

Central Garden & Pet is a leading producer and marketer of pet, lawn and garden products in the U.S. The company's six largest customers accounted for 42% of FY16 sales, and Wal-Mart alone accounted for 15% of sales. CENT derived 59% of its FY16 sales from the Pet segment and 41% from the Garden segment.

Analyst's Notes

Analysis by John Staszak, CFA, February 28, 2018

ARGUS RATING: BUY

- FY18 guidance raised following strong 1Q18
- Following uneven performance over much of the past decade, Central Garden's results have improved significantly over the past two years with help from cost-savings initiatives and acquisitions. The company has also reduced interest expense through a late 2015 refinancing.
- We now project a 27% rise in FY18 earnings, to \$1.90, up from a prior \$1.69. For FY19, we are raising our earnings estimate from \$1.88 to \$2.06 per share.
- We believe that CENT shares are attractively valued at a PEG ratio of 2.1, below the peer average of 2.9.
- Our revised target price of \$46 implies a PEG ratio of 2.4, below the peer average, and a potential return of 16% from current levels.

INVESTMENT THESIS

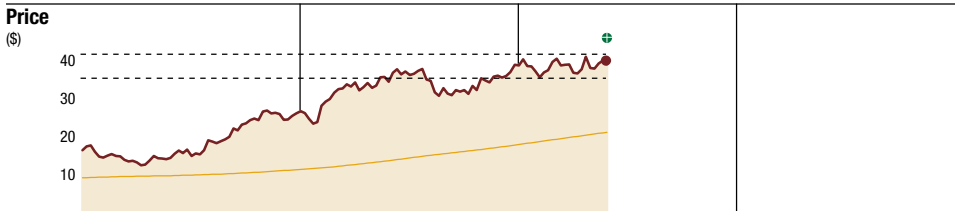
We are maintaining our BUY rating on Central Garden & Pet Co. (NGS: CENT), a manufacturer and marketer of pet and garden products. Following uneven performance over much of the past decade, Central Garden's results have improved significantly over the past two years with help from cost-savings initiatives and acquisitions, including its purchase of Segrest Inc. in October 2016. We expect Central Garden to continue to post solid results over the next few years, and look for five-year compound annual EPS growth of 10.0%, above our forecast of 7.7% for peers. On valuation, we believe that CENT shares are attractively valued at a PEG ratio of 2.1, below the peer average of 2.9. Our new target price of \$46 implies a PEG ratio of 2.4, below the peer average, and a potential return of 16% from current levels.

RECENT DEVELOPMENTS

On February 7, CENT posted fiscal 1Q18 adjusted EPS of \$0.19, up from \$0.12 in the prior-year period and \$0.04 above the consensus forecast. Sales rose 5.4%, to \$442.0 million, reflecting contributions from acquisitions and 1.1% organic growth. The consensus estimate had called for fourth-quarter revenue of \$434 million. The gross margin increased 100 basis points to 29.8%. The adjusted operating margin increased

Market Data Pricing reflects previous trading week's closing price.

— 200-Day Moving Average ● Target Price: \$46.00 ● 52 Week High: \$41.70 ● 52 Week Low: \$35.30 ● Closed at \$39.93 on 2/23



Quarterly	Q1	Q2	Q3	Q4	Annual
EPS (\$)	0.01	0.65	0.48	0.13	1.26
Quarterly	0.13	0.67	0.62	0.08	1.50
Quarterly	0.19	0.74	0.75	0.22	1.90 (Estimate)
Quarterly	0.25	0.79	0.79	0.23	2.06 (Estimate)

Quarterly	Q1	Q2	Q3	Q4	Annual
Revenue (\$ in Mil.)	359.8	541.2	514.5	413.4	1828.9
Quarterly	419.5	569.9	575.0	491.0	2055.4
Quarterly	442.0	592.7	598.0	510.6	2143.3 (Estimate)
Quarterly	459.7	616.4	621.9	531.1	2229.1 (Estimate)

Argus Recommendations

Twelve Month Rating	SELL	HOLD	BUY
Five Year Rating	SELL	HOLD	BUY
Sector Rating	Under Weight	Market Weight	Over Weight

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 65% Buy, 34% Hold, 0% Sell.

Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

Market Overview

Price	\$39.57
Target Price	\$46.00
52 Week Price Range	\$29.08 to \$42.29
Shares Outstanding	12.16 Million
Dividend	\$0.00

Sector Overview

Sector	Consumer Staples
Sector Rating	UNDER WEIGHT
Total % of S&P 500 Market Cap.	7.00%

Financial Strength

Financial Strength Rating	MEDIUM
Debt/Capital Ratio	38.3%
Return on Equity	13.2%
Net Margin	4.7%
Payout Ratio	--
Current Ratio	3.10
Revenue	\$2.08 Billion
After-Tax Income	\$97.44 Million

Valuation

Current FY P/E	20.83
Prior FY P/E	26.38
Price/Sales	0.23
Price/Book	3.10
Book Value/Share	\$12.77
Market Capitalization	\$481.17 Million

Forecasted Growth

1 Year EPS Growth Forecast	26.67%
5 Year EPS Growth Forecast	10.00%
1 Year Dividend Growth Forecast	N/A

Risk

Beta	1.17
Institutional Ownership	84.52%

Please see important information about this report on page 4

Analyst's Notes...Continued

year-over-year from 4.3% to 5.1%. The operating margin increased due to improvements in both the Garden & Pet Segment.

In the press release, management said that, in view of the company's strong performance in FY17 and 1Q18, it now expects FY18 adjusted earnings of \$1.85 per share.

As discussed in a previous note, in FY17, revenue increased 12.3% to \$2.05 billion and adjusted earnings rose 19% to \$1.50 per share. The increase reflects a 60-basis-point increase in the gross margin to 30.8%. The adjusted operating margin rose 50 basis points to 7.5% in FY17.

In FY17, Central Garden & Pet generated 42% of revenue from its six largest customers: Wal-Mart, Lowe's, Home Depot, Costco, PetSmart and PETCO; Wal-Mart topped the list with 15% of company sales.

In October 2016, CENT purchased aquarium fish wholesaler Segrest Inc., for \$60 million (including \$6 million of contingent future payments). The purchase was intended to strengthen CENT's position in the aquatics market. In December 2015, the company acquired the dog and cat bedding business and certain other assets of National Consumers Outdoors Corp. (formerly Dallas Manufacturing Co.), for \$61 million in cash.

EARNINGS & GROWTH ANALYSIS

Over the past five years, CENT has posted compound annual growth of 2.3% in sales, 17.9% in net income, and 20.3% in EPS.

We project a 27% rise in FY18, to \$1.90. For FY19, we are

raising our estimate from \$1.88 to \$2.06 per share. Our five-year earnings growth rate forecast is 10%.

We expect FY18 revenue to be aided by contributions from acquisitions and market share gains in the Pet segment. We project slightly wider margins on an improving product mix and lower input costs, though we expect earnings growth to be limited by tough prior-year comparisons. In FY19, we expect sales to benefit from modest market share gains in both the Pet and Garden segments, and look for additional cost reductions and margin improvement.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Central Garden & Pet Co. is Medium, the midpoint on our five-point scale. In 1Q18, the company reported a 100-basis-point increase in the adjusted gross margin, to 29.8%. CENT's long-term debt/capital ratio was 51.3% at the end of 1Q18, up from 38.2% in the prior-year period.

In November 2015, CENT issued \$400 million of 6.125% senior notes due November 2023. In December 2015, it used the net proceeds plus cash on hand to redeem its outstanding 8.25% senior subordinated notes due March 1, 2018. The refinancing was intended to reduce annual interest expense by \$8.5 million. However, it led to one-time incremental interest expense of \$14.3 million in the first quarter of FY16.

The company does not pay a cash dividend, and we do not expect it to implement one in the near term.

Growth & Valuation Analysis
GROWTH ANALYSIS

(\$ in Millions, except per share data)

	2013	2014	2015	2016	2017
Revenue	1,654	1,604	1,651	1,829	2,054
COGS	1,190	1,150	1,163	1,276	1,422
Gross Profit	464	454	488	553	633
SG&A	416	398	389	422	477
R&D	—	—	—	—	—
Operating Income	40	56	91	129	156
Interest Expense	43	43	40	43	28
Pretax Income	-3	14	52	70	126
Income Taxes	-3	4	19	24	47
Tax Rate (%)	—	29	36	35	37
Net Income	-2	9	32	45	79
Diluted Shares Outstanding	48	49	50	51	52
EPS	-0.04	0.18	0.64	0.87	1.52
Dividend	—	—	—	—	—

GROWTH RATES (%)

	2013	2014	2015	2016	2017
Revenue	-2.7	-3.0	2.9	10.8	12.3
Operating Income	-46.0	40.0	62.7	41.5	20.7
Net Income	—	—	263.1	39.2	77.1
EPS	—	—	255.6	35.9	74.7
Dividend	—	—	—	—	—
Sustainable Growth Rate	-0.4	1.9	6.5	8.4	13.3

VALUATION ANALYSIS

	2013	2014	2015	2016	2017
Price: High	\$10.34	\$10.01	\$18.27	\$34.49	\$42.29
Price: Low	\$6.13	\$6.00	\$8.41	\$11.67	\$29.08
Price/Sales: High-Low	0.3 - 0.2	0.3 - 0.2	0.5 - 0.3	1.0 - 0.3	1.1 - 0.7
P/E: High-Low	— - —	55.6 - 33.3	28.5 - 13.1	39.6 - 13.4	27.8 - 19.1
Price/Cash Flow: High-Low	— - —	3.9 - 2.3	10.4 - 4.8	11.6 - 3.9	19.2 - 13.2

Financial & Risk Analysis
FINANCIAL STRENGTH

	2015	2016	2017
Cash (\$ in Millions)	48	93	32
Working Capital (\$ in Millions)	477	481	463
Current Ratio	3.70	3.38	3.10
LT Debt/Equity Ratio (%)	78.5	71.4	62.2
Total Debt/Equity Ratio (%)	78.6	71.5	62.2

RATIOS (%)

	2015	2016	2017
Gross Profit Margin	29.6	30.2	30.8
Operating Margin	5.5	7.1	7.6
Net Margin	1.9	2.4	3.8
Return On Assets	2.8	3.9	6.3
Return On Equity	6.5	8.4	13.3

RISK ANALYSIS

	2015	2016	2017
Cash Cycle (days)	120.5	113.2	108.1
Cash Flow/Cap Ex	—	—	—
Oper. Income/Int. Exp. (ratio)	2.3	2.6	5.5
Payout Ratio	—	—	—

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Analyst's Notes...Continued

MANAGEMENT & RISKS

George Roeth has served as president and CEO of Central Garden & Pet since June 2016. Prior to joining the company, Mr. Roeth spent 27 years at The Clorox Company, where he served in a variety of leadership positions, including as COO of one of the company's divisions. Howard Machek was named CFO in September 2016, moving up from his post as chief accounting officer.

CENT investors face customer concentration risks, as the company's six largest customers accounted for 42% of FY16 sales. They also face risks related to changing retail trends, intense competition, and the possibility of disappointing results at acquired companies. We also note that Chairman William Brown has 55% voting control of the company (as of November 2016) through his holdings of Class B common stock.

COMPANY DESCRIPTION

Central Garden & Pet is a leading producer and marketer of pet, lawn and garden products in the U.S. The company's six largest customers accounted for 42% of FY16 sales, and Wal-Mart alone accounted for 15% of sales. CENT derived 59% of its FY16 sales from the Pet segment and 41% from the Garden segment.

VALUATION

Following an uneven performance over much of the past decade, Central Garden's results have improved significantly over

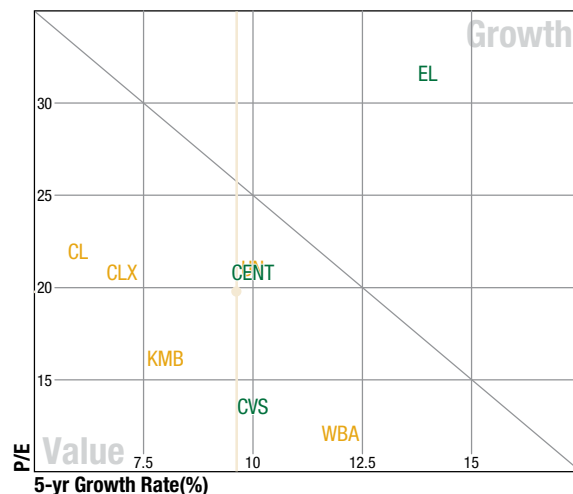
the past two years with help from cost-savings initiatives and acquisitions, including its purchase of Segrest Inc. in October 2016. The company has also reduced interest expense through a late 2015 refinancing. We expect Central Garden to continue to post solid results over the next few years, and look for five-year compound annual EPS growth of 10.0%, above our forecast of 7.7% for peers. On valuation, the shares are trading at 20.8-times our revised FY18 EPS estimate, below the average of 22.8 for peer household products stocks, but at a PEG ratio of 2.3, below the peer average of 2.9. However, based on our expectations for above-average long-term growth, we believe that CENT's PEG ratio should exceed the peer average. Our new target price of \$46 implies a PEG ratio of 2.4, which we view as warranted, and a potential return of 16% from current levels.

On February 28 at midday, BUY-rated CENT traded at \$38.76, down \$0.81.

Peer & Industry Analysis

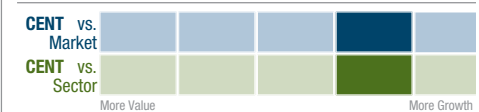
The graphics in this section are designed to allow investors to compare CENT versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- The scatterplot shows how CENT stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.
- The table builds on the scatterplot by displaying more financial information.
- The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how CENT might fit into or modify a diversified portfolio.

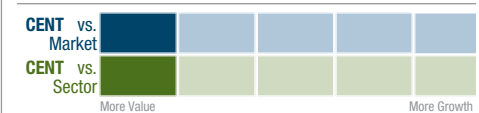


Ticker	Company	Market Cap (\$ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
UN	Unilever NV	90,538	10.0	21.0	11.3	12.4	HOLD
CVS	CVS Health Corp	69,242	10.0	13.6	3.6	14.3	BUY
WBA	Walgreens Boots Alliance Inc	68,495	12.0	12.1	3.2	7.9	HOLD
CL	Colgate-Palmolive Co	61,203	6.0	22.0	13.1	6.9	HOLD
KMB	Kimberly-Clark Corp	39,398	8.0	16.2	12.5	7.9	HOLD
EL	Estee Lauder Companies Inc	31,389	14.0	31.6	8.4	12.0	BUY
CLX	Clorox Co	16,847	7.0	20.8	13.2	8.8	HOLD
CENT	Central Garden & Pet Co	481	10.0	20.8	4.7	8.4	BUY
Peer Average		47,199	9.6	19.8	8.7	9.8	

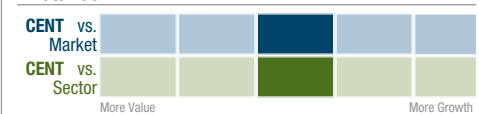
P/E



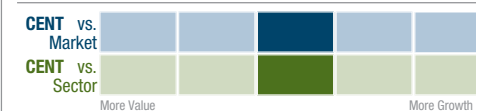
Price/Sales



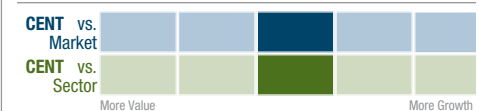
Price/Book



PEG



5 Year Growth



Debt/Capital



About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

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