

SCOTT'S MIRACLE-GRO Co. (NYSE: SMG) BUY

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Scotts  **Miracle-Gro**

- I. INTRODUCTION
- II. COMPANY BACKGROUND
- III. INVESTMENT DRIVERS
- IV. VALUATION
- V. RISKS AND CATALYSTS
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- VII. PORTER'S FIVE FORCES ANALYSIS

I. INTRODUCTION

• 12 Month Price Target:

\$197.39

• Appropriate Entry Price:

\$147.05

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• Advantageous company position

2

• Bullish growth opportunity

3

• Continued standard agronomic practices

II. COMPANY BACKGROUND

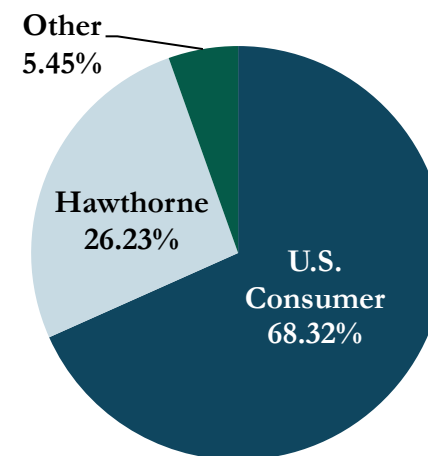
BUSINESS DESCRIPTION

Scotts Miracle-Gro Co. engages in the manufacturing, marketing, and distribution of products, systems, and accessories for consumer and hydroponic gardening

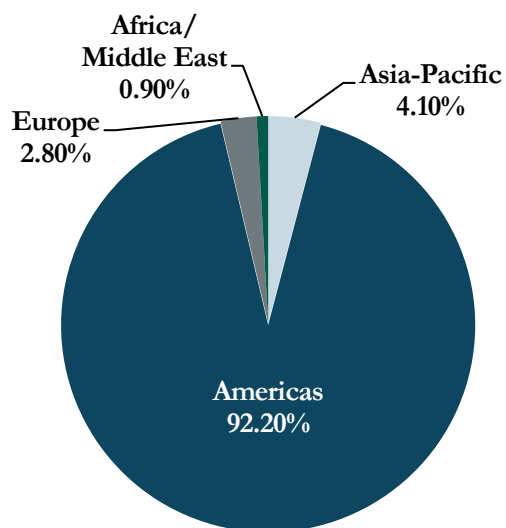
Segment Analysis

- The company is a domestic leader in the production and sale of branded lawn and garden products (US Consumer)
- In FY2015, the Hawthorne segment was established on its own to focus on indoor and hydroponic gardening products
- Hawthorne sales now accounts for 26.530% of revenue

REVENUE BY BUSINESS SEGMENT



REVENUE BY GEOGRAPHIC SEGMENT



KEY FIGURES

	2020A	2019A	2018A	2017A
Sales	\$4,132.60	\$3,156.00	\$2,664.20	\$2,642.10
<i>Growth</i>	30.94%	18.46%	0.84%	-6.84%
Total Expense	\$3,522.40	\$2,730.80	\$2,324.60	\$2,221.00
<i>Margin</i>	85.23%	86.53%	87.25%	84.06%
Operating Income	\$609.20	\$425.20	\$339.60	\$421.10
<i>Margin</i>	14.74%	13.47%	12.75%	15.94%
Net Income	\$385.70	\$437.20	\$127.60	\$197.80
<i>Growth</i>	-11.78%	242.63%	-35.49%	-22.06%

INDUSTRY OVERVIEW

Industry Description:

- The fertilizer manufacturing industry has experienced strong performance during the COVID-19 pandemic as a result of increasing crop and natural gas prices. Natural gas is the main raw material used to produce nitrogen fertilizer
- Scotts Miracle-Gro is also engaging in the hydroponics industry, which involves the growth of plants without the use of soil, but instead using mineral solutions in water

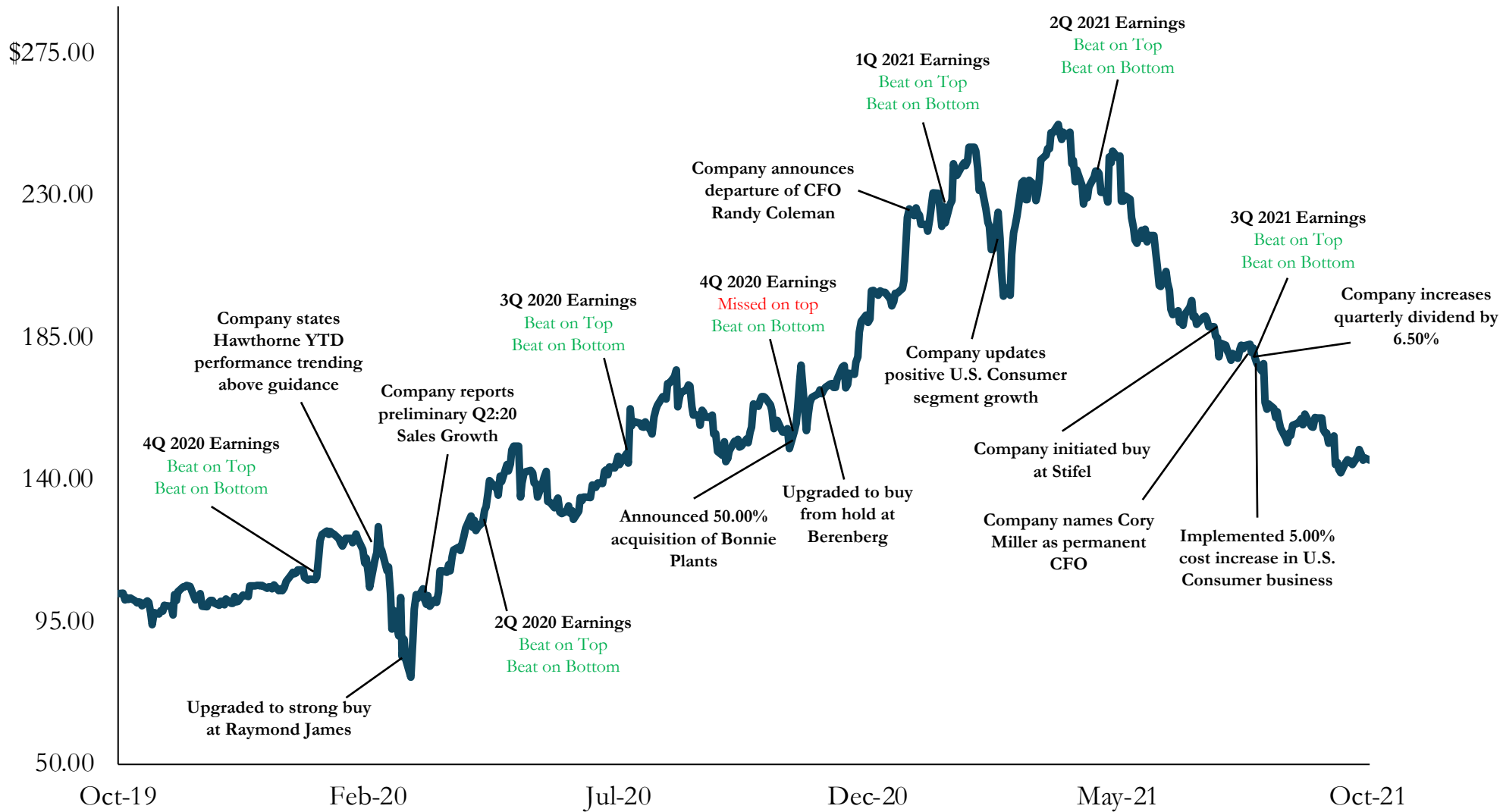
Industry Trends:

- Digitalization is continuing to be adopted into manufacturing plants as a six sigma tool to make better products with less error
- The number of hydroponic crop farmers are linearly correlated with the growth in marijuana/cannabis legalization adoptions

	COMPANY	SIZE(BN)	DESCRIPTION
	Scotts Miracle-Gro Co. (SMG)	\$8.22	Scotts Miracle-Gro Co. engages in the manufacturing, marketing, and distribution of products, systems, and accessories for consumer and hydroponic gardening
	Reckitt Benckiser Group Plc (RKT-GB)	\$54.41	Reckitt Benckiser Group Plc engages in the manufacture and trade of health, hygiene and home products on a global basis. Prominent brand include Mortein, Lysol, and Air Wick
	Spectrum Brands Holdings, Inc. (SPB)	\$4.05	Spectrum Brands Holdings, Inc. engages in the manufacture and supply of consumer products and home essentials, including its home and garden products
	Central Garden & Pet Co. (CENT)	\$2.59	Central Garden and Pet Co. engages in the innovation, production, and distribution of products for the lawn & garden and pet supplies markets in the United States
	The Andersons, Inc. (ANDE)	\$1.08	The Andersons, Inc. is an agricultural-based company, where it engages in railcar leasing and repair, turf products production, and consumer retailing

ANNOTATED STOCK CHART

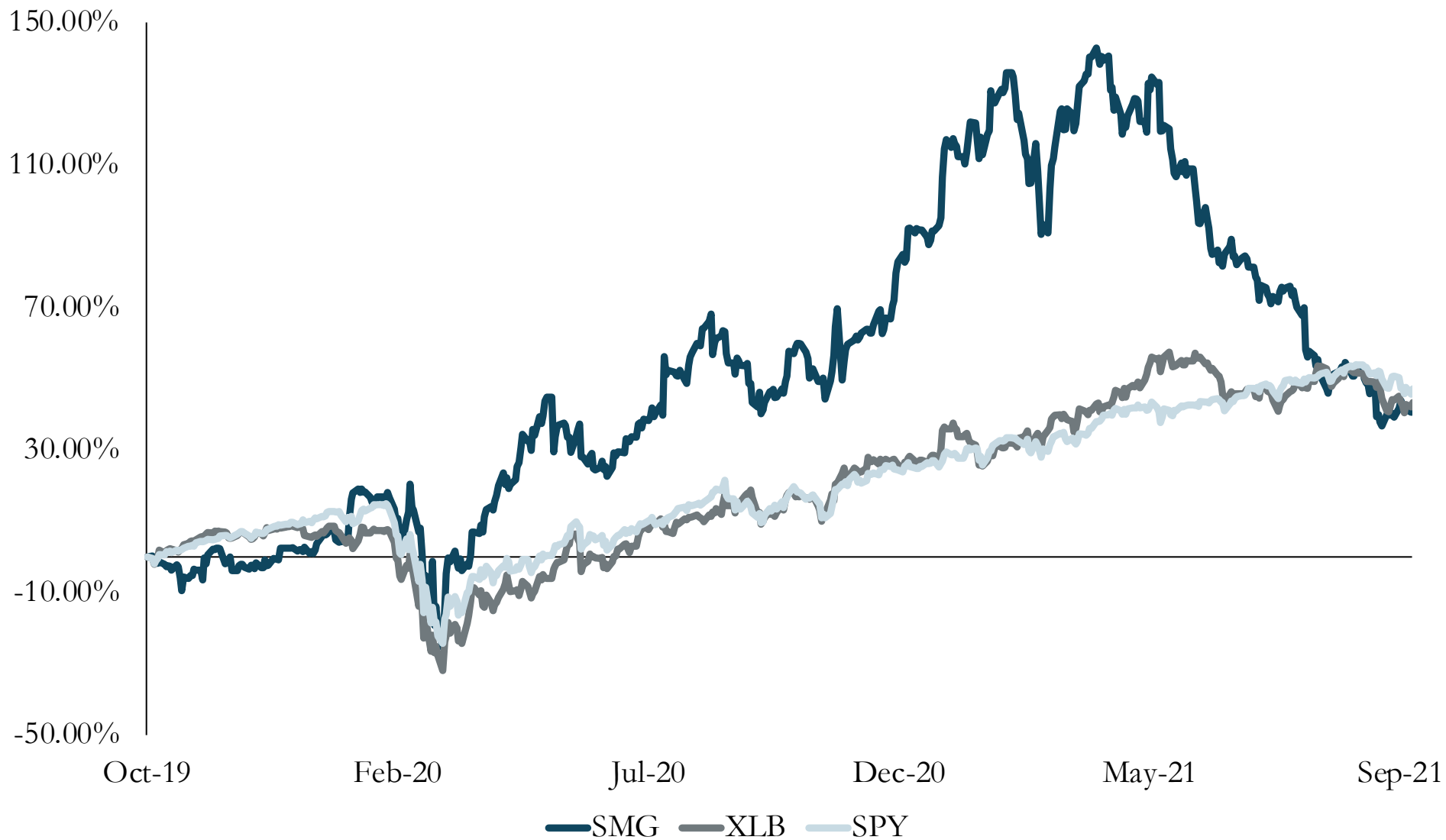
SCOTT'S MIRACLE-GRO CO. NOMINAL PERFORMANCE AND KEY EVENTS



Sources: Data from FactSet as of 10/26/21, CapitalIQ

RELATIVE PERFORMANCE

SMG vs. XLB vs. SPY



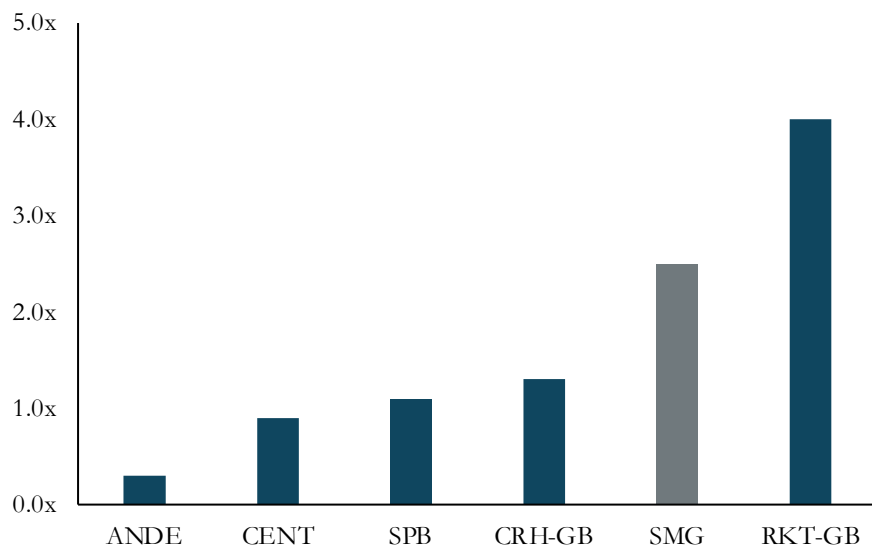
III. INVESTMENT DRIVERS

SUSTAINABILITY DURING COVID-19

The company remained relevant through its diverse product offerings, including lawn care (Scotts), gardening (Miracle-Gro), pest and weed control (Roundup), and hydroponics (Aerogarden) products during COVID-19

- The company's net sales increased 30.90% in FY2020 that can be contributed to the lockdowns of COVID-19
 - Volume grew more than 60.00% in FY2020
 - Volume growth has persisted in FY2021 at slower rate
- U.S. Consumer sales decreased 4.00% from FY2020 to FY2021
 - Company imposed 5.00% price increase in August 2021

SMG EV/SALES VS. COMPS (FY2020)

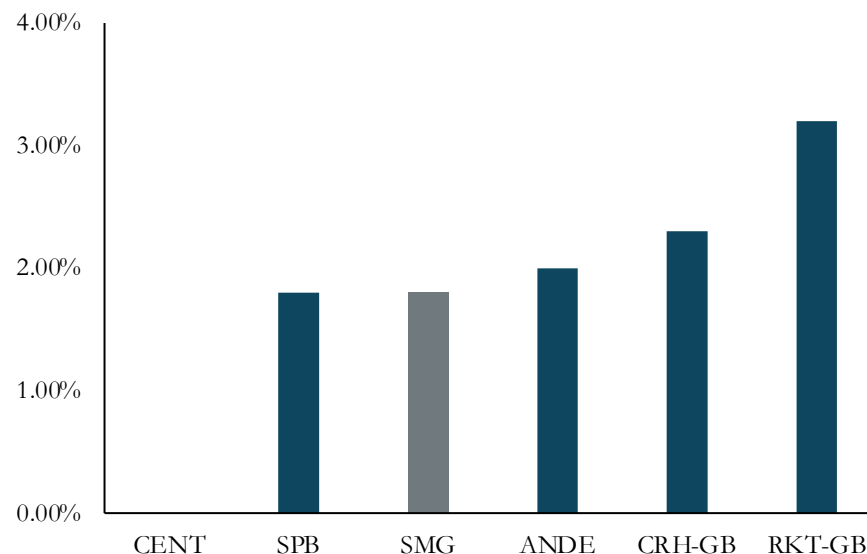


COMPETITIVE POSITIONING

Versus its competitors, Scotts has the foundation of a value company in its lawn and gardening business, but a growth opportunity in hydroponics as well

- Scotts Miracle-Gro's Chairman and CEO Jim Hagedorn has an approval rating of 100.00%
- The Company has an attractive dividend to offset inflation
 - In July 2021, the Company announced a 1.49% annualized dividend payment, an increase of 6.50%
- The company has a strong 21.52% market share in the chemical manufacturing industry compared to competitors

SMG DIVIDEND YIELD/YR VS. COMPS (TTM)

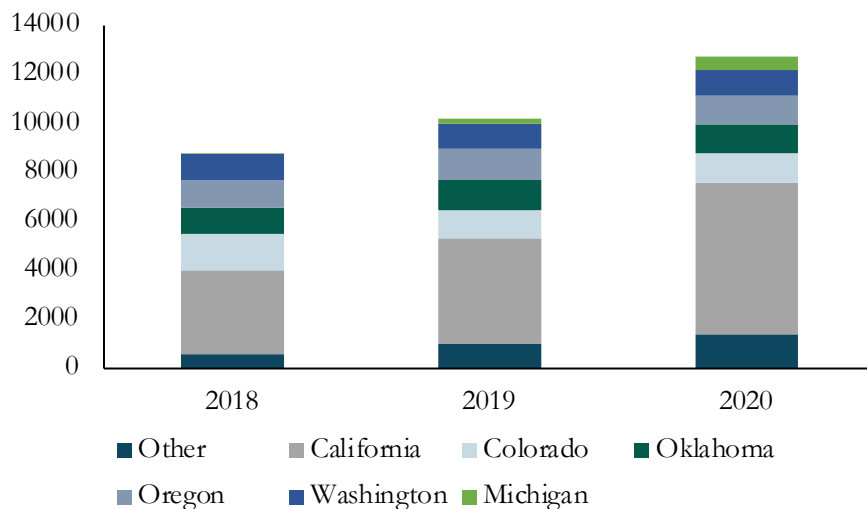


HYDROPONICS/MARIJUANA GROWING GROWTH

34 states and Washington, D.C., has legalized the use of marijuana in some form (i.e. medical use)

- Following the 2020 election, 4 more states legalized the recreational use of marijuana, up from 11 to 15
- A now estimated 1.90 million Americans are regular users of medical marijuana to treat diseases or health conditions
 - A recent poll indicates that 80.00% of Americans approve the legalization of medical marijuana, and 60.00% recreationally
- Hydroponic Crop and Marijuana growing is expected to grow over the next five years with more farm systems in place

U.S CANNABIS CULTIVATION LICENSES (PER YR)



STRATEGIC ORGANIC OPPORTUNITY

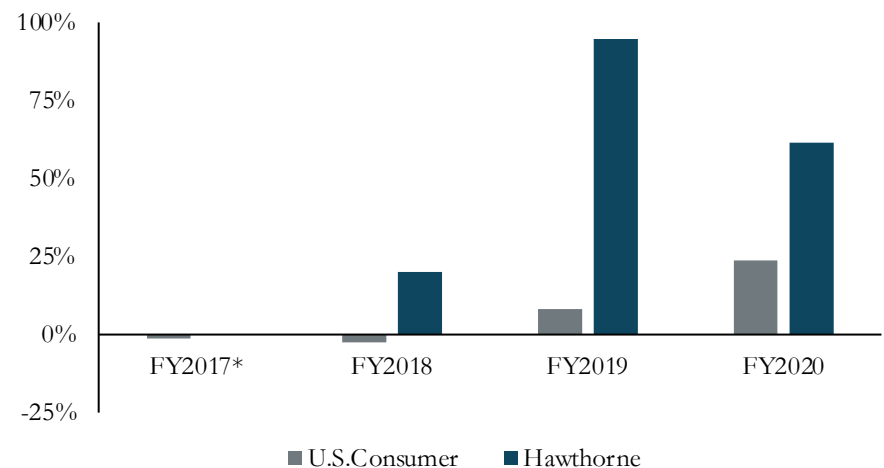
Scott's Hawthorne segment accounts for 26.23% of revenue

- Provides lighting, nutrients, growing media, and durables/tools for hydroponic growing in various hydroponic farm systems
 - 48.00% growth to \$422.00M in sales in 3Q:F21
 - Lower margins than U.S. Consumer, but higher growth
- This segment provides growth value to the Company if hydroponics adoption is implemented in more U.S. States

The company has potential to continue hydroponic innovation

- The Company has suggested interest in acquisitions to enhance long-term opportunities to move closer to the cannabis consumer

HAWTHORNE VS. U.S. CONSUMER SALES GROWTH



INFLUENCE OF COMMODITY PRICES

The price of nitrogenous fertilizer is closely linked to the price of natural gas

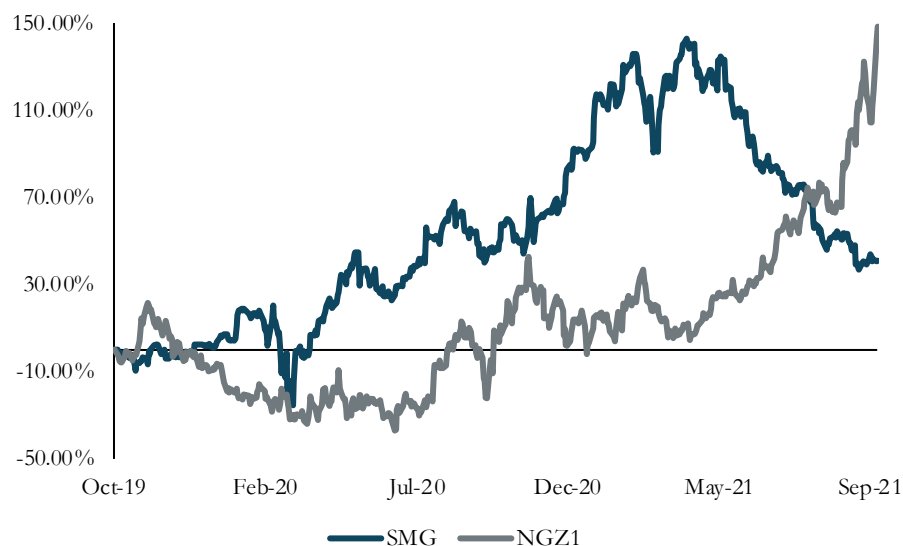
- The Company only purchased 25.00% of raw material requirements for FY2022 to date
 - Can be contributed to current inflationary environment
- The Company plans to announce further price increases in January 2022 due to raw material cost increases
 - If demand is stable and/or increases, the Company should be able to pass along price increases to consumers, which in turn would lead to revenue increasing or maintaining current levels

POSITIVE INDUSTRY OUTLOOK

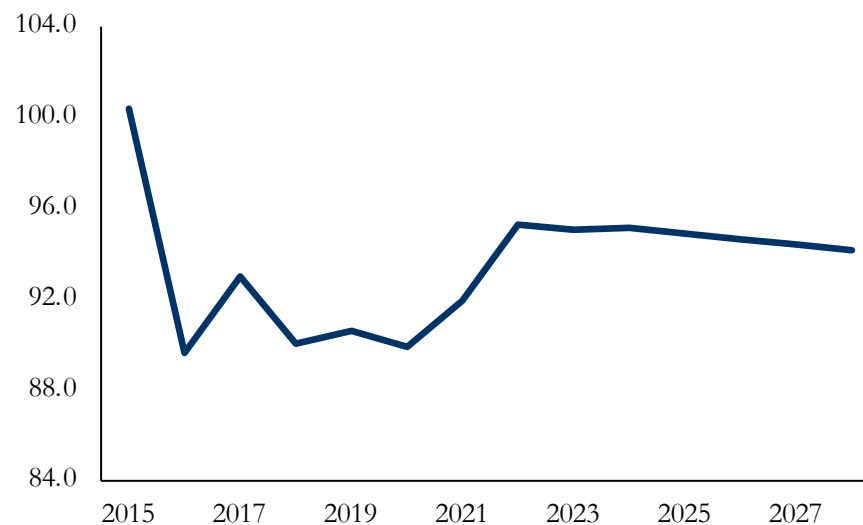
Since corn and soybean prices are expected to rise in 2022, the demand from farmers and distributors for fertilizer are expected to rise

- Growing demand for biodiesel production
 - In 2015, more than 40.00% of U.S. corn was used for ethanol, with soybeans also being used for biodiesel
 - As demand for vegetable oils for biodiesel production increases, more fertilizer would be needed
- Lower crop demand from China may affect crop production

NATURAL GAS (NGZ1) PRICE GROWTH VS. SMG GROWTH (%)



AGRICULTURAL PRICE INDEX



IV. VALUATION

COMPARABLES



(\$ in millions)

	% of 52 week high	FY+1 P / E	FY+2 P / E	NTM EV / EBITDA	FY+1 EV / EBITDA	FY+2 EV / EBITDA	NTM EV / Sales	FY+1 EV / sales	FY+2 EV / sales	Annual dividend yield
U.S. Competitors										
Central Garden & Pet Company	80%	18.4x	16.4x	10.2x	11.4x	10.2x	1.0x	1.1x	1.0x	0.00%
Spectrum Brands Holdings, Inc.	96%	15.2x	14.4x	9.9x	10.0x	9.9x	1.5x	1.5x	1.5x	2.94%
Andersons, Inc.	94%	14.6x	15.9x	9.7x	9.1x	9.9x	0.3x	0.3x	0.3x	2.86%
International Competitors										
CRH Plc	87%	15.7x	14.5x	8.0x	8.4x	7.9x	1.4x	1.4x	1.4x	2.70%
Reckitt Benckiser Group plc	77%	19.1x	18.0x	14.1x	14.6x	14.0x	3.8x	3.7x	3.8x	2.67%
High	96%	19.1x	18.0x	14.1x	14.6x	14.0x	3.8x	3.7x	3.8x	2.94%
Mean	87%	16.6x	15.8x	10.4x	10.7x	10.4x	1.6x	1.6x	1.6x	2.23%
Median	87%	15.7x	15.9x	9.9x	10.0x	9.9x	1.4x	1.4x	1.4x	2.70%
Low	77%	14.6x	14.4x	8.0x	8.4x	7.9x	0.3x	0.3x	0.3x	0.00%
Scotts Miracle-Gro Company Class A	58%	16.1x	17.1x	12.6x	11.9x	12.7x	2.2x	2.2x	2.2x	1.54%

	EPS growth	FY+1 PEG ratio	FY+2 PEG ratio	LTM EBITDA margin	FY+1 EBITDA margin	FY+2 EBITDA margin	LTM profit margin	FY+1 profit margin	FY+2 profit margin	Credit rating
U.S. Competitors										
Central Garden & Pet Company	-	-	-	11.73%	9.65%	10.17%	5.19%	4.55%	4.82%	B-
Spectrum Brands Holdings, Inc.	11.88%	1.3x	1.2x	15.27%	14.74%	14.90%	4.10%	5.65%	6.02%	B-
Andersons, Inc.	-	-	-	1.39%	2.82%	2.58%	0.71%	0.66%	0.60%	B+
International Competitors										
CRH Plc	23.55%	0.7x	0.6x	14.87%	17.18%	17.28%	-	7.78%	8.00%	-
Reckitt Benckiser Group plc	3.33%	5.7x	5.4x	23.61%	25.53%	27.04%	-	15.79%	16.93%	-
High	23.55%	5.7x	5.4x	23.61%	25.53%	27.04%	5.19%	15.79%	16.93%	-
Mean	12.92%	2.6x	2.4x	13.38%	13.99%	14.39%	3.33%	6.89%	7.27%	-
Median	11.88%	1.3x	1.2x	14.87%	14.74%	14.90%	4.10%	5.65%	6.02%	-
Low	3.33%	0.7x	0.6x	1.39%	2.82%	2.58%	0.71%	0.66%	0.60%	-
Scotts Miracle-Gro Company Class A	12.00%	1.3x	1.4x	17.43%	18.21%	17.55%	11.21%	10.77%	10.17%	B+

COMPARABLES

(\$ in millions)

	Market value	LTM sales	Beta	WACC	EPS	ROA	ROE	ROIC
U.S. Competitors								
Central Garden & Pet Company	\$2,507	\$3,241	0.71	5.00%	\$2.20	5.53%	11.64%	6.81%
Spectrum Brands Holdings, Inc.	\$4,051	\$4,628	1.78	3.70%	\$1.87	1.62%	5.36%	2.12%
Andersons, Inc.	\$1,082	\$10,375	0.66	4.10%	\$0.23	0.19%	0.80%	0.39%
International Competitors								
CRH Plc	\$26,659	-	0.93	5.32%	\$1.11	2.54%	6.09%	3.83%
Reckitt Benckiser Group plc	\$39,392	-	0.80	5.20%	\$1.67	3.58%	12.31%	6.18%
High	\$39,392	\$10,375	1.78	5.32%	\$2.20	5.53%	12.31%	6.81%
Mean	\$14,738	\$6,081	0.49	4.53%	\$1.42	2.69%	7.24%	3.86%
Median	\$4,051	\$4,628	0.40	4.55%	\$1.67	2.54%	6.09%	3.83%
Low	\$1,082	\$3,241	1.78	3.07%	\$0.23	0.19%	0.80%	0.39%
Scotts Miracle-Gro Company Class A	\$8,222	\$5,077	1.08	5.87%	\$6.81	11.66%	54.48%	17.11%
	Current ratio	Quick ratio	Price to book value	Debt to equity	Price to LTM sales	Price to FCF	Revenue per share	FCF per share
U.S. Competitors								
Central Garden & Pet Company	3.5x	2.5x	1.9x	0.8x	1.0x	8.1x	49.24	4.68
Spectrum Brands Holdings, Inc.	1.8x	1.2x	1.8x	1.8x	0.8x	11.2x	88.29	5.11
Andersons, Inc.	1.3x	0.6x	0.9x	1.5x	0.1x	-	247.32	(5.40)
International Competitors								
CRH Plc	2.0x	1.6x	1.7x	0.7x	-	10.4x	27.19	2.93
Reckitt Benckiser Group plc	0.8x	0.5x	5.1x	1.2x	-	14.9x	19.60	4.38
High	3.5x	2.5x	5.1x	1.8x	1.0x	14.9x	247.32	5.11
Mean	1.9x	1.3x	2.3x	1.2x	0.6x	11.2x	86.33	2.34
Median	1.8x	1.2x	1.8x	1.2x	0.8x	10.8x	49.24	4.38
Low	0.8x	0.5x	0.9x	0.7x	0.1x	8.1x	19.60	(5.40)
Scotts Miracle-Gro Company Class A	1.3x	0.6x	12.2x	2.4x	2.1x	17.6x	72.61	8.70

INCOME STATEMENT

(\$ in millions)

Year (FY)	Historical			Projected									
	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenue	2,664	3,156	4,132	4,867	4,745	5,006	5,595	5,790	5,993	6,203	6,420	6,645	6,877
<i>% growth</i>	0.0%	18.5%	30.9%	17.8%	-2.5%	5.5%	11.8%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
COGS	(1,813)	(2,162)	(2,796)	(3,383)	(3,322)	(3,454)	(3,916)	(4,053)	(4,195)	(4,342)	(4,494)	(4,651)	(4,814)
Gross profit	851	994	1,336	1,484	1,424	1,552	1,678	1,737	1,798	1,861	1,926	1,993	2,063
<i>Gross margin</i>	32%	31%	32%	31%	30%	31%	30%	30%	30%	30%	30%	30%	30%
Operating expenditures	(511)	(568)	(726)	(829)	(656)	(838)	(904)	(870)	(900)	(932)	(965)	(998)	(1,033)
Other expenses	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating income (EBIT)	340	425	609	655	768	714	775	867	897	929	961	995	1,030
<i>EBIT margin</i>	13%	13%	15%	13%	16%	14%	14%	15%	15%	15%	15%	15%	15%
Interest income (expense)	(224)	156	(99)	(78)	(88)	(88)	(87)	(90)	(93)	(96)	(100)	(103)	(107)
Tax expense	12	(145)	(124)	(136)	(160)	(147)	(162)	(183)	(189)	(196)	(203)	(210)	(217)
<i>Tax rate</i>	-10%	25%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%
Net income attributable to SMG	128	437	386	441	520	479	526	595	615	637	659	682	706
Basic earnings per share	\$2.27	\$7.88	\$6.92	\$7.92	\$9.34	\$8.60	\$9.45	\$10.68	\$11.05	\$11.44	\$11.84	\$12.25	\$12.68
Diluted earnings per share	\$2.23	\$7.77	\$6.78	\$7.91	\$9.32	\$8.58	\$9.43	\$10.66	\$11.03	\$11.42	\$11.82	\$12.23	\$12.66

UNLEVERED FREE CASH FLOW



(\$ in millions)

Year (FY)	Historical		Projected										10-yr CAGR
	2019A	2020A	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	
EBITDA	515	704	767	883	834	888	984	1,019	1,054	1,091	1,130	1,169	4-1%
<i>EBITDA margin</i>	<i>16%</i>	<i>17%</i>	<i>16%</i>	<i>19%</i>	<i>17%</i>	<i>16%</i>	<i>17%</i>	<i>17%</i>	<i>17%</i>	<i>17%</i>	<i>17%</i>	<i>17%</i>	
Less: D&A	(89)	(95)	(111)	(115)	(120)	(113)	(117)	(121)	(126)	(130)	(135)	(139)	
EBIT	425	609	655	768	714	775	867	897	929	961	995	1,030	4-3%
<i>EBIT margin</i>	<i>13%</i>	<i>15%</i>	<i>13%</i>	<i>16%</i>	<i>14%</i>	<i>14%</i>	<i>15%</i>	<i>15%</i>	<i>15%</i>	<i>15%</i>	<i>15%</i>	<i>15%</i>	
<i>Tax rate</i>	<i>25%</i>	<i>24%</i>	<i>24%</i>	<i>24%</i>	<i>24%</i>	<i>24%</i>	<i>24%</i>	<i>24%</i>	<i>24%</i>	<i>24%</i>	<i>24%</i>	<i>24%</i>	
Plus: D&A	89	95	111	115	120	113	117	121	126	130	135	139	
Less: capital expenditures	(42)	(63)	(127)	(133)	(118)	(126)	(130)	(135)	(140)	(144)	(150)	(155)	
Less: change in NWC	(163)	153	(63)	10	(22)	(50)	(17)	(17)	(18)	(18)	(19)	(20)	
Unlevered free cash flow (uFCF)	203	646	424	580	526	530	634	656	679	703	727	753	0-4%
<i>% growth</i>		<i>218.3%</i>	<i>-34.5%</i>	<i>36.9%</i>	<i>-9.3%</i>	<i>0.7%</i>	<i>19.6%</i>	<i>3.5%</i>	<i>3.5%</i>	<i>3.5%</i>	<i>3.5%</i>	<i>3.5%</i>	

DISCOUNTED CASH FLOW ANALYSIS

(\$ in millions)

DISCOUNTED CASH FLOW ANALYSIS

Assumptions			Implied values (MM)			
Tax rate	23.50%	<i>Mgmt. guidance</i>	Terminal value	19,826		
Risk-free rate	1.65%	<i>10-yr yield</i>	PV of terminal value	10,584	P / E	2021 2022 2023
Equity risk premium	4.61%	<i>Damodaran</i>	% enterprise value	70%		18.6x 15.8x 17.1x
Beta	1.08	<i>BBG 5-yr adj.</i>	PV of uFCF	4,485	EV / EBITDA	19.7x 17.1x 18.1x
Cost of debt	2.84%	<i>Weighted avg int rate</i>	% enterprise value	30%		
Terminal growth rate	2.00%	<i>Assumption</i>	Implied enterprise value	15,069	EV / uFCF	35.6x 26.0x 28.6x

Share price sensitivity table

		Long-term growth rate						
		1.25%	1.50%	1.75%	2.00%	2.25%	2.50%	2.75%
W	4.62%	\$303.06	\$323.45	\$347.38	\$375.88	\$410.39	\$453.02	\$507.05
	4.87%	\$278.98	\$296.14	\$316.05	\$339.42	\$367.24	\$400.93	\$442.57
	5.12%	\$258.05	\$272.64	\$289.39	\$308.83	\$331.65	\$358.82	\$391.72
	5.37%	\$239.68	\$252.20	\$266.44	\$282.80	\$301.78	\$324.07	\$350.60
A	5.62%	\$223.44	\$234.26	\$246.49	\$260.40	\$276.38	\$294.92	\$316.68
	5.87%	\$208.98	\$218.41	\$228.98	\$240.92	\$254.51	\$270.11	\$288.22
C	6.12%	\$196.02	\$204.29	\$213.50	\$223.83	\$235.49	\$248.76	\$264.00
	6.37%	\$184.35	\$191.64	\$199.71	\$208.71	\$218.80	\$230.19	\$243.15
C	6.62%	\$173.79	\$180.24	\$187.36	\$195.24	\$204.03	\$213.88	\$225.01
	6.87%	\$164.18	\$169.92	\$176.23	\$183.18	\$190.88	\$199.47	\$209.09
	7.12%	\$155.40	\$160.54	\$166.15	\$172.31	\$179.10	\$186.62	\$195.01

WEIGHTED PRICE TARGET

Price targets

DCF

Discount rate	Implied share price	Price target	Weighting	Blended price target
5.37%	\$282.80	\$240.92	60%	\$197.39 <i>33.97%</i>
5.62%	\$260.40			
5.87%	\$240.92			
6.12%	\$223.83			
6.37%	\$208.71			
		Comments		

Price targets continued

FY+1 P / E - Median

FY+1 P / E - Median	Implied share price	Price target	Weighting	FY+1 P / E - Median override
13.7x	\$108.85	\$124.69	10%	
14.7x	\$116.77			
15.7x	\$124.69			
16.7x	\$132.61			
16.7x	\$132.61			
		Comments		

FY+2 P / E - Median

FY+2 P / E - Median	Implied share price	Price target	Weighting	FY+2 P / E - Median override
13.9x	\$161.45	\$188.93	10%	
14.9x	\$175.19			
15.9x	\$188.93			
16.9x	\$202.66			
17.9x	\$216.40			
		Comments		

FY+1 EV / EBITDA - Median

FY+1 EV / EBITDA - Median	Implied share price	Price target	Weighting	FY+1 EV / EBITDA - Median override
8.0x	\$80.39	\$107.86	10%	
9.0x	\$94.12			
10.0x	\$107.86			
11.0x	\$121.60			
12.0x	\$135.34			
		Comments		

FY+2 EV / EBITDA - Median

FY+2 EV / EBITDA - Median	Implied share price	Price target	Weighting	FY+2 EV / EBITDA - Median override
7.9x	\$79.43	\$106.90	10%	
8.9x	\$93.17			
9.9x	\$106.90			
10.9x	\$120.64			
11.9x	\$134.38			
		Comments		

V. RISKS & CATALYSTS

RISKS

- Competition in fertilizer products is high, and further innovation and price reductions by competitors may force the Company to decrease its own prices to compete, even with the possible price increase of raw materials to produce goods
 - The Company’s gross margins may change as its U.S. Consumer segment is sensitive to the price of natural gas and fertilizer
- The Company’s Hawthorne segment is heavily reliant on U.S. regulation regarding the use of hydroponics
 - New state and/or federal legislation on the use of marijuana may dramatically affect Hawthorne’s sales and growth
- With COVID-19 stimulation programs beginning to fade, changes in U.S. interest rates could affect the cost of producing its products for both of its business segments, and in turn may pass the cost onto consumers
 - The Company is already planning to increase prices across the board again in January 2022
 - It is unknown at what point consumers may begin to adjust to substitutes or inferior goods due to the increased prices

BULL CASE

\$221.98

- Scotts Miracle-Gro’s Hawthorne business segment grows at an exponential rate
- Medical/Recreational use of marijuana becomes legalized in more U.S. States
- U.S. Consumer business segment grows aggressively through product innovation and acquisitions

BASE CASE

\$197.39

- U.S. Consumer business segment remains relatively flat, growing at a constant rate
- Hawthorne business segment continues to grow at an aggressive rate
- Overall sales remain stable with consumers adjusting to price increases in its products

BEAR CASE

\$142.16

- U.S. Consumer business segment loses market share and growth due to competition
- Medical/recreational use of marijuana is not adopted or repealed in U.S. states
- Consumers move to substitutes caused by price increases in products due to rising interest rates and natural gas prices

VI. SWOT ANALYSIS

SWOT ANALYSIS

INTERNAL

STRENGTHS

- Strong free cash flow for the near future
 - Ability for the Company to innovate new products
- Strong brand portfolio of products and services
 - Brand recognition high among consumers
- First mover advantage in product segments
- Strong relationships with lobby groups and political networks to navigate government regulation
- Healthy relationships with product dealers

WEAKNESSES

- Company's marketing is not well defined
 - Relies on word of mouth, competitors can take advantage with investment in brand promotion
- Revenue is heavily based in the United States
 - Leaves more revenue on the table that global competitors are getting instead
- Lack of technology innovation across products
 - Artificial Intelligence and machine learning can improve margins and products

EXTERNAL

OPPORTUNITIES

- Potential revenue growth in international markets
- Can increase standardization to focus on successful products and services to streamline offerings
- Growing market size in Hydroponics industry
 - Can dramatically increase sales through government regulation across the United States
 - Investments in lobbying can help drive favorable regulation to promote company growth
- Increased consumer spending can affect market share

THREATS

- Unfavorable government regulation in the U.S.
 - Hawthorne business segment sales can dramatically decrease with negative hydroponic legislation
 - Company growth is heavily tied to Hawthorne sales
- Rising raw material costs for nitrogenous fertilizer
 - If increased costs get passed onto the consumer, company revenue may be negatively affected
- New environment regulations, especially the Paris agreement, may force the company to adapt

VII. PORTER'S FIVE FORCES ANALYSIS

BARGAINING POWER OF BUYERS

- Customers can stop buying products due to cost
 - Need continuous investment in research and development
 - Develop larger customer base and community
 - New products to decrease defection to other brands

THREAT OF NEW ENTRANTS

- New competitors in the market can affect market share
 - Company would be forced to decrease prices to remain competitive with entrants
 - Needs to sustain company differentiation to compete

INDUSTRY RIVALRY

HIGH

BARGAINING POWER OF SUPPLIERS

- Suppliers can strong-hand the Company to pay more for raw materials to make products
 - Can affect potential cost increases for products
 - Build efficient supply chain with multiple partners

THREAT OF SUBSTITUTES

- Customers can adjust to substitutes with possible price increases in company products
 - Become more service-oriented in product offerings
 - Increase switching costs
 - Develop product innovations