


DEAR SHAREHOLDERS



I have always written this letter with a straightforward approach and with transparency about our performance. So it would be insincere to adopt a new style simply because I didn't like the outcome. So here are the facts: Our financial performance in fiscal 2011 was disappointing as sales, gross margin, operating profit, earnings per share and cash flow all were lower than we expected.

That said, I have spent nearly my entire life in or around the lawn and garden industry and 2011 may have been the single worst lawn and garden season I can remember from a weather perspective. Through the first half of fiscal 2011, consumer purchases of our products in the United States were up about 15 percent and we were well on our way to another record year. But in April and May - the peak weeks of the lawn and garden season - poor weather in nearly all parts of the U.S. led to dramatically less foot traffic at retail and effectively ended our ability to achieve our original growth targets.

The other stress on the business was a more challenging environment in the mass merchant channel. Sales were lower in this channel due to changes in retail merchandising strategies and a more economically stressed consumer.

It's important to stress, however, that our consumer business had a strong performance outside of the United States, with overall growth of 7 percent driven by strong improvements in Canada and throughout Europe. And Scotts LawnService reported sales growth of 5 percent and operating income growth of

*Jim Hagedorn
Chief Executive Officer
and Chairman of the Board
The Scotts Miracle-Gro Company*





Innovative Products »»



» **Miracle-Gro® Expand 'n Gro™**

Making gardening easier and more enjoyable has always been a critical goal in our approach to innovation. In 2011, we began regional testing of Miracle-Gro® Expand 'n Gro™, a growing media product that loosens and aerates native soil for better plant growth. This small and lightweight bag is easy to merchandise and to carry home, but then expands up to three times in volume when a consumer adds water. Expand 'n Gro contains all-natural fibers that help control moisture by holding 50 percent more water than basic potting soil and then releasing it as plants need it. It also feeds plants for up to six months.

24 percent. Additionally, we used our financial flexibility to repurchase approximately 7 million shares of ScottsMiracle-Gro stock while also increasing our dividend by 20 percent. Finally, we strengthened our capital structure by securing a new long-term credit facility and issuing \$200 million of senior notes.

On a consolidated basis, company-wide sales for the year declined 2 percent to \$2.84 billion. The sales challenges we faced in the U.S., combined with higher commodity costs, led to adjusted income from continuing operations of \$182.6 million, or \$2.76 per share. That compares with \$218.8 million, or \$3.24 per share, in fiscal 2010.

Even with a disappointing result in 2011, we remain optimistic about the category and about the potential of ScottsMiracle-Gro to drive long-term shareholder value. Much of our future success will be based on the continued evolution of our *Consumer First* business model. And we made important strides in this effort over the past year.

We sold our Global Professional business in fiscal 2011 and began the process of winding down our professional seed business in the U.S. By the end of fiscal 2012 - and for the first time in decades - our entire business portfolio should have a consumer orientation. Our goal is straightforward: To drive category growth by improving our relationship with the consumer and by providing them with even better products, services and advice to create beautiful and healthy landscapes.

As our business model has evolved, we have made a variety of important changes. Three years ago, we began to establish regional offices throughout the U.S. that are designed to improve our business at the local level. In fiscal 2011, we continued this process when we began operating our last two regional offices in suburban Chicago and New York.

Unlike nearly any other consumer product category, lawn and garden is a local business. Everything from the climate, to the length of the growing season, as well as the types of plants and pests, varies from north to south and east to west. Our regional presence is helping us address those differences and also helping us better compete with local and regional players.

The next major step in this effort will be focused on our marketing and advertising plans. In fiscal 2012 we will increase our investment by up to \$40 million. We will launch new campaigns, have improved in-store communications and take significant steps to improve our use of social media. We also are putting programs in place that will provide us with improved analytics so that we can better measure the effectiveness of our efforts and make adjustments along the way.

While this effort should help to drive strong year-over-year sales growth, the real focus of this investment is for the long-term. We continue to believe that our consumer engagement is lower than it needs to be and the investments we will make in the coming year should help address that gap.

» **EZ Seed®**

Our most successful innovation ever, EZ Seed®, continues to deliver great performance to consumers while helping to drive strong financial results. The expansion of EZ Seed into our International markets, branded in most countries as Patch Magic®, has allowed us to substantially grow the overall grass seed market and also capture a majority of that growth, thus expanding our market share. The EZ Seed concept is a model for our future innovation efforts. It succeeds at meeting a consumer need, provides opportunity for global growth and also enhances our profitability.



The changes we are making for 2012 come against a backdrop of an economy – and a consumer – that remains challenged. For the last several years, we have been aggressive in taking price increases to offset commodity pressures. However, in 2012, we will take a different approach. With price increases occurring on so many fronts, we have decided to protect the consumer from another year of price increases in our category. While we know this decision will put pressure on our margins in the near-term, we are convinced it is the right decision for the long-term.

This past May marked my 10th anniversary as CEO of ScottsMiracle-Gro. Throughout that period, I have attempted to strike a balance between managing for near-term financial results and the long-term health and growth of the business. Striking that balance will take center stage in fiscal 2012.

The truth is this: Passing on price increases to the consumer and stepping back from making investments in marketing may have improved our near-term financial performance. I recognize that some shareholders might have liked that decision.

But we believe succumbing to these pressures would be the wrong long-term strategy. Our goal is to grow the lawn and garden category and to capture a larger portion of the market along the way. We know that household penetration rates have room to improve and that existing users of our products typically don't apply them with enough frequency or at the

recommended rates. We also know that innovation in this category is critical and that homeowners are looking for products that are easier to use and that enhance their likelihood of success. And we know that advertising in this category works and that our relationship with the consumer matters.

The decisions we've made entering fiscal 2012, and the changes we have been making to our business in the past several years, have been made with these facts in mind. Our understanding of lawn and garden consumers continues to improve. Our position as leaders in this industry requires us to be bold in driving for even further improvement.

While we have more to accomplish, I am pleased with the progress we have been making against our *Consumer First* strategy and I am confident that 2012 will be a year in which we continue to make significant strides.

Thank you for your continued support.

Jim Hagedorn

Jim Hagedorn
*Chief Executive Officer
and Chairman of the Board
The Scotts Miracle-Gro Company
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» **Scotts® Snap®**

The nationwide rollout in fiscal 2012 of Scotts® Snap® marks the biggest innovation in lawn care in years. Snap eliminates the need for large bags of lawn food and big, cumbersome spreaders. Consumers simply insert a Snap® Pac® into the spreader, lock it in, and go. There are no complicated spreader settings to figure out. Instead, Snap is automatically set for the proper application rate. Two years of consumer testing in select markets has demonstrated a high level of appeal for the Snap system. The rollout in 2012 will be supported with significant advertising as well as appealing in-store merchandising displays.

