gardening, and vertical farming experience significant growth.

In April 2018, Scotts announced an agreement to acquire Sunlight Supply, the largest hydroponics distributor in the U.S. Due to improved distribution and economies of scale, segment margins should expand from 12% to 19% by 2027." **Morningstar April 18, 2018**

During the 2Q18 (3/31/18) conference call, the CEO and COB, James S. Hagedorn mentioned the following items, which I think are important.

The acquisition of Sunlight Supply is intended to help SMG and Hawthorne become an efficient and vertically integrated hydroponic company. The reason being is that Hawthorne services a different retail channel than their Consumer business. SMG feels it can't efficiently utilize the existing supply chain. The purchase of Sunlight increases scale, which SMG claims will result in meaningful profit improvement as well as a direct relationship with retailers who sell them products and the growers who use them. Hawthorne will be shipping direct to retailers. SMG claims that users who continue to *"professionalize their operations and will want an even more direct distribution model in the future. The pending acquisition of Sunlight Supply will instantly change that dynamic. It creates unique competitive advantages for Hawthorne, especially ownership of the largest, most modern, and most cost-efficient supply chain in the hydroponic industry. The benefits don't just accrue to us. They make the entire hydroponic industry better."*

Hawthorne Canada announced plans to build a 50,000 square foot R&D facility in partnership with Flowr, a Canadian-based professional licensed cannabis producer. When that facility is complete, the company believes that Hawthorne will have the most sophisticated cannabis research capabilities in the world.

In fiscal 2019, the company stated they expect full year net sales for Hawthorne to approach $650 million. The year-over-year adjusted earnings benefit from this deal is expected to range from $0.60 to $0.80 per share. The company's goal by the end of 2020 is to report Hawthorne segment profit of $120 million and operating margins in a range of 17% to 18%.

SMG expects to be known by all their stakeholders as the ultimate supplier in this industry; and to create a level of technical expertise that results in hydroponic growers large and small viewing us as the subject matter experts in this space.

Conference Call Quotes from CEO and COB, James S. Hagedorn from April 18, 2018:

"I want to start by saying our planned acquisition of Sunlight Supply is one of the most important announcements we've made during my 18-year tenure as CEO of ScottsMiracle-Gro. Even in the context of the 150th anniversary of our company, which we'll celebrate next month, I see today's announcement as one of our most important ever. This deal is transformational. It makes us better. It makes us stronger, and it makes us more profitable. It also reinforces a sustainable growth platform in an emerging industry for years to come. It is the final chapter of the reconfiguration of our business under an initiative we've been calling Project Focus."

"Since the launch of Project Focus, we have assembled the best brands in the U.S. hydroponic products market and put them in our Hawthorne business segment. Before today's announcement, we had invested more than $600 million in building a portfolio that had annualized pro forma sales of approximately $340 million entering this year."

"We moved aggressively to build a first-mover advantage in a category we believe has transformational opportunities, whether it's for growers of plants on their kitchen counter or in greenhouses or warehouses."

Sunlight is based in Vancouver, Washington but has a national footprint. It distributes more than 5,000 products to more than 1,500 hydroponics retailers across the country. It has 9 distribution facilities across North America, including a new 350,000 square foot manufacturing and distribution facility that is state-of-the-art, not just for hydroponics but for any product category.

"In its most recent fiscal year, Sunlight had sales of approximately $460 million and EBITDA of $55 million. About 2/3 of its existing business comes from distribution. Almost every major vendor in the hydroponics industry, including Hawthorne, moves its products through the Sunlight supply. However, the rest of the revenue comes from Sunlight's own portfolio of signature brands, many of them in categories where Hawthorne currently does not play. So, if you operate a greenhouse or an

indoor growing facility, there is virtually nothing that you need that Sunlight can't provide, whether it's through its own brands, Hawthorne brands or third-party brands. Sunlight is run by a truly creative and visionary leader, Craig Hargreaves, who founded the business in 1995 and has never looked back. It's fair to say that Craig is the single most influential person in this industry today."

"We're not chasing rainbows here. We're not looking for some pot of gold that results in overstated and unsustainable valuations on this business."

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