SCOTTS MIRACLE-GRO CO
Form 10-K
November 28, 2017

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

Form 10-K
(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2017
OR
o 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 1-11593

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

Ohio	31-1414921
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
14111 Scottslawn Road, Marysville, Ohio	43041
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code:
937-644-0011
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, without par value	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically 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 þ No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information

statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

The aggregate market value of Common Shares (the only common equity of the registrant) held by non-affiliates (for this purpose, executive officers and directors of the registrant are considered affiliates) as of March 31, 2017 (the last business day of the most recently completed second quarter) was approximately $4,062,003,467.

There were 57,530,125 Common Shares of the registrant outstanding as of November 24, 2017.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the definitive Proxy Statement for the registrant’s 2018 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K. Such Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the registrant’s fiscal year ended September 30, 2017.

PART I

ITEM 1. BUSINESS

Company Description and Development of the Business

The discussion below provides a brief description of the business conducted by The Scotts Miracle-Gro Company ("Scotts Miracle-Gro" and, together with its subsidiaries, the "Company," "we" or "us"), including general developments in the Company's business during the fiscal year ended September 30, 2017 ("fiscal 2017"). For additional information on recent business developments, see "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Annual Report on Form 10-K.

We are a leading manufacturer and marketer of branded consumer lawn and garden products. Our products are marketed under some of the most recognized brand names in the industry. Our key brands include Scotts® and Turf Builder® lawn and grass seed products; Miracle-Gro®, Nature's Care®, Scotts®, LiquaFeed® and Osmocote®[1] gardening and landscape products; and Ortho®, Roundup®[2], Home Defense® and Tomcat® branded insect control, weed control and rodent control products. We are the exclusive agent of the Monsanto Company ("Monsanto") for the marketing and distribution of consumer Roundup® non-selective weedkiller products within the United States and certain other specified countries. We have a presence in similar branded consumer products in China and Latin America. In addition, with our acquisitions of Gavita Holdings B.V. ("Gavita"), General Hydroponics, Inc. ("General Hydroponics"), Bio-Organic Solutions, Inc. ("Vermicrop"), American Agritech, L.L.C. ("Botanicare"), Agrolux Holding B.V. ("Agrolux"), AeroGrow International, Inc. ("AeroGrow") and Can-Filters Group Inc. ("Can-Filters"), we are a leading producer of liquid plant food products, growing media, advanced indoor garden, lighting and ventilation systems and accessories for hydroponic gardening.

Prior to August 31, 2017, we operated consumer lawn and garden businesses located in Australia, Austria, Belgium, Luxembourg, Czech Republic, France, Germany, Poland and the United Kingdom (the "International Business"). On April 29, 2017, the Company received a binding and irrevocable conditional offer (the "Offer") from Exponent Private Equity LLP ("Exponent") to purchase the International Business. On July 5, 2017, the Company accepted the Offer and entered into the Share and Business Sale Agreement (the "Purchase and Sale Agreement") contemplated by the Offer. Pursuant to the Purchase and Sale Agreement, Scotts-Sierra Investments LLC, an indirect wholly-owned subsidiary of the Company, and certain of its direct and indirect subsidiaries entered into separate stock or asset sale transactions with respect to the International Business. The Company's sale of the International Business to Exponent closed on August 31, 2017.

Prior to April 13, 2016, we operated the Scotts LawnService® business (the "SLS Business"), which provided residential and commercial lawn care, tree and shrub care and pest control services in the United States. On April 13, 2016, pursuant to the terms of the Contribution and Distribution Agreement (the "Contribution Agreement") between the Company and TruGreen Holding Corporation ("TruGreen Holdings"), we completed the contribution of the SLS Business to a newly formed subsidiary of TruGreen Holdings (the "TruGreen Joint Venture") in exchange for a minority equity interest of approximately 30% in the TruGreen Joint Venture. We now participate in the residential and commercial lawn care, tree and shrub care and pest control services segments in the United States and Canada through our interest in the TruGreen Joint Venture.

Scotts Miracle-Gro, an Ohio corporation, traces its heritage back to a company founded by O.M. Scott in Marysville, Ohio in 1868. In the mid-1900s, we became widely known for the development of quality lawn fertilizers and grass seeds that led to the creation of a new industry-consumer lawn care. In the 1990s, we significantly expanded our product offering with three powerful leading brands in the U.S. home lawn and garden industry. First, in fiscal 1995, through a merger with Stern's Miracle-Gro Products, Inc., which was founded by Horace Hagedorn and Otto Stern in Long Island, New York in 1951, we acquired the Miracle-Gro® brand, the industry leader in water-soluble garden plant foods. Second and third, in 1998, we acquired the Ortho® brand in the United States and obtained exclusive rights to market the consumer Roundup® brand within the United States and other contractually specified countries, thereby adding industry-leading weed, pest and disease control products to our portfolio. Today, we believe that Scotts®, Turf Builder®, Miracle-Gro®, Ortho® and Roundup® are among the most widely recognized brands in the consumer lawn and garden industry in the United States.

Our strategy is focused on (i) growing our core branded business, primarily in North America where we can leverage our competitive advantages in emerging areas of growth including organics, hydroponics, live goods, water positive landscapes, and internet-enabled technology, (ii) maximizing the value of non-core-assets including the divestiture of Scotts LawnService® and

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[1] Osmocote® is a registered trademark of Everris International B.V., a subsidiary of Israel Chemicals Ltd.

[2] Roundup® is a registered trademark of Monsanto Technology LLC, a company affiliated with Monsanto Company.

2

the International Business, and (iii) cash flow including near-term investments that will drive long-term growth, a natural mid-term shift to integration of acquired businesses, and a long-term plan to return increasing amounts of cash to shareholders.

Business Segments

We divide our business into the following reportable segments:

- U.S. Consumer
- Hawthorne
- Other

This division of reportable segments is consistent with how the segments report to and are managed by our Chief Executive Officer (the chief operating decision-maker of the Company). Financial information about these segments for each of the three fiscal years ended September 30, 2017, 2016 and 2015 is presented in "NOTE 22. SEGMENT INFORMATION" of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K. These segments differ from those used in prior periods due to the change in our internal organization structure resulting from our divestiture of the International Business, which closed on August 31, 2017. As a result, effective in our fourth quarter of fiscal 2017, we classified our results of operations for all periods presented to reflect the International Business as a discontinued operation and classified the assets and liabilities of the International Business as held for sale. See "NOTE 2. DISCONTINUED OPERATIONS" for further discussion. Prior to being reported as a discontinued operation, the International Business comprised a substantial proportion of the Europe Consumer and Other reportable segments. Refer to "NOTE 22. SEGMENT INFORMATION" for discussion of our new reportable segments effective in the fourth quarter of fiscal 2017.

Principal Products and Services

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

Lawn Care: The lawn care category is designed to help users obtain and enjoy the lawn they want. Products within this category include lawn fertilizer products under the Scotts® and Turf Builder® brand names; grass seed products under the Scotts®, Turf Builder®, EZ Seed®, Water Smart® and PatchMaster® brand names; and lawn-related weed, pest and disease control products primarily under the Scotts® brand name, including sub-brands such as GrubEx®. The lawn care category also includes spreaders and other durables under the Scotts® brand name, including Turf Builder® EdgeGuard® spreaders, Snap® spreaders and Handy Green® II handheld spreaders. In addition, we market outdoor cleaners under the Scotts® OxiClean™[3] brand name.

Gardening and Landscape: The gardening and landscape category is designed to help consumers grow and enjoy flower and vegetable gardens and beautify landscaped areas. Products within this category include a complete line of water-soluble plant foods under the Miracle-Gro® brand and sub-brands such as LiquaFeed®, continuous-release plant foods under the Miracle-Gro®, Scotts® and Osmocote® brands and sub-brands of Miracle-Gro® such as Shake 'N Feed®; potting mixes and garden soils under the Miracle-Gro®, Scotts®, Hyponex®, Earthgro®, SuperSoil® and Fafard® brand names; mulch and decorative groundcover products under the Scotts® brand, including the sub-brands Nature Scapes®, Earthgro® and Hyponex®; plant-related pest and disease control products under the Ortho® brand; organic garden products under the Miracle-Gro® Organic Choice®, Nature's Care®, Scotts®, Whitney Farms® and EcoScraps® brand names; and live goods and seeding solutions under the Miracle-Gro® brand and Gro-ables® sub-brand. In the second quarter of fiscal 2016, we entered into a Marketing, R&D and Ancillary Services Agreement (the "Services Agreement") and a Term Loan Agreement (the "Term Loan Agreement") with Bonnie Plants, Inc. ("Bonnie") and its sole shareholder, Alabama Farmers Cooperative, Inc. ("AFC"), pursuant to which we provide financing and certain services to Bonnie's business of planting, growing, developing, manufacturing, distributing, marketing, and selling to retail stores throughout the United States live plants, plant food, fertilizer and potting soil (the "Bonnie Business"). See "Acquisitions" for further discussion.

Hydroponics: This category is designed to help users grow plants, flowers and vegetables in an indoor or urban environment using little or no soil. Products within this category include nutrients, substrates, systems, growing media, lighting and plastics and are marketed under the General Hydroponics®, Gavita®, Botanicare®, Vermicrop®, Agrolux®, Can-Filters® and AeroGarden® brand names.

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[3] OxiClean™ is a registered trademark of Church & Dwight Co., Inc.

Controls: The controls category is designed to help consumers protect their homes from pests and maintain external home areas. Insect control products are marketed under the Ortho® brand name, including Ortho Max®, Home Defense Max® and Bug B Gon Max® sub-brands; rodent control products are marketed under the Tomcat® and Ortho® brands; selective weed control products are marketed under the Ortho® Weed B Gon® and Roundup® for Lawns sub-brands; and non-selective weed control products are marketed under the Roundup® and Groundclear® brand names.

Marketing Agreement: We are Monsanto's exclusive marketing agent for consumer Roundup® non-selective weedkiller products in the United States and certain other specified countries. On May 15, 2015, we entered into an amendment to the Amended and Restated Exclusive Agency and Marketing Agreement (the "Original Marketing Agreement") with Monsanto and also entered into a lawn and garden brand extension agreement (the "Brand Extension Agreement") and a commercialization and technology agreement (the "Commercialization and Technology Agreement") with Monsanto. On August 31, 2017, in connection with the sale of the International Business, we entered into the Second Amended and Restated Agency and Marketing Agreement (the "Restated Marketing Agreement") and the Amended and Restated Lawn and Garden Brand Extension Agreement - Americas (the "Restated Brand Extension Agreement") to reflect the Company's transfer and assignment to Exponent of the Company's rights and responsibilities under the Original Marketing Agreement, as amended, and the Brand Extension Agreement relating to those countries and territories subject to the sale.

Under the terms of the Restated Marketing Agreement, we are jointly responsible with Monsanto for developing consumer and trade marketing programs for consumer Roundup® non-selective weedkiller products in the countries where we serve as agent. We also provide sales, merchandising, warehousing and other selling and marketing support for these products. The Company performs other services, including manufacturing conversion services, pursuant to ancillary agreements. The Restated Brand Extension Agreement provides the Company an exclusive license in each country throughout the North American continent, South American continent, Central America, the Caribbean, Israel and China to use the Roundup® brand on additional products offered by the Company outside of the non-selective weedkiller category within the residential lawn and garden market. The application of the Roundup® brand to these additional products is subject to a product review and approval process developed between the Company and Monsanto. For additional details regarding the Restated Marketing Agreement, the Restated Brand Extension Agreement and the Commercialization and Technology Agreement, see "ITEM 1A. RISK FACTORS — In the event the Restated Marketing Agreement for consumer Roundup® products terminates, we would lose a substantial source of future earnings and overhead expense absorption" of this Annual Report on Form 10-K and "NOTE 6. MARKETING AGREEMENT" of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

Acquisitions

2018

On October 11, 2017, our Hawthorne segment completed the acquisition of substantially all of the United States and Canadian assets of Can-Filters for $72.2 million. Based in Nelson, British Columbia, Can-Filters is a leading wholesaler of ventilation products for indoor and hydroponic gardening and industrial markets worldwide.

2017

On October 3, 2016, our Hawthorne segment completed the acquisition of Botanicare, an Arizona-based leading producer of plant nutrients, plant supplements and growing systems used for hydroponic gardening, for $92.6 million.

On November 29, 2016, our wholly-owned subsidiary SMG Growing Media, Inc. fully exercised its outstanding warrants to acquire additional shares of common stock of AeroGrow for $8.1 million, which increased our percentage ownership of AeroGrow's outstanding shares of common stock (on a fully diluted basis) from 45% to 80%. AeroGrow is a developer, marketer, direct-seller, and wholesaler of advanced indoor garden systems designed for consumer use in gardening, and home and office décor markets. AeroGrow operates primarily in the United States and Canada, as well as select countries in Europe, Asia and Australia.

During the first quarter of fiscal 2017, our U.S. Consumer segment also completed two acquisitions of companies whose products support our focus on the emerging areas of water positive landscapes and internet-enabled technology for an aggregate purchase price of $3.2 million.

On May 26, 2017, our majority-owned subsidiary Gavita completed the acquisition of Agrolux and its subsidiaries for $21.8 million. Agrolux, based in the Netherlands, is a worldwide supplier of horticultural lighting.

During the third quarter of fiscal 2017, our Hawthorne segment also completed the acquisition of a company focused on the technology supporting hydroponic growing systems for an aggregate purchase price of $3.5 million.

On August 11, 2017, our Hawthorne segment completed the acquisition of substantially all of the assets of the exclusive manufacturer and formulator of branded Botanicare products for $32.0 million.

During the fourth quarter of fiscal 2017, we also made a $29.4 million investment in an unconsolidated subsidiary whose products support the professional U.S. industrial, turf and ornamental market.

2016

In the second quarter of fiscal 2016, we entered into the Services Agreement and the Term Loan Agreement with Bonnie and AFC providing for our participation in the Bonnie Business. The Term Loan Agreement provides a loan from us to AFC, with Bonnie as guarantor, in the amount of $72.0 million with a fixed coupon rate of 6.95% (the “Term Loan”). Under the Services Agreement, we provide marketing, research and development and certain ancillary services to the Bonnie Business for a commission fee based on the profits of the Bonnie Business and the reimbursement of certain costs.

On May 26, 2016, our Hawthorne segment acquired majority control and a 75% economic interest in Gavita for $136.2 million. Gavita’s former ownership group retained a 25% noncontrolling interest in Gavita consisting of ownership of 5% of the outstanding shares of Gavita and a loan with interest payable based on distributions by Gavita. Gavita, which is based in the Netherlands, is a leading producer and marketer of indoor lighting used in the greenhouse and hydroponic markets, predominately in the United States and Europe. On October 2, 2017, our Hawthorne segment acquired the remaining 25% noncontrolling interest in Gavita and its subsidiaries, including Agrolux, for $72.2 million.

In the third quarter of fiscal 2016, our Other segment completed an acquisition to expand our Canadian growing media operations for an estimated purchase price of $33.9 million, which was adjusted down by $4.3 million during fiscal 2017 based on resolution of contingent consideration.

2015

On March 30, 2015, our Hawthorne segment acquired the assets of General Hydroponics and Vermicrop for $120.0 million and $15.0 million, respectively. The Vermicrop purchase price was paid in common shares of Scotts Miracle-Gro (“Common Shares”) based on the average share price at the time of payment. General Hydroponics and Vermicrop are leading producers of liquid plant food products, growing media and accessories for hydroponic gardening.

On May 15, 2015, we amended our Marketing Agreement with Monsanto and entered into a lawn and garden brand extension agreement, and a commercialization and technology agreement with Monsanto gaining certain rights and protections pursuant to the agreements. We paid Monsanto $300.0 million in consideration for these agreements on August 14, 2015.

2014

On October 14, 2013, our U.S. Consumer segment acquired the Tomcat® consumer rodent control business from Bell Laboratories, Inc., located in Madison, Wisconsin, for $60.0 million. The acquisition included the Tomcat® brand and other intellectual property, as well as a long-term partnership to bring innovative technologies to the consumer rodent control market. Tomcat® consumer products are sold at home centers, mass retailers, and grocery, drug and general merchandise stores across the United States, Canada, Europe and Australia.

On September 30, 2014, our Other segment acquired Fafard & Brothers Ltd. (“Fafard”) for $59.8 million. In continuous operation since 1940 and based in Saint-Bonaventure, Quebec, Canada, Fafard is a producer of peat moss and growing media products for consumer and professional markets including peat-based and bark-based mixes, composts and premium soils. Fafard serves customers primarily across Ontario, Quebec, New Brunswick and the eastern United States.

We have also completed several smaller acquisitions within our controls and growing media businesses over the past five years.

Divestitures

On August 31, 2017, we completed the sale of the International Business to Exponent. This transaction included the sale of our consumer lawn and garden businesses located in Australia, Austria, Belgium, Luxembourg, Czech Republic, France, Germany, Poland and the United Kingdom. On August 31, 2017, in connection with, and as a condition to, the consummation of the sale of the International Business, we entered into the Restated Marketing Agreement and Restated Brand Extension Agreement with Monsanto reflecting our transfer and assignment, to the

purchaser of the International Business, of the rights and responsibilities under the Original Marketing Agreement, as amended, and the Brand Extension Agreement relating to those countries and territories subject to the sale.
On April 13, 2016, we contributed the SLS Business to the TruGreen Joint Venture in exchange for a minority equity interest of approximately 30% in the TruGreen Joint Venture, and received a tax-deferred cash distribution of $196.2 million, partially offset by an investment of $18.0 million in second lien term loan financing provided by us to the TruGreen Joint Venture.
In the second quarter of fiscal 2014, we completed the sale of our wild bird food business in the United States and Canada for $4.1 million in cash and $1.0 million in earn-out payments.

We have classified our results of operations for all periods presented in this Annual Report on Form 10-K to reflect these businesses as discontinued operations during the applicable periods. See “NOTE 2. DISCONTINUED OPERATIONS” of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information.

Principal Markets and Methods of Distribution

We sell our products primarily to home centers, mass merchandisers, warehouse clubs, large hardware chains, independent hardware stores, nurseries, garden centers, food and drug stores, indoor gardening and hydroponic product distributors and retailers through both a direct sales force and our network of brokers and distributors. In addition, during fiscal 2017, we employed approximately 2,700 full-time and seasonal in-store associates within the United States to help our retail partners merchandise their lawn and garden departments directly to consumers of our products.

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

Raw Materials

We purchase raw materials for our products from various sources. We are subject to market risk as a result of the fluctuating prices of raw materials such as urea and other fertilizer inputs, resins, diesel, gasoline, natural gas, sphagnum peat, bark and grass seed. Our objectives surrounding the procurement of these materials are to ensure continuous supply, minimize costs and improve predictability. We seek to achieve these objectives through negotiation of contracts with favorable terms directly with vendors. When appropriate, we commit to purchase a certain percentage of our needs in advance of the lawn and garden season to secure pre-determined prices. We also hedge certain commodities, particularly diesel, gasoline and urea, to improve cost predictability and control. Sufficient raw materials were available during fiscal 2017.

Trademarks, Patents and Licenses

We consider our trademarks, patents and licenses to be key competitive advantages. We pursue a vigorous trademark protection strategy consisting of registration, renewal and maintenance of key trademarks and proactive monitoring and enforcement activities to protect against infringement. The Scotts®, Miracle-Gro®, Ortho®, Tomcat®, Hyponex®, Earthgro®, General Hydroponics®, Vermicrop®, Gavita®, Botanicare®, Agrolux® and Can-Filters® brand names and logos, as well as a number of product trademarks, including Turf Builder®, EZ Seed®, Snap®, Organic Choice®, Nature’s Care®, Home Defense Max®, Nature Scapes®, Weed B Gon® and Roundup® for Lawns are registered in the United States and/or internationally and are considered material to our business.

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

Seasonality and Backlog

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

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

Significant Customers

We sell our products primarily to home centers, mass merchandisers, warehouse clubs, large hardware chains, independent hardware stores, nurseries, garden centers, food and drug stores, distributors, indoor gardening and hydroponic product distributors and retailers. Our three largest customers are Home Depot, Lowe's and Walmart, which are reported within the U.S. Consumer segment and are the only customers that individually represent more than 10% of reported consolidated net sales. For additional

6

details regarding significant customers, see "ITEM 1A. RISK FACTORS — Because of the concentration of our sales to a small number of retail customers, the loss of one or more of, or a significant reduction in orders from, our top customers could adversely affect our financial results" of this Annual Report on Form 10-K and "NOTE 20. CONCENTRATIONS OF CREDIT RISK" of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

Competitive Marketplace

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

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

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

Research and Development

We continually invest in research and development, both in the laboratory and at the consumer level, to improve our products, manufacturing processes, packaging and delivery systems. Spending on research and development was $39.9 million, $36.0 million and $36.5 million in fiscal 2017, fiscal 2016 and fiscal 2015, respectively, including product registration costs of $10.6 million, $10.6 million and $10.4 million, respectively. In addition to the benefits of our own research and development, we actively seek ways to leverage the research and development activities of our suppliers and other business partners.

Regulatory Considerations

Local, state, federal and foreign laws and regulations affect the manufacture, sale, distribution and application of our products in several ways. For example, in the United States, all products containing pesticides must comply with the Federal Insecticide, Fungicide, and Rodenticide Act of 1947, as amended ("FIFRA"), and most require registration with the U.S. Environmental Protection Agency (the "U.S. EPA") and similar state agencies before they can be sold or distributed. Fertilizer and growing media products are subject to state and foreign labeling regulations. In addition to the regulations already described, federal, state and foreign agencies regulate the disposal, transport, handling and storage of waste, remediation of contaminated sites, air and water discharges from our facilities, and workplace health and safety. Our grass seed products are regulated by the Federal Seed Act and various state regulations.

In addition, the use of certain pesticide and fertilizer products is regulated by various local, state, federal and foreign environmental and public health agencies. These regulations may include requirements that only certified or professional users apply the product or that certain products be used only on certain types of locations (such as "not for use on sod farms or golf courses"), may require users to post notices on properties to which products have been or will be applied, may require notification to individuals in the vicinity that products will be applied in the future or may ban the use of certain ingredients.

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

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

Regulatory Matters
We are subject to various environmental proceedings, the majority of which are for site remediation. At September 30, 2017, $4.8 million was accrued for such environmental matters. During fiscal 2017, fiscal 2016 and fiscal 2015, we expensed $1.1 million, $0.3 million and $0.5 million, respectively, for such environmental matters. We had no material capital expenditures during the last three fiscal years related to environmental or regulatory matters.

Employees
As of September 30, 2017, we employed approximately 4,700 employees. During peak sales and production periods, we employ approximately 5,900 employees, including seasonal and temporary labor.

Financial Information About Geographic Areas
For certain information concerning our international revenues and long-lived assets, see “NOTE 22. SEGMENT INFORMATION” of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

General Information
We maintain a website at http://investor.scotts.com (this uniform resource locator, or URL, is an inactive textual reference only and is not intended to incorporate our website into this Annual Report on Form 10-K). We file reports with the Securities and Exchange Commission (the “SEC”) and make available, free of charge, on or through our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as well as our proxy and information statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The SEC maintains a website that contains electronic filings by Scotts Miracle-Gro and other issuers at www.sec.gov. In addition, the public may read and copy any materials Scotts Miracle-Gro files with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

ITEM 1A. RISK FACTORS

Cautionary Note Regarding Forward-Looking Statements
This Annual Report on Form 10-K, including the exhibits hereto and the information incorporated by reference herein, as well as our 2017 Annual Report to Shareholders (our “2017 Annual Report”), contain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to risks and uncertainties. Information regarding activities, events and developments that we expect or anticipate will or may occur in the future, including, but not limited to, information relating to our future growth and profitability targets and strategies designed to increase total shareholder value, are forward-looking statements based on management’s estimates, assumptions and projections.

Forward-looking statements also include, but are not limited to, statements regarding our future economic and financial condition and results of operations, the plans and objectives of management and our assumptions regarding our performance and such plans and objectives, as well as the amount and timing of repurchases of our Common Shares or other uses of cash flows. Forward-looking statements generally can be identified through the use of words such as “guidance,” “outlook,” “projected,” “believe,” “target,” “predict,” “estimate,” “forecast,” “strategy,” “may,” “goal,” “e “intend,” “plan,” “foresee,” “likely,” “will,” “should” and other similar words and variations.

Forward-looking statements contained in this Annual Report on Form 10-K and our 2017 Annual Report are predictions only and actual results could differ materially from management’s expectations due to a variety of factors, including those described below. All forward-looking statements attributable to us or persons working on our behalf are expressly qualified in their entirety by such risk factors.

The forward-looking statements that we make in this Annual Report on Form 10-K and our 2017 Annual Report are based on management’s current views and assumptions regarding future events and speak only as of their dates. We disclaim any obligation to update developments of these risk factors or to announce publicly any revisions to any of the forward-looking statements that we make, or to make corrections to reflect future events or developments, except as required by the federal securities laws.

Compliance with environmental and other public health regulations or changes in such regulations or regulatory enforcement priorities could increase our costs of doing business or limit our ability to market all of our products. Local, state, federal and foreign laws and regulations relating to environmental matters affect us in several ways. In the United States, all products containing pesticides must comply with FIFRA and most must be registered with the U.S. EPA and similar state agencies before they can be sold or distributed. Our inability to obtain or maintain such compliance, or the cancellation of any such registration of our products, could have an adverse effect on our business, the severity of which would depend on such matters as the products involved, whether another product could be substituted and whether our competitors were similarly affected. We attempt to anticipate regulatory developments and maintain registrations of, and access to, substitute active ingredients, but there can be no assurance that we will be able to avoid or reduce these risks. In addition, in Canada, regulations have been adopted by several provinces that substantially restrict our ability to market and sell certain of our consumer pesticide products.

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

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

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

In addition to the regulations already described, local, state, federal and foreign agencies regulate the disposal, transport, handling and storage of waste, remediation of contaminated sites, air and water discharges from our facilities, and workplace health and safety.

Under certain environmental laws, we may be liable for the costs of investigation and remediation of the presence of certain regulated materials, as well as related costs of investigation and remediation of damage to natural resources, at various properties, including our current and former properties as well as offsite waste handling or disposal sites that we have used. Liability may be imposed upon us without regard to whether we knew of or caused the presence of such materials and, under certain circumstances, on a joint and several basis. There can be no assurances that the presence of such regulated materials at any such locations, or locations that we may acquire in the future, will not result in liability to us under such laws or expose us to third-party actions such as tort suits based on alleged conduct or environmental conditions.

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

Damage to our reputation could have an adverse effect on our business.

Maintaining our strong reputation with both consumers and our retail customers is a key component in our success. Product recalls, our inability to ship, sell or transport affected products and governmental investigations may harm our reputation and acceptance of our products by consumers and our retail customers, which may materially and adversely affect our business operations, decrease sales and increase costs.

In addition, perceptions that the products we produce and market are not safe could adversely affect us and contribute to the risk we will be subjected to legal action. We manufacture and market a variety of products, such as fertilizers, growing media, herbicides and pesticides. On occasion, allegations are made that some of these products have failed to perform up to expectations or have caused damage or injury to individuals or property. For example, public commentary by media agencies, non-governmental organizations and/or litigation-related assertions, even if inaccurate, may lead consumers to believe that certain products we manufacture or market may be unsafe. Further, based on reports of contamination at a third-party supplier's vermiculite mine, the public may perceive that some of our products manufactured in the past using vermiculite are or may be contaminated. Public perception that the products we manufacture or market are not safe, whether justified or not, could impair our reputation, involve us in litigation, damage our brand names and have a material adverse effect on our business.

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

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

In addition, we sell products that end users may purchase for use in industries or segments, including the growing of cannabis, that are subject to varying, inconsistent, and rapidly changing laws, regulations, administrative practices, enforcement approaches, judicial interpretations, and consumer perceptions. For example, certain countries and 29 U.S. states have adopted frameworks that authorize, regulate, and tax the cultivation, processing, sale, and use of cannabis for medicinal and/or non-medicinal use, while the U.S. Controlled Substances Act and the laws of other U.S. states prohibit growing cannabis.

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

Our marketing activities may not be successful.

We invest substantial resources in advertising, consumer promotions and other marketing activities to maintain, extend and expand our brand image. There can be no assurances that our marketing strategies will be effective or that the amount we invest in advertising activities will result in a corresponding increase in sales of our products. If our marketing initiatives are not successful, we will have incurred significant expenses without the benefit of higher revenues.

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

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

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

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

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

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

Our hedging arrangements expose us to certain counterparty risks.

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

Economic conditions could adversely affect our business.

Uncertain global economic conditions could adversely affect our business. Negative global economic trends, such as decreased consumer and business spending, high unemployment levels, reduced rates of home ownership and housing starts, high foreclosure rates and declining consumer and business confidence, pose challenges to our business and could result in declining revenues, profitability and cash flow. Although we continue to devote significant resources to support our brands, unfavorable economic conditions may negatively affect consumer demand for our products. Consumers may reduce discretionary spending during periods of economic uncertainty, which could reduce sales volumes of our products or result in a shift in our product mix from higher margin to lower margin products.

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

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

We may not successfully develop new product lines and products or improve existing product lines and products or maintain our effectiveness in reaching consumers through rapidly evolving communication vehicles.

Our future success depends, in part, upon our ability to improve our existing product lines and products and to develop, manufacture and market new product lines and products to meet evolving consumer needs, as well as our ability to leverage new media such as digital media and social networks to reach existing and potential consumers. We cannot be certain that we will be successful in developing, manufacturing and marketing new product lines and products or product innovations which satisfy consumer needs or achieve market acceptance, or that we will develop, manufacture and market new product lines and products or product innovations in a timely manner. If we fail to successfully develop, manufacture and market new product lines and products or product innovations, or if we fail to reach existing and potential consumers, our ability to maintain or grow our market share may be adversely affected, which in turn could materially adversely affect our business, financial condition and results of operations. In addition, the development and introduction of new product lines and products and product innovations require substantial research, development and marketing expenditures, which we may be unable to recoup if such new product lines, products or innovations do not achieve market acceptance.

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

Our ongoing investment in new product lines and products and technologies is inherently risky and could disrupt our ongoing businesses.

We have invested and expect to continue to invest in new product lines, products, and technologies. Such endeavors may involve significant risks and uncertainties, including distraction of management from current operations, insufficient revenues to offset liabilities assumed and expenses associated with these new investments, inadequate return of capital on our investments, and unidentified issues not discovered in our due diligence of such strategies and offerings. Because these new ventures are inherently risky, no assurance can be given that such strategies and offerings will be successful and will not adversely affect our reputation, financial condition, and operating results.

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

Our top three retail customers together accounted for 61% of our fiscal 2017 net sales and 60% of our outstanding accounts receivable as of September 30, 2017. The loss of, or reduction in orders from, our top three retail customers, Home Depot, Lowe's, and Walmart, or any other significant customer could have a material adverse effect on our business, financial condition, results of operations and cash flows, as could customer disputes regarding shipments, fees, merchandise condition or related matters. Our inability to collect accounts receivable from one of our major customers, or a significant deterioration in the financial condition of one of these customers, including a bankruptcy filing or a liquidation, could also have a material adverse effect on our financial condition, results of operations and cash flows.

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

Our reliance on third-party manufacturers could harm our business.

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

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

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

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

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

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

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

The issue of climate change is receiving ever increasing attention worldwide. The possible effects, as described in various public accounts, could include changes in rainfall patterns, water shortages, changing storm patterns and intensities, and changing temperature levels that could adversely impact our costs and business operations and the supply and demand for our fertilizer, garden soils and pesticide products. In addition, fluctuating climatic conditions may result in unpredictable modifications in the manner in which consumers garden or their attitudes towards gardening, making it more difficult for us to provide appropriate products to appropriate markets in time to meet consumer demand.

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

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

As of September 30, 2017, we had $1.4 billion of debt and $1.3 billion was available to be borrowed under our credit agreement. Our inability to meet restrictive financial and non-financial covenants associated with that debt, or to generate sufficient cash flow to repay maturing debt, could adversely affect our financial condition.

For example, our debt level could:

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

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

In addition, our credit facility and the indentures governing our 6.000% Senior Notes due 2023 (the “6.000% Senior Notes”) and our 5.250% Senior Notes due 2026 (the “5.250% Senior Notes”) contain restrictive covenants and cross-default provisions. Our credit facility also requires us to maintain specified financial ratios. Our ability to comply with those covenants and satisfy those financial ratios can be affected by events beyond our control including prevailing economic, financial and industry conditions. A breach of any of those financial ratio covenants or other covenants could result in a default. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, and could cease making further loans and institute foreclosure proceedings against our assets. We cannot provide any assurance that the holders of such indebtedness would waive a default or that we could pay the indebtedness in full if it were accelerated.

Subject to compliance with certain covenants under our credit facility and the indentures governing the 6.000% Senior Notes and the 5.250% Senior Notes, we may incur additional debt in the future. If we incur additional debt, the risks described above could intensify.

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

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

Changes in credit ratings issued by nationally recognized statistical rating organizations (NRSROs) could adversely affect our cost of financing and the market price of our 6.000% Senior Notes and 5.250% Senior Notes.

NRSROs rate the 6.000% Senior Notes, the 5.250% Senior Notes and the Company based on factors that include our operating results, actions that we take, their view of the general outlook for our industry and their view of the general outlook for the economy. Actions taken by the NRSROs can include maintaining, upgrading or downgrading the current rating or placing us on a watch list for possible future downgrading. Downgrading the credit rating of the 6.000% Senior Notes or the 5.250% Senior Notes or placing us on a watch list for possible future downgrading could increase our cost of financing, limit our access to the capital markets and have an adverse effect on the market price of the 6.000% Senior Notes and the 5.250% Senior Notes.

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

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

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

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

Despite the sale of the International Business in August 2017, we continue to operate manufacturing, sales and service facilities outside of the United States, particularly in Canada, Mexico, China, Norway and The Netherlands. Accordingly, we are subject to risks associated with operating in foreign countries, including:

- fluctuations in currency exchange rates;
- limitations on the remittance of dividends and other payments by foreign subsidiaries;
- additional costs of compliance with local regulations;
- historically, in certain countries, higher rates of inflation than in the United States;
- changes in the economic conditions or consumer preferences or demand for our products in these markets;
- restrictive actions by multi-national governing bodies, foreign governments or subdivisions thereof;
- changes in foreign labor laws and regulations affecting our ability to hire and retain employees;
- changes in U.S. and foreign laws regarding trade and investment;
- less robust protection of our intellectual property under foreign laws; and
- difficulty in obtaining distribution and support for our products.

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

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

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

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

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

We rely on information technology systems in order to conduct business, including communicating with employees and our key retail customers, ordering and managing materials from suppliers, shipping products to retail customers and analyzing and reporting results of operations. While we have taken steps to ensure the security of our information technology systems, our systems may nevertheless be vulnerable to computer viruses, security breaches and other disruptions from unauthorized users. If our information technology systems are damaged or cease to function properly for an extended period of time, whether as a result of a significant cyber incident or otherwise, our ability to communicate internally as well as with our retail customers could be significantly impaired, which may adversely impact our business. Additionally, an operational failure or breach of security from increasingly sophisticated cyber threats could lead to the loss or disclosure of both our and our retail customers' financial, product, and other confidential information, as well as personally identifiable information about our employees or customers, result in regulatory or other legal proceedings, and have a material adverse effect on our business and reputation.

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

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

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

In the event the Restated Marketing Agreement for consumer Roundup® products terminates, we would lose a substantial source of future earnings and overhead expense absorption.

If we (i) become insolvent, (ii) commit a material breach, material fraud or material misconduct under the Restated Marketing Agreement, (iii) experience a change of control of the Company (subject to certain exceptions), or (iv) impermissibly assign our rights or delegate our obligations under the Restated Marketing Agreement, Monsanto may terminate the Restated Marketing Agreement without paying a termination fee to the Company. Monsanto may also terminate the Restated Marketing Agreement in the event of a change of control of Monsanto or a sale of the Roundup® business effective at the end of the fifth full year after providing notice of termination, but would have to pay a termination fee to the Company. In the event the Restated Marketing

Agreement terminates, we would lose all, or a substantial portion, of the significant source of earnings and overhead expense absorption the Restated Marketing Agreement provides.
For additional information regarding the Restated Marketing Agreement, see "NOTE 6. MARKETING AGREEMENT" of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.
Hagedorn Partnership, L.P. beneficially owns approximately 26% of our Common Shares and can significantly influence decisions that require the approval of shareholders.
Hagedorn Partnership, L.P. beneficially owned approximately 26% of our outstanding Common Shares on a fully diluted basis as of November 24, 2017. As a result, it has sufficient voting power to significantly influence the election of directors and the approval of other actions requiring the approval of our shareholders, including the entering into of certain business combination transactions. In addition, because of the percentage of ownership and voting concentration in Hagedorn Partnership, L.P., elections of our board of directors will generally be within the control of Hagedorn Partnership, L.P. While all of our shareholders are entitled to vote on matters submitted to our shareholders for approval, the concentration of our Common Shares and voting control presently lies with Hagedorn Partnership, L.P. As such, it would be difficult for shareholders to propose and have approved proposals not supported by Hagedorn Partnership, L.P. Hagedorn Partnership, L.P.'s interests could differ from, or be in conflict with, the interests of other shareholders.
While we have, over the past few years, increased the rate of cash dividends on, and engaged in repurchases of, our Common Shares, any future decisions to reduce or discontinue paying cash dividends to our shareholders or repurchasing our Common Shares pursuant to our previously announced repurchase program could cause the market price for our Common Shares to decline.
Our payment of quarterly cash dividends on and repurchase of our Common Shares pursuant to our stock repurchase program are subject to, among other things, our financial position and results of operations, available cash and cash flow, capital requirements, and other factors. We have, over the past few years, increased the rate of cash dividends on, and repurchases of, our Common Shares. In the fourth quarter of fiscal 2017, we increased the amount of our quarterly cash dividend by 6% to $0.53 per share. The total remaining share repurchase authorization as of September 30, 2017 is $608.5 million.
We may further increase or decrease the rate of cash dividends on, and the amount of repurchases of, our Common Shares in the future. Any reduction or discontinuance by us of the payment of quarterly cash dividends or repurchases of our Common Shares pursuant to our current share repurchase authorization program could cause the market price of our Common Shares to decline. Moreover, in the event our payment of quarterly cash dividends on or repurchases of our Common Shares are reduced or discontinued, our failure or inability to resume paying cash dividends or repurchasing Common Shares at historical levels could result in a lower market valuation of our Common Shares.
Acquisitions, other strategic alliances and investments could result in operating difficulties, dilution, and other harmful consequences that may adversely impact our business and results of operations.
Acquisitions are an important element of our overall corporate strategy and use of capital, and these transactions could be material to our financial condition and results of operations. We expect to continue to evaluate and enter into discussions regarding a wide array of potential strategic transactions. The process of integrating an acquired company, business, or product has created, and will continue to create, unforeseen operating difficulties and expenditures. The areas where we face risks include:

- Diversion of management time and focus from operating our business to acquisition integration challenges.

- Failure to successfully further develop the acquired business or product lines.

- Implementation or remediation of controls, procedures and policies at the acquired company.

- Integration of the acquired company's accounting, human resources and other administrative systems, and coordination of product, engineering and sales and marketing functions.

- Transition of operations, users and customers onto our existing platforms.
- Reliance on the expertise of our strategic partners with respect to market development, sales, local regulatory compliance and other operational matters.
- Failure to obtain required approvals on a timely basis, if at all, from governmental authorities, or conditions placed upon approval, under competition and antitrust laws which could, among other things, delay or prevent us from

completing a transaction, or otherwise restrict our ability to realize the expected financial or strategic goals of an acquisition.

- In the case of foreign acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political and regulatory risks associated with specific countries.

- Cultural challenges associated with integrating employees from the acquired company into our organization, and retention of employees from the businesses we acquire.

- Liability for or reputational harm from activities of the acquired company before the acquisition or from our strategic partners, including patent and trademark infringement claims, violations of laws, commercial disputes, tax liabilities and other known and unknown liabilities.

- Litigation or other claims in connection with the acquired company, including claims from terminated employees, customers, former shareholders or other third parties.

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters are located in Marysville, Ohio, where we own approximately 706 acres of land and lease approximately 24 acres of land. In addition, we own and lease numerous industrial, commercial and office properties located in North America, Europe and Asia that support the management, manufacturing, distribution and research and development of our products and services. We believe our properties are suitable and adequate to serve the needs of our business and that our leased properties are subject to appropriate lease agreements.

The Company has 45 owned properties and 89 leased properties. These properties are located in the following countries:

Location	Owned	Leased
United States	36	65
Mexico	—	1
Canada	9	14
China	—	4
The Netherlands	—	4
Norway	—	1
Total	45	89

We own or lease 76 manufacturing properties, four distribution properties and three research and development properties in the United States. We own or lease twenty manufacturing properties in Canada, one manufacturing property in Norway, one manufacturing property in the Netherlands and one manufacturing property in China. We also lease one distribution property in Mexico and one research and development property in Canada. Most of the manufacturing properties, which include growing media properties and peat harvesting properties, have production lines, warehouses, offices and field processing areas.

ITEM 3. LEGAL PROCEEDINGS

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

We have been named as a defendant in a number of cases alleging injuries that the lawsuits claim resulted from exposure to asbestos-containing products, apparently based on our historic use of vermiculite in certain of our products. In many of these cases, the complaints are not specific about the plaintiffs’ contacts with us or our products. The cases vary, but complaints in these cases generally seek unspecified monetary damages (actual, compensatory, consequential and punitive) from multiple defendants. We believe that the claims against us are without merit and are vigorously defending against them. It is not currently possible to reasonably estimate a probable loss, if any, associated with the cases and, accordingly, no accruals have been recorded in our consolidated financial statements. We are reviewing agreements and policies that may provide insurance coverage or indemnity as to these claims and are pursuing coverage under some of these agreements and policies, although there can be no assurance of the results of these efforts. There can be no assurance that these cases, whether as a result of adverse outcomes or as a result of significant defense costs, will not have a material adverse effect on our financial condition, results of operations or cash flows.

In connection with the sale of wild bird food products that were the subject of a voluntary recall in 2008, the Company, along with its Chief Executive Officer, have been named as defendants in four actions filed on and after June 27, 2012, which have been consolidated and, on March 31, 2017, certified as a class action in the United States District Court for the Southern District of California as In re Morning Song Bird Food Litigation, Lead Case No. 3:12-cv-01592-JAH-AGS. The plaintiffs allege various statutory and common law claims associated with the Company’s sale of wild bird food products and a plea agreement entered into in previously pending government proceedings associated with such sales. The plaintiffs allege, among other things, a class action on behalf of all persons and entities in the United States who purchased certain bird food products. The plaintiffs assert: (i) hundreds of millions of dollars in monetary damages (actual, compensatory, consequential, and restitution); (ii) punitive and treble damages; (iii) injunctive and declaratory relief; (iv) pre-judgment and post-judgment interest; and (v) costs and attorneys' fees. The Company and its Chief Executive Officer dispute the plaintiffs' assertions and intend to vigorously defend the consolidated action. At this point in the proceedings, it is not currently possible to reasonably estimate a probable loss, if any, associated with the action and, accordingly, no accruals have been recorded in the consolidated financial statements with respect to the action. There can be no assurance that this action, whether as a result of an adverse outcome or as a result of significant defense costs, will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

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

ITEM 4. MINE SAFETY DISCLOSURE
Not Applicable.

SUPPLEMENTAL ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT
The executive officers of Scotts Miracle-Gro, their positions and, as of November 24, 2017, their ages and years with Scotts Miracle-Gro (and its predecessors) are set forth below.

Name	Age	Position(s) Held	Years with Company
James Hagedorn	62	Chief Executive Officer and Chairman of the Board	30
Michael C. Lukemire	59	President and Chief Operating Officer	21
Thomas R. Coleman	48	Executive Vice President and Chief Financial Officer	18
Ivan C. Smith	48	Executive Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer	14
Denise S. Stump	63	Executive Vice President, Global Human Resources and Chief Ethics Officer	17

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

Mr. Hagedorn was named Chairman of the Board of Scotts Miracle-Gro's predecessor in January 2003 and Chief Executive Officer of Scotts Miracle-Gro's predecessor in May 2001. He also served as President of Scotts Miracle-Gro (or its predecessor) from October 2015 until February 2016. Mr. Hagedorn serves on Scotts Miracle-Gro's Board of Directors, a position he has held with Scotts Miracle-Gro (or its predecessor) since 1995. Mr. Hagedorn is the brother of Katherine Hagedorn Littlefield, a director of Scotts Miracle-Gro. Prior to 2012, Mr. Hagedorn held various managerial roles at the Company.

Mr. Lukemire was named President and Chief Operating Officer of Scotts Miracle-Gro in February 2016. He served as Executive Vice President and Chief Operating Officer of Scotts Miracle-Gro from December 2014 until February 2016. Prior to this appointment, Mr. Lukemire had served as Executive Vice President, North American Operations of Scotts Miracle-Gro from April 2014 until December 2014, as Executive Vice President, Business Execution of Scotts Miracle-Gro from May 2013 until April 2014 and as President, U.S. Consumer Regions of Scotts Miracle-Gro from October 2011 until May 2013. Prior to 2012, Mr. Lukemire held various managerial roles at the Company.

Mr. Coleman was named Executive Vice President and Chief Financial Officer of Scotts Miracle-Gro in April 2014. Prior to this appointment, Mr. Coleman had served as Senior Vice President, Global Finance Operations and Enterprise Performance Management Analytics for The Scotts Company LLC, a wholly-owned subsidiary of Scotts Miracle-Gro, since January 2011. Previously, Mr. Coleman served as interim principal financial officer of Scotts Miracle-Gro between February 2013 and March 2013. Prior to 2012, Mr. Coleman held various managerial roles at the Company.

Mr. Smith was named Executive Vice President, General Counsel and Corporate Secretary of Scotts Miracle-Gro in July 2013 and Chief Compliance Officer of Scotts Miracle-Gro in October 2013. Prior to July 2013, he had served as Vice President, Global Consumer Legal and Assistant General Counsel of Scotts LLC since October 2011. Prior to 2012, Mr. Smith held various managerial roles at the Company.

Ms. Stump was named Executive Vice President, Global Human Resources of Scotts Miracle-Gro (or its predecessor) in February 2003 and Chief Ethics Officer of Scotts Miracle-Gro in October 2013. Prior to 2012, Ms. Stump held various managerial roles at the Company.

PART II

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

The Common Shares trade on the New York Stock Exchange under the symbol "SMG." The quarterly high and low sale prices for the fiscal years ended September 30, 2017 and 2016 were as follows:

	Sale Prices	
	High	Low
FISCAL 2017		
First quarter	$98.82	$82.49
Second quarter	$96.38	$88.61
Third quarter	$97.50	$81.48
Fourth quarter	$99.91	$89.60
FISCAL 2016		
First quarter	$72.26	$60.25
Second quarter	$75.13	$62.20
Third quarter	$73.16	$65.80
Fourth quarter	$83.73	$68.24

On August 3, 2015, Scotts Miracle-Gro announced that its Board of Directors had increased the quarterly cash dividend to $0.47 per Common Share, which was paid in September of fiscal 2015 and December, March and June of fiscal 2016. On August 3, 2016, Scotts Miracle-Gro announced that its Board of Directors had further increased the quarterly cash dividend to $0.50 per Common Share, which was paid in September of fiscal 2016 and December, March and June of fiscal 2017. On August 1, 2017, the Scotts Miracle-Gro Board of Directors approved an increase in the quarterly cash dividend from $0.50 to $0.53 per Common Share, which was paid in September of fiscal 2017.

The payment of future dividends, if any, on the Common Shares will be determined by the Board of Directors in light of conditions then existing, including the Company's earnings, financial condition and capital requirements, restrictions in financing agreements, business conditions and other factors. The credit agreement allows the Company to make unlimited restricted payments (as defined in the credit agreement), including increased or one-time dividend payments and Common Share repurchases, as long as the leverage ratio resulting from the making of such restricted payments is 4.00 or less. Otherwise the Company may only make restricted payments in an aggregate amount for each fiscal year not to exceed the amount set forth for such fiscal year ($200.0 million for fiscal 2018 and each fiscal year thereafter). Our leverage ratio was 3.04 at September 30, 2017. See "NOTE 11. DEBT" of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for further discussion regarding the restrictions on dividend payments.

As of November 24, 2017, there were approximately 87,000 shareholders, including holders of record and our estimate of beneficial holders.

The following table shows the purchases of Common Shares made by or on behalf of Scotts Miracle-Gro or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) of Scotts Miracle-Gro for each of the three fiscal months in the quarter ended September 30, 2017:

Period	Total Number of Common Shares Purchased(1)	Average Price Paid per Common Share(2)	Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs(3)	Approximate Dollar Value of Common Shares That May Yet be Purchased Under the Plans or Programs(3)
July 2 through July 29, 2017	241,358	$ 93.02	240,255	$ 656,841,318
July 30 through August 26, 2017	229,054	$ 95.57	229,050	$ 634,951,420
August 27 through September 30, 2017	280,444	$ 95.36	277,650	$ 608,450,394
Total	750,856	$ 94.67	746,955	

(1) All of the Common Shares purchased during the fourth quarter of fiscal 2017 were purchased in open market transactions. The total number of Common Shares purchased during the quarter includes 3,901 Common Shares purchased by the trustee of the rabbi trust established by the Company as permitted pursuant to the terms of The Scotts Company LLC Executive Retirement Plan (the "ERP"). The ERP is an unfunded, non-qualified deferred compensation plan which, among other things, provides eligible employees the opportunity to defer compensation above specified statutory limits applicable to The Scotts Company LLC Retirement Savings Plan and with respect to any Executive Management Incentive Pay (as defined in the ERP), Performance Award (as defined in the ERP) or other bonus awarded to such eligible employees. Pursuant to the terms of the ERP, each eligible employee has the right to elect an investment fund, including a fund consisting of Common Shares (the "Scotts Miracle-Gro Common Stock Fund"), against which amounts allocated to such employee's account under the ERP, including employer contributions, will be benchmarked (all ERP accounts are bookkeeping accounts only and do not represent a claim against specific assets of the Company). Amounts allocated to employee accounts under the ERP represent deferred compensation obligations of the Company. The Company established the rabbi trust in order to assist the Company in discharging such deferred compensation obligations. When an eligible employee elects to benchmark some or all of the amounts allocated to such employee's account against the Scotts Miracle-Gro Common Stock Fund, the trustee of the rabbi trust purchases the number of Common Shares equivalent to the amount so benchmarked. All Common Shares purchased by the trustee are purchased on the open market and are held in the rabbi trust until such time as they are distributed pursuant to the terms of the ERP. All assets of the rabbi trust, including any Common Shares purchased by the trustee, remain, at all times, assets of the Company, subject to the claims of its creditors. The terms of the ERP do not provide for a specified limit on the number of Common Shares that may be purchased by the trustee of the rabbi trust.

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

(3) On August 11, 2014, Scotts Miracle-Gro announced that its Board of Directors authorized the repurchase of up to $500 million of Common Shares over a five-year period (effective November 1, 2014 through September 30, 2019). On August 3, 2016, Scotts Miracle-Gro announced that its Board of Directors increased the then outstanding authorization by an additional $500 million. The amended authorization allows for the repurchases of up to $1.0 billion of Common Shares through September 30, 2019. The dollar amounts in the "Approximate Dollar Value of Common Shares That May Yet be Purchased Under the Plans or Programs" column reflect the remaining amounts that were available for repurchase under the original $500 million and the incremental $500 million authorized repurchase programs.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial data for the periods indicated. You should read the following summary consolidated financial data in conjunction with our consolidated financial statements and the notes thereto and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in this Annual Report on Form 10-K. The summary consolidated financial data presented below as of and for the fiscal years ended September 30, 2017, 2016, 2015, 2014 and 2013 has been derived from our financial statements.

Five-Year Summary[1]

	Year Ended September 30,				
	2017	2016	2015	2014	2013
	(In millions, except per share amounts)				
GAAP OPERATING RESULTS:					
Net sales	$2,642.1	$2,506.2	$2,371.1	$2,189.3	$2,166.2
Gross profit	972.6	900.3	810.8	774.2	747.7
Income from operations	433.4	447.6	253.8	263.3	282.0
Income from continuing operations	198.3	246.1	128.7	131.8	142.0
Income from discontinued operations, net of tax	20.5	68.7	30.0	34.4	19.1
Net income	218.8	314.8	158.7	166.2	161.1
Net income attributable to controlling interest	218.3	315.3	159.8	166.5	161.1
NON-GAAP ADJUSTED OPERATING RESULTS[2]:					
Adjusted income from operations	$438.3	$402.1	$334.0	$310.8	$293.2
Adjusted income from continuing operations	237.4	230.2	180.4	170.0	148.9
Adjusted net income attributable to controlling interest from continuing operations	236.9	230.7	181.5	170.3	148.9
SLS Divestiture adjusted income	236.9	221.7	203.4	190.9	168.1
FINANCIAL POSITION:					
Working capital[3]	$337.2	$325.8	$382.8	$256.3	$256.9
Current ratio[3]	1.6	1.5	1.8	1.6	1.7
Property, plant and equipment, net	467.7	444.9	413.4	393.5	375.8
Total assets	2,747.0	2,755.8	2,458.3	1,996.0	1,871.2
Total debt to total book capitalization[4]	68.3 %	63.0 %	63.1 %	58.3 %	43.7 %
Total debt	1,401.1	1,215.9	1,061.1	774.9	552.0
Total equity—controlling interest	648.8	715.2	620.7	553.7	710.5
GAAP CASH FLOWS:					
Cash flows provided by operating activities	$354.0	$237.4	$246.9	$240.9	$342.0
Investments in property, plant and equipment	69.6	58.3	61.7	87.6	60.1
Investment in marketing and license agreement	—	—	300.0	—	—
Investments in loans receivable	29.7	90.0	—	—	—
Net distributions from unconsolidated affiliates	57.4	194.1	—	—	—
Investments in acquired businesses, net of cash acquired and payments on seller notes	150.4	161.2	181.7	114.8	4.0
Dividends paid	120.3	116.6	111.3	230.8	87.8
Purchases of Common Shares	246.0	130.8	14.8	120.0	—
NON-GAAP CASH FLOWS[2]:					
Free cash flow	284.4	179.1	185.2	153.3	281.9
Free cash flow productivity	130.0 %	56.9 %	116.7 %	92.2 %	175.0 %
PER SHARE DATA:					
GAAP earnings per common share from continuing operations:					
Basic	$3.33	$4.04	$2.12	$2.14	$2.30
Diluted	3.29	3.98	2.09	2.11	2.27
Non-GAAP adjusted earnings per common share from continuing operations:					
Adjusted diluted[2]	3.94	3.72	2.92	2.72	2.38
SLS Divestiture adjusted income[2]	3.94	3.58	3.27	3.04	2.69

Dividends per common share[5]	2.030	1.910	1.820	3.763	1.413
Stock price at year-end	97.34	83.27	60.82	55.00	55.03
Stock price range—High	99.91	83.73	68.99	60.30	55.99
Stock price range—Low	81.48	60.25	54.71	50.51	39.64
OTHER:					
Adjusted EBITDA[6]	$560.5	$517.4	$471.8	$412.4	$390.5
Leverage ratio[6]	3.04	3.10	2.63	2.18	2.05
Interest coverage ratio[6]	7.54	7.88	9.34	9.41	6.59
Weighted average Common Shares outstanding	59.4	61.1	61.1	61.6	61.7
Common shares and dilutive potential common shares used in diluted EPS calculation	60.2	62.0	62.2	62.7	62.6

23

(1) The Selected Financial Data has been retrospectively updated to recast activity for the following:

Discontinued Operations

In the second quarter of fiscal 2014, we completed the sale of our wild bird food business. As a result, effective in our second quarter of fiscal 2014, we classified the wild bird food business as a discontinued operation in accordance with GAAP.
On April 13, 2016, we completed the contribution of the SLS Business to the TruGreen Joint Venture in exchange for a minority equity interest of approximately 30% in the TruGreen Joint Venture. As a result, effective in our second quarter of fiscal 2016, we classified the SLS Business as a discontinued operation in accordance with GAAP.
On August 31, 2017, we completed the sale of the International Business. As a result, effective in our fourth quarter of fiscal 2017, we classified the International Business as a discontinued operation in accordance with GAAP.

Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued an accounting standard update that requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the corresponding debt liability rather than as an asset; however debt issuance costs relating to revolving credit facilities will remain in other assets. We adopted this guidance on a retrospective basis effective October 1, 2016. As a result, debt issuance costs have been presented as a component of the carrying amount of long-term debt in the Consolidated Balance Sheets. These amounts were previously reported within other assets.
In November 2015, the FASB issued an accounting standard update to simplify the presentation of deferred income taxes by requiring that deferred income tax liabilities and assets be classified as noncurrent in a classified statement of financial position. We adopted this guidance on a retrospective basis during the fourth quarter of fiscal 2017. As a result, deferred tax assets have been presented net within other liabilities in the Consolidated Balance Sheets. These amounts were previously reported within prepaid and other current assets.

(2) Reconciliation of Non-GAAP Measures

Use of Non-GAAP Measures

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

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

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

Exclusions from Non-GAAP Financial Measures

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

- Impairments, which are excluded because they do not occur in or reflect the ordinary course of our ongoing business operations and their exclusion results in a metric that provides supplemental information about the sustainability of operating performance.
- Restructuring and employee severance costs, which include charges for discrete projects or transactions that fundamentally change our operations and are excluded because they are not part of the ongoing operations of our underlying business, which includes normal levels of reinvestment in the business.
- Costs related to refinancing, which are excluded because they do not typically occur in the normal course of business and may obscure analysis of trends and financial performance. Additionally, the amount and frequency of these types of charges is not consistent and is significantly impacted by the timing and size of debt financing transactions.
- Charges or credits incurred by the TruGreen Joint Venture that are apart from and not indicative of the results of its ongoing operations, including transaction related costs, refinancing costs, restructurings and other discrete projects or transactions including a non-cash purchase accounting fair value write down adjustment related to deferred revenue and advertising ("TruGreen Joint Venture non-GAAP adjustments").
- Discontinued operations and other unusual items, which include costs or gains related to discrete projects or transactions and are excluded because they are not comparable from one period to the next and are not part of the ongoing operations of our underlying business.

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

Definitions of Non-GAAP Financial Measures

The reconciliations of non-GAAP disclosure items includes the following financial measures that are not calculated in accordance with GAAP and are utilized by us in evaluating the performance of the business, engaging in financial and operational planning, the determination of incentive compensation, and by investors and analysts in evaluating performance of the business:

Adjusted income (loss) from operations: Income (loss) from operations excluding impairment, restructuring and other charges / recoveries and product registration and recall matters and other charges.
Adjusted income (loss) from continuing operations: Income (loss) from continuing operations excluding impairment, restructuring and other charges / recoveries, costs related to refinancing, product registration and recall matters and other charges and TruGreen Joint Venture non-GAAP adjustments, each net of tax.
Adjusted net income (loss) attributable to controlling interest from continuing operations: Net income (loss) attributable to controlling interest excluding impairment, restructuring and other charges / recoveries, costs related to refinancing, product registration and recall matters and other charges, TruGreen Joint Venture non-GAAP adjustments and discontinued operations, each net of tax.
Adjusted diluted income (loss) per common share from continuing operations: Diluted net income (loss) per common share from continuing operations excluding impairment, restructuring and other charges / recoveries, costs related to refinancing, product registration and recall matters and other charges and TruGreen Joint Venture non-GAAP adjustments, each net of tax.
SLS Divestiture adjusted income (loss): Net income (loss) from continuing operations excluding impairment, restructuring and other charges / recoveries, costs related to refinancing, product registration and recall matters and

other charges and TruGreen Joint Venture non-GAAP adjustments, each net of tax. This measure also includes income (loss) from discontinued operations related to the SLS Business; however, excludes the gain on the contribution of the SLS Business to the TruGreen Joint Venture, each net of tax.

SLS Divestiture adjusted income (loss) per common share: Diluted net income (loss) per common share excluding impairment, restructuring and other charges / recoveries, costs related to refinancing, product registration and recall matters and other charges and TruGreen Joint Venture non-GAAP adjustments, each net of tax. This measure also includes income (loss) from discontinued operations related to the SLS Business; however, excludes the gain on the contribution of the SLS Business to the TruGreen Joint Venture, each net of tax.

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

Free cash flow productivity: Ratio of free cash flow to net income (loss).

Adjusted EBITDA: Net income (loss) before interest, taxes, depreciation and amortization as well as certain other items such as the impact of the cumulative effect of changes in accounting, costs associated with debt refinancing and other non-recurring or non-cash items affecting net income (loss). The presentation of adjusted EBITDA is intended to be consistent with the calculation of that measure as required by our borrowing arrangements, and used to calculate a leverage ratio (maximum of 4.50 at September 30, 2017) and an interest coverage ratio (minimum of 3.00 for the twelve months ended September 30, 2017).

In addition to our GAAP measures, we use these non-GAAP measures to manage the business because we believe that these measures provide additional perspective on and, in some circumstances are more closely correlated to, the performance of our underlying, ongoing business. We believe that disclosure of these non-GAAP financial measures therefore provides useful supplemental information to investors or other users of the financial statements, such as lenders. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, the Company’s reported results prepared in accordance with GAAP.

A reconciliation of the non-GAAP measures to the most directly comparable GAAP measures is presented in the following table:

	Year Ended September 30,				
	2017	2016	2015	2014	2013
	(In millions, except per share data)				
Income from operations (GAAP)	$433.4	$447.6	$253.8	$263.3	$282.0
Impairment, restructuring and other charges (recoveries)	4.9	(45.5)	80.2	47.5	11.2
Adjusted income from operations (Non-GAAP)	$438.3	$402.1	$334.0	$310.8	$293.2
Income from continuing operations (GAAP)	$198.3	$246.1	$128.7	$131.8	$142.0
Impairment, restructuring and other charges (recoveries)	43.5	(33.8)	80.2	47.5	11.2
Costs related to refinancing	—	8.8	—	10.7	—
Adjustment to income tax (expense) benefit from continuing operations	(4.4)	9.1	(28.5)	(20.0)	(4.3)
Adjusted income from continuing operations (Non-GAAP)	$237.4	$230.2	$180.4	$170.0	$148.9
Net income attributable to controlling interest (GAAP)	$218.3	$315.3	$159.8	$166.5	$161.1
Discontinued operations	20.5	68.7	30.0	34.4	19.1
Impairment, restructuring and other charges (recoveries)	43.5	(33.8)	80.2	47.5	11.2
Costs related to refinancing	—	8.8	—	10.7	—
Adjustment to income tax (benefit) expense from continuing operations	(4.4)	9.1	(28.5)	(20.0)	(4.3)
Adjusted net income attributable to controlling interest (Non-GAAP)	$236.9	$230.7	$181.5	$170.3	$148.9
Income from continuing operations (GAAP)	$198.3	$246.1	$128.7	$131.8	$142.0
Net (income) loss attributable to noncontrolling interest	(0.5)	0.5	1.1	0.3	—
Net income attributable to controlling interest from continuing operations	197.8	246.6	129.8	132.1	142.0
Impairment, restructuring and other charges (recoveries)	43.5	(33.8)	80.2	47.5	11.2
Costs related to refinancing	—	8.8	—	10.7	—
Adjustment to income tax (expense) benefit from continuing operations	(4.4)	9.1	(28.5)	(20.0)	(4.3)
Adjusted income attributable to controlling interest from continuing operations (Non-GAAP)	$236.9	$230.7	$181.5	$170.3	$148.9
Income (loss) from discontinued operations from SLS Business	(1.8)	102.9	32.5	30.9	30.3
Gain on contribution of SLS Business	—	(131.2)	—	—	—
Adjustment to gain on contribution on SLS Business	1.0	—	—	—	—
Impairment, restructuring and other from SLS Business in discontinued operations	0.8	13.6	1.5	1.0	—
Adjustment to income tax (expense) benefit from discontinued operations	—	5.7	(12.1)	(11.3)	(11.1)
Adjusted income (loss) from SLS Business in discontinued operations, net of tax	—	(9.0)	21.9	20.6	19.2
SLS Divestiture adjusted income (Non-GAAP)	$236.9	$221.7	$203.4	$190.9	$168.1
Diluted income per share from continuing operations (GAAP)	$3.29	$3.98	$2.09	$2.11	$2.27
Impairment, restructuring and other charges (recoveries)	0.72	(0.55)	1.29	0.76	0.18
Costs related to refinancing	—	0.14	—	0.17	—
Adjustment to income tax (expense) benefit from continuing operations	(0.07)	0.15	(0.46)	(0.32)	(0.07)
Adjusted diluted income per common share from continuing operations (Non-GAAP)	$3.94	$3.72	$2.92	$2.72	$2.38
Income (loss) from discontinued operations from SLS Business	$(0.03)	$1.66	$0.52	$0.49	$0.48
Gain on contribution of SLS Business	—	(2.12)	—	—	—
Adjustment to gain on contribution of SLS Business	0.02	—	—	—	—
	0.01	0.22	0.02	0.02	—

Impairment, restructuring and other from SLS Business in discontinued operations					
Adjustment to income tax (expense) benefit from discontinued operations	—	0.09	(0.19)	(0.18)	(0.18)
Adjusted diluted income (loss) from SLS Business in discontinued operations, net of tax	—	(0.15)	0.35	0.33	0.31
SLS Divestiture adjusted income per common share (Non-GAAP)	$3.94	$3.58	$3.27	$3.04	$2.69

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

	Year Ended September 30,				
	2017	2016	2015	2014	2013
	(In millions, except per share data)				
Net cash provided by operating activities (GAAP)	$354.0	$237.4	$246.9	$240.9	$342.0
Investments in property, plant and equipment	(69.6)	(58.3)	(61.7)	(87.6)	(60.1)
Free cash flow (Non-GAAP)	$284.4	$179.1	$185.2	$153.3	$281.9
Free cash flow (Non-GAAP)	$284.4	$179.1	$185.2	$153.3	$281.9
Net income (GAAP)	218.8	314.8	158.7	166.2	161.1
Free cash flow productivity (Non-GAAP)	130.0 %	56.9 %	116.7 %	92.2 %	175.0 %

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

(3) Working capital is calculated as current assets minus current liabilities. Current ratio is calculated as current assets divided by current liabilities.

(4) The total debt to total book capitalization percentage is calculated by dividing total debt by total debt plus total equity—controlling interest.

(5) Scotts Miracle-Gro pays a quarterly dividend to the holders of its Common Shares. On August 9, 2012, Scotts Miracle-Gro announced that its Board of Directors had increased the quarterly cash dividend to $0.325 per Common Share, which was first paid in the fourth quarter of fiscal 2012. On August 6, 2013, Scotts Miracle-Gro announced that its Board of Directors had increased the quarterly cash dividend to $0.4375 per Common Share, which was first paid in the fourth quarter of fiscal 2013. On August 11, 2014, Scotts Miracle-Gro announced that its Board of Directors had (i) further increased the quarterly cash dividend to $0.45 per Common Share, which was first paid in the fourth quarter of fiscal 2014 and (ii) declared a special one-time cash dividend of $2.00 per Common Share, which was paid on September 17, 2014. On August 3, 2015, Scotts Miracle-Gro announced that its Board of Directors had further increased the quarterly cash dividend to $0.47 per Common Share, which was first paid in the fourth quarter of fiscal 2015. On August 3, 2016, Scotts Miracle-Gro announced that its Board of Directors had further increased the quarterly cash dividend to $0.50 per Common Share, which was first paid in the fourth quarter of fiscal 2016. On August 1, 2017, Scotts Miracle-Gro announced that its Board of Directors had further increased the quarterly cash dividend to $0.53 per Common Share, which was first paid in September 2017.

(6) We view our credit facility as material to our ability to fund operations, particularly in light of our seasonality. Please refer to “ITEM 1A. RISK FACTORS — Our indebtedness could limit our flexibility and adversely affect our financial condition” of this Annual Report on Form 10-K for a more complete discussion of the risks associated with our debt and our credit facility and the restrictive covenants therein. Our ability to generate cash flows sufficient to cover our debt service costs is essential to our ability to maintain our borrowing capacity. We believe that Adjusted EBITDA provides additional information for determining our ability to meet debt service requirements. The presentation of Adjusted EBITDA herein is intended to be consistent with the calculation of that measure as required by our borrowing agreements, and used to calculate a leverage ratio (maximum of 4.50 at September 30, 2017) and an interest coverage ratio (minimum of 3.00 for the twelve months ended September 30, 2017). Leverage ratio is calculated as average total indebtedness, as described in our credit facility, divided by Adjusted EBITDA. Interest coverage ratio is calculated as Adjusted EBITDA divided by interest expense, as described in our credit facility, and excludes costs related to refinancings. Our leverage ratio was 3.04 at September 30, 2017 and our interest coverage ratio was 7.54 for the twelve months ended September 30, 2017. Please refer to “ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — Liquidity and Capital Resources — Borrowing Agreements” of this Annual Report on Form 10-K for a discussion of our credit facility.

In accordance with the terms of our credit facility, Adjusted EBITDA is calculated as net income (loss) before interest, taxes, depreciation and amortization as well as certain other items such as the impact of the cumulative effect of changes in accounting, costs associated with debt refinancing and other non-recurring or non-cash items affecting net income. For the fourth quarter of fiscal 2015, the Company changed its calculation of Adjusted EBITDA to reflect the measure as defined in our fourth amended credit agreement. Prior periods have not been adjusted as they reflect the presentation consistent with the calculation as required by our borrowing agreements in place at that time. The revised calculation adds adjustments for share-based compensation expense, expense on certain leases, and impairment, restructuring and other charges (including cash and non-cash charges) and no longer includes an adjustment for mark-to-market adjustments on derivatives. Our calculation of Adjusted EBITDA does not represent and should not be considered as an alternative to net income or cash flows from operating activities as determined by GAAP. We make no representation or assertion that Adjusted EBITDA is indicative of our cash flows from operating activities or results of operations. We have provided a reconciliation of Adjusted EBITDA to income from continuing operations solely for the purpose of complying with SEC regulations and not as an indication that Adjusted EBITDA is a substitute measure for income from continuing operations.
A numeric reconciliation of net income to Adjusted EBITDA is as follows:

	Year Ended September 30,				
	2017	2016	2015	2014	2013
	(In millions)				
Net income (GAAP)	$218.8	$314.8	$158.7	$166.2	$161.1
Income tax expense from continuing operations	116.6	137.6	76.3	74.3	82.7
Income tax expense from discontinued operations	11.9	43.2	9.1	17.8	9.9
Gain on sale / contribution of business	(31.7)	(131.2)	—	—	—
Costs related to refinancings	—	8.8	—	10.7	—
Interest expense	76.6	65.6	50.5	47.3	59.2
Depreciation	55.1	53.8	51.4	50.6	54.9
Amortization	25.0	19.7	17.6	13.8	11.2
Gain on investment in unconsolidated affiliate(7)	—	—	—	(3.3)	—
Impairment, restructuring and other from continuing operations	43.5	(33.8)	80.2	31.2	2.1
Impairment, restructuring and other from discontinued operations	15.9	19.7	11.3	2.5	9.1
Mark-to-market adjustments on derivatives	—	—	—	1.3	0.3
Expense on certain leases	3.6	3.6	3.5	—	—
Share-based compensation expense	25.2	15.6	13.2	—	—
Adjusted EBITDA (Non-GAAP)	$560.5	$517.4	$471.8	$412.4	$390.5

(7) Amount represents a gain on our investment in AeroGrow recognized during the fourth quarter of 2014 as a result of our consolidation of the business. Excluded from this amount is $2.4 million of earnings on AeroGrow's unconsolidated results for fiscal year 2014 recorded within "Other income, net" in the Consolidated Statements of Operations.

29

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

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

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

Executive Summary

We are dedicated to delivering strong, long-term financial results and outstanding shareholder returns by providing products of superior quality and value to enhance users growing environments. We are a leading manufacturer and marketer of branded consumer lawn and garden products. We are the exclusive agent of Monsanto for the marketing and distribution of consumer Roundup® non-selective weedkiller products within the United States and certain other specified countries. Through The Hawthorne Gardening Company, our wholly-owned subsidiary, we are a leading producer of liquid plant food products, growing media, advanced indoor garden, lighting and ventilation systems and accessories for hydroponic gardening.

In the first quarter of fiscal 2016, we announced a series of initiatives called Project Focus designed to maximize the value of our non-core assets and focus on emerging categories of the lawn and garden industry in our core U.S. business. On August 31, 2017, we completed the divestiture of our consumer lawn and garden businesses located in Australia, Austria, Belgium, Czech Republic, France, Germany, Luxembourg, Poland and the United Kingdom (the "International Business"). As a result, effective in our fourth quarter of fiscal 2017, we classified our results of operations for all periods presented to reflect the International Business as a discontinued operation and classified the assets and liabilities of the International Business as held for sale. On April 13, 2016, we completed the contribution of the SLS Business to the TruGreen Joint Venture in exchange for a minority equity interest of approximately 30% in the TruGreen Joint Venture. We now participate in the residential and commercial lawn care, tree and shrub care and pest control services segments in the United States and Canada through our interest in the TruGreen Joint Venture. For additional information, see "NOTE 2. DISCONTINUED OPERATIONS" of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

Our operations are divided into three reportable segments: U.S. Consumer, Hawthorne and Other. U.S. Consumer consists of our consumer lawn and garden business located in the geographic United States. Hawthorne consists of our indoor, urban and hydroponic gardening business. Other consists of our consumer lawn and garden business in geographies other than the U.S. and our product sales to commercial nurseries, greenhouses and other professional customers. Corporate consists of general and administrative expenses and certain other income/expense items not allocated to the business segments. This division of reportable segments is consistent with how the segments report to and are managed by our chief operating decision maker. These segments differ from those used in prior periods due to the change in our internal organization structure resulting from the divestiture of the International Business, which closed on August 31, 2017.

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

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

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

	Percent of Net Sales from Continuing Operations by Quarter		
	2017	2016	2015
First Quarter	7.8 %	6.1 %	5.2 %
Second Quarter	41.1 %	44.6 %	39.8 %
Third Quarter	36.8 %	35.4 %	41.7 %
Fourth Quarter	14.3 %	13.9 %	13.3 %

We follow a 13-week quarterly accounting cycle pursuant to which the first three fiscal quarters end on a Saturday and the fiscal year always ends on September 30. This fiscal calendar convention requires us to cycle forward the first three fiscal quarter ends every six years. Fiscal 2016 is the most recent year impacted by this process and, as a result, the first quarter of fiscal 2016 had six additional days and the fourth quarter of fiscal 2016 had five fewer days compared to the corresponding quarters of fiscal 2015.

Management focuses on a variety of key indicators and operating metrics to monitor the financial condition and performance of the continuing operations of our business. These metrics include consumer purchases (point-of-sale data), market share, category growth, net sales (including unit volume, pricing, and foreign exchange movements), gross profit margins, advertising to net sales ratios, income from operations, income from continuing operations, net income and earnings per share. To the extent applicable, these measures are evaluated with and without impairment, restructuring and other charges, which management believes are not indicative of the earnings capabilities of our businesses. We also focus on measures to optimize cash flow and return on invested capital, including the management of working capital and capital expenditures.

In August 2014, the Scotts Miracle-Gro Board of Directors authorized the repurchase of up to $500.0 million of Common Shares over a five-year period (effective November 1, 2014 through September 30, 2019). On August 3, 2016, Scotts Miracle-Gro announced that its Board of Directors authorized a $500.0 million increase to the share repurchase authorization ending on September 30, 2019. The amended authorization allows for the repurchases of up to $1.0 billion of Common Shares through September 30, 2019. From the inception of this share repurchase program in the fourth quarter of fiscal 2014 through September 30, 2017, Scotts Miracle-Gro repurchased approximately 4.8 million Common Shares for $391.5 million. Common Shares held in treasury totaling 0.5 million, 0.6 million and 0.9 million were reissued in support of share-based compensation awards and employee purchases under the employee stock purchase plan during fiscal 2017, fiscal 2016 and fiscal 2015, respectively.

On August 3, 2016, we announced that the Scotts Miracle-Gro Board of Directors approved an increase in our quarterly cash dividend from $0.47 to $0.50 per Common Share. On August 1, 2017, the Scotts Miracle-Gro Board of Directors approved an increase in our quarterly cash dividend from $0.50 to $0.53 per Common Share.

Results of Operations

Effective in our fourth quarter of fiscal 2017, we classified our results of operations for all periods presented to reflect the International Business as a discontinued operation. Effective in our second quarter of fiscal 2016, we classified our results of operations for all periods presented to reflect the SLS Business as a discontinued operation. As a result, and unless specifically stated, all discussions regarding results for the fiscal years ended September 30, 2017, 2016 and 2015 reflect results from our continuing operations.

The following table sets forth the components of income and expense as a percentage of net sales:

	Year Ended September 30,		
	2017	2016	2015
Net sales	100.0 %	100.0 %	100.0 %
Cost of sales	63.2	63.8	65.7
Cost of sales—impairment, restructuring and other	—	0.2	0.1
Gross profit	36.8	35.9	34.2
Operating expenses:			
Selling, general and administrative	20.9	20.7	20.6
Impairment, restructuring and other	0.2	(2.1)	3.0
Other income, net	(0.6)	(0.6)	(0.1)
Income from operations	16.4	17.9	10.7
Equity in (income) loss of unconsolidated affiliates	1.1	(0.3)	—
Costs related to refinancing	—	0.4	—
Interest expense	2.9	2.5	2.1
Other non-operating expense	0.5	—	—
Income from continuing operations before income taxes	11.9	15.3	8.6
Income tax expense from continuing operations	4.4	5.5	3.2
Income from continuing operations	7.5	9.8	5.4
Income from discontinued operations, net of tax	0.8	2.7	1.3
Net income	8.3 %	12.6 %	6.7 %

Net Sales

Net sales for fiscal 2017 increased 5.4% to $2.64 billion from $2.51 billion in fiscal 2016. Net sales for fiscal 2016 increased 5.7% from $2.37 billion in fiscal 2015. The change in net sales was attributable to the following:

	Year Ended September 30,	
	2017	2016
Acquisitions	5.8 %	3.2 %
Pricing	1.1	0.6
Volume	(1.4)	2.8
Foreign exchange rates	(0.1)	(0.9)
Change in net sales	5.4 %	5.7 %

The increase in net sales for fiscal 2017 was primarily driven by:

- the addition of net sales from acquisitions in our Hawthorne segment, primarily from Gavita, Botanicare and Agrolux, as well as the acquisition of a Canadian growing media operation in our Other segment;
- increased pricing in our U.S. Consumer segment primarily driven by lower volume rebates as a result of year-to-date sales volume decline; and
- increased sales of grass seed and Roundup® For Lawns products in our U.S. Consumer segment, and increased sales of hydroponic gardening products in our Hawthorne segment;
- partially offset by decreased sales of mulch products in our U.S. Consumer segment;
- decreased net sales associated with the Marketing Agreement Amendment and the Restated Marketing Agreement for consumer Roundup®; and
- the unfavorable impact of foreign exchange rates as a result of the strengthening of the U.S. dollar relative to the Canadian dollar, partially offset by the weakening of the U.S. dollar relative to the euro.

The increase in net sales for fiscal 2016 was primarily driven by:

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the addition of net sales from acquisitions within our Hawthorne segment, primarily from General Hydroponics, Vermicrop and Gavita, as well as the acquisition of a Canadian growing media operation in our Other segment;

- increased sales volume in our Hawthorne segment driven by increased sales of hydroponic gardening products;
- the impact of the Marketing Agreement Amendment for consumer Roundup®; and
- increased pricing in the U.S. Consumer segment;
- partially offset by the unfavorable impact of foreign exchange rates as a result of the strengthening of the U.S. dollar relative to other currencies including the Canadian dollar and the euro.

Cost of Sales

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

	Year Ended September 30,		
	2017	2016	2015
	(In millions)		
Materials	$966.9	$920.7	$907.7
Manufacturing labor and overhead	356.7	323.3	286.6
Distribution and warehousing	289.8	300.2	310.4
Roundup® reimbursements	56.1	55.8	52.6
	1,669.5	1,600.0	1,557.3
Impairment, restructuring and other	—	5.9	3.0
	$1,669.5	$1,605.9	$1,560.3

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

	Year Ended September 30,	
	2017	2016
	(In millions)	
Volume and product mix	$90.6	$64.5
Roundup® reimbursements	0.3	3.2
Foreign exchange rates	(0.9)	(4.3)
Material costs	(20.5)	(20.7)
	69.5	42.7
Impairment, restructuring and other	(5.9)	2.9
Change in cost of sales	$63.6	$45.6

The increase in cost of sales for fiscal 2017 was primarily driven by:

- $98.2 million in costs related to sales from acquisitions in our Hawthorne segment, primarily from Gavita, Botanicare and Agrolux, as well as $7.5 million in costs related to sales from the acquisition of a Canadian growing media operation in our Other segment;
- partially offset by lower material costs in our U.S. Consumer segment driven by lower commodity costs primarily related to fertilizer inputs;
- lower sales volume in our U.S. Consumer segment, partially offset by increased sales volume in our Hawthorne segment;
- the favorable impact of foreign exchange rates as a result of the strengthening of the U.S. dollar relative to the Canadian dollar, partially offset by weakening of the U.S. dollar relative to the euro; and
- a decrease in other charges of $5.9 million related to costs incurred during fiscal 2016 to address consumer complaints regarding our reformulated Bonus® S product sold during fiscal 2015.

The increase in cost of sales for fiscal 2016 was primarily driven by:

- costs related to increased sales volume in our U.S. Consumer and Hawthorne segments;
- $46.1 million in costs related to sales from acquisitions within our Hawthorne segment, primarily from General Hydroponics, Vermicrop and Gavita, as well as $4.6 million in costs related to sales from the acquisition of a Canadian growing media operation in our Other segment;

33

- an increase in net sales attributable to reimbursements under the Marketing Agreement Amendment for consumer Roundup®; and
- an increase in other charges of $2.9 million related to addressing the consumer complaints regarding our reformulated Bonus® S product sold during fiscal 2015;
- partially offset by lower material costs in our U.S. Consumer segment driven by lower commodity costs primarily related to fertilizer inputs and resin;
- lower distribution costs within our U.S. Consumer segment due to savings from lower fuel prices and reduced costs from efficiencies in our growing media business; and
- the favorable impact of foreign exchange rates as a result of a strengthening of the U.S. dollar relative to other currencies including the Canadian dollar and the euro.

Gross Profit

As a percentage of net sales, our gross profit rate was 36.8%, 35.9% and 34.2% for fiscal 2017, fiscal 2016 and fiscal 2015, respectively. Factors contributing to the change in gross profit rate are outlined in the following table:

	Year Ended September 30,	
	2017	2016
Material costs	0.8 %	0.9 %
Pricing	0.7	0.3
Volume and product mix	—	0.3
Roundup® commissions and reimbursements	(0.3)	0.5
Acquisitions	(0.6)	(0.1)
	0.6	1.9
Impairment, restructuring and other	0.3	(0.2)
Change in gross profit rate	0.9 %	1.7 %

The increase in the gross profit rate for fiscal 2017 was primarily driven by:

- lower material costs in our U.S. Consumer segment driven by lower commodity costs primarily related to fertilizer inputs;
- increased pricing in our U.S. Consumer segment primarily driven by lower volume rebates as a result of year-to-date sales volume decline; and
- a decrease in other charges of $5.9 million related to costs incurred during fiscal 2016 to address consumer complaints regarding our reformulated Bonus® S product sold during fiscal 2015;
- partially offset by an unfavorable net impact from acquisitions in our Hawthorne segment, primarily from Gavita, Botanicare and Agrolux, as well as the acquisition of a Canadian growing media operation in our Other segment; and
- a decrease in net sales associated with the Marketing Agreement Amendment and the Restated Marketing Agreement for consumer Roundup®.

The increase in the gross profit rate for fiscal 2016 was primarily driven by:

- lower material costs in our U.S. Consumer segment driven by lower commodity costs primarily related to fertilizer inputs and resin;
- lower distribution costs within our U.S. Consumer segment due to savings from lower fuel prices and reduced costs from efficiencies in our growing media business;
- an increase in net sales attributable to the Marketing Agreement Amendment for consumer Roundup®; and
- increased pricing in the U.S. Consumer segment;
- partially offset by an unfavorable net impact from acquisitions, primarily from General Hydroponics and Vermicrop within our Hawthorne segment; and
- other charges of $5.9 million primarily related to addressing the consumer complaints regarding our reformulated Bonus® S product sold during fiscal 2015.

Selling, General and Administrative Expenses

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

	Year Ended September 30,		
	2017	2016	2015
	(In millions, except percentage figures)		
Advertising	$123.0	$122.3	$121.5
Advertising as a percentage of net sales	4.7 %	4.9 %	5.1 %
Share-based compensation	25.2	15.6	13.2
Research and development	39.9	36.0	36.5
Amortization of intangibles	21.9	13.6	8.6
Other selling, general and administrative	340.9	330.5	309.0
	$550.9	$518.0	$488.8

SG&A increased $32.9 million, or 6.4%, during fiscal 2017 compared to fiscal 2016; and increased $29.2 million, or 6.0% during fiscal 2016 compared to fiscal 2015. Share-based compensation expense increased $9.6 million, or 61.5%, to $25.2 million in fiscal 2017 compared to $15.6 million in fiscal 2016 due to the issuance of equity awards as part of the Project Focus initiative. Share-based compensation expense in fiscal 2016 increased $2.4 million, or 18.2%, compared to fiscal 2015, primarily as a result of additional expense associated with fiscal 2016 awards. Amortization expense increased $8.3 million, or 61.0%, to $21.9 million in fiscal 2017 compared to $13.6 million in fiscal 2016. Amortization expense in fiscal 2016 increased $5.0 million, or 58.1%, compared to fiscal 2015. These increases are due to the impact of recent acquisitions.

Other SG&A increased $10.4 million, or 3.1%, in fiscal 2017 compared to fiscal 2016 due to the impact of recent acquisitions of $14.7 million and increased headcount and integration costs for our hydroponic businesses of $6.9 million, partially offset by lower deal costs related to transaction activity of $5.3 million and decreased variable incentive compensation of $7.7 million. In fiscal 2016, other SG&A increased $21.5 million compared to fiscal 2015 driven by increased variable incentive compensation of $13.7 million and the impact of recent acquisitions and deal costs related to transaction activity of $12.2 million, partially offset by foreign exchange rate impact of $1.9 million as the U.S. dollar has strengthened relative to the Canadian dollar.

Impairment, Restructuring and Other

The following table sets forth the components of impairment, restructuring and other charges (recoveries) recorded within the "Cost of sales—impairment, restructuring and other," "Impairment, restructuring and other" and "Income from discontinued operations, net of tax" lines in the Consolidated Statements of Operations:

	Year Ended September 30,		
	2017	2016	2015
	(In millions)		
Cost of sales—impairment, restructuring and other:			
Restructuring and other charges	$—	$5.9	$3.0
Operating expenses:			
Restructuring and other charges (recoveries), net	3.9	(51.5)	70.4
Intangible asset impairment	1.0	—	—
Impairment, restructuring and other charges (recoveries) from continuing operations	$4.9	$(45.6)	$73.4
Restructuring and other charges from discontinued operations	15.9	19.7	11.2
Total impairment, restructuring and other charges (recoveries)	$20.8	$(25.9)	$84.6

In the first quarter of fiscal 2016, we announced a series of initiatives called Project Focus designed to maximize the value of our non-core assets and focus on emerging categories of the lawn and garden industry in our core U.S. business. During fiscal 2017, we recognized restructuring costs related to termination benefits and facility closure costs of $8.3 million in the “Impairment, restructuring and other” line in the Consolidated Statements of Operations, including $6.7 million for the U.S. Consumer segment, $0.9 million for the Hawthorne segment and $0.7 million for the Other segment. Costs incurred to date since the inception of the current Project Focus initiatives are $10.1 million for the U.S. Consumer segment, $0.9 million for the Hawthorne segment and $1.2 million for the Other segment, related to transaction activity, termination benefits and facility closure costs.

In the fourth quarter of fiscal 2017, we recognized a recovery of $4.4 million related to the reduction of a contingent consideration liability associated with a historical acquisition and recorded a $1.0 million impairment charge on the write-off of a trademark asset due to recent performance and future growth expectations. These items were recorded in the “Impairment, restructuring and other” line in the Consolidated Statements of Operations.

During the third quarter of fiscal 2015, our U.S. Consumer segment began experiencing an increase in certain consumer complaints related to the reformulated Bonus® S fertilizer product sold in the southeastern United States during fiscal 2015 indicating customers were experiencing damage to their lawns after application. In fiscal 2016, we incurred $6.4 million in costs related to resolving these consumer complaints and the recognition of costs we expected to incur for consumer claims in the “Impairment, restructuring and other” and the “Cost of sales—impairment, restructuring and other” lines in the Consolidated Statements of Operations. Additionally, we recorded offsetting insurance reimbursement recoveries of $55.9 million in fiscal 2016 in the “Impairment, restructuring and other” line in the Consolidated Statements of Operations. Costs incurred to date since the inception of this matter were $73.8 million, partially offset by insurance reimbursement recoveries of $60.8 million.

During fiscal 2016, we recognized restructuring costs related to termination benefits of $3.9 million related to Project Focus in the “Impairment, restructuring and other” line in the Consolidated Statements of Operations.

During fiscal 2015, we recognized $67.3 million in costs related to consumer complaints and claims related to the reformulated Bonus® S fertilizer product sold in the southeastern United States during fiscal 2015, partially offset by insurance reimbursement recoveries recorded of $4.9 million.

During fiscal 2015, we recognized restructuring costs related to termination benefits of $11.0 million as part of our restructuring of our U.S. administrative and overhead functions. The restructuring costs for fiscal 2015 included $4.3 million of costs related to the acceleration of equity compensation expense, and were comprised of $3.7 million related to the U.S. Consumer segment, $0.7 million related to the Other Segment and $6.6 million related to Corporate. These costs were recognized in the “Impairment, restructuring and other” line in the Consolidated Statements of Operations.

Other Income, net

Other income is comprised of activities outside our normal business operations, such as royalty income from the licensing of certain of our brand names, income earned from loans receivable, foreign exchange gains/losses and gains/losses from the disposition of non-inventory assets. Other income, net, was $16.6 million, $13.8 million and $2.2 million in fiscal 2017, fiscal 2016 and fiscal 2015, respectively. The increase in other income for fiscal 2017 was due to an increase in income on loans receivable partially offset by a decrease in royalty income earned from the TruGreen Joint Venture related to its use of brand names. The increase in other income for fiscal 2016 was due to a gain on the sale of a growing media plant whose operations were being relocated, an increase in income on loans receivable and royalty income earned from the TruGreen Joint Venture related to its use of brand names.

Income from Operations

Income from operations in fiscal 2017 was $433.4 million compared to $447.6 million in fiscal 2016, a decrease of $14.2 million, or 3.2%. The decrease was driven by impairment, restructuring and other charges during fiscal 2017 as compared to recoveries during fiscal 2016, and higher SG&A, partially offset by an increase in net sales, gross profit rate and other income.

Income from operations in fiscal 2016 was $447.6 million compared to $253.8 million in fiscal 2015, an increase of $193.8 million, or 76.4%. The increase was driven by impairment, restructuring and other recoveries during fiscal 2016 as compared to charges during fiscal 2015, and an increase in net sales and gross profit rate, partially offset by higher SG&A.

Equity in (Income) Loss of Unconsolidated Affiliates

Equity in (income) loss of unconsolidated affiliates was $29.0 million and $(7.8) million in fiscal 2017 and fiscal 2016, respectively. Included within (income) loss of unconsolidated affiliates for fiscal 2017 and fiscal 2016, respectively, is our $25.2 million and $11.7 million share of restructuring and other charges incurred by the TruGreen Joint Venture. For fiscal 2017, these charges included $1.3 million for transaction costs, $12.1 million for nonrecurring integration and separation costs, $7.2 million of costs associated with the TruGreen Joint Venture's August 2017 debt refinancing and $4.6 million for a non-cash purchase accounting fair value write-down adjustment related to deferred revenue and advertising. For fiscal 2016, these charges included $6.0 million for transaction costs, $4.4 million for nonrecurring integration and separation costs and $1.3 million for a non-cash purchase accounting fair value write-down adjustment related to deferred revenue and advertising.

Costs Related to Refinancing

Costs related to refinancing were $8.8 million for fiscal 2016. The costs incurred were associated with the redemption of our 6.625% Senior Notes on December 15, 2015, and are comprised of $6.6 million of call premium and $2.2 million of unamortized bond discount and issuance costs that were written off.

Interest Expense

Interest expense was $76.1 million in fiscal 2017 compared to $62.9 million in fiscal 2016 and $48.8 million in fiscal 2015. The increase in fiscal 2017 was driven by an increase in average borrowings of $239.4 million, as well as an increase in our weighted average interest rate of 16 basis points. The increase in average borrowings was driven by recent acquisition activity and an increase in repurchases of our Common Shares. The increase in weighted average interest rate was primarily due to the issuance of our 5.250% Senior Notes on December 15, 2016.

The increase in fiscal 2016 was driven by an increase in average borrowings of $297.3 million attributable to recent acquisition and investment activity, primarily related to General Hydroponics, Vermicrop, Bonnie, Gavita, the amendment of our Marketing Agreement with Monsanto and repurchases of our Common Shares.

Other Non-Operating Expense

On October 2, 2017, we acquired the remaining 25% noncontrolling interest in Gavita and its subsidiaries, including Agrolux, for $72.2 million. We recorded a charge of $13.4 million during the fourth quarter of fiscal 2017 to write-up the fair value of the loan to the noncontrolling ownership group of Gavita to the agreed upon buyout value in the "Other non-operating expense" line in the Consolidated Statements of Operations.

Income Tax Expense

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

	Year Ended September 30,		
	2017	2016	2015
Statutory income tax rate	35.0 %	35.0 %	35.0 %
Effect of foreign operations	3.1	0.3	0.9
State taxes, net of federal benefit	2.9	2.9	3.4
Domestic production activities deduction permanent difference	(3.1)	(2.5)	(3.1)
Effect of other permanent differences	0.4	0.4	0.1
Research and experimentation and other federal tax credits	(0.4)	(0.3)	(0.3)
Resolution of prior tax contingencies	0.9	(0.1)	0.4
Other	(1.8)	0.2	0.8
Effective income tax rate	37.0 %	35.9 %	37.2 %

In connection with the sale of the International Business during fiscal 2017, we recognized additional tax expense of $7.2 million associated with valuation allowances established in connection with historical foreign tax credits as we do not expect to utilize these prior to their expiration. Through our increased ownership of AeroGrow International, Inc. during fiscal 2017 we may potentially utilize up to $63.2 million in federal net operating losses (NOLs) of AeroGrow International, Inc., subject to limitations under IRC §382 from current and prior ownership changes. We determined that $50.0 million of these NOLs will expire unutilized due to the closing of statutes of limitation and a valuation allowance has been established on these NOLs. We also incurred a $13.4 million charge, which is not tax-deductible, driven by the October 2017 acquisition of the remaining noncontrolling interest in Gavita and subsidiaries, to write-up the fair value of the loan to the noncontrolling ownership group of Gavita to the agreed upon buyout value.

Income from Continuing Operations

Income from continuing operations was $198.3 million, or $3.29 per diluted share, in fiscal 2017 compared to $246.1 million, or $3.98 per diluted share, in fiscal 2016. The decrease was driven by impairment, restructuring and other charges during fiscal 2017 as compared to recoveries during fiscal 2016, as well as higher SG&A, equity in loss of unconsolidated affiliates, interest expense and other non-operating expense, partially offset by an increase in net sales, gross profit rate and other income and a decrease in costs related to refinancing. Diluted average common shares used in the diluted income per common share calculation were 60.2 million for fiscal 2017 compared to 62.0 million for fiscal 2016. The decrease was primarily the result of Common

Share repurchase activity, partially offset by the exercise and issuance of share-based compensation awards. Dilutive equivalent shares for fiscal 2017 and fiscal 2016 were 0.8 million and 0.9 million, respectively.

Income from continuing operations was $246.1 million, or $3.98 per diluted share, in fiscal 2016 compared to $128.7 million, or $2.09 per diluted share, in fiscal 2015. The increase was driven by impairment, restructuring and other recoveries during fiscal 2016 as compared to charges during fiscal 2015, and an increase in net sales, gross profit rate and equity in income of unconsolidated affiliates, partially offset by increases in interest expense, costs related to refinancing and SG&A. Diluted average common shares used in the diluted income per common share calculation were 62.0 million in fiscal 2016 compared to 62.2 million in fiscal 2015. The decrease was primarily driven by repurchases of Common Shares, partially offset by the exercise of stock options and the issuance of share-based compensation awards and the payment of contingent consideration in Common Shares in connection with the Vermicrop acquisition. Dilutive equivalent shares for fiscal 2016 and fiscal 2015 were 0.9 million and 1.1 million, respectively.

Income from Discontinued Operations

On August 31, 2017, we completed the divestiture of the International Business. As a result, effective in our fourth quarter of fiscal 2017, we classified our results of operations for all periods presented to reflect the International Business as a discontinued operation and classified the assets and liabilities of the International Business as held for sale. On April 13, 2016, we completed the contribution of the SLS Business to the TruGreen Joint Venture in exchange for a minority equity interest of approximately 30% in the TruGreen Joint Venture. As a result of this transaction, effective in our second quarter of fiscal 2016, we classified our results of operations for all periods presented to reflect the SLS Business as a discontinued operation and classified the assets and liabilities of the SLS Business as held for sale.

We recorded a gain on the sale of the International Business of $32.7 million, partially offset by the provision for income taxes of $12.0 million, during fiscal 2017. During fiscal 2017 and fiscal 2016, we recognized $15.5 million and $2.5 million, respectively, in transaction related costs associated with the sale of the International Business as well as termination benefits and facility closure costs of $(0.4) million and $3.6 million, respectively, within the “Income from discontinued operations, net of tax” line in the Consolidated Statements of Operations.

We recorded a gain on the contribution of the SLS Business of $131.2 million, partially offset by the provision for deferred income taxes of $51.9 million, during fiscal 2016. During fiscal 2017, we recorded an adjustment to reduce the pre-tax gain by $1.0 million related to post-closing working capital adjustments. During fiscal 2017 and fiscal 2016, we recognized $0.8 million and $4.6 million, respectively, in transaction related costs associated with the divestiture of the SLS Business in the “Income from discontinued operations, net of tax” line in the Consolidated Statements of Operations. During fiscal 2016, we recognized a charge of $9.0 million for the resolution of a prior SLS Business litigation matter within the “Income from discontinued operations, net of tax” line in the Consolidated Statements of Operations.

Segment Results

We divide our business into three reportable segments: U.S. Consumer, Hawthorne and Other. U.S. Consumer consists of our consumer lawn and garden business located in the geographic United States. Hawthorne consists of our indoor, urban and hydroponic gardening business. Other consists of our consumer lawn and garden business in geographies other than the U.S. and our product sales to commercial nurseries, greenhouses and other professional customers. Corporate consists of general and administrative expenses and certain other income/expense items not allocated to the business segments. This identification of reportable segments is consistent with how the segments report to and are managed by our chief operating decision maker. These segments differ from those used in prior periods due to the change in our internal organization structure resulting from the divestiture of the International Business, which closed on August 31, 2017.

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

The following table sets forth net sales by segment:

	Year Ended September 30,		
	2017	2016	2015
	(In millions)		
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

The following table sets forth Segment Profit as well as a reconciliation to the most directly comparable GAAP measure:

	Year Ended September 30,		
	2017	2016	2015
	(In millions)		
U.S. Consumer	$521.5	$493.7	$436.1
Hawthorne	35.5	11.8	0.1
Other	13.4	10.4	10.8
Total Segment Profit (Non-GAAP)	570.4	515.9	447.0
Corporate	(109.6)	(98.9)	(102.5)
Intangible asset amortization	(22.5)	(14.9)	(10.5)
Impairment, restructuring and other	(4.9)	33.8	(80.2)
Equity in income (loss) of unconsolidated affiliates [(a)]	(29.0)	19.5	—
Costs related to refinancing	—	(8.8)	—
Interest expense	(76.1)	(62.9)	(48.8)
Other non-operating expense	(13.4)	—	—
Income from continuing operations before income taxes (GAAP)	$314.9	$383.7	$205.0

(a) Included within equity in income (loss) of unconsolidated affiliates for fiscal 2017 are charges of $25.2 million, which represent our share of restructuring and other charges incurred by the TruGreen Joint Venture, including a charge of $7.2 million related to costs associated with TruGreen’s August 2017 refinancing. For fiscal 2016, our share of restructuring and other charges incurred by the TruGreen Joint Venture of $11.7 million was included within impairment, restructuring and other above.

U.S. Consumer

U.S. Consumer segment net sales were $2.16 billion in fiscal 2017, a decrease of 2.0% from fiscal 2016 net sales of $2.20 billion. The decrease was driven by the unfavorable impact of volume of 3.3%, partially offset by the favorable impact of pricing of 1.2%. Decreased sales volume for fiscal 2017 was driven by decreased sales of mulch products, partially offset by increased sales of grass seed and Roundup® For Lawns products. Increased pricing for fiscal 2017 was primarily driven by lower volume rebates as a result of year-to-date sales volume decline.

U.S. Consumer Segment Profit increased $27.8 million, or 5.6%, in fiscal 2017 as compared to fiscal 2016. The increase for fiscal 2017 was primarily due to an increase in gross profit rate, higher other income and lower SG&A, partially offset by decreased net sales.

U.S. Consumer segment net sales were $2.20 billion in fiscal 2016, an increase of 2.8% from fiscal 2015 net sales of $2.14 billion. The increase was driven by the favorable impact of volume, pricing and acquisitions of 1.9%, 0.7% and 0.2%, respectively. Increased sales volume in fiscal 2016 was driven by increased sales of growing media and grass seed products, as well as the favorable impact of net sales attributable to the Marketing Agreement Amendment for consumer Roundup®, partially offset by decreased sales of fertilizer products.

U.S. Consumer Segment Profit increased $57.6 million, or 13.2%, in fiscal 2016 as compared to fiscal 2015. The increase was driven by increased sales and improvements in gross profit rate due to lower material costs driven by commodities and lower distribution costs due to savings from lower fuel prices and reduced costs from efficiencies in our growing media business, partially offset by higher SG&A.

Hawthorne

Hawthorne segment net sales were $287.2 million in fiscal 2017, an increase of 137.0% from fiscal 2016 net sales of $121.2 million. The increase was driven by the favorable impacts of acquisitions, volume and changes in foreign exchange rates of 112.4%, 23.2% and 1.5%, respectively.

Hawthorne Segment Profit increased $23.7 million, or 200.8%, in fiscal 2017 as compared to fiscal 2016. The increase for fiscal 2017 was primarily due to an increase in net sales and a decrease in transaction costs related to acquisition activity, partially offset by a decrease in gross profit rate and higher SG&A from acquired businesses.

Hawthorne segment net sales were $121.2 million in fiscal 2016, an increase of 152.5% from fiscal 2015 net sales of $48.0 million. The increase was driven by the favorable impacts of acquisitions and volume of 134.5% and 17.8%, respectively.

Hawthorne Segment Profit increased $11.7 million in fiscal 2016 as compared to fiscal 2015. The increase for fiscal 2016 was primarily due to an increase in net sales, partially offset by a decrease in gross profit rate and higher SG&A from acquired businesses and transaction costs related to acquisition activity.

Other

Other segment net sales were $194.4 million in fiscal 2017, an increase of 7.6% from fiscal 2016 net sales of $180.6 million. The increase was driven by the favorable impact of volume and acquisitions of 4.8% and 4.7%, respectively, partially offset by the unfavorable impact of changes in foreign exchange rates of 2.1%.

Other Segment Profit increased $3.0 million, or 28.8%, in fiscal 2017 as compared to fiscal 2016. The increase was due to an increase in net sales and other income, partially offset by a decrease in gross profit rate and higher SG&A.

Other segment net sales were $180.6 million in fiscal 2016, an increase of 1.3% from fiscal 2015 net sales of $178.3 million. The increase was driven by the favorable impact of volume and acquisitions of 9.5% and 3.7%, respectively, partially offset by the unfavorable impact of changes in foreign exchange rates of 12.1%.

Other Segment Profit decreased $0.4 million, or 3.7%, in fiscal 2016 as compared to fiscal 2015. The decrease was driven by increased SG&A from acquired businesses, transaction costs related to acquisition activity and a decrease in gross profit rate, partially offset by increased sales.

Corporate

Corporate expenses were $109.6 million in fiscal 2017, an increase of 10.8% from fiscal 2016 expenses of $98.9 million. The change was primarily driven by higher share-based compensation expense due to the issuance of equity awards as part of the Project Focus initiative and a decrease in royalty income earned from the TruGreen Joint Venture related to its