

Use of Non-GAAP Financial Measures

We report our financial results in accordance with U.S. generally accepted accounting principles (GAAP). However, to supplement the financial results prepared in accordance with GAAP, we use non-GAAP financial measures including non-GAAP operating income on a consolidated and segment basis and non-GAAP net income and diluted net income per share. Management believes these non-GAAP financial measures that exclude the impact of specific items (described below) may be useful to investors in their assessment of our ongoing operating performance and provide additional meaningful comparisons between current results and results in prior operating periods.

The reconciliations of these non-GAAP measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are shown in the tables below. We believe that the non-GAAP financial measures provide useful information to investors and other users of our financial statements, by allowing for greater transparency in the review of our financial and operating performance. Management also uses these non-GAAP financial measures in making financial, operating and planning decisions and in evaluating our performance, and we believe these measures similarly may be useful to investors in evaluating our financial and operating performance and the trends in our business from management's point of view. While our management believes that non-GAAP measurements are useful supplemental information, such adjusted results are not intended to replace our GAAP financial results and should be read in conjunction with those GAAP results. We have not provided a reconciliation of non-GAAP guidance measures to the corresponding GAAP measures on a forward-looking basis, because such reconciliation cannot be done without unreasonable efforts due to the potential significant variability and limited visibility of the excluded items discussed below.

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

- Gains or losses on disposals of significant plant assets: we have excluded the impact of gains or losses on the disposal of facilities as these represent infrequent transactions that impact comparability between operating periods. We believe the adjustment of these gains or losses supplements the GAAP information with a measure that may be used to help assess the sustainability of our continuing operating performance.
- Loss on early extinguishment of debt: we have excluded the charges associated with the refinancing of our 2018 Notes as the amount and frequency of such charges are not consistent and are significantly impacted by the timing and size of debt financing transactions.
- Tax impact: the adjustment represents the impact of the tax effect of the pre-tax non-GAAP adjustments excluded from non-GAAP net income. The tax impact of the non-GAAP adjustments is calculated based on the consolidated effective tax rate on a GAAP basis, applied to the non-GAAP adjustments, unless the underlying item has a materially different tax treatment.
- We have also provided organic net sales, a non-GAAP measure that excludes the impact of businesses purchased or exited in the prior 12 months, because we believe it permits investors to better understand the performance of our historical business without the impact of recent acquisitions or dispositions.

From time to time in the future, there may be other items that we may exclude if we believe that doing so is consistent with the goal of providing useful information to investors and management.

The non-GAAP adjustments reflect the following:

- (1) During the first quarter of fiscal 2017, we recorded a \$2.0 million gain in our Garden segment from the sale of a distribution facility resulting from rationalizing our facilities to reduce excess capacity. This adjustment was recorded as part of selling, general and administrative costs in the condensed consolidated statements of operations.
- (2) During the first quarter of fiscal 2016, we redeemed our 2018 Notes and issued senior notes due November 2023. As a result of the redemption, we 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 related to the 2018 Notes. These amounts are included in Interest expense in the condensed consolidated statements of operations.

Operating Income Reconciliation

	GAAP to Non-GAAP Reconciliation (in thousands) For the Six Months Ended	
	March 25, 2017	March 26, 2016
GAAP operating income	\$ 83,798	\$ 68,176
Sale of distribution facility	(2,050)	—
Non-GAAP operating income	<u>\$ 81,748</u>	<u>\$ 68,176</u>
GAAP operating margin	8.5%	7.6%
Non-GAAP operating margin	8.3%	7.6%

Net Income and Diluted Net Income Per Share Reconciliation

	GAAP to Non-GAAP Reconciliation (in thousands, except per share amounts) For the Six Months Ended	
	March 25, 2017	March 26, 2016
GAAP net income (loss) attributable to Central Garden & Pet	\$ 42,321	\$ 24,095
Sale of distribution facility	(2,050)	—
2018 notes redemption	—	14,339
Tax effects of non-GAAP adjustments	757	(5,075)
Total net income (loss) impact from non-GAAP adjustments	<u>\$ (1,293)</u>	<u>\$ 9,264</u>
Non-GAAP net income attributable to Central Garden & Pet	\$ 41,028	\$ 33,359
GAAP diluted net income per share	\$ 0.82	\$ 0.48
Non-GAAP diluted net income per share	\$ 0.79	\$ 0.66
Shares used in GAAP diluted net earnings per share calculation	51,911	50,558
Shares used in non-GAAP diluted net earnings per share calculation	51,911	50,558

Organic Net Sales Reconciliation

We have provided organic net sales, a non-GAAP measure that excludes the impact of recent acquisitions and dispositions, because we believe it permits investors to better understand the performance of our historical business. We define organic net sales as net sales from our historical business derived by excluding the net sales from businesses acquired or exited in the preceding 12 months. After an acquired business has been part of our consolidated results for 12 months, the change in net sales thereafter is considered part of the increase or decrease in organic net sales.

**GAAP to Non-GAAP Reconciliation
(in millions)**
For the Three Months Ended March 25, 2017

	Consolidated		Pet Segment	
			Percent change	
Reported net sales - Q2 FY17 (GAAP)	\$ 569.9		\$ 298.4	
Reported net sales - Q2 FY16 (GAAP)	541.2		275.3	
Increase in net sales	28.7	5.3%	23.1	8.4%
Effect of acquisition and divestitures on increase in net sales	19.4	3.6%	19.4	7.1%
Increase in organic net sales - Q2 2017	\$ 9.3	1.7%	\$ 3.7	1.3%

**GAAP to Non-GAAP Reconciliation
(in millions)**
For the Six Months Ended March 25, 2017

	Consolidated		Pet Segment	
			Percent change	
Reported net sales - Q2 FY17 (GAAP)	\$ 989.4		\$ 602.4	
Reported net sales - Q2 FY16 (GAAP)	901.1		524.0	
Increase in net sales	88.3	9.8%	78.4	15.0%
Effect of acquisition and divestitures on increase in net sales	54.4	6.0%	59.6	11.4%
Increase in organic net sales	\$ 33.9	3.8%	\$ 18.8	3.6%