CENTRAL GARDEN & PET CO
Form 10-K
November 28, 2018

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

FORM 10-K
ý ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 29, 2018
Commission File Number 1-33268
(Exact name of registrant as specified in its charter)
Delaware 68-0275553
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification Number)
1340 Treat Boulevard, Suite 600, Walnut Creek, California 94597
(Address of principal executive offices) (Zip Code)
Telephone Number: (925) 948-4000
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:
Title of Each Class Name of Each Exchange on Which Registered
Common Stock Nasdaq
Class A Common Stock Nasdaq
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 ý No ¨
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 ¨ No ý
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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.
Large accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨
Smaller reporting company ¨ Emerging growth company ¨
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. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
At March 31, 2018, the aggregate market value of the registrant's Common Stock, Class A Common Stock and Class B Stock held by non-affiliates of the registrant was approximately $444.1 million, $1,420.5 million and $269,000, respectively.
At November 16, 2018, the number of shares outstanding of the registrant's Common Stock was 12,145,135 and the number of shares of Class A Common Stock was 44,015,524. In addition, on such date, the registrant had outstanding

1,652,262 shares of its Class B Stock, which are convertible into Common Stock on a share-for-share basis.

DOCUMENTS INCORPORATED BY REFERENCE

Definitive Proxy Statement for the Company's 2019 Annual Meeting of Stockholders – Part III of this Form 10-K

Central Garden & Pet Company
Index to Annual Report on Form 10-K
For the fiscal year ended September 29, 2018

FORWARD-LOOKING STATEMENTS

This Form 10-K includes “forward-looking statements.” Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, projected cost savings, capital expenditures, financing needs, plans or intentions relating to acquisitions, our competitive strengths and weaknesses, our business strategy and the trends we anticipate in the industries and markets in which we operate and other information that is not historical information. When used in this Form 10-K, the words “estimates,” “expects,” “anticipates,” “projects,” “plans,” “intends,” “believes” and variations of such words or similar expressions are intended to identify forward-looking statements. All forward-looking statements, including, without limitation, our examination of historical operating trends, are based upon our current expectations and various assumptions. Our expectations, beliefs and projections are expressed in good faith, and we believe there is a reasonable basis for them, but we cannot assure you that our expectations, beliefs and projections will be realized.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this Form 10-K. Important factors that could cause our actual results to differ materially from the forward-looking statements we make in this Form 10-K are set forth in this Form 10-K, including the factors described in the section entitled “Item 1A – Risk Factors.” If any of these risks or uncertainties materializes, or if any of our underlying assumptions is incorrect, our actual results may differ significantly from the results that we express in or imply by any of our forward-looking statements. We do not undertake any obligation to revise these forward-looking statements to reflect future events or circumstances, except as required by law. Presently known risk factors include, but are not limited to, the following factors:

- seasonality and fluctuations in our operating results and cash flow;
- fluctuations in market prices for seeds and grains and other raw materials;
- our inability to pass through cost increases in a timely manner;
- our dependence upon key executives;
- risks associated with new product introductions, including the risk that our new products will not produce sufficient sales to recoup our investment;
- fluctuations in energy prices, fuel and related petrochemical costs;
- declines in consumer spending during economic downturns;
- inflation, deflation and other adverse macro-economic conditions;
- supply shortages in pet birds, small animals and fish;
- adverse weather conditions;
- risks associated with our acquisition strategy;
- access to and cost of additional capital;
- dependence on a small number of customers for a significant portion of our business;
- potential impacts of tariffs or a trade war;
- adverse trends in the retail industry;
- competition in our industries;
- potential goodwill or intangible asset impairment;
- continuing implementation of an enterprise resource planning information technology system;
- our inability to protect our trademarks and other proprietary rights;

- potential environmental liabilities;
- risk associated with international sourcing;
- litigation and product liability claims;
- regulatory issues;
- the impact of product recalls;
- potential costs and risks associated with actual or potential cyber attacks;
- the impact of new accounting regulations and the U.S. Tax Cuts and Jobs Act on the Company's tax rate;
- the voting power associated with our Class B stock; and
- potential dilution from issuance of authorized shares.

MARKET, RANKING AND OTHER DATA

The data included in this Form 10-K regarding markets and ranking, including the size of certain markets and our position and the position of our competitors and products within these markets, are based on both independent industry publications, including Packaged Facts Lawn and Garden Consumables in the US by Market and Product, 9th edition, February 2018; The Freedonia Group Landscaping Products in the U.S., 5th Edition (2017); 2017 National Gardening Survey; IBISWorld Industry Report 11142 Plant & Flower Growing in the US May 2017; Packaged Facts U.S. Pet Market Outlook, 2018-2019 March 2018; Packaged Facts Pet Treats and Chews in the U.S., 2nd Edition August 2017; Packaged Facts Durable Dog and Cat Petcare Products in the U.S. October 2018; Packaged Facts Pet Litter, Clean Up, and Odor Products: U.S. Market Trends May 2016; Packaged Facts Pet Medications in the U.S., 5th Edition August 2017; American Pet Products Association (APPA) National Pet Owners Survey 2017-2018; U.S. Census Bureau; and our estimates based on management's knowledge and experience in the markets in which we operate. Our estimates have been based on information provided by customers, suppliers, trade and business organizations and other contacts in the markets in which we operate. While we are not aware of any misstatements regarding our market and ranking data presented herein, our estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed under the heading "Risk factors" in this Form 10-K. This information may prove to be inaccurate because of the method by which we obtained some of the data for our estimates or because this information cannot always be verified with complete certainty due to the limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in a survey of market size. As a result, you should be aware that market, ranking and other similar data included herein, and estimates and beliefs based on that data, may not be reliable. We cannot guarantee the accuracy or completeness of such information contained herein.

TRADEMARKS, SERVICE MARKS AND TRADE NAMES

We own or have rights to use trademarks, service marks and trade names in connection with the operation of our business. In addition, our names, logos and website names and addresses are or include our service marks or trademarks. Other trademarks, service marks and trade names appearing in this Form 10-K are the property of their respective owners. Solely for convenience, some of the trademarks, service marks and trade names referred to in this Form 10-K may be listed without the ® or ™ symbols, but the absence of such symbols does not indicate the registration state whether or not they are registered. We will assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensors to these trademarks, service marks and trade names.

PART I

Item 1. Business

Our Company

Central Garden & Pet Company ("Central") is a leading innovator, producer and distributor of branded and private label products for the lawn & garden and pet supplies markets in the United States. The total annual retail sales of the pet food, treats & chews, supplies and live animal industry in 2017 was estimated by Packaged Facts and the pet industry to have been approximately $58.3 billion. We estimate the annual retail sales of the pet supplies, live animal, and treats & chews and natural pet food markets in the categories in which we participate to be approximately $27.3 billion. The total lawn and garden consumables, decorative products and live plant industry in the United States is estimated by Packaged Facts and IBISWorld to be approximately $33.2 billion in annual retail sales in 2017, including fertilizer, pesticides, growing media, seeds, mulch, other consumables, decorative products and live plants. We estimate the annual retail sales of the lawn and garden consumables, decorative products and live plant markets in the categories in which we participate to be approximately $19.7 billion.

Our pet supplies products include products for dogs and cats, including edible bones, premium healthy edible and non-edible chews, natural dog and cat food and treats, toys, pet carriers, grooming supplies and other accessories; products for birds, small animals and specialty pets, including food, cages and habitats, toys, chews and related accessories; animal and household health and insect control products; live fish and products for fish, reptiles and other aquarium-based pets, including aquariums, furniture and lighting fixtures, pumps, filters, water conditioners, food and supplements, and information and knowledge resources; and products for horses and livestock. These products are sold under the brands including Adams™, Aqueon®, Avoderm®, Cadet®, Farnam®, Four Paws®, Kaytee®, K&H Pet Products®, Nylabone®, Pinnacle®, TFH™, Zilla® as well as a number of other brands including Altosid®, Comfort Zone®, Coralife®, Interpet®, Kent Marine®, Pet Select® and Zodiac®.

Our lawn and garden supplies products include proprietary and non-proprietary grass seed; wild bird feed, bird feeders, bird houses and other birding accessories; weed, grass, and other herbicides, insecticide and pesticide products; fertilizers; and decorative outdoor lifestyle products including pottery, trellises and other wood products as well as live plants. These products are sold under the brands AMDRO®, Ironite®, Pennington®, and Sevin®, as well as a number of other brand names including Lilly Miller®, Over-N-Out®, Smart Seed® and The Rebels®.

In fiscal 2018, our consolidated net sales were $2,215 million, of which our Pet segment, or Pet, accounted for approximately $1,341 million and our Garden segment, or Garden, accounted for approximately $874 million. In fiscal 2018, our operating income was $167 million consisting of income from our Pet segment of $140 million and income from our Garden segment of $96 million partially offset by corporate expenses of $69 million. See Note 18 to our consolidated financial statements for financial information about our two operating segments.

We were incorporated in Delaware in May 1992 as the successor to a California corporation that was formed in 1955. Our executive offices are located at 1340 Treat Boulevard, Suite 600, Walnut Creek, California 94597, and our telephone number is (925) 948-4000. Our website is www.central.com. The information on our website is not incorporated by reference in this annual report.

Recent Developments

Financial summary:

- Earnings per fully diluted share increased $0.80 per share to $2.32 per share, and our operating income increased $11.2 million to $167.3 million compared to fiscal 2017. Certain gains impacting fiscal 2018 and 2017 are excluded for purposes of the non-GAAP presentation elsewhere in this Form 10-K.
- Net sales for fiscal 2018 increased $160.9 million, or 7.8%, to $2,215.4 million. Our Pet segment sales increased 7.6%, and our Garden segment sales increased 8.2%.
- Gross profit for fiscal 2018 increased $42.6 million, or 6.7%, to $675.4 million. Gross margin declined 30 basis points in fiscal 2018 to 30.5%, from 30.8% in fiscal 2017.
- Our operating income increased $11.2 million, or 7.2%, to $167.3 million in fiscal 2018, and as a percentage of net sales was flat compared to the prior year at 7.6%. Non-GAAP operating income increased $13.2 million, or 8.6%.
- Net income for fiscal 2018 was $123.6 million, or $2.32 per share on a fully diluted basis, compared to net income in fiscal 2017 of $78.8 million, or $1.52 per share on a fully diluted basis.
- Non-GAAP net income increased to $102.1 million, or $1.91 per share, in fiscal 2018 from $77.5 million, or $1.50 per share, in fiscal 2017.

Financings

In December 2017, we issued $300 million aggregate principal amount of 5.125% senior notes due February 2028. During the fourth quarter of fiscal 2018, we issued 5,550,000 shares of Class A common stock at a public offering price of $37.00 per share and received net proceeds of approximately $196 million. We intend to use the net proceeds to finance acquisitions of suitable businesses and for general corporate purposes.

Acquisitions

General Pet Supply

In April 2018, we purchased substantially all of the assets of General Pet Supply, a leading Midwestern U.S. supplier of pet food and supplies for approximately $24 million. The acquisition is expected to broaden our national pet supplies distribution footprint, expand our pet food distribution business and provide us with access to the veterinary channel.

Bell Nursery

In March 2018, we purchased Bell Nursery, a leading grower and distributor of live flowers and plants in the mid-Atlantic region of the United States, for approximately $61 million and contingent consideration up to $10 million. The acquisition is expected to complement our existing garden portfolio.

We also purchased two small wholesale distributors of fish and small animals during fiscal 2018 for approximately $8 million.

Competitive Strengths

We believe we have a number of competitive strengths, which serve as the foundation of our business strategy, including the following:

- Market Leadership Positions Built on a Strong Brand Portfolio. We are one of the leaders in the U.S. pet supplies market and in the U.S. consumer lawn and garden supplies market. We have a diversified portfolio of brands, many of which we believe are among the leading brands in their respective U.S. market categories. The majority of our brands have been marketed and sold for more than 30 years.
- History of Innovative New Products and Customer Service. We continuously seek to introduce new products, both as complementary extensions of existing product lines and in new product categories. Over the last two years, we have received a number of awards for innovation, customer service and marketing.

Innovation

For innovation in 2018, Kaytee won the Pet Business Industry award in the small animal toys category, both Global Pet Expo and Super Zoo awards in the small animal category for new product with Premium Timothy Hay Treats, and Pet Valu's Best New Product in Small Pet award; Zilla won a Global Pet and Super Zoo award for the Reptile Spring Cave Accessory and a Super Zoo award for vertical decor; and for the second consecutive year, Aqueon won Pet Valu's Best New Product award for the Neo Glow fish tank. Also in 2018, Farnam's Super Mask won EquineSeniors.com's "Good-Horsekeeping" award for Best Fly Mask with Ears.

In 2017, Central won Walmart's Innovation Award for a private label program, and the Pet segment's Kaytee brand won awards at Global Pet for the LED Run-About Ball, the CritterHome Habitat and the CritterTrail Display. Also in 2017, the CritterTrail LED Habitat won the Pet Business Industry Recognition Award and Zilla's Front Opening Terrarium won a Global Pet Award while its Floating Basking Platforms won the Pet Business Editor's Choice. Additionally, in 2017, Aqueon won the Pet Product News Editor's Choice Award for QuietFlow LED Pro Filters and Pro Sol Light Fixtures as well as the Pet Retail Brands' Best New Product Award for the Aqueon Betta Puzzle modular enclosure.

Customer Service

For customer service in 2018, the Garden segment has been recognized by Lowe's for the third consecutive year as its Lawn & Garden Supplier of the Year. In 2018, the Pet segment won Petco’s Strategic Initiative Vendor in Companion Animal and Pet Valu’s awards for Highest Sales Service Level and Highest Year over Year Sales Growth in Aquatic & Reptile.

In 2017, the Garden segment won several awards from our largest customers including one of Lowe's three highest awards as Seasonal Vendor of the Year, Walmart's Supplier of the Year in Lawn & Garden and Walmart's H3 (Humble, Hustle & Hungry) Award. In 2017, the Pet segment won the Pet Retail Brands Specialty Pet Vendor Partner of the Year Award for efforts in building strategic relationships and offering the highest level of support and collaboration.

Marketing

For marketing in 2018, Central won numerous Equine media awards from American Horse Publications and National Animal Supplement Council’s Visibility Awards for advertising, marketing, multimedia ads, social media campaigns, print and education of customers and the industry.

In 2017, Central won Summit Creative Awards for its S.L.A.P. Public Service Campaign for Mosquito Awareness and its Bug Free Grains Ad Campaign in the B2B category as well as numerous American Horse Publications Awards for print, e-newsletter, website and brand multi-media ad campaigns.

- Strong Relationships with Retailers. We have developed strong relationships with major and independent brick & mortar retailers, as well as e-commerce retailers providing them broad product offerings including new product innovation, premium brands, private label programs, proprietary sales and logistics capabilities and a high level of customer service. Major retailers value the efficiency of dealing with suppliers with national scope and strong brands. We believe our ability to meet their unique needs for packaging and point of sale displays provides us with a competitive advantage. Independent retailers value our high level of customer service and broad array of premium branded products. We believe these strengths have assisted us in becoming one of the largest pet supplies vendors to PetSmart, PETCO and Walmart and among the largest lawn and garden supplies vendors to Walmart, Home Depot and Lowe’s, and the club and mass merchandise channels, as well as a leading supplier to independent pet and garden supplies retailers in the United States.
- Favorable Long-Term Industry Characteristics. We believe the U.S. pet supplies market will grow over the long-term due to favorable demographic and leisure trends. The key demographics bolstering our markets are the growth rates in the number of millennials who now account for 35% of pet owners and account for more than half of small animal, reptile and saltwater fish owners. According to the 2017 - 2018 APPA National Pet Owners Survey, the number of U.S. pet owners in recent years has reached record highs, with 84.6 million households, or 68%, owning a pet. In addition, many pet supplies products (e.g., toys, pest control, grooming supplies, beds and collars, etc.) are routinely consumed and replenished. Also, as many as 82% of dog owners and 65% of cat owners regularly purchase some type

of treat.

We believe that gardening is one of the most popular leisure activities in the United States. According to the National Gardening Survey, U.S. households participating in lawn and garden activities is at an all-time high of 77% with participation by 18-34-year-old households also at an all-time high. Participation is highest amongst married households, persons aged 45-64, households with three or more persons; households with children; employed and those persons making $75,000 or more per year. Both the 18-34 and 45-64 demographic participation percentages are projected by the U.S. Census Bureau to remain consistent for the foreseeable future. The 2018 National Gardening Survey also notes that the trends of more people gardening in their yards, container gardening, food gardening and organic gardening are examples of wider interest in a rapidly changing industry. We perceive this market as staying intact and showing slow positive growth.

- Sales and Logistics Networks. We are a leading supplier to independent specialty retailers for the pet and lawn and garden supplies markets through our sales and logistics networks. We believe our sales and logistics networks give us a significant competitive advantage over other suppliers. These networks provide us with key access to independent pet specialty retail stores and retail lawn and garden customers that require two-step distribution facilitating:
  acquisition and maintenance of shelf placement;
  prompt product replenishment;
  customization of retailer programs;
  quick responses to changing customer and retailer preferences;
  rapid deployment and feedback for new products; and
  immediate exposure for new internally-developed and acquired brands.

We plan to continue to utilize our team of dedicated sales people and our sales and logistics networks to expand sales of our branded products.

Business Strategy

Our objective is to grow revenues, profits, and cash flow by enhancing our position as one of the leading companies in the U.S. pet supplies and lawn and garden supplies industries. We seek to do so by developing new products, increasing market share, acquiring businesses and working in partnership with our customers to grow the categories in which we participate. To achieve our objective, we plan to capitalize on our strengths and favorable industry trends by executing on the following key strategic pillars to drive our growth:

Accelerate the Growth Momentum of Our Portfolio.

- We are managing each business differentially, based on clearly articulated strategies that define the role of each business within our portfolio. We have assessed the profitability and growth potential of each of our businesses. All businesses have a clear role in the portfolio and a strategy that is consistent with that role. Some of our businesses are managed to optimize top-line growth, whereas others are more focused on reducing costs and maximizing operating income. We have three-year pipelines in both innovation activities and cost savings initiatives to make sure we have the pieces in place to deliver the organic growth targeted for our businesses.
- We are building out our portfolio in attractive, broadly-defined Pet & Garden markets. We seek to acquire businesses that are accretive to our growth. Our M&A model is one of our key strengths. Since 1992, we have completed over 50 acquisitions to create a company of approximately $2.2 billion in sales. In the last two years, we have acquired four new businesses including our entry into the live plant business. We consider this to be an attractive, fragmented category in the garden industry. We are patient and disciplined value buyers, typically focused on manageable-sized opportunities in the garden and pet areas. However, we are open to any business which can leverage our capabilities and allow us to add value through our low-cost manufacturing capabilities, operating synergies, or strong distribution network. We generally prefer to acquire businesses with proven, seasoned management teams, which are committed to stay with the acquired business after closing. We have been successful in growing our acquisitions organically after acquiring them into our portfolio. We are also committed to exiting businesses where we cannot find a path to profitability and have done so in the past. We continually review our businesses to ensure they can meet our expectations and, in some cases, have implemented strategies to reverse sub-par performance.

Keep the Core Healthy.

- We are building on our strong customer relationships by developing and executing winning category growth strategies. We produce both branded products and private label products for our customers as well as distribute third party brands that gives our retail partners an unparalleled breadth of selection of premium and value products. Importantly, we are reinvesting some of our annual cost savings in order to ensure sufficient demand creation investment to drive sustainable organic growth and build share.
- To grow, we are also seeking to develop more differentiated and more defensible new products. We are doing so by continuously striving to get a deeper understanding of our consumers, comprehending what products and features they desire and how they make their purchase decisions. We are increasing our overall investment in consumer insights and research and development in order to achieve our innovation goals with a strong pipeline of new products.

Build Digital Capabilities for Competitive Advantage and a Compelling Consumer Experience.

- We are freeing up our businesses in e-commerce by ensuring we have the right policies, products, and programs to allow all channels to compete effectively. We recognize that consumers are increasingly researching, if not buying products on-line, and hence we are advancing our digital capabilities. One key area is in marketing communication where we are working to better reach consumers at key points in their path to purchase with advanced capabilities in search engine optimization, reputation management and social listening to name a few. Concurrently, we are optimizing our supply chain for high-demand e-commerce items to ensure customer and consumer availability requirements are met at optimal cost. Finally, we are also expanding our data analytics capability to improve and accelerate business insight. In a marketplace that is moving very quickly, fast decision-making is important to gaining a competitive advantage.

Drive Cost Savings and Productivity Improvements to Fuel Growth.

- Optimizing our supply chain footprint is a priority as we seek to become more efficient and cost-effective. Having the right facilities in the right locations is critical to both lowering costs and enabling our businesses to meet the growth demands of our existing and new customers, from both our legacy and acquired businesses. In addition, while we value being a decentralized company, we believe we have significant opportunities to improve our performance by driving processes and programs to allow us to align for scale and share best practices. The initiatives, along with our systematic cost savings programs being driven by each business unit, should enable the overall company to reduce our cost of goods sold and administrative spending by 1% to 2% annually. We expect these cost savings will enable us to continue to invest more in our businesses to fuel growth.

Attract, Retain and Develop Exceptional Employees.

- We have approximately 5,400 employees in over 95 locations. We believe people work at Central because they love the categories in which we operate and that creates a passionate and effective group. We also have a strong leadership team representing a mix of successful entrepreneurs and classically trained consumer products executives that have delivered favorable growth over the last few years. We place an emphasis on helping our employees develop their skills and focus on succession planning to ensure we can grow sustainably year-after-year.

Products – General

The following table indicates each class of similar products which represented approximately 10% or more of our consolidated net sales in the fiscal years presented (in millions).

Category	2018	2017	2016
Other pet products	$896.5	$841.4	$689.3
Other garden supplies	528.8	464.9	331.3
Dog and cat products	444.4	405.0	326.0
Garden controls and fertilizer products	345.7	343.2	298.8
Wild bird feed	— (1)	— (1)	183.6
Total	$2,215.4	$2,054.5	$1,829.0

(1) The product category was less than 10% of our consolidated net sales in the respective period.

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Pet Segment
Pet Overview
We are one of the leading marketers and producers of pet supplies in the United States. In addition, our Pet segment operates one of the largest sales and logistics networks in the industry, strategically supporting our brands. In fiscal 2018, Pet segment net sales were $1,340.9 million and operating income was $140.3 million.
Pet Industry Background
According to the Packaged Facts U.S. Pet Market Outlook, 2018 - 2019, the percentage of U.S. households with dogs or cats in 2017 remained at 52% where it has been since 2011.
The pet industry includes food, supplies, veterinarian care, services and live animals. We operate primarily in the pet supplies segment of the industry as well as in the live fish and live small animal categories. This segment includes: products for dogs and cats, including edible bones, premium healthy edible and non-edible chews, rawhide, toys, pet beds, pet carriers, grooming supplies and other accessories; products for birds, small animals and specialty pets, including cages and habitats, toys, chews, and related accessories; animal and household health and insect control products; products for fish, reptiles and other aquarium-based pets, including aquariums, furniture and lighting fixtures, pumps, filters, water conditioners and supplements, and information and knowledge resources; and products for horses and livestock. Packaged Facts estimates that the pet supplies, natural dog and cat food, pet treats & chews and live fish, small animals and pet birds industry had $27.3 billion in revenue in 2017.
We believe the U.S. pet supplies market will grow over the long-term due to favorable demographic and leisure trends. The key demographics bolstering our markets are the growth rates in the number of millennials who now account for 35% of pet owners and account for more than half of small animal, reptile and saltwater fish owners. According to the 2017 - 2018 APPA National Pet Owners Survey, the number of U.S. pet owners in recent years has reached record highs, with 84.6 million households, or 68%, owning a pet. In addition, many pet supplies products (e.g., toys, pest control, grooming supplies, beds and collars, etc.) are routinely consumed and replenished. Also, as many as 82% of dog owners and 65% of cat owners regularly purchase some type of treat.
The U.S. pet supplies market is highly fragmented with approximately 1,400 manufacturers, consisting primarily of small companies with limited product lines. The majority of these manufacturers do not have a captive sales and logistics network and must rely on us or other independent distributors to supply their products to regional pet specialty chains and independent retailers. According to Packaged Facts, dog & cat supplies sales increased 21% from 2013 to 2017. Sales are expected to increase an additional 17% by 2022, indicating the strength of this category.
The pet food and supplies industry retail channel also remains fragmented with only two national pet specialty retailers, PetSmart and PETCO and over 7,300 independent pet supply stores and smaller pet chains as well as club and mass merchandise stores in the United States. According to Packaged Facts, pet specialty chain sales have declined from 24% in 2014 to a projected 20% of overall pet product sales in 2018, and are expected to decline to 16% by 2022. At the same time, internet sales (including online sales by omnichannel players) are expected to have increased from 5% in 2014 to 15% in 2018 and are projected to increase to 20% of U.S. retail sales of pet products by 2022. Pet products have also become a growing category in mass merchandisers, discounters, grocery outlets and the e-commerce channel. Mass merchandisers, supermarkets and discounters have historically carried a limited product assortment that features primarily pet food, but we believe these retailers are devoting more shelf space to meet increased consumer demand for premium pet supplies. Independent pet stores typically have a relatively broad product selection and attempt to differentiate themselves by offering premier brands and knowledgeable service.
Proprietary Branded Pet Products
Our principal pet supplies categories are dog and cat, aquatics, bird and small animal, wild bird feed, live fish and small animal, and animal health products.
Dog & Cat. Our dog and cat category, featuring the brands Nylabone®, Four Paws®, Cadet®, Dallas Manufacturing Company (DMC)™, K&H Pet Products™, TFH® Publications, AvoDerm®, Pinnacle®, Pet Select and Mikki®, is an industry leader in manufacturing and marketing premium edible and non-edible chews, interactive toys, natural dog and cat food, grooming supplies and pet care print and digital content.

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Nylabone is predominately made in the United States and has a strong history of developing innovative products such as NutriDent® Edible Dental Brush Chews, Nubz® and Healthy Edibles® as well as numerous other award-winning dog toys and healthy chews.

- IMS is a manufacturer and supplier of a full-line of quality rawhide and other natural dog chews, and treats largely under the Cadet® and Farm to Paws™ brands.

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- Four Paws Products include industry leaders in grooming and waste management products under the Wee Wee® and Magic Coat® brands.
- Pet Home Essentials combines our acquisition of DMC, the industry-leading dog & cat bed company and supplier to many of the largest retailers for private label and branded bedding, and our acquisition of K&H, a producer of premium pet supplies and the largest marketer of heated pet products in the country.
- TFH Publications is a globally recognized publisher of both pet books and an aquatics magazine.
- Breeder’s Choice, featuring the Pinnacle and AvoDerm brands, is a manufacturer of natural pet food for our own brands, other parties and private label.

Aquatics. We are a leading supplier of aquariums and related fixtures and furniture, water conditioners and supplements, sophisticated lighting systems and accessories featuring the brands Aqueon, Zilla, Kent Marine, Coralife and Blagdon.

Small Animal, Pet Bird & Wild Bird Feed. We are a leading marketer and producer of supplies and pet food for small animals, pet birds, and wild birds. We offer a full range of products including species specific diets, treats, habitats, bedding, hay and toys under the Kaytee®, Forti-Diet and Critter Trail® brands. Many of our branded Kaytee wild bird mixes are treated with a proprietary blend of vitamins and minerals. Kaytee is one of the most widely recognized and trusted brands for birds and small animals.

Animal Health. We are a leading marketer and producer of mosquito and other insect control products produced by Wellmark International and sold primarily under the Bio Spot Active Care™, Adams, Altosid®, Centynal™, ClariFly® IGR, Comfort Zone®, Diacon®, Pre Strike and Extinguish® brand names. Wellmark is the only domestic producer of (S)-Methoprene, which is an active ingredient to control mosquitoes, fleas, ticks, ants and mites in many professional and consumer insect control applications. We also sell (S)-Methoprene to manufacturers of other insect control products, including Frontline Plus. In addition, we are a leading manufacturer and marketer of innovative products for horses in the fly control, supplements, grooming, deworming, wound care, leather care & rodenticides categories. Our portfolio of brands includes Farnam, Horse Health Products, Vita Flex, Just One Bite and Rodentex. These brands, along with a diverse stable of sub-brands (including IverCare®, Bronco®, Super Mask® II, Endure®, Red Cell®, Horseshoer’s Secret® and Vetrolin®), position us as a leader in these categories.

Live Fish and Small Animals. We are a leading wholesaler of aquarium fish and small animals to pet specialty and mass merchandiser stores in the U.S. due to our acquisition of Segrest, Inc. in October 2016.

Pet Sales Network

Our domestic sales and logistics network exists to promote both our proprietary brands and third-party partner brands. It provides value-added service to approximately 6,000 customers, many of which are independent specialty stores with fewer than 10 locations. This includes acquisition and maintenance of premium shelf placement, prompt product replenishment, customization of retailer programs, quick response to changing customer and retailer preferences, rapid deployment and feedback for new products and immediate exposure for acquired brands. The combination of brands in the network that are supplied in single shipments enables our independent customers to work with us on a cost-effective basis to meet their pet supplies requirements. We also operate a sales and logistics facility in the United Kingdom.

Pet Sales and Marketing

Our sales strategy is multi-tiered and designed to capture maximum market share with retailers. Our customers include retailers, such as club, regional and national specialty pet stores, independent pet retailers, mass merchants, grocery and drug stores, as well as the e-commerce channel. We also serve the professional market with insect control and health and wellness products for use by veterinarians, municipalities, farmers and equine product suppliers. Costco Wholesale accounted for approximately 11% of our Pet segment's net sales in fiscal 2018. PetSmart, PETCO, Walmart and Amazon are also significant customers.

To optimize our product placement and visibility in retail stores, our focused sales resources are segmented as follows:

- a sales organization operating by category and channel;
- dedicated account teams servicing our largest customers;

- a group of account managers focused on regional chains;
- a geographic based group of territory managers dedicated to the independent retailer; and
- a specialized group of account managers dedicated to the professional and equine markets.

These sales teams deliver our marketing strategy that is consumer, brand and channel driven. We provide value creation with a focus on innovation, product quality and performance, premium packaging, product positioning and consumer value. We collaborate closely with our customers to identify their needs, jointly develop strategies to meet those needs and deliver programs that include print, broadcast, direct mail and digital execution.

Pet Competition

The pet supplies industry is highly competitive and has experienced considerable consolidation. The e-commerce channel has been growing at a rapid rate in recent years. Our branded pet products compete against national and regional branded products and private label products produced by various suppliers. Our largest competitors in the product categories we participate in are Spectrum Brands and Hartz Mountain. The Pet segment competes primarily on the basis of brand recognition, innovation, upscale packaging, quality and service. Our Pet segment's sales and logistics operations compete with Animal Supply Co., Phillips Pet Food & Supplies and a number of smaller local and regional distributors, with competition based on product selection, price, value-added services and personal relationships.

Garden Segment

Garden Overview

We are a leading company in the consumer lawn and garden market in the United States and offer both premium and value-oriented branded products. We market and produce a broad array of premium brands, including Pennington, The Rebels, AMDRO, Lilly Miller, Ironite, Sevin, and Over-N-Out. We also produce value brands at lower prices, including numerous private label brands. In addition, our Garden segment operates a sales and logistics network that strategically supports its brands. In fiscal 2018, Garden segment net sales were $874.5 million and operating income was $95.6 million.

Garden Industry Background

The garden industry includes consumables (fertilizer, pesticides, seed, growing media, mulch and products sold in bulk) as well as landscaping products (decorative products such as pottery, wild bird & animal products, water features and lighting) and arches/trellises. We operate primarily in the garden consumables and decorative segments of the industry. Packaged Facts and IBIS estimate that garden consumables, decorative and live plant retail sales were $21.0 billion in 2017.

We believe that gardening is one of the most popular leisure activities in the United States. According to the National Gardening Survey, U.S. households participating in lawn and garden activities is at an all-time high of 77% with participation by 18-34-year-old households also at an all-time high. Participation is highest amongst married households, persons aged 45-64, households with three or more persons; households with children; employed and those persons making $75,000 or more per year. Both the 18-34 and 45-64 demographic participation percentages are projected by the U.S. Census Bureau to remain consistent for the foreseeable future. The 2018 National Gardening Survey also notes that the trends of more people gardening in their yards, container gardening, food gardening and organic gardening are examples of wider interest in a rapidly changing industry. We perceive this market as staying intact and showing slow positive growth.

The lawn and garden market is highly concentrated with most products sold to consumers through a number of distribution channels, including home centers, mass merchants, independent nurseries and hardware stores. Home and garden centers and mass merchants typically carry multiple premium and value brands. Due to the rapid expansion and consolidation of mass merchants and home and garden centers, the concentration of purchasing power for the lawn and garden category has increased dramatically. We expect the growth of home and garden centers, such as Home Depot and Lowe's, and mass merchants, such as Walmart, to continue to concentrate industry sales. We estimate the retail sales of the lawn and garden supplies and live plant industry, the categories in which we participate, to be approximately $19.7 billion. We believe that the industry will continue to grow, albeit at a slow rate.

Proprietary Branded Lawn and Garden Products

Our principal lawn and garden product lines are grass seed, wild bird feed, insect control products, lawn and garden care products, including fertilizers, and decorative outdoor patio products. Our Pennington® brand is one of the largest in grass seed, pottery and wild bird feed, and our Amdro® brand is a leading portfolio of control products.

Grass Seed. We are a leading marketer, producer and distributor of numerous varieties and mixtures of cool and warm season grass for both the residential and professional markets, as well as forage and wild game seed mixtures. We sell these products under the Pennington Seed, Pennington, Penkoted®, Max-Q®, ProSelect™, Tournament Quality CM, MasterTurf®, The Rebels and Smart Seed® brand names. We also produce numerous private label brands of grass seed. The Pennington grass seed manufacturing facilities are some of the largest and most modern seed coating and conditioning facilities in the industry.

Wild Bird Products. We are the leading marketer, producer and distributor of wild bird feed, bird feeders, bird houses and other birding accessories in the United States. These products are sold primarily under the Pennington brand name. Many of our branded Pennington wild bird mixes are treated with a proprietary blend of vitamins and minerals. An example is our Pennington brand mixes which are enriched with Bird-Kote®, our exclusive process which literally seals each seed with a nutritious coating containing vitamins and minerals that are beneficial to the health of wild birds.

Fertilizers and Controls. We are a leading marketer, producer and distributor of lawn and garden weed, moss, insect and pest control products and soil supplements and stimulants. We sell these products under the AMDRO, Lilly Miller, Moss Out®, Corry's®, IMAGE®, Sevin®, Over-N-Out®, Rootboost®, Knockout®, and Strike® brand names, as well as private label for Walmart and Lowe's. We manufacture several lines of lawn and garden fertilizers and soil supplements, in granular and liquid form, under the Pennington, Alaska Fish Fertilizer®, Pro Care, and Ironite® brand names and other private and controlled labels.

Decor. We are a leading marketer and distributor of decorative indoor and outdoor pottery products in the United States. These products, sold under the Pennington name, include terra cotta, stoneware, ceramic and porcelain pots. We also market a complete line of wooden garden products, including planters under the Pennington brand name.

Live Plants. We are the primary supplier of flowers and plants to Home Depot in the mid-Atlantic region. These plants and flowers are sold by Bell Nursery, which we acquired in March 2018.

Garden Sales Network

Our sales and logistics network exists primarily to promote our proprietary brands and provides us with key access to retail stores for our branded products, acquisition and maintenance of premium shelf placement, prompt product replenishment, customization of retailer programs, quick responses to changing customer and retailer preferences, rapid deployment and feedback for new products, immediate exposure for acquired brands and comprehensive and strategic information. The network also sells other manufacturers' brands of lawn and garden supplies and combines these products with our branded products into single shipments enabling over 4,000 customers to deal with us on a cost-effective basis to meet their lawn and garden supplies requirements.

Garden Sales and Marketing

The marketing strategy for our premium products is focused on meeting consumer needs through product performance, innovation, quality, upscale packaging and retail shelf placement. The marketing strategy for our value products is focused on promotion of the quality and efficacy of our value brands at a lower cost relative to premium brands. Our customers include retailers, such as mass merchants, home improvement centers, independent lawn and garden nurseries, drug and grocery stores, and professional end users. Sales to Walmart represented approximately 29%, 31% and 31%, sales to Lowe's represented approximately 21%, 21% and 20%, and sales to Home Depot represented approximately 27%, 20% and 19% of our Garden segment's net sales in fiscal 2018, 2017 and 2016, respectively.

To maximize our product placement and visibility in retail stores, we market our products through the following four complementary strategies:

- dedicated sales forces represent our combined brand groups;
- retail sales and logistics network, which provides in-store training and merchandising for our customers, especially during the prime spring and summer seasons;
- dedicated account-managers and sales teams located near and dedicated to serve several of our largest customers; and
- selected independent distributors who sell our brands.

Garden Competition

The lawn and garden products industry is highly competitive. Our lawn and garden products compete against national and regional products and private label products produced by various suppliers. Our turf and forage grass seed products, fertilizers, pesticides and combination products compete principally against products marketed by The Scotts Miracle-Gro Company ("Scotts"). In addition, Spectrum Brands is a strong competitor in yard and household insecticides. Our Garden segment competes primarily on the basis of its strong premium and value brands, quality, service, price and low-cost manufacturing. Our Garden segment's sales and logistics operations also compete with a large number of distributors, with competition based on price, service and personal relationships.

Manufacturing

We manufacture the majority of our branded products in 33 manufacturing facilities, located primarily in the United States. In addition, certain of our proprietary branded products are manufactured by contract manufacturers. We have also entered into an exclusive arrangement with a third party to manufacture one of our registered active ingredients, (S) Methoprene, for use in that third party's flea and tick control products.

Purchasing

We purchase most of our raw materials from a number of different suppliers. We purchase one of the raw materials used to manufacture (S) Methoprene from a single source of supply. We maintain an inventory of this raw material (in addition to our (S) Methoprene inventory) to reduce the possibility of interruption in the availability of (S) Methoprene, but a prolonged delay in obtaining (S) Methoprene or this raw material could result in a temporary delay in product shipments and have an adverse effect on our Pet segment's financial results.

The key ingredients in our fertilizer and insect and weed control products are commodity and specialty chemicals, including urea, potash, phosphates, herbicides, insecticides and fungicides.

The principal raw materials required for our wild bird feed operations are bulk commodity grains, including millet, milo and sunflower seeds, which are generally purchased from large national commodity companies and local grain cooperatives. In order to ensure an adequate supply of grains and seed to satisfy expected production volume, we enter into contracts to purchase a portion of our expected grain and seed requirements at future dates by fixing the quantity, and often the price, at the commitment date. Although we have never experienced a severe interruption of supply, we are exposed to price risk with respect to the portion of our supply which is not covered by contracts with a fixed price.

Logistics Network

Our distribution network consists of 55 facilities strategically placed across the United States, one facility in the United Kingdom, one facility in Canada and two facilities in China to allow us to service both our mass market customers as well as our independent specialty retail stores for our branded products. This network also supports distribution of many other manufacturers' brands and combines these products with our branded products into single shipments, enabling us to serve our customers in an effective and cost-efficient manner.

Significant Customers

Walmart, our largest customer, represented approximately 16%, 16% and 15% of our total company net sales in fiscal 2018, 2017 and 2016, respectively. Home Depot, our second largest customer, represented approximately 11%, 8% and 8% of our total company net sales in fiscal 2018, 2017 and 2016, respectively. In addition, Lowe's, Costco and PetSmart are also significant customers, and together with Walmart and Home Depot, accounted for approximately 48% of our net sales in fiscal 2018, 44% in fiscal 2017 and 42% in fiscal 2016.

Patents and Other Proprietary Rights

Our branded products companies hold numerous patents in the United States and in other countries and have several patent applications pending. We consider the development of patents through creative research and the maintenance of an active patent program to be advantageous to our business, but do not regard any particular patent as essential to our operations.

In addition to patents, we have numerous active ingredient registrations, end-use product registrations and trade secrets. The success of certain portions of our business, especially our animal health operations, partly depends on our ability to continue to maintain trade secret information which has been licensed to us, and to keep trade secret information confidential.

Along with patents, active ingredient registrations, end use product registrations and trade secrets, we own a number of trademarks, service marks, trade names and logotypes. Many of our trademarks are registered but some are not. We are not aware of any reason we cannot continue to use our trademarks, service marks and trade names in the way that we have been using them.

Employees

As of September 29, 2018, we had approximately 5.400 employees, of whom approximately 4,900 were full-time employees and 500 were temporary or part-time employees. We also hire substantial numbers of additional temporary employees for the peak lawn and garden shipping season of February through June to meet the increased demand experienced during the spring and summer months. The majority of our temporary employees are paid on an hourly basis. Except for approximately 50 employees at a facility in Puebla, Mexico, none of our employees are represented by a labor union. We consider our relationships with our employees to be good.

Environmental and Regulatory Considerations

Many of the products that we manufacture or distribute are subject to local, state, federal and foreign laws and regulations relating to environmental matters. Such regulations are often complex and are subject to change. In the United States, all pesticides must be registered with the United States Environmental Protection Agency (the "EPA"), in addition to individual state and/or foreign agency registrations, before they can be sold. Fertilizer products are also subject to state Department of Agriculture registration and foreign labeling regulations. Grass seed is also subject to state, federal and foreign labeling regulations.

The Food Quality Protection Act ("FQPA") establishes a standard for food-use pesticides, which is a reasonable certainty that no harm will result from the cumulative effect of pesticide exposures. Under this Act, the EPA is evaluating the cumulative risks from dietary and non-dietary exposures to pesticides. The pesticides in our products, which are also used on foods, will be evaluated by the EPA as part of this non-dietary exposure risk assessment.

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 of individuals in the vicinity that products will be applied in the future or may ban the use of certain ingredients. We believe we are operating in substantial compliance with, or taking action aimed at ensuring compliance with, these laws and regulations.

Various federal, state and local laws, including the federal Food Safety Modernization Act (“FSMA”), also regulate pet food products and give regulatory authorities the power to recall or require re-labeling of products. Several new FSMA regulations became effective in recent years. We believe we are in substantial compliance with all currently effective requirements and are taking steps to ensure that we are in compliance with all regulatory requirements going forward.

Various local, state, federal and foreign environmental laws also impose obligations on various entities to clean up contaminated properties or to pay for the cost of such remediation, often upon parties that did not actually cause the contamination. Accordingly, we may become liable, either contractually or by operation of law, for remediation costs even if the contaminated property is not presently owned or operated by us, or if the contamination was caused by third parties during or prior to our ownership or operation of the property. With our extensive acquisition history, we have acquired a number of manufacturing and distribution facilities, and most of these facilities have not been subjected to Phase II environmental tests to determine whether they are contaminated.

Environmental regulations may affect us by restricting the manufacturing or use of our products or regulating their disposal. Regulatory or legislative changes may cause future increases in our operating costs or otherwise affect operations. Although we believe we are and have been in substantial compliance with such regulations and have strict internal guidelines on the handling and disposal of our products, there is no assurance that in the future we may not be adversely affected by such regulations or incur increased operating costs in complying with such regulations. However, neither the compliance with regulatory requirements nor our environmental procedures can ensure that we will not be subject to claims for personal injury, property damages or governmental enforcement.

Executive Officers

The following table sets forth the name, age and position of our executive officers as of November 27, 2018.

Name	Age	Position
George C. Roeth	57	President & Chief Executive Officer
Nicholas Lahanas	50	Chief Financial Officer
William Lynch	58	Senior Vice President of Operations
Kay M. Schwichtenberg	65	Executive Vice President
George Yuhas	66	General Counsel and Secretary

George C. Roeth. Mr. Roeth became our President and Chief Executive Officer in June 2016. Mr. Roeth is a 27-year veteran of The Clorox Company, most recently, from 2013 to 2014, serving as Chief Operating Officer and Executive Vice President. Previously Mr. Roeth served as Senior Vice President and General Manager, during which time he was also Chairman of the Board for the Clorox and Proctor & Gamble Joint Venture. Prior to that, Mr. Roeth served in senior-level marketing and operating roles at Clorox, including Vice President and General Manager, Vice President of Growth and Marketing, and Vice President of Brand Development among others.

Nicholas "Niko" Lahanas. Mr. Lahanas became our Chief Financial Officer in May 2017. Mr. Lahanas served as Senior Vice President of Finance and Chief Financial Officer of our Pet segment from April 2014 to May 2017 and, Vice President of Corporate Financial Planning & Analysis from October 2011 to March 2014. Mr. Lahanas was the Director of Business Performance from March 2008 to October 2011, where his primary focus was on business unit profitability, and was a Finance Manager from October 2006 to March 2008 in our Garden segment. Prior to joining Central, Mr. Lahanas worked in private equity and investment banking.

William Lynch. Mr. Lynch became our Senior Vice President of Operations 2016 and serves as the company's top operations leader with oversight for IT, Safety and Sales & Operations Planning. Prior to joining Central in 2016, Mr. Lynch served as Sr. Vice President – Global Operations for Moen, Inc. Mr. Lynch spent over thirty years at The Clorox Company in numerous management positions, the last of which was Vice President Product Supply Global Operations.

Kay M. Schwichtenberg. Ms. Schwichtenberg became our Executive Vice President, Animal & Public Health in April 2014. Prior to becoming Executive Vice President, she held several positions for Central including Special Projects Advisor, President & CEO of Central Life Sciences and President of Wellmark International. Ms. Schwichtenberg joined Central in the acquisition of the Consumer and Animal Health Division from Sandoz Agro, Inc., a worldwide leader in pharmaceuticals where she was the Vice President and General Manager. She has also served in a variety of sales and marketing capacities for Brunswick Corporation, and Market Facts, Inc.

George Yuhas. Mr. Yuhas has been our General Counsel since March 2011 and our Secretary since September 2015. From 1984 to March 2011, he was a partner specializing in litigation at Orrick, Herrington & Sutcliffe LLP.

Available Information

Our web site is www.central.com. We make available free of charge, on or through our website, our annual, quarterly and current reports, and any amendments to those reports, as soon as reasonably practicable after electronically filing or furnishing such reports with the Securities and Exchange Commission. Information contained on our web site is not part of this report.

Item 1A. Risk Factors.

This Form 10-K contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of factors both in and out of our control, including the risks faced by us described below and elsewhere in this Form 10-K.

You should carefully consider the risks described below. In addition, the risks described below are not the only ones facing us. We have only described the risks we consider to be material. However, there may be additional risks that are viewed by us as not material at the present time or are not presently known to us. Conditions could change in the future, or new information may come to our attention that could impact our assessment of these risks.

If any of the events described below were to occur, our business, prospects, financial condition and/or results of operations could be materially adversely affected. When we say below that something could or will have a material adverse effect on us, we mean that it could or will have one or more of these effects. In any such case, the price of our common stock could decline, and you could lose all or part of your investment in our company.

Our operating results and cash flow are susceptible to fluctuations.

We expect to continue to experience variability in our net sales, net income and cash flow on a quarterly basis. Factors that may contribute to this variability include:

- seasonality and adverse weather conditions;
- fluctuations in prices of commodity grains and other input costs;
- operational problems;
- shifts in demand for lawn and garden and pet products;
- changes in product mix, service levels, marketing and pricing by us and our competitors;
- the effect of acquisitions; and
- economic stability of and strength of our relationships with key retailers.

These fluctuations could negatively impact our business and the market price of our common stock.

Seeds and grains we use to produce bird feed and grass seed are commodity products subject to price volatility that has had, and could have, a negative impact on us.

Our financial results are partially dependent upon the cost of raw materials and our ability to pass along increases in these costs to our customers. In particular, our Pennington and Kaytee businesses are exposed to fluctuations in market prices for commodity seeds and grains used to produce bird feed. Historically, market prices for commodity seeds and grains have fluctuated in response to a number of factors, including changes in United States government farm support programs, changes in international agricultural and trading policies and weather conditions during the growing and harvesting seasons.

To mitigate our exposure to changes in market prices, we enter into purchase contracts for grains, bird feed and grass seed to cover a limited portion of our purchase requirements for a selling season. Since these contracts cover only a portion of our purchase requirements, as market prices for such products increase, our cost of production increases as well. In contrast, if market prices for such products decrease, we may end up purchasing grains and seeds pursuant to the purchase contracts at prices above market.

We took certain pricing actions in fiscal 2018 to offset the impact of inflationary pressures and plan to do so in the year ahead as well. Although we have been able to negotiate some price increases in the past with our retailers, it is possible that price increases may not fully offset rising costs in the future, resulting in margin erosion. We can provide no assurance as to the timing or extent of our ability to implement additional price adjustments in the event of increased costs in the future, or our ability to retain pricing with our retailers in the context of declining costs. We also cannot predict to what extent price increases may negatively affect our sales volume. As retailers pass along price increases, consumers may shift to our lower margin bird feed, switch to competing products or reduce purchases of wild bird feed products.

Our success depends upon our retaining and recruiting key personnel.

Our performance is substantially dependent upon the continued services of George C. Roeth, our President and Chief Executive Officer, and our senior management team. The loss of the services of these persons could have a material adverse effect on our business. Our future performance depends on our ability to attract and retain skilled employees. We cannot assure you that we will be able to retain our existing personnel or attract additional qualified employees in the future.

We are subject to significant risks associated with innovation, including the risk that our new product innovations will not produce sufficient sales to recoup our investment.

We believe that our future success will depend upon, in part, our ability to continue to improve our existing products through product innovation and to develop, market and produce new products. We cannot assure you that we will be successful in the introduction, marketing and production of any new products or product innovations, or that we will develop and introduce in a timely manner, improvements to our existing products which satisfy customer needs or achieve market acceptance. Our failure to develop new products and introduce them successfully and in a timely manner could harm our ability to grow our business and could have a material adverse effect on our business, results of operations and financial condition.

We believe that the period of time to gain consumer acceptance of major innovations is longer in the garden industry than in many industries, which compounds the risks generally associated with major new product innovations.

A decline in consumers' discretionary spending or a change in consumer preferences could reduce our sales and harm our business.

Our sales ultimately depend on consumer discretionary spending, which is influenced by factors beyond our control, including general economic conditions, the availability of discretionary income and credit, weather, consumer confidence and unemployment levels. Any material decline in the amount of consumer discretionary spending could reduce our sales and harm our business. These economic and market conditions, may also place a number of our key retail customers under financial stress, which would increase our credit risk and potential bad debt exposure.

The success of our business also depends in part on our ability to identify and respond to evolving trends in demographics and consumer preferences. Our failure to timely identify or effectively respond to changing consumer tastes, preferences, spending patterns and lawn and garden and pet care needs could adversely affect the demand for our products and our profitability.

Inflation, deflation, economic uncertainty and other adverse macro-economic conditions may harm our business.

Our revenues and margins are dependent on various economic factors, including rates of inflation or deflation, energy costs, consumer attitudes toward discretionary spending, currency fluctuations, and other macro-economic factors which may impact consumer spending. If we are unable to pass through rising input costs and raise the price of our products, or consumer confidence weakens, we may experience gross margin declines.

Supply disruptions in pet birds, small animals and fish may negatively impact our sales.
The federal government and many state governments have increased restrictions on the importation of pet birds and the supply of small animals. These restrictions have resulted in reduced availability of new pet birds and animals and thus reduced demand for pet bird and small animal food and supplies. If these restrictions become more severe, or similar restrictions become applicable to live pet fish, our future sales of these products would likely suffer, which would negatively impact our profitability. In addition, some countries have experienced outbreaks of avian flu. While the number of cases worldwide has declined, a significant outbreak in the United States would reduce demand for our pet and wild bird food and negatively impact our financial results.
Our Segrest subsidiary is the largest supplier of aquarium fish in the United States and also supplies pet birds and small animals. The sale of fish, pet birds and small animals subjects us to additional risk, including risks associated with sourcing, developing captive breeding programs, health of the fish, pet birds and small animals supplied by us and future governmental regulation of the sale of fish, pet birds and small animals.
Our lawn and garden sales are highly seasonal and subject to adverse weather.
Because our lawn and garden products are used primarily in the spring and summer, the Garden business is seasonal. In fiscal 2018, approximately 68% of our Garden segment's net sales and 57% of our total net sales occurred during our second and third fiscal quarters. Substantially all of the Garden segment's operating income is generated in this period. Our working capital needs and our borrowings generally peak in our second fiscal quarter, because we are generating lower revenues while incurring expenses in preparation for the spring selling season. If cash on hand and borrowings under our credit facility are ever insufficient to meet our seasonal needs or if cash flow generated during the spring and summer is insufficient to repay our borrowings on a timely basis, this seasonality could have a material adverse effect on our business.
Because demand for lawn and garden products is significantly influenced by weather, particularly weekend weather during the peak gardening season, our results of operations and cash flow could also be adversely affected by certain weather patterns such as unseasonably cool or warm temperatures, heavy rains, water shortages or floods.
Rising energy prices could adversely affect our operating results.
In the past, energy prices have increased substantially, which resulted in increased fuel costs for our businesses and increased raw materials costs for many of our branded products. Rising energy prices in the future could adversely affect consumer spending and demand for our products and increase our operating costs, both of which would reduce our sales and operating income.
We depend on a few customers for a significant portion of our business.
Walmart, our largest customer, represented approximately 16%, 16% and 15% of our total company net sales in fiscal 2018, 2017 and 2016, respectively. Home Depot, our second largest customer, represented approximately 11%, 8% and 8% of our total company net sales in fiscal 2018, 2017 and 2016, respectively. In addition, Lowe's, Costco, and PetSmart are also significant customers, and together with Walmart and Home Depot, accounted for approximately 48% of our net sales in fiscal 2018, 44% in fiscal 2017 and 42% in fiscal 2016. The market shares of many of these key retailers have increased and may continue to increase in future years.
The loss of, or significant adverse change in, our relationship with any of these key retailers could cause our net sales, operating income and cash flow to decline. The loss of, or reduction in, orders from any significant customer, losses arising from customer disputes regarding shipments, fees, merchandise condition or related matters, or our inability to collect accounts receivable from any major customer could reduce our operating income and cash flow.
Tariffs or a global trade war could increase the cost of our products, which could adversely impact the competitiveness of our products and our financial results.
Recently, the Trump administration imposed 25% tariffs on a variety of imports from China and subsequently implemented tariffs on additional goods imported from China. Approximately 10% of the products that we sell in the United States are manufactured in China. If the Trump Administration continues the recent China tariffs, or if additional tariffs or trade restrictions are implemented by the United States or other countries in connection with a global trade war, the cost of our products manufactured in China, or other countries, and imported into the United States or other countries could increase, which in turn could adversely affect the demand for these products and have a

material adverse effect on our business and results of operations.

We may be adversely affected by trends in the retail industry.

With the growing trend towards retail trade consolidation, we are increasingly dependent upon key retailers whose leverage is growing. Our business may be negatively affected by changes in the policies of our key retailers, such as inventory destocking, limitations on access to shelf space, price demands and other conditions. In addition, retailers continue to more closely manage inventory levels and make purchases on a “just-in-time” basis. This requires us to shorten our lead time for production in certain cases and to more closely anticipate demand, which could in the future require the carrying of additional inventories and an increase in our working capital and related financing requirements. This shift to “just-in-time” can also cause retailers to delay purchase orders, which can cause a shift in sales from quarter to quarter. Decisions to move in or out of a market category by leading retailers can also have a significant impact on our business. Additionally, some retailers are increasing their emphasis on private label products. While we view private label as an opportunity and supply many private label products to retailers, we could lose sales in the event that key retailers replace our branded products with private label product manufactured by others.

The e-commerce channel continues to grow rapidly. To the extent that the key retailers on which we depend lose share to the e-commerce channel, we could lose sales. If the e-commerce channel continues its rapid growth, we may need to make additional investments to access this channel more effectively, and there can be no assurances that any such investments will be successful.

A significant deterioration in the financial condition of one of our major customers could have a material adverse effect on our sales, profitability and cash flow. We continually monitor and evaluate the credit status of our customers and attempt to adjust sales terms as appropriate. Despite these efforts, a bankruptcy filing or liquidation by a key customer could have a material adverse effect on our business, results of operations and financial condition in the future.

Issues with products may lead to product liability, personal injury or property damage claims, recalls, withdrawals, replacements of products, regulatory actions by governmental authorities that could divert resources, affect business operations, decrease sales, increase costs, and put us at a competitive disadvantage, any of which could have a significant adverse effect on our results of operations and financial condition.

We have experienced, and may in the future experience, issues with products that may lead to product liability, recalls, withdrawals, replacements of products, or regulatory actions by governmental authorities. Product recalls or other governmental regulatory action directed at product sales could result in increased governmental scrutiny, reputational harm, reduced demand by consumers for our products, decreased willingness by retailer customers to purchase or provide marketing support for those products, unavailability or increased cost of insurance, or additional safety and testing requirements. Such results could divert development and management resources, adversely affect our business operations, decrease sales, increase legal fees and other costs, and put us at a competitive disadvantage compared to other manufacturers not affected by similar issues with products, any of which could have a significant adverse effect on our results of operations and financial condition.

Competition in our industries may hinder our ability to execute our business strategy, increase our profitability or maintain relationships with existing customers.

We operate in highly competitive industries, which have experienced increased consolidation in recent years. We compete against numerous other companies, some of which are more established in their industries and have substantially greater revenue and resources than we do. Our products compete against national and regional products and private label products produced by various suppliers. Our largest competitors in the Pet segment are Spectrum Brands and Hartz Mountain, and our largest competitors in the Garden segment are Scotts and Spectrum Brands.

To compete effectively, among other things, we must:

- develop and grow brands with leading market positions;
- maintain or grow market share;
- maintain and expand our relationships with key retailers;
- continually develop innovative new products that appeal to consumers;
- implement effective marketing and sales promotion programs;

- maintain strict quality standards;

- deliver products on a reliable basis at competitive prices; and
- effectively integrate acquired companies.

Competition could lead to lower sales volumes, price reductions, reduced profits, losses, or loss of market share. Our inability to compete effectively could have a material adverse effect on our business, results of operations and financial condition.

Our acquisition strategy involves a number of risks.

We are regularly engaged in acquisition discussions with other companies and anticipate that one or more potential acquisition opportunities, including those that would be material or could involve businesses with operating characteristics that differ from our existing business operations, may become available in the near future. If and when appropriate acquisition opportunities become available, we intend to pursue them actively. Acquisitions involve a number of special risks, including:

- failure of the acquired business to achieve expected results, as well as the potential impairment of the acquired assets if operating results decline after acquisition;
- diversion of management's attention;
- additional financing, if necessary and available, which could increase leverage and costs, dilute equity, or both;
- the potential negative effect on our financial statements from the increase in goodwill and other intangibles;
- difficulties in integrating the operations, systems, technologies, products and personnel of acquired companies;
- initial dependence on unfamiliar supply chains or relatively small supply partners;
- the potential loss of key employees, customers, distributors, vendors and other business partners of the companies we acquire after the acquisition;
- the high cost and expenses of identifying, negotiating and completing acquisitions; and
- risks associated with unanticipated events or liabilities.

These risks could have a material adverse effect on our business, results of operations and financial condition.

We have faced, and expect to continue to face, intense competition for acquisition candidates, which may limit our ability to make acquisitions and may lead to higher acquisition prices. We cannot assure you that we will be able to identify, acquire or manage profitably additional businesses or to integrate successfully any acquired businesses into our existing business without substantial costs, delays or other operational or financial difficulties. In future acquisitions, we also could incur additional indebtedness or pay consideration in excess of fair value, which could have a material adverse effect on our business, results of operations and financial condition.

If our goodwill, indefinite-lived intangible assets or other long-term assets become impaired, we will be required to record impairment charges, which may be significant.

A significant portion of our long-term assets consists of goodwill and other intangible assets recorded as a result of past acquisitions. We do not amortize goodwill and indefinite-lived intangible assets, but rather review them for impairment on a periodic basis or whenever events or changes in circumstances indicate that their carrying value may not be recoverable. We consider whether circumstances or conditions exist which suggest that the carrying value of our goodwill and other long-lived intangible assets might be impaired. If such circumstances or conditions exist, further steps are required to determine whether the carrying value of each of the individual assets exceeds its fair value. If analysis indicates that an individual asset's carrying value does exceed its fair value, we would record a loss equal to the excess of the individual asset's carrying value over its fair value.

The steps required by GAAP entail significant amounts of judgment and subjectivity. Events and changes in circumstances that may indicate that there may be an impairment and that interim impairment testing is necessary include, but are not limited to: competitive conditions; the impact of the economic environment on our customer base and on broad market conditions that drive valuation considerations by market participants; our internal expectations with regard to future revenue growth and the assumptions we make when performing impairment reviews; a significant decrease in the market value of our assets; a significant adverse change in the extent or manner in which our assets are used; a significant adverse change in the business climate that could affect our assets; and significant changes in the cash flows associated with an asset. As a result of such circumstances, we may be required to record a significant charge to earnings in our

financial statements during the period in which any impairment of our goodwill, indefinite-lived intangible assets or other long-term assets is determined. Any such impairment charges could have a material adverse effect on our results of operations and financial condition.

During fiscal 2018, 2017 and 2016, we performed evaluations of the fair value of our indefinite-lived trade names and trademarks. Our expected revenues were based on our future operating plan and market growth or decline estimates for future years. There were no impairment losses recorded in fiscal years 2018 or 2017. In fiscal 2016, we recognized a $1.8 million non-cash impairment charge related to certain indefinite-lived intangible assets in our Pet segment as a result a decline in volume of sales, as well as a non-cash impairment charge of $16.6 million related to our investment in two joint ventures as a result of changes in marketplace conditions, which impacted the expected cash flows and recoverability of the investment.

Most of our goodwill is associated with our Pet segment. In connection with our annual goodwill impairment testing performed during fiscal 2018 and fiscal 2017, we made a qualitative evaluation about the likelihood of goodwill impairment to determine whether it was necessary to calculate the fair values of its reporting units under the two-step goodwill impairment test. We completed our qualitative assessment of potential goodwill impairment and it was determined that it was more likely than not the fair values of our reporting units were greater than their carrying amounts, and accordingly, no further testing of goodwill was required.

We continue to implement an enterprise resource planning information technology system.

In fiscal 2005, we began incurring costs associated with designing and implementing SAP, a company-wide enterprise resource planning (ERP) software system with the objective of gradually migrating to the new system. This new system replaces numerous accounting and financial reporting systems, most of which were obtained in connection with business acquisitions. To date, we have reduced the number of ERP systems from 37 to 9. Capital expenditures for our enterprise resource planning software system for fiscal 2019 and beyond will depend upon the pace of conversion for those remaining legacy systems. If the balance of the implementation is not executed successfully, we could experience business interruptions. If we do not complete the implementation of the project timely and successfully, we may experience, among other things, additional costs associated with completing this project and a delay in our ability to improve existing operations, support future growth; and enable us to take advantage of new applications and technologies. All of this may also result in distraction of management, diverting their attention from our operations and strategy.

Our inability to protect our trademarks and any other proprietary rights may have a significant, negative impact on our business.

We consider our trademarks to be of significant importance in our business. Although we devote resources to the establishment and protection of our trademarks, we cannot assure you that the actions we have taken or will take in the future will be adequate to prevent violation of our trademarks and proprietary rights by others or prevent others from seeking to block sales of our products as an alleged violation of their trademarks and proprietary rights. There can be no assurance that future litigation will not be necessary to enforce our trademarks or proprietary rights or to defend ourselves against claimed infringement or the rights of others. Any future litigation of this type could result in adverse determinations that could have a material adverse effect on our business, financial condition or results of operations. Our inability to use our trademarks and other proprietary rights could also harm our business and sales through reduced demand for our products and reduced revenues.

Some of the products that we manufacture and distribute require governmental permits and also subject us to potential environmental liabilities.

Some of the products that we manufacture and distribute are subject to regulation by federal, state, foreign and local authorities. Environmental health and safety laws and regulations are often complex and are subject to change. Environmental health and safety laws and regulations may affect us by restricting the manufacture, sale or use of our products or regulating their disposal. Regulatory or legislative changes may cause future increases in our operating costs or otherwise affect operations. There is no assurance that in the future we may not be adversely affected by such laws or regulations, incur increased operating costs in complying with such regulations or not be subject to claims for personal injury, property damages or governmental enforcement. In addition, due to the nature of our operations and the frequently changing nature of environmental compliance standards and technology, we cannot predict with any certainty that future material capital expenditures will not be required.

In addition to operational standards, environmental laws also impose obligations on various entities to clean up contaminated properties or to pay for the cost of such remediation, often upon parties that did not actually cause the contamination. Accordingly, we may become liable, either contractually or by operation of law, for remediation costs even if the contaminated property is not presently owned or operated by us, or if the contamination was caused by third parties during or prior to our ownership or operation of the property. With our extensive acquisition history, we have acquired a number of manufacturing and distribution facilities. Given the nature of the past operations conducted by us and others at these properties, there can be no assurance that all potential instances of soil or groundwater contamination have been identified, even for those properties where an environmental site assessment has been conducted. Future events, such as changes in existing laws or policies or their enforcement, or the discovery of currently unknown contamination, may give rise to future remediation liabilities that may be material.

Our business is dependent upon our ability to continue to source products from China.

We outsource a significant amount of our manufacturing requirements to third party manufacturers located in China. This international sourcing subjects us to a number of risks, including: the impact on sourcing or manufacturing of public health and contamination risks in China; quality control issues; social and political disturbances and instability; export duties, import controls, tariffs, quotas and other trade barriers; shipping and transportation problems; and fluctuations in currency values. These risks may be heightened by recent changes in the United States government's trade policies. Because we rely on Chinese third party manufacturers for a significant portion of our product needs, any disruption in our relationships with these manufacturers could adversely affect our operations.

The products that we manufacture and distribute could expose us to product liability claims.

Our business exposes us to potential product liability risks in the manufacture and distribution of certain of our products. Although we generally seek to insure against such risks, there can be no assurance that coverage will be adequate or that we will be able to maintain such insurance on acceptable terms. A successful product liability claim in excess of our insurance coverage could have a material adverse effect on us and could prevent us from obtaining adequate product liability insurance in the future on commercially reasonable terms.

We have pending litigation which could adversely impact our operating results.

We are a party to litigation alleging that the applicator developed and used by us for certain of our branded topical flea and tick products infringes a patent held by Nite Glow Industries, Inc. and claims for breach of contract and misappropriation of confidential information. On June 27, 2018, a jury returned a verdict in favor of Nite Glow and awarded damages of approximately $12.6 million. Unless the verdicts are over-turned in post-trial proceedings, we intend to vigorously pursue our rights on appeal. However, the outcome of litigation is inherently uncertain. Regardless of the ultimate outcome, we could incur significant legal expenses pursuing an appeal and could experience the diversion of time by our management team. If we are unsuccessful in post-trial proceedings or on appeal, our operating results could be adversely affected.

Deterioration in operating results could prevent us from fulfilling our obligations under the terms of our indebtedness or impact our ability to refinance our debt on favorable terms as it matures.

We have, and we will continue to have, significant indebtedness. As of September 29, 2018, we had total indebtedness of approximately $700 million. This level of indebtedness and our future borrowing needs could have material adverse consequences for our business, including:

- make it more difficult for us to satisfy our obligations with respect to the terms of our indebtedness;
- require us to dedicate a large portion of our cash flow to pay principal and interest on our indebtedness, which would reduce the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other business activities;
- increase our vulnerability to adverse industry conditions, including unfavorable weather conditions or commodity price increases;
- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
- restrict us from making strategic acquisitions or exploiting business opportunities;
- place us at a competitive disadvantage compared to competitors that have less debt; and
- limit our ability to borrow additional funds at reasonable rates, if at all.

In addition, since a portion of our debt commitments bear interest at variable rates, an increase in interest rates or interest rate margins as defined under our credit agreement will create higher debt service requirements, which would adversely affect our cash flow.

We are subject to cyber security risks and may incur increasing costs in an effort to minimize those risks.

Our business employs systems and websites that allow for the secure storage and transmission of proprietary or confidential information regarding our customers, employees, suppliers and others, including personal identification information. Security breaches could expose us to a risk of loss or misuse of this information, litigation, and potential liability. We may not have the resources or technical sophistication to anticipate or prevent rapidly-evolving types of cyber attacks. Attacks may be targeted at us, our customers and suppliers, or others who have entrusted us with information. Actual or anticipated attacks may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees, and engage third party experts and consultants. Advances in computer capabilities, new technological discoveries, or other developments may result in the technology used by us to protect transaction or other data being breached or compromised. In addition, data and security breaches can also occur as a result of non-technical issues, including breach by us or by persons with whom we have commercial relationships that result in the unauthorized release of personal or confidential information. Any compromise or breach of our security could result in a violation of applicable privacy and other laws, significant legal and financial exposure, and a loss of confidence in our security measures, which could have an adverse effect on our results of operations and our reputation.

We do not expect to pay dividends in the foreseeable future.

We have never paid any cash dividends on our common stock or Class A common stock and currently do not intend to do so. Provisions of our credit facility and the indenture governing our senior subordinated notes restrict our ability to pay cash dividends. Any future determination to pay cash dividends will be at the discretion of our Board of Directors, subject to limitations under applicable law and contractual restrictions, and will depend upon our results of operations, financial condition and other factors deemed relevant by our Board of Directors.

We may issue additional shares of our common stock or Class A common stock that could dilute the value and market price of our stock.

We recently issued and may decide or be required to issue, including upon the exercise of any outstanding stock options, or in connection with any acquisition made by us, additional shares of our common stock or Class A common stock that could dilute the value of your common stock or Class A common stock and may adversely affect the market price of our common stock or Class A common stock.

Our founder, through his holdings of our Class B common stock, exercises effective control of the Company, which may discourage potential acquisitions of our business and could have an adverse effect on the market price of our stock.

Holders of our Class B common stock are entitled to the lesser of ten votes per share or 49% of the total votes cast, and each share of Class B common stock is convertible at any time into one share of our common stock. Holders of our common stock are entitled to one vote for each share owned. Holders of our Class A common stock have no voting rights, except as required by Delaware law.

As of September 29, 2018, William E. Brown, our founder, beneficially controlled approximately 55% of the voting power of our capital stock. Accordingly, except to the extent that a class vote of the common stock is required by applicable law or our charter, he can effectively control all matters requiring stockholder approval, including the election of our directors, and can exert substantial control over our management and policies. The disproportionate voting rights of our common stock and Class B common stock and Mr. Brown’s substantial holdings of Class B common stock could have an adverse effect on the market price of our common stock and Class A common stock. Also, such disproportionate voting rights and Mr. Brown’s controlling interest may make us a less attractive target for a takeover than we otherwise might be, or render more difficult or discourage a merger proposal, tender offer or proxy contest, even if such actions were favored by our other stockholders, which could thereby deprive holders of common stock or Class A common stock of an opportunity to sell their shares for a “take-over” premium.

We have authorized the issuance of shares of common stock, Class A common stock and preferred stock, which may discourage potential acquisitions of our business and could have an adverse effect on the market price of our common stock and our Class A common stock.

Pursuant to our Fourth Amended and Restated Certificate of Incorporation, the Board of Directors is authorized to issue up to 80,000,000 shares of our common stock, 100,000,000 shares of our nonvoting Class A common stock, 3,000,000 shares of our Class B common stock and up to 1,000,000 additional shares of preferred stock without seeking the approval or consent of our stockholders, unless required by the NASDAQ Global Market. Although the issuance of the additional shares of nonvoting Class A common stock would not dilute the voting rights of the existing stockholders, it would have a dilutive effect on the economic interest of currently outstanding shares of common stock and Class B common stock similar to the dilutive effect of subsequent issuances of ordinary common stock. The issuance of preferred stock could, depending on the rights and privileges designated by the board with respect to any particular series, have a dilutive effect on the voting interests of the common stock and Class B common stock and the economic interests of our common stock, Class A common stock and Class B common stock. In addition, the disproportionate voting rights of our common stock, Class B common stock and Class A common stock, and the ability of the board to issue stock to persons friendly to current management, may make us a less attractive target for a takeover than we otherwise might be or render more difficult or discourage a merger proposal, tender offer or proxy contest, even if such actions were favored by our common stockholders, which could thereby deprive holders of common stock of an opportunity to sell their shares for a “take-over” premium.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We currently operate 33 manufacturing facilities totaling approximately 3.9 million square feet and 59 sales and logistics facilities totaling approximately 5.5 million square feet. Most sales and logistics centers consist of office and warehouse space, and several large bays for loading and unloading. Each sales and logistics center provides warehouse, distribution, sales and support functions for its geographic area. Our executive offices are located in Walnut Creek, California.

The table below lists the Pet segment’s manufacturing and sales and logistics facilities. Numbers in parentheses represent multiple locations.

Location	Type of Facility	Owned or Leased
Phoenix, AZ (2)	Sales and Logistics	Owned
Surprise, AZ	Manufacturing	Leased
Irwindale, CA	Manufacturing	Leased
Sacramento, CA	Sales and Logistics	Leased
Santa Fe Springs, CA	Sales and Logistics	Leased
Aurora, CO	Sales and Logistics	Leased
Colorado Springs, CO (2)	Sales and Logistics	Leased
West Haven, CT (2)	Sales and Logistics	Owned
Gibsonton, FL	Sales and Logistics	Owned
Lakeland, FL (2)	Manufacturing	Leased
Plant City, FL (2)	Manufacturing	Leased
Ruskin, FL	Manufacturing	Leased
Ruskin, FL (3)	Sales and Logistics	Leased
Tampa, FL	Sales and Logistics	Leased
Atlanta, GA (2)	Sales and Logistics	Leased
Atlanta, GA	Sales and Logistics	Owned
Norcross, GA	Sales and Logistics	Leased
Council Bluffs, IA	Manufacturing	Owned
Elgin, IL	Sales and Logistics	Leased
Wichita, KS	Sales and Logistics	Leased
Taylor, MI	Sales and Logistics	Leased
Burnsville, MN	Sales and Logistics	Leased
Hazelwood, MO	Sales and Logistics	Leased
Riverside, MO	Sales and Logistics	Leased
Hamilton, NJ	Sales and Logistics	Leased
Neptune City, NJ	Manufacturing	Owned
South Brunswick, NJ	Sales and Logistics	Leased
Fairfield, OH	Sales and Logistics	Leased
Vandalia, OH	Sales and Logistics	Leased
Sulphur, OK	Sales and Logistics	Owned
Cressona, PA	Manufacturing	Owned
Pottsville, PA	Sales and Logistics	Leased
Athens, TX	Manufacturing	Leased
Athens, TX (2)	Sales and Logistics	Leased
Dallas, TX	Manufacturing	Owned
Dallas, TX	Sales and Logistics	Leased
Algona, WA	Sales and Logistics	Leased
Chilton, WI	Manufacturing	Owned
Franklin, WI	Manufacturing	Owned
Milwaukee, WI	Sales and Logistics	Leased
Mississauga, Ontario, Canada	Sales and Logistics	Leased
Guangzhou, China	Sales and Logistics	Leased
Shanghai, China	Sales and Logistics	Leased
Atlixco, Puebla, Mexico	Manufacturing	Owned
Dorking, Surrey, UK	Manufacturing	Leased
Taunton, Somerset, UK	Sales and Logistics	Leased

The table below lists the Garden segment's manufacturing and sales and logistics facilities. Numbers in parentheses represent multiple locations.

Location	Type of Facility	Owned or Leased
Cullman, AL	Sales and Logistics	Owned
Cullman, AL	Sales and Logistics	Leased
Roll, AZ	Manufacturing	Owned
Chico, CA	Manufacturing	Leased
El Centro, CA	Manufacturing	Owned
Ontario, CA	Sales and Logistics	Leased
Longmont, CO	Manufacturing	Owned
Newark, DE	Sales and Logistics	Leased
Covington, GA (2)	Sales and Logistics	Leased
Eatonton, GA	Manufacturing	Owned
Eatonton, GA	Sales and Logistics	Leased
Madison, GA	Manufacturing	Leased
Madison, GA (2)	Manufacturing	Owned
Madison, GA	Sales and Logistics	Owned
Madison, GA	Sales and Logistics	Leased
Taunton, MA	Sales and Logistics	Leased
Elkridge, MD	Sales and Logistics	Leased
Laurel, MD	Sales and Logistics	Leased
Greenfield, MO (2)	Manufacturing	Owned
Greenfield, MO	Sales and Logistics	Owned
Neosho, MO	Manufacturing	Owned
Charlotte, NC	Sales and Logistics	Leased
Sidney, NE	Manufacturing	Owned
Fairfield, OH	Sales and Logistics	Leased
Peebles, OH	Manufacturing	Owned
Peebles, OH	Manufacturing	Leased
Albany, OR	Manufacturing	Owned
Lebanon, OR	Manufacturing	Owned
Portland, OR	Sales and Logistics	Leased
Easton, PA	Sales and Logistics	Leased
Grand Prairie, TX	Sales and Logistics	Leased
Emporia, VA	Sales and Logistics	Leased
Kenbridge, VA	Sales and Logistics	Leased
Northbend, WA	Manufacturing	Leased

In addition to the manufacturing and sales and logistics facilities listed above, the Garden segment leases approximately 120 acres of land in Oregon and Virginia used in its grass seed and live plant operations and owns approximately 410 acres of land in Virginia, North Carolina, Maryland and Ohio used in its live plant operations.

We continually review the number, location and size of our manufacturing facilities and expect to make changes over time in order to optimize our manufacturing footprint. We lease 13 of our manufacturing facilities and 49 of our sales and logistics facilities. These leases generally expire between 2019 and 2029. Substantially all of the leases contain renewal provisions with automatic rent escalation clauses. The facilities we own are subject to major encumbrances under our principal credit facility. In addition to the facilities that are owned, our fixed assets are comprised primarily of machinery and equipment, trucks and warehousing, transportation and computer equipment.

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Item 3. Legal Proceedings

In 2012, Nite Glow Industries, Inc. and its owner, Marni Markel, ("Nite Glow") filed suit in the United States District Court for New Jersey against the Company alleging that the applicator developed and used by the Company for certain of its branded topical flea and tick products infringes a patent held by Nite Glow and asserted related claims for breach of contract and misappropriation of confidential information based on the terms of a Non-Disclosure Agreement. On June 27, 2018, a jury returned a verdict in favor of Nite Glow on each of the three claims and awarded damages of approximately $12.6 million. The case is currently in the post-trial motion phase of proceedings and is expected to proceed to appeal once all such motions have been resolved. Unless the verdicts are over-turned in the post-trial proceedings, the Company intends to vigorously pursue its rights on appeal and believes that it will prevail on the merits. While the Company believes that the ultimate resolution of this matter will not have a material impact on the Company's consolidated financial statements, the outcome of litigation is inherently uncertain and the final resolution of this matter may result in expense to the Company in excess of management's expectations.

From time to time, we are involved in certain legal proceedings in the ordinary course of business. Except as discussed above, we are not currently a party to any other legal proceedings that management believes could have a material effect on our financial position or results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the NASDAQ Stock Market under the symbol CENT, and our class A common stock is traded on the NASDAQ Stock Market under the symbol CENTA. Our Class B stock is not listed on any market and generally cannot be transferred unless converted to common stock on a one-for-one basis.

As of November 16, 2018, there were approximately 86 holders of record of our common stock, approximately 156 holders of record of our Class A nonvoting common stock and 5 holders of record of our Class B stock.

Stock Performance Graph

The following graph compares the percentage change of our cumulative total stockholder return on our Common Stock ("CENT") for the period from September 28, 2013 to September 29, 2018 with the cumulative total return of the NASDAQ Composite (U.S.) Index and the Dow Jones Non-Durable Household Products Index, a peer group index consisting of approximately 30 manufacturers and distributors of household products.

The comparisons in the graph below are based on historical data and are not indicative of, or intended to forecast, the possible future performance of our Common Stock.

Total Return Analysis

	9/28/2013	9/27/2014	9/26/2015	9/24/2016	9/30/2017	9/29/2018
Central Garden & Pet Company	100.00	109.39	233.14	360.88	552.49	512.66
NASDAQ Composite	100.00	120.77	126.88	145.46	180.15	225.49
Dow Jones US Nondurable Household Products	100.00	114.03	105.26	130.14	138.33	135.10

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table sets forth the repurchases of any equity securities during the fourth quarter of the fiscal year ended September 29, 2018 and the dollar amount of authorized share repurchases, remaining under our stock repurchase program.

Period	Total Number of Shares (or Units) Purchased		Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (1)
July 1, 2018 - August 4, 2018	2,753		$ 40.01	—	$ 34,968,000
August 5, 2018 - September 1, 2018	2,980	(2)	36.34	—	34,968,000
September 2, 2018 - September 29, 2018	2,008	(2)	36.96	—	34,968,000
Total	7,741		$ 37.81	—	$ 34,968,000

(1) During the third quarter of fiscal 2011, our Board of Directors authorized a $100 million share repurchase program. The program has no fixed expiration date and expires when the amount authorized has been used or the Board withdraws its authorization. The repurchase of shares may be limited by certain financial covenants in our credit facility that restrict our ability to repurchase our stock.

(2) Shares purchased during the period indicated represent withholding of a portion of shares to cover taxes in connection with the vesting of restricted stock and do not reduce the dollar value of shares that may be purchased under our stock repurchase plan.

Item 6. Selected Financial Data

The following selected statement of operations and balance sheet data as of and for the five fiscal years in the period ended September 29, 2018 have been derived from our audited consolidated financial statements. The financial data set forth below should be read in conjunction with our consolidated financial statements and related notes thereto in “Item 8 – Financial Statements and Supplementary Data” and “Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere herein.

	Fiscal Year Ended				
	September 29, 2018	September 30, 2017	September 24, 2016	September 26, 2015	September 27, 2014
	(in thousands, except per share amounts)				
Statement of Operations Data (1):					
Net sales	$2,215,362	$2,054,478	$1,829,017	$1,650,737	$1,604,357
Cost of goods sold and occupancy	1,539,986	1,421,670	1,275,967	1,162,685	1,150,333
Gross profit	675,376	632,808	553,050	488,052	454,024
Selling, general and administrative expenses	508,040	476,696	421,864	389,345	397,811
Intangible asset and goodwill impairments (2)	—	—	1,828	7,272	—
Operating income (3)	167,336	156,112	129,358	91,435	56,213
Interest expense, net (4)	(36,051)	(28,062)	(42,707)	(39,898)	(42,750)
Other income (expense) (5)	(3,860)	(1,621)	(17,013)	13	403
Income before income taxes and noncontrolling interest	127,425	126,429	69,638	51,550	13,866
Income tax expense (6)	3,305	46,699	24,053	18,535	4,045
Income including noncontrolling interest	124,120	79,730	45,585	33,015	9,821
Net income attributable to noncontrolling interest	526	902	1,071	1,044	1,017
Net income attributable to Central Garden & Pet (6)	$123,594	$78,828	$44,514	$31,971	$8,804
Net income per share attributable to Central Garden & Pet (6):					
Basic	$2.39	$1.57	$0.91	$0.66	$0.18
Diluted	$2.32	$1.52	$0.87	$0.64	$0.18
Weighted average shares used in the computation of income per share:					
Basic	51,716	50,230	48,964	48,562	48,880
Diluted	53,341	51,820	51,075	49,638	49,397
Other Data:					
Depreciation and amortization	$47,199	$42,719	$40,001	$33,703	$35,781
Capital expenditures	$37,845	$44,659	$27,622	$22,030	$17,173
Cash provided by operating activities	$114,112	$114,309	$151,426	$87,449	$126,467
Cash used in investing activities	$(139,136)	$(164,577)	$(91,195)	$(49,854)	$(35,181)
Cash provided (used) by financing activities	$474,783	$(10,392)	$(14,165)	$(68,370)	$(27,759)

	Fiscal Year Ended				
	September 29, 2018	September 30, 2017	September 24, 2016	September 26, 2015	September 27, 2014
	(in thousands)				
Balance Sheet Data:					
Cash and short term investments	$482,106	$ 32,397	$ 92,982	$ 47,584	$ 88,666
Working capital	1,004,334	462,849	481,077	446,431	464,050
Total assets	1,907,209	1,306,906	1,180,683	1,101,112	1,157,715
Total debt (7)	692,153	395,653	395,269	396,982	445,214
Equity (8)	952,834	637,142	554,587	506,380	486,453

(1) Fiscal years 2014, 2015, 2016 and 2018 included 52 weeks. Fiscal year 2017 included 53 weeks.

(2) During fiscal 2016, we recognized a non-cash charge of $1.8 million related to the impairment of a certain indefinite-lived intangible asset in our Pet segment. During fiscal 2015, we recognized a non-cash charge of $7.3 million related to the impairment of certain indefinite-lived intangible assets in our Pet segment.

(3) During fiscal 2014, we recognized a $16.9 million charge related to certain products introduced in fiscal 2013 in our Garden segment. We recognized a $4.9 million gain in fiscal 2014 from the sale of manufacturing plant assets. During fiscal 2016, we recognized a $2.4 million gain in our Pet segment from the sale of a manufacturing plant. During fiscal 2017, we recognized a $2.0 million gain in our Garden segment from the sale of a distribution facility.

(4) During fiscal 2016, we issued $400 million aggregate principal amount of 6.125% Senior Notes due November 2023 and incurred incremental expenses of $14.3 million, comprised of a call premium payment of $8.3 million, a $2.7 million payment of overlapping interest expense for 30 days and a $3.3 million non-cash charge for the write-off of unamortized deferred financing costs and discount on our 2018 Notes, as a result of the redemption of our 2018 Notes and issuance of our 2023 Notes.

(5) During fiscal 2016, we recognized a non-cash impairment charge of $16.6 million related to our investment in two joint ventures as a result of changes in marketplace conditions, which impacted expected cash flows and the recoverability of the investment.

(6) Income tax expense was impacted by a fiscal 2018 tax benefit of $21.5 million from the revaluation of our deferred tax assets and liabilities as a result of the Tax Reform Act .

(7) In December 2017, we issued $300 million aggregate principal amount of 5.125% senior notes due February 2028.

(8) During the fourth quarter of fiscal 2018, we issued 5,550,000 shares of Class A common stock at a public offering price of $37.00 per share and received net proceeds of approximately $196 million.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following is management’s discussion of the financial results, liquidity and other key items related to our performance. This discussion should be read in conjunction with our consolidated financial statements and the related notes and other financial information appearing elsewhere in this Form 10-K. This Form 10-K contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those indicated in forward-looking statements. See “Forward-Looking Statements” and “Item 1A – Risk Factors.”

Business Overview

Central Garden & Pet Company (“Central”) is a leading innovator, producer and distributor of branded and private label products for the lawn & garden and pet supplies markets in the United States. The total annual retail sales of the pet food, treats & chews, supplies and live animal industry in 2017 was estimated by Packaged Facts and the pet industry to have been approximately $58.3 billion. We estimate the annual retail sales of the pet supplies, live animal, and treats & chews and natural pet food markets in the categories in which we participate to be approximately $27.3 billion. The total lawn and garden consumables, decorative products and live plant industry in the United States is estimated by Packaged Facts and IBISWorld to be approximately $33.2 billion in annual retail sales in 2017, including fertilizer, pesticides, growing media, seeds, mulch, other consumables, decorative products and live plants. We estimate the annual retail sales of the lawn and garden consumables, decorative products and live plant markets in the categories in which we participate to be approximately $19.7 billion.

Our pet supplies products include products for dogs and cats, including edible bones, premium healthy edible and non-edible chews, natural dog and cat food and treats, toys, pet carriers, grooming supplies and other accessories; products for birds, small animals and specialty pets, including food, cages and habitats, toys, chews and related accessories; animal and household health and insect control products; live fish and products for fish, reptiles and other aquarium-based pets, including aquariums, furniture and lighting fixtures, pumps, filters, water conditioners, food and supplements, and information and knowledge resources; and products for horses and livestock. These products are sold under the brands including Adams™, Aqueon®, Avoderm®, Cadet®, Farnam®, Four Paws®, Kaytee®, K&H Pet Products®, Nylabone®, Pinnacle®, TFH™, Zilla® as well as a number of other brands including Altosid®, Comfort Zone®, Coralife®, Interpet®, Kent Marine®, Pet Select® and Zodiac®.

Our lawn and garden supplies products include proprietary and non-proprietary grass seed; wild bird feed, bird feeders, bird houses and other birding accessories; weed, grass, and other herbicides, insecticide and pesticide products; fertilizers; and decorative outdoor lifestyle products including pottery, trellises and other wood products as well as live plants. These products are sold under the brands AMDRO®, Ironite®, Pennington®, and Sevin®, as well as a number of other brand names including Lilly Miller®, Over-N-Out®, Smart Seed® and The Rebels®.

In fiscal 2018, our consolidated net sales were $2,215 million, of which our Pet segment, or Pet, accounted for approximately $1,341 million and our Garden segment, or Garden, accounted for approximately $874 million. In fiscal 2018, our operating income was $167 million consisting of income from our Pet segment of $140 million, income from our Garden segment of $96 million and corporate expenses of $69 million.

Fiscal 2018 Financial Highlights

Financial summary:

Earnings per fully diluted share increased $0.80 per share to $2.32 per share, and our operating income increased $11.2 million to $167.3 million compared to fiscal 2017. Certain gains impacting fiscal 2018 and 2017 are excluded for purposes of the non-GAAP presentation elsewhere in this Form 10-K.

- Net sales for fiscal 2018 increased $160.9 million, or 7.8%, to $2,215.4 million. Our Pet segment sales increased 7.6%, and our Garden segment sales increased 8.2%.
- Gross profit for fiscal 2018 increased $42.6 million, or 6.7%, to $675.4 million. Gross margin declined 30 basis points in fiscal 2018 to 30.5%, from 30.8% in fiscal 2017.
- Our operating income increased $11.2 million, or 7.2%, to $167.3 million in fiscal 2018, and as a percentage of net sales was flat compared to the prior year at 7.6%. Non-GAAP operating income increased $13.2 million, or 8.6%.
- Net income for fiscal 2018 was $123.6 million, or $2.32 per share on a fully diluted basis, compared to net income in fiscal 2017 of $78.8 million, or $1.52 per share on a fully diluted basis.
- Non-GAAP net income increased to $102.1 million, or $1.91 per share, in fiscal 2018 from $77.5 million, or $1.50 per share, in fiscal 2017.

Recent Developments

Financings

In December 2017, we issued $300 million aggregate principal amount of 5.125% senior notes due February 2028. During the fourth quarter of fiscal 2018, we issued 5,550,000 shares of Class A common stock at a public offering price of $37.00 per share and received net proceeds of approximately $196 million. We intend to use the net proceeds to finance acquisitions of suitable businesses and for general corporate purposes.

Acquisitions

General Pet Supply

In April 2018, we purchased substantially all of the assets of General Pet Supply, a leading Midwestern U.S. supplier of pet food and supplies for approximately $24 million. The acquisition is expected to broaden our national pet supplies distribution footprint, expand our pet food distribution business and provide us with access to the veterinary channel.

Bell Nursery

In March 2018, we purchased Bell Nursery, a leading grower and distributor of live flowers and plants in the mid-Atlantic region of the United States, for approximately $61 million and contingent consideration up to $10 million. The acquisition is expected to complement our existing garden portfolio.

We also purchased two small wholesale distributors of fish and small animals during fiscal 2018 for approximately $8 million.

Results of Operations (GAAP)

The following table sets forth, for the periods indicated, the relative percentages that certain income and expense items bear to net sales:

	Fiscal Year Ended		
	September 29, 2018	September 30, 2017	September 24, 2016
Net sales	100.0 %	100.0 %	100.0 %
Cost of goods sold and occupancy	69.5	69.2	69.8
Gross profit	30.5	30.8	30.2
Selling, general and administrative	22.9	23.2	23.1
Intangible asset impairment	—	—	—
Operating income	7.6	7.6	7.1
Interest expense, net	(1.6)	(1.4)	(2.3)
Other income (expense)	(0.2)	(0.1)	(0.9)
Income taxes	0.2	2.3	1.3
Noncontrolling interest	—	—	0.2
Net income (loss)	5.6 %	3.8 %	2.4 %

Fiscal 2018 Compared to Fiscal 2017

Net Sales

Net sales for fiscal 2018 increased $160.9 million, or 7.8%, to $2,215.4 million from $2,054.5 million in fiscal 2017. Our branded product sales increased $115.3 million, and sales of other manufacturers' products increased $45.6 million. Branded product sales include products we produce under Central brand names and products we produce under third party brands. Sales of our branded products represented 79.5% of our total sales in fiscal 2018 compared with 80.1% in fiscal 2017. Fiscal 2018 included 52 weeks while fiscal 2017 included 53 weeks. We estimate the impact of the extra week in fiscal 2017 to be approximately $35 million on total net sales, $32.8 million of which is the impact on organic sales. Private label sales represented approximately 10% to 15% of our consolidated net sales. Organic net sales, which excludes the impact of acquisitions and divestitures in the last 12 months, increased $20.6 million, or 1.0%, as compared to fiscal 2017. In addition, fiscal 2017 included an extra week as compared to fiscal 2018. We estimate the impact on fiscal

2017 of the extra week of net sales on organic net sales to be $32.8 million. Adjusting for the extra week in fiscal 2017, organic net sales increased approximately 2.6%.
The following table indicates each class of similar products which represented approximately 10% or more of our consolidated net sales in the fiscal years presented (in millions):

Category	2018	2017	2016
Other pet products	$896.5	$841.4	