

SCOTTS MIRACLE-GRO CO
Form 10-Q
August 07, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 28, 2014

OR

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

For the transition period from _____ to _____

Commission File Number: 001-11593

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

OHIO
(State or other jurisdiction of incorporation or organization)

31-1414921
(I.R.S. Employer Identification No.)

14111 SCOTTSLAWN ROAD,
MARYSVILLE, OHIO
(Address of principal executive offices)
(937) 644-0011
(Registrant's telephone number, including area code)

43041
(Zip Code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

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

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Class
Common Shares, \$0.01 stated value, no par value

Outstanding at August 5, 2014
61,211,495 common shares

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE SCOTTS MIRACLE-GRO COMPANY

Condensed Consolidated Statements of Operations

(In millions, except per common share data)

(Unaudited)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 28, 2014	JUNE 29, 2013	JUNE 28, 2014	JUNE 29, 2013
Net sales	\$1,116.4	\$1,137.1	\$2,387.0	\$2,340.1
Cost of sales	693.1	695.3	1,496.0	1,490.4
Cost of sales—impairment, restructuring and other	—	1.5	—	1.6
Gross profit	423.3	440.3	891.0	848.1
Operating expenses:				
Selling, general and administrative	189.0	189.2	525.6	519.9
Impairment, restructuring and other	39.2	7.0	45.6	6.7
Other income, net	(5.8)	(4.9)	(8.5)	(7.5)
Income from operations	200.9	249.0	328.3	329.0
Costs related to refinancing	—	—	10.7	—
Interest expense	12.8	16.8	38.7	47.9
Income from continuing operations before income taxes	188.1	232.2	278.9	281.1
Income tax expense from continuing operations	67.4	84.5	98.3	102.5
Income from continuing operations	120.7	147.7	180.6	178.6
Income from discontinued operations, net of tax	1.0	0.5	1.1	1.9
Net income	\$121.7	\$148.2	\$181.7	\$180.5
Basic income per common share:				
Income from continuing operations	\$1.97	\$2.39	\$2.93	\$2.89
Income from discontinued operations	0.02	0.01	0.02	0.03
Basic income per common share	\$1.99	\$2.40	\$2.95	\$2.92
Weighted-average common shares outstanding during the period	61.3	61.7	61.7	61.7
Diluted income per common share:				
Income from continuing operations	\$1.93	\$2.36	\$2.88	\$2.86
Income from discontinued operations	0.02	0.01	0.02	0.03
Diluted income per common share	\$1.95	\$2.37	\$2.90	\$2.89
Weighted-average common shares outstanding during the period plus dilutive potential common shares	62.4	62.6	62.8	62.5
Dividends declared per common share	\$0.438	\$0.325	\$1.313	\$0.975

See notes to condensed consolidated financial statements.

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THE SCOTTS MIRACLE-GRO COMPANY

Condensed Consolidated Statements of Comprehensive Income (Loss)

(In millions)

(Unaudited)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 28, 2014	JUNE 29, 2013	JUNE 28, 2014	JUNE 29, 2013
Net income	\$121.7	\$148.2	\$181.7	\$180.5
Other comprehensive income (loss), net of tax:				
Net foreign currency translation adjustment	4.2	(3.6)	) 0.1	(8.5)
Net unrealized (loss) gain on derivative instruments, net of tax of \$2.4, \$1.1, \$4.2 and \$0.8, respectively	(3.9)	) 1.7	(6.8)	) (1.2)
Reclassification of net unrealized loss on derivatives to net income, net of tax of \$2.0, \$2.0, \$6.3 and \$4.8, respectively	3.2	3.1	10.2	7.6
Net unrealized loss in pension and other post-retirement benefits, net of tax of \$0, \$0, \$0.2 and \$0, respectively	—	—	(0.3)) —
Reclassification of net pension and post-retirement benefit loss to net income, net of tax of \$0.5, \$0.6, \$1.4 and \$3.2, respectively	0.8	0.9	2.3	5.1
Total other comprehensive income	4.3	2.1	5.5	3.0
Comprehensive income	\$126.0	\$150.3	\$187.2	\$183.5
See notes to condensed consolidated financial statements.				

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

	NINE MONTHS ENDED	
	JUNE 28, 2014	JUNE 29, 2013
OPERATING ACTIVITIES		
Net income	\$ 181.7	\$ 180.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Impairment, restructuring and other	33.7	4.6
Costs related to refinancing	3.5	—
Share-based compensation expense	8.7	10.4
Depreciation	37.8	41.0
Amortization	10.2	8.1
(Gain) loss on sale of assets	(1.3	) 0.8
Equity in (income) loss of unconsolidated affiliates	(1.8	) 0.1
Changes in assets and liabilities, net of acquired businesses:		
Accounts receivable	(433.7	) (356.5
Inventories	(63.3	) 24.3
Prepaid and other assets	(15.0	) (15.4
Accounts payable	145.8	97.1
Other current liabilities	147.1	176.8
Restructuring reserves	2.6	(5.0
Other non-current items	(22.8	) (17.1
Other, net	1.1	(6.6
Net cash provided by operating activities	34.3	143.1
INVESTING ACTIVITIES		
Proceeds from sale of long-lived assets	0.2	3.5
Proceeds from sale of business, net of transaction costs	7.2	—
Investments in property, plant and equipment	(68.5	) (42.7
Investment in unconsolidated affiliates	—	(4.5
Investment in acquired business, net of cash acquired	(60.0	) (3.2
Net cash used in investing activities	(121.1	) (46.9
FINANCING ACTIVITIES		
Borrowings under revolving and bank lines of credit	1,740.5	1,284.9
Repayments under revolving and bank lines of credit	(1,282.4	) (1,347.5
Repayment of 7.25% Senior Notes	(200.0) —
Financing and issuance fees	(6.1) —
Dividends paid	(81.3	) (60.7
Purchase of common shares	(89.5) —
Payments on seller notes	(0.8	) (0.8
Excess tax benefits from share-based payment arrangements	5.4	1.0
Cash received from the exercise of stock options	14.3	5.3
Net cash provided by (used in) financing activities	100.1	(117.8
Effect of exchange rate changes on cash	4.1	(4.9
Net increase (decrease) in cash and cash equivalents	17.4	(26.5
Cash and cash equivalents, beginning of period	129.8	131.9

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Cash and cash equivalents, end of period	\$147.2	\$105.4
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SUPPLEMENTAL CASH FLOW INFORMATION

Interest paid	\$(42.4) \$(45.6)
Call premium on 7.25% Senior Notes	\$(7.3) \$—)
Income taxes (paid) refunded	\$(14.5) \$29.4)

See notes to condensed consolidated financial statements.

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THE SCOTTS MIRACLE-GRO COMPANY

Condensed Consolidated Balance Sheets

(In millions, except stated value per share)

(Unaudited)

	JUNE 28, 2014	JUNE 29, 2013	SEPTEMBER 30, 2013
ASSETS			
Current assets:			
Cash and cash equivalents	\$147.2	\$105.4	\$ 129.8
Accounts receivable, less allowances of \$11.4, \$10.0 and \$9.5, respectively	512.3	482.4	206.6
Accounts receivable pledged	237.8	199.9	106.7
Inventories	387.8	385.8	324.9
Prepaid and other current assets	125.9	135.0	113.0
Total current assets	1,411.0	1,308.5	881.0
Property, plant and equipment, net of accumulated depreciation of \$606.4, \$579.1 and \$573.4, respectively	443.4	409.8	422.3
Goodwill	333.3	315.2	315.1
Intangible assets, net	281.3	297.6	284.4
Other assets	37.4	31.2	34.4
Total assets	\$2,506.4	\$2,362.3	\$ 1,937.2
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current portion of debt	\$200.5	\$165.5	\$ 92.4
Accounts payable	279.3	230.7	137.7
Other current liabilities	428.6		