

Company Description:

Scotts Miracle-Gro is one of the world's leading home lawn care and hydroponics companies. The company manufactures, sells, and markets consumer lawn and garden products through its three business segments: U.S. Consumer, Hawthorne, and Other. Scotts Miracle-Gro prides itself on having some of the most recognized brands in gardening and landscaping, as well as in the insect, weed, and rodent control industries. Additionally, the company is a leader in hydroponic gardening systems and accessories. Since its founding in 1868, Scotts Miracle-Gro has expanded its product line through R&D and strategic M&A activity to distinguish itself as a leader in the agricultural chemical industry.

Management:

- **James Hagedorn, CEO and Chairman of the Board:** Has been at SMG for 32 years and was named CEO in 2001. His father launched the original Miracle-Gro in 1951. Mr. Hagedorn played a pivotal role in the 1995 merger with Scotts.
- **Michael C. Lukemire, President and COO:** Has been at SMG for 23 years and has served as President and COO since February 2016. Mr. Lukemire has served in several operations and business execution executive positions at Scotts Miracle-Gro since May 2013.
- **Thomas (Randy) Coleman, EVP and CFO:** Joined SMG in 1999 as a Director and has served in his current role since 2014.

Industry Overview:

The industry that Scotts Miracle-Gro primarily operates in is the agricultural chemicals industry specifically focused on at-home lawn care. There is huge growth in this area due to several trends such as more millennials buying houses. With these new houses, the home buyers are purchasing lawncare products from Scotts Miracle Gro. The Hawthorne segment is with the company's hydroponics division. This industry is seeing huge growth due to the legalization of marijuana across the United States and the demand for indoor growing of agricultural products.

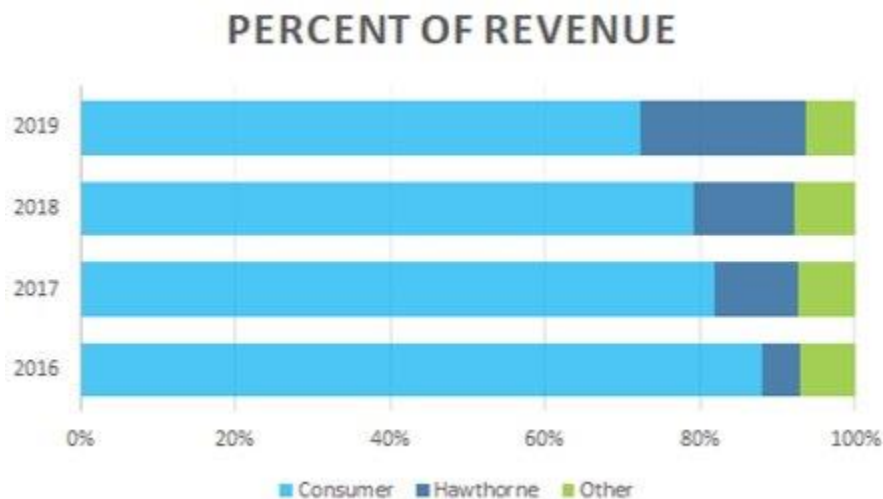
Competitive Advantages:

Scotts Miracle-Gro maintains an established presence in the market as a leader in developing, manufacturing, and producing lawn and garden care products. SMG's large number of subsidiaries allows the company to offer several lines of consumer products to appeal to many consumers across gardening sections. SMG also places great emphasis on its research and development. They spent \$39.6 million in 2019 into R&D. This focus on innovation allows SMG to stay ahead of the competition with any changes in the industry. Such innovation allows SMG to utilize Hawthorne to its fullest potential. With Hawthorne's focus on innovation, SMG will be able to drive growth in current and emerging markets and capture synergies. Hawthorne's focus on hydroponics allows them to develop products that appeal to both large-scale growers, their target market, as well as individual homeowners. Their technical expertise in supporting crop growing gives them a leadership role in an emerging industry.

Revenue Breakdown:

Scotts Miracle-Gro divides its business and reported revenues into three segments: Consumer, Hawthorne, and Other. Through the past four years (2016, 2017, 2018, 2019), the company's revenue has been led by the Consumer segment. Although the Consumer segment's revenue share has dropped in recent years, the Hawthorne segment has steadily grown its revenue share through a growing market for hydroponic gardening systems and accessories. The "Other" business segment is comprised of the gardening and lawn products sold outside of the United States and consistently brings in less than 10% of total revenues.

As of September 30, 2020, SMG expects company-wide sales growth of 16 to 18 percent following their initial expectation of 6 to 8 percent in May. This changed due to the strong growth within the U.S. consumer segment, where they now are expecting a growth of 9 to 11 percent instead of the original 1 to 3 percent. Hawthorne is also expected to exceed expectations as yearly sales are estimated to grow by 45 to 50 percent compared with the recent increase in guidance of 30 to 35 percent.



Business Segments:

The Consumer segment consists of consumer lawn, garden, and pest control products. Their Global Industry Classification Standard is under chemicals. The consumer segment includes Scotts, Miracle-Gro Ortho, and TOMCAT. The consumer segment saw tremendous growth during COVID due to the high demand of agriculture products. The consumer segment proves to be a cash flow engine for SMG.

Hawthorne is the leading seller of hydroponic equipment. This is soilless process that contributes to vertical growing. The plants are proven to grow about 25% faster and proves to be more efficient and cost efficient on a large scale. Hawthorne provides the equipment to grow marijuana which excludes them from the high taxes of actually selling the actual plant. Hawthorne's hydroponic equipment reduces seasonality by ensuring that the plants are receiving the proper lighting, growing environment, plant nutrition and health, water and aeration tools.

The Other segment consists of non - U.S. consumer lawn and garden business, as well as product sales to greenhouses, nurseries, and other professional customers.

Risks:

There are a few material risks to consider with SMG, including that the legalization of marijuana could be slower than anticipated for either medical or recreational usage, the demand for the consumer segment could plateau, and that there could be an agricultural shift into Large Scale Grows.

Catalysts:

SMG has several catalysts that should drive the stock price moving forward. This includes strong demand within the housing market due to quarantine and WFH trends, the mix of traditional growing and hydroponics, and the impending legalization of marijuana throughout the United States. Additional considerations include data which shows that the millennial generation is more likely to buy lawn and garden products, and weather/natural disasters that have been destroying harvests which could drive growth in hydroponics.

Scotts Miracle-Gro
Materials & Industrials
10/14/20

Valuation:

Relative Valuation:

Scotts Miracle Gro Relative Valuation (\$ in Millions)									
Company Name	Ticker	Market Cap	Forward P/E	Net Margin (T12M)	EPS (T12M)	Dividend Yield	YOY Revenue Growth	EV/Revenue	EV/EBITDA
Scotts Miracle Gro	SMG	\$9,114	20.0x	8.75%	6.12	1.51%	18.50%	2.67x	21.9x
Median	N/A	\$4,688	21.8x	3.37%	1.83	2.11%	3.35%	1.33x	11.9x
Mean	N/A	\$5,004	29.8x	2.42%	2.13	2.26%	4.31%	1.33x	(5.3x)
Mosaic	MOS	\$8,910	66.4x	(12.11%)	(0.67)	1.01%	(7.10%)	1.33x	(103.9x)
CF Industries	CF	\$6,700	18.8x	12.13%	1.59	3.83%	3.64%	2.76x	6.3x
American Vanguard	AVD	\$457	32.2x	2.45%	0.37	N/A	3.06%	1.32x	11.3x
Spectrum Brands	SPB	\$2,676	17.9x	(1.01%)	3.30	2.70%	0.17%	1.34x	20.1x
Central Garden and Pet	CENT	\$2,165	23.7x	4.29%	2.06	N/A	7.57%	1.05x	12.4x

Discounted Cash Flow: Base

		Sensitivity Table - Base						
		Consumer Segment Sales Growth						
		3.5%	4.0%	4.5%	5.0%	5.5%	6.0%	6.5%
Hawthorne Growth	35%	\$ 151.30	\$ 153.10	\$ 154.92	\$ 156.76	\$ 158.63	\$ 160.52	\$ 162.44
	40%	\$ 164.69	\$ 166.48	\$ 168.30	\$ 170.14	\$ 172.01	\$ 173.90	\$ 175.82
	45%	\$ 179.67	\$ 181.46	\$ 183.28	\$ 185.12	\$ 186.99	\$ 188.89	\$ 190.81
	50%	\$ 196.38	\$ 198.17	\$ 199.99	\$ 201.84	\$ 203.70	\$ 205.60	\$ 207.52
	55%	\$ 214.95	\$ 216.74	\$ 218.56	\$ 220.40	\$ 222.27	\$ 224.17	\$ 226.09
	60%	\$ 235.51	\$ 237.30	\$ 239.12	\$ 240.96	\$ 242.83	\$ 244.73	\$ 246.65
	65%	\$ 258.20	\$ 259.99	\$ 261.81	\$ 263.66	\$ 265.53	\$ 267.42	\$ 269.34

Blended Valuation:

Blended Valuation			
Bear Case	\$	130.66	10%
Base Case	\$	201.84	80%
Bull Case	\$	224.17	10%
Blended	\$	196.96	100%

Blended Valuation: \$196.96 (18.95% upside)

Thesis:

After researching and analyzing SMG financial performance and future outlook, the Materials & Industrials sector has come to the conclusion of a buy rating with 18.95% upside due to consistently strong revenue from its core consumer segment, Hawthorne's dominance in the rapidly developing hydroponics market, and SMG's exposure to the growth prospects of the medical & recreational marijuana industry as more states continue to legalize growing and personal use.