

Central Garden & Pet Company	Symbol: CENT
Analyst	Thomas Salis
Buy below	\$25.23
Sell above	\$34.90
Probability of Price Increase	100%
Last Price	\$26.47
Intrinsic Value	\$27.92
Target Dividends	\$0.00
Target Price	\$31.54

Investment Thesis**STRONG BRAND PORTFOLIO WITH GROWING REVENUE STREAMS**

I am initiating coverage of Central Garden & Pet Company with a BUY at \$25.23 and a \$31.54 price target. CENT is an industry leader in U.S. pet supplies and lawn and garden supplies markets. With over seventy brands across the pet and garden industries, Central has a highly diverse and adaptable source of revenue. I view CENT as an undervalued company in which the market has viewed too pessimistically.

For the long:1. Favorable Long-Term Industry Characteristics:

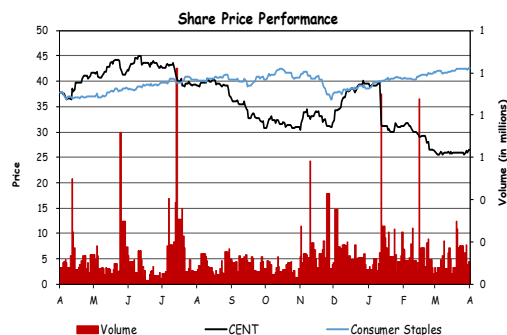
The U.S. pet and garden supplies market is forecasted to have considerable growth over the long term due to advantageous demographic and leisure trends. Over 35% of millennials and 68% of households own pets with the trend continuing to increase year over year. Nearly all of the products consumed by pet owners are non-durable which allows for consistent revenue streams for Central. The U.S. gardening industry is rapidly changing and has seen fast growth as a leisure activity. The increase in popularity of home food gardening and organic gardening boasts well for Central's gardening business.

2. Strong Relationships with Retailers:

Major retailers including Walmart, Home Depot, and Lowe's value the efficiency of dealing with Central's national scope of strong brands. In 2018, Central was recognized by Lowe's for the third consecutive year as its Lawn & Garden Supplier of the Year. Central is continuously valued for their adaptive and flexible product shipments and their dedication to relationship building.

3. Expansion through Merger and Acquisition:

In April 2018, Central purchased the assets of General Pet Supply which is a leading Midwestern U.S. supplier of pet food and supplies. As a result of this acquisition, I expect Central to benefit from this expansion in the pet business. In March 2018, Central purchased Bell Nursery, a leading grower and distributor of flowers and plants in the Mid-Atlantic Region of the U.S. The live plant business has a higher growth rate than the rest of the lawn and garden industry and I expect this acquisition to diversify Central's garden supplies portfolio.



Description	
Central Garden & Pet Company, together with its subsidiaries, produces and distributes products for the lawn and garden, and pet supplies markets in the United States.	
Sector	Consumer Staples
Industry	Household Products
Last Guidance	December 11, 2018
Next earnings date	May 7, 2019
People	
Roeth, George, President, CEO	
Lahanas, Nicholas, Chief Financial Officer	
Lynch, William, Senior Vice President of Operations	
Yuhas, George, General Counsel & Corporate Secretary	
Schwichtenberg, Kay, Executive Vice President of Animal & Public Health	
Machek, Howard, Senior VP & Chief Accounting Officer	
Top Competitors	
Spectrum Brands Holdings, Inc.	--
The Scotts Miracle-Gro Company	--
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Market Statistics	
Market Capitalization (mil)	\$1,426.60
Last Price per share	\$26.47
52 week high	\$45.02
52-week low	\$25.07
Volatility	34.93%
Daily volume (mil)	0.11
Short interest	1.96%
Days to cover short interest	7.14
Beta	0.39

For the short:1. Highly Seasonal Lawn and Garden Sales:

The Lawn and Garden segment accounted for 39.5% of CENT's revenue in 2018 and has averaged 42.6% of their revenue over the past five years. In 2018, 68% of the Garden sales occurred in the second and third fiscal quarters and a very substantial portion of the Garden segment's operating income is generated during the spring and summer. If the cash flows from the spring and summer are insufficient to repay debt on a timely basis, the seasonality of the segment could adversely affect the entire business.

2. Volatility of Seed and Grains Prices:

An increase in the prices of raw materials has the potential to harm sales of products such as grass seeds and bird feed.

Key Catalysts for price change

- Revenue Growth Rate
- Cost of Debt
- Ability to expand and innovate their product line

Valuation

My \$31.54 price target is derived from Discounted Unlevered Free Cash Flow estimates.

Ownership	Change in Ownership ("Input"/month)	
Shares outstanding (mil)	57.91	
Diluted shares outstanding (mil)	54.67	
Options and Warrants (Shares equivalent)	1.04	
% shares held by institutions	92%	
% shares held by investments Managers	75%	
% shares held by hedge funds	9.71%	
% shares held by VC/PE firms	0.013%	
% shares held by insiders	10.65%	13.14%
Poison Pill Type	NONE	

Central Garden & Pet Company			Symbol: CENT			Financials				
Analyst			Thomas Salis			Profitability		CENT (LTM)	CENT Historical	Peers' Median (LTM)
Buy below			\$25.23			Return on Capital		6.2%	6.65%	3.46%
Sell above			\$34.90			Adjusted EBITDA Margin		7.9%	4.55%	7.10%
Probability of Price Increase			100%			Return on Equity		11.1%	7.8%	12.2%
Last Price			\$26.47			Adjusted Net margin		4.6%	2.3%	3.5%
Intrinsic Value			\$27.92			Invested Funds		CENT (LTM)	CENT Historical	Peers' Median (LTM)
Target Dividends			\$0.00			Cash/Capital		21.2%	6.1%	-5.4%
Target Price			\$31.54			NWC/Capital		31.4%	43.3%	16.6%
						Operating Assets/Capital		29.9%	27.9%	69.5%
						Goodwill/Capital		17.5%	20.4%	19.3%
Quarterly Earning Surprises (Actual Vs. Median Estimates)						Capital Structure		CENT (LTM)	CENT Historical	Peers' Median (LTM)
Revenue						Total Debt/Market Cap.		0.45	0.51	1.44
12/30/2017			1.50%			Reported Cost of Borrowing		6.1%		5.1%
3/31/2018			2.05%			Cash Interest/Total Debt		5.3%		5.2%
6/30/2018			7.56%			CGFS Credit Rating		D		CC
9/29/2018			-1.62%			Credit Model Rating		bb		bb to bb+
12/29/2018			-5.74%			Probability of Default		1.11%		0.10%
Mean (Standard Error)			0.75% (1%)			Cost of Capital				
EBITDA						CGFS Credit Rating		Credit Model Rating	Probability of Default	
12/30/2017			-14.59%			Implied Cost of Borrowing (CENT)		9.3%	6.1%	9.3%
3/31/2018			-17.38%			Implied Cost of Borrowing (Peers)		6.6%	6.3%	6.9%
6/30/2018			-25.45%			Cost of New Debt Estimate		9.4%		
9/29/2018			26.20%			Market Risk Premium Estimate		6.0%		
12/29/2018			-40.67%			Cost of Equity Estimate		15.4%		
Mean (Standard Error)			0.75% (5.06%)			WACC Estimate		9.6%		
Valuation										
DCF Valuation										
	Revenues	EBITDA Margin	UFCF	WACC	ROIC	Price Per Share				
Base Year (Actual)	\$2,235.34	8%	\$88.64	9.61%	6.18%	\$27.38				
year 1	\$2,458.88	10%	\$149.04	12.39%	8.64%	\$31.10				
year 2	\$2,729.35	10%	\$135.45	12.48%	9.09%	\$35.00				
year 3	\$2,947.70	10%	\$162.78	12.57%	9.28%	\$39.12				
year 4	\$3,154.04	11%	\$200.31	12.67%	9.90%	\$43.44				
year 5	\$3,311.74	11%	\$230.30	12.79%	9.93%	\$47.93				
year 6	\$3,477.33	11%	\$238.48	12.88%	9.35%	\$52.55				
year 7	\$3,633.81	11%	\$230.27	12.96%	8.32%	\$57.32				
year 8	\$3,789.46	11%	\$219.50	13.03%	7.41%	\$62.28				
year 9	\$3,943.58	10%	\$207.01	13.08%	6.60%	\$67.50				
year 10	\$4,095.44	10%	\$192.89	13.12%	5.85%	\$73.02				
year 11	\$4,244.27	10%	\$177.17	13.14%	5.16%	\$78.94				
year 12	\$4,389.33	10%	\$159.93	13.16%	4.51%	\$85.35				
year 13	\$4,529.84	9%	\$141.07	13.17%	3.89%	\$92.35				
year 14	\$4,665.05	9%	\$120.65	13.17%	3.29%	\$100.07				
year 15	\$4,794.19	9%	\$89.18	13.16%	2.48%	\$115.08				
Continuing Period	\$4,916.53	9%	\$488.61	13.15%	13.15%					
Relative Valuation							Asset Based Valuation			
Multiple	EV/Rev (FW)	EV/EBITDA (FW)	P/BV (TTM)	P/E (FW)	Recovery Rate	100%				
Median (Peers)	2.5x	13.3x	2.7x	19.4x	Capital	\$2,303.02				
Base	Revenue (NTM)	EBITDA (NTM)	Book Value (LTM)	Net Income (NTM)	Intangibles	\$429.96				
CENT	\$2,547.06	\$251.32	\$1,004.58	\$146.27	Claims	\$923.68				
Implied EV	\$6,471.46	\$3,352.38								
Total Net Claims	\$317.45	\$317.45								
Implied EQ	\$6,154.01	\$3,034.93	\$2,667.95	\$2,841.62		\$949.37				
Valuation Summary										
Model	Intrinsic Value			Target Price		Weight				
DCF Valuation	\$27.38			\$31.10		100.00%				
EV/Rev (FW)	\$110.47			\$124.16		0.00%				
EV/EBITDA (FW)	\$54.48			\$61.23		0.00%				
P/BV (TTM)	\$47.89			\$53.83		0.00%				
P/E (FW)	\$51.01			\$57.33		0.00%				
Asset Based Valuation	\$17.04			\$19.15		0.00%				
Price per Share	\$27.38			\$31.10		100%				

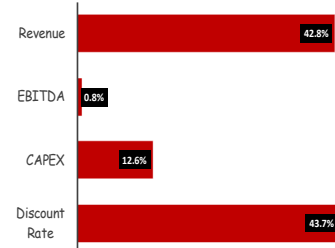
Sensitivity Attribution Analysis

Revenue	42.8%
EBITDA	0.8%
CAPEX	12.6%
Discount Rate	43.7%

Intrinsic Value Distribution--Probability (Upside)=100%

Intrinsic Value (\$)	Frequency
41.95	1
49.91	2
57.86	3
65.82	4
73.77	5
81.73	6
89.68	7
97.64	8
105.59	9
113.55	10
121.50	11
129.46	12
137.41	13
145.37	14
153.32	15
161.28	16
169.23	17
177.19	18
185.14	19
193.10	20

Sensitivity Attribution Analysis



Intrinsic Value Distribution--Probability (Upside)=100%

