

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:

- The U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Job Act (the "Tax Reform Act") in December 2017. We have excluded the transitional impact of the Tax Reform Act as the remeasurement of our deferred tax assets and liabilities does not reflect the ongoing impact of the lower U.S. statutory rate on our current year earnings.
- 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.
- 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) Transitional impact of U.S. Tax Reform: As a result of the Tax Reform Act, the Company recorded a provisional tax benefit of \$16.3 million due to the remeasurement of its deferred tax assets and liabilities. We have excluded only this transitional impact and have not included in the adjustment the ongoing impact of the lower U.S. statutory rate on our current year earnings.
- (2) 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.

Operating Income Reconciliation

	GAAP to Non-GAAP Reconciliation (in thousands) For the Three Months Ended			
	Consolidated		Garden	
	December 30, 2017	December 24, 2016	December 30, 2017	December 24, 2016
GAAP operating income	\$ 22,521	\$ 19,938	\$ 2,300	\$ 2,676
Gain on sale of distribution facility (2)	—	(2,050)	—	(2,050)
Non-GAAP operating income	\$ 22,521	\$ 17,888	\$ 2,300	\$ 626
GAAP operating margin	5.1%	4.8%	2.0%	2.3%
Non-GAAP operating margin	5.1%	4.3%	2.0%	0.5%

Net Income and Diluted Net Income Per Share Reconciliation	GAAP to Non-GAAP Reconciliation (in thousands, except per share amounts) For the Three Months Ended	
	December 30, 2017	December 24, 2016
GAAP net income attributable to Central Garden & Pet	\$ 26,247	\$ 7,637
Gain on sale of distribution facility (2)	—	(2,050)
Tax effect of sale of distribution facility adjustment	—	734
Tax effect of revaluation of deferred assets (1)	16,343	—
Total impact on net income from non-GAAP adjustments	\$ 16,343	\$ (1,316)
Non-GAAP net income attributable to Central Garden & Pet	\$ 9,904	\$ 6,321
GAAP diluted net income per share	\$ 0.50	\$ 0.15
Non-GAAP diluted net income per share	\$ 0.19	\$ 0.12
Shares used in GAAP and non-GAAP diluted net earnings per share calculation	52,695	51,810

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 December 30, 2017			
	Consolidated		Pet Segment	
		Percentage change		Percentage change
Reported net sales - Q1 FY18 (GAAP)	\$ 442.0		\$ 325.1	
Reported net sales - Q1 FY17 (GAAP)	419.5		304.0	
Increase in net sales	22.5	5.4%	21.1	6.9%
Effect of acquisition and divestitures on increase in net sales	17.7	4.3%	17.7	5.8%
Increase in organic net sales - Q1 2018	\$ 4.8	1.1%	\$ 3.4	1.1%

Consolidated	GAAP to Non-GAAP Reconciliation (in millions) For the Three Months Ended		
	December 24, 2016	December 26, 2015	Percentage change
Reported Net Sales - GAAP	\$ 419.5	\$ 359.8	16.6%
Effect of acquisitions and divestitures	41.8	6.7	
Organic net sales	<u>\$ 377.7</u>	<u>\$ 353.1</u>	7.0%

Pet Segment	GAAP to Non-GAAP Reconciliation (in millions) For the Three Months Ended		
	December 24, 2016	December 26, 2015	Percentage change
Reported Net Sales - GAAP	\$ 304.0	\$ 248.7	22.2%
Effect of acquisitions and divestitures	41.8	1.6	
Organic net sales	<u>\$ 262.2</u>	<u>\$ 247.1</u>	6.1%