

GrowGeneration Corp.



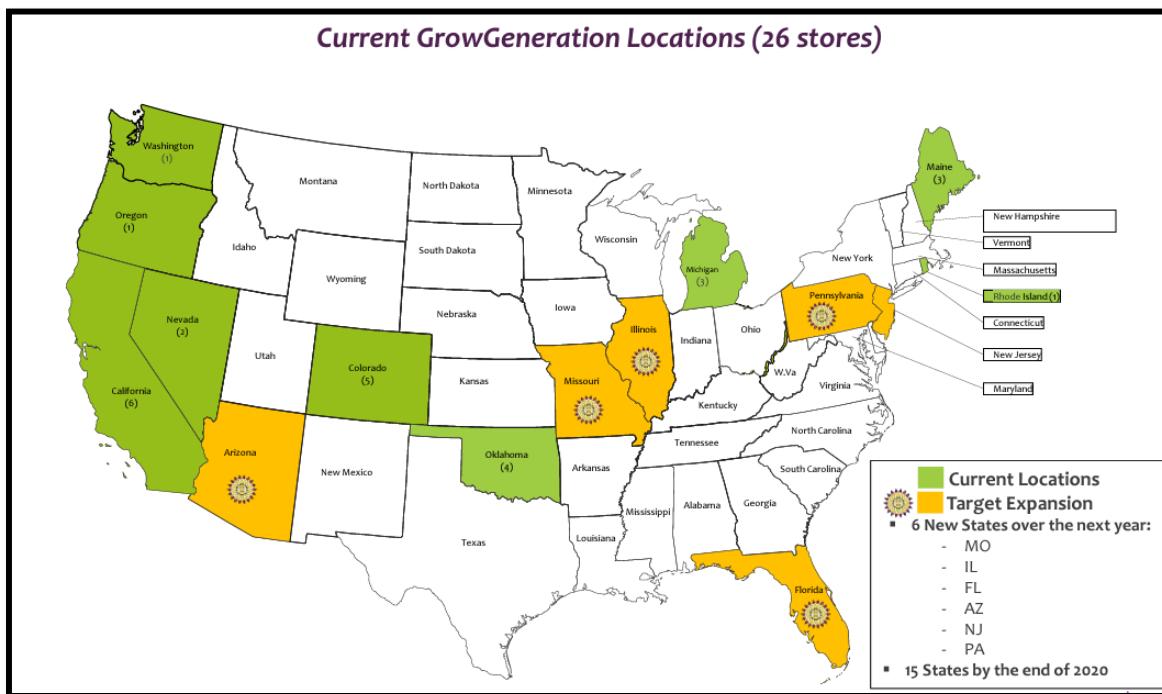
By Ayoub Echchahed

Company description



- GrowGeneration Corp., through its subsidiaries, owns and operates retail hydroponic and organic gardening stores in the United States. It offers horticultural, organics, and lighting and hydroponics products, including lighting fixtures, nutrients, seeds and growing media, systems, trays, fans, filters, humidifiers and dehumidifiers, timers, instruments, water pumps, irrigation supplies, and hand tools. The company also operates an online superstore, HeavyGardens.com for cultivators. The company serves commercial and urban cultivators growing specialty crops, including organics, greens, and plant-based medicines. As of January 8, 2020, it operated 26 stores, including 5 locations in Colorado, 5 locations in California, 2 locations in Nevada, 1 location in Washington, 4 locations in Michigan, 1 location in Rhode Island, 4 locations in Oklahoma, 1 in Oregon, and 3 locations in Maine. (Total new store and acquired stores for 2019 totaled 11 new store locations.)
- Industry: Agricultural Chemicals
- Ticker symbol: GRWG [NASD]
- Insider Ownership = 7.40%
- Market Cap = 192.32M
- Creation in 2008
- IPO in 2016

Current geographic locations



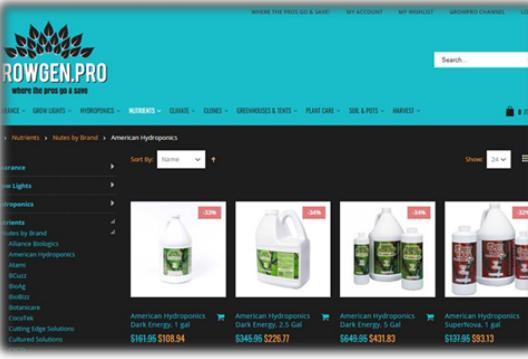
Pictures of some physical locations



Online location

GrowPro Website – WWW.GrowGen.Pro

Omni channel approach that seeks to provide customers with a seamless online shopping experience

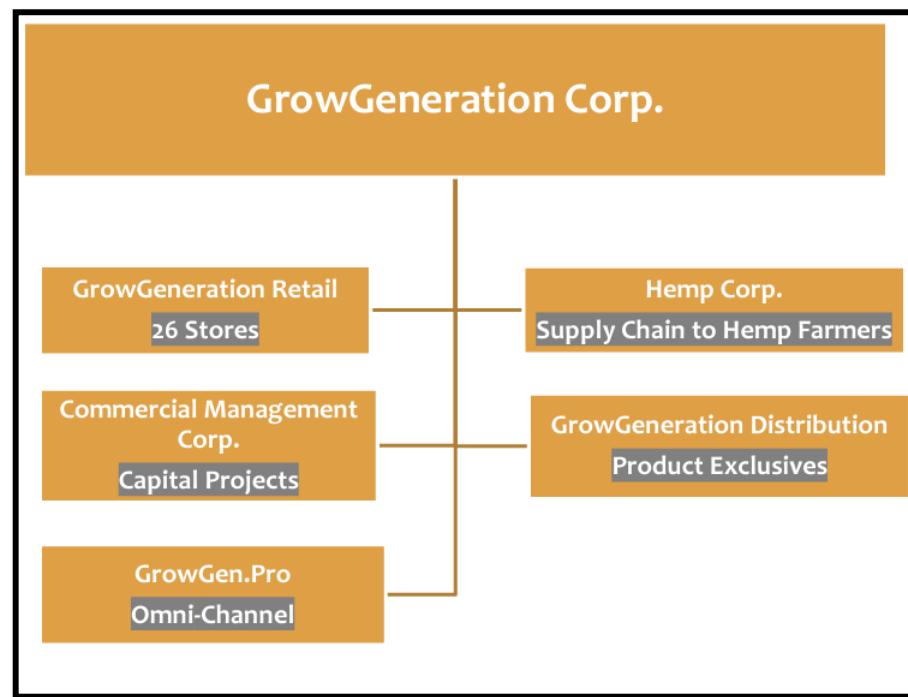


The screenshot shows a product listing for "American Hydroponics" nutrients. The products listed are:

Product	Size	Price
American Hydroponics Dark Energy 1 gal	1 gal	\$108.94
American Hydroponics Dark Energy 2.5 Gal	2.5 Gal	\$226.77
American Hydroponics Dark Energy 5 Gal	5 Gal	\$431.83
American Hydroponics SuperNova 1 gal	1 gal	\$137.05



Business structure



Products for sales

Big Opportunity in Private Label Products - SUNLEAVES Brand



Exclusively distributed by GrowGeneration

Measuring Cups **Cloth Pots**

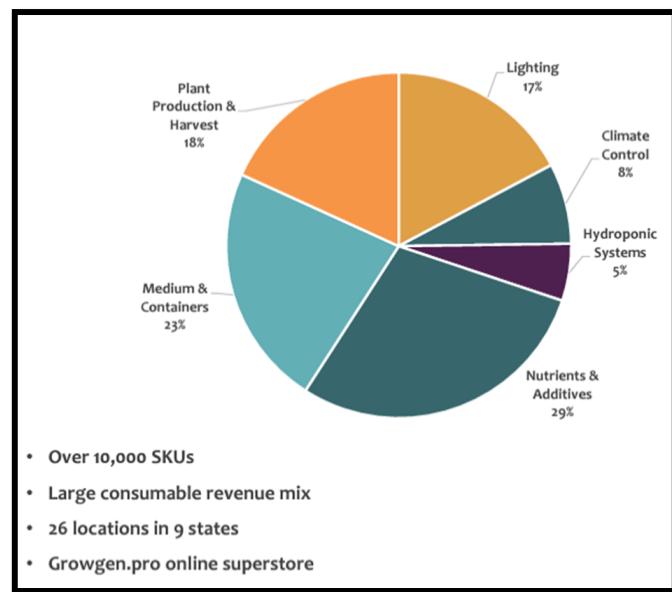


Nutrients **Lighting** **Rachets**



SUNLEAVES BASE
B-5-13
MICRO & MACRO NUTRIENTS + CAL-MAG

Pioneer 4' x 8' Tube Fixture*
47" x 25 5/8" x 2 1/8"
432W/3.64A/120V



Marketing strategy

Out of Home – Billboard	In-Store Merchandising	Trade Shows
Humboldt, CA 	Livonia, MI 	MJBIZ CON 2019 – Las Vegas 
Social Media	Vehicle Wraps	
Instagram/Facebook  	All Locations  	

Management team



Darren Lampert
CEO
Director

- Founding member of law firm Lampert & Lampert (1986-2000)
- Former portfolio manager and proprietary trader (2000-2014)



Michael Salaman
President
Director

- VP at National Media Corp. (1986-2002)
- Founder of American Interactive Media
- Founder (2002-2006) / Chairman, Skinny Nutritional (2006-2013)



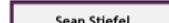
Monty Lamirato
CFO

- CFO, Strategic Environmental & Energy Resources, Inc. (2013-2016)
- Independent consultant (2009-2017)
- CFO/Treasurer, ARC Group Worldwide, Inc. (2001-2009)



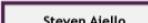
Tony Sullivan
COO

- 20+ years at Foot Locker Inc.
- Executive Vice President and Chief Operating Officer of Forman Mills
- Senior Vice President Operations for Dollar Express
- Senior Vice President, Chief Operating Officer Aimee Linens



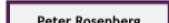
Sean Stiefel
Director

- Founder of Navy Capital LLC in 2014, an equity focused fund
- Analyst with various equity funds



Steven Aiello
Director

- Partner at Jones & Co. (2003-2006)
- Partner at Asset Management (2001-2003)
- Partner at Montgomery Securities (1987-2001)



Peter Rosenberg
Director

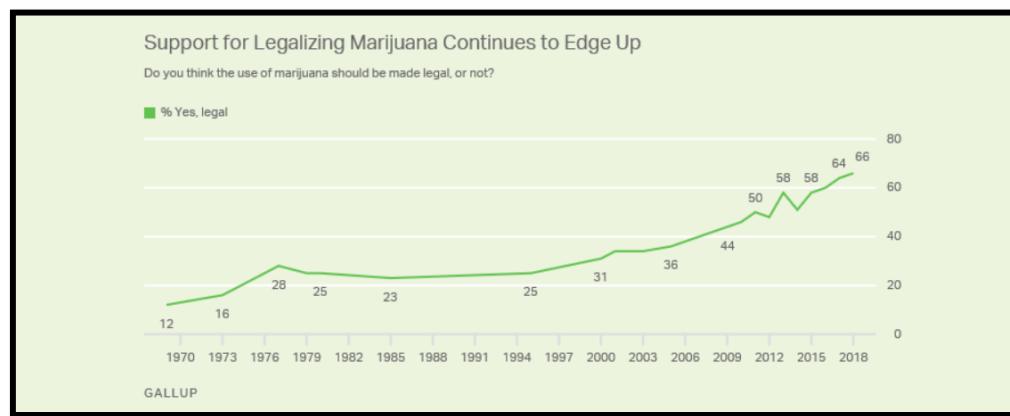
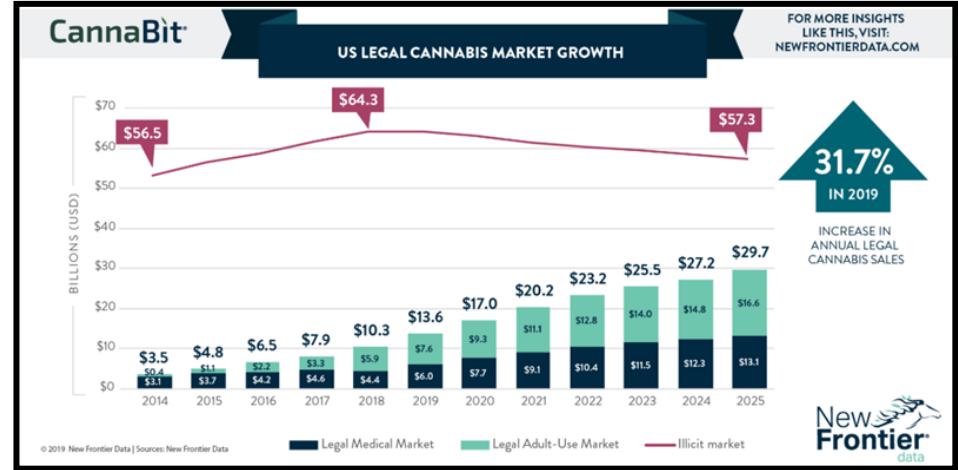
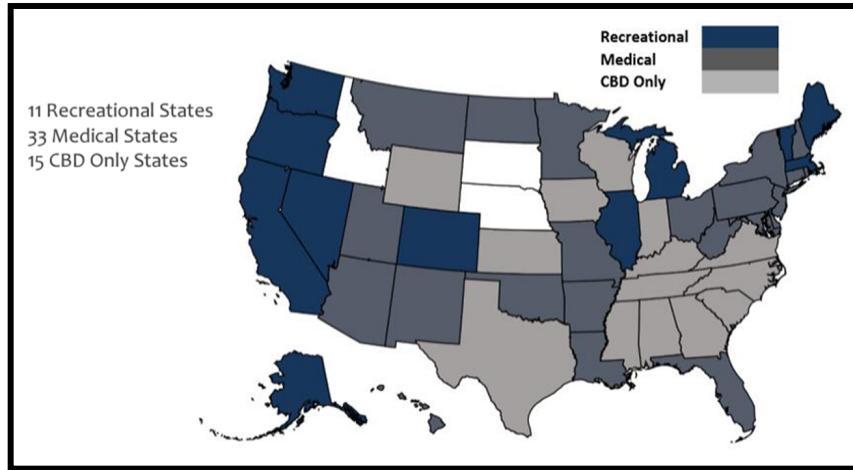
- 28 years of experience in the financial services industry
- Duff & Phelps, Managing Director in the Consumer and Retail Merger and Acquisitions Group
- Managing Director with Wells Fargo Securities
- Managed the San Francisco office for Barrington Associates
- Director at Salomon Smith Barney

- **Private-Equity backed by founders of Cronos, Gotham Green, Navy Capital, JW Asset Merida Capital Partners**
- **Bob Nardelli, Senior strategic advisor, former CEO Home Depot**

Update on the growing industry of cannabis

- Currently, medical marijuana is legal in 33 states in the US. In contrast, recreational marijuana is legal in 11 states. (Illinois recently on January 1st) (Illinois legalization could motivate other states to take action)
- Although marijuana isn't legal at the federal level in the United States, cannabis is gaining popularity among Americans. In 2018, a survey showed that more than sixty-six percent of Americans support legalizing marijuana. (new high in Gallup's trend over nearly half a century)
- Cannabis is recession-proof, so it can help boost US economic growth. Also, many industries like the agriculture one could benefit from cannabis legalization.
- President Trump could choose to ignore Congress's protection laws (democrat aren't supportive for legalization) and allow federal interference in the states about cannabis legalizing. In fact, marijuana at the federal level could reduce black market deals, which could also boost tax revenues.
- Trump's stance on legalization could depend on which Democratic candidates he is up against in the 2020 election. Furthermore, Trump could strengthen his re-election campaign by supporting medical marijuana legalization.
- The global legal marijuana market size is expected to reach USD 66.3 billion by the end of 2025, according to a new report by Grand View Research, Inc. It is anticipated to expand at a CAGR of 23.9% during the forecast period.





U.S. CANNABIS INDUSTRY TRADES AT A SIGNIFICANT DISCOUNT TO CANADIAN PEERS

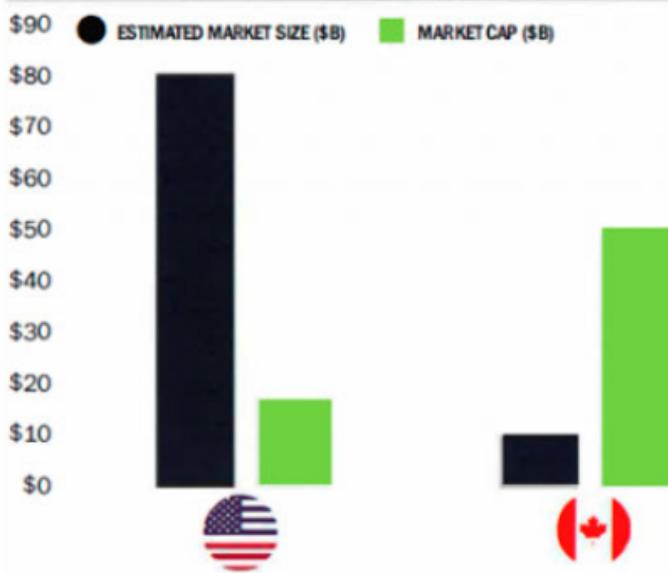


The U.S. has 10x the population and ~8x the estimated market size compared to Canada.

Yet, the Canadian market cap is ~5x the market size vs. U.S. at ~0.25x.

As legalization and capital gaps close, U.S. innovation will lead the global cannabis movement.

U.S. vs. CANADIAN MARKET OPPORTUNITY¹



(1) Illustrative example based on analyst reports and management discussion

FINANCIALS ANALYSIS

Balance sheet

	September 30, 2019 (Unaudited)	December 31, 2018
ASSETS		
Current assets:		
Cash	\$ 15,982,681	\$ 14,639,981
Accounts receivable, net of allowance for doubtful accounts of \$119,237 at September 30, 2019 and \$133,288 at December 31, 2018	2,170,362	862,397
Inventory	19,383,839	8,869,469
Prepaid expenses and other current assets	2,370,439	606,037
Total current assets	<u>39,907,321</u>	<u>24,977,884</u>
Property and equipment, net	3,118,482	1,820,821
Operating leases right-of-use assets, net	7,667,538	
Intangible assets, net	226,974	114,155
Goodwill	17,102,038	8,752,909
Other assets	394,151	227,205
TOTAL ASSETS	<u>\$ 68,416,504</u>	<u>\$ 35,892,974</u>
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,957,782	\$ 1,819,411
Other accrued liabilities	9,829	40,151
Payroll and payroll tax liabilities	991,075	410,345
Customer deposits	927,134	516,038
Sales tax payable	463,315	191,958
Current maturities of operating leases right-of-use assets	1,935,129	
Current maturities of long-term debt	207,582	436,813
Total current liabilities	<u>9,491,846</u>	<u>3,414,716</u>
Long-term convertible debt, net of debt discount and debt issuance costs	-	2,044,113
Operating leases right-of-use assets, net of current maturities	5,869,512	
Long-term debt, net of current maturities	264,779	375,626
Total liabilities	<u>15,626,137</u>	<u>5,834,455</u>
Commitments and contingencies		
Stockholders' Equity:		
Common stock; \$0.001 par value; 100,000,000 shares authorized; 36,652,105 and 27,948,609 shares issued and outstanding as of September 30, 2019 and December 31, 2018, respectively	36,652	27,949
Additional paid-in capital	59,178,587	38,796,562
Accumulated deficit	(6,424,872)	(8,765,992)
Total stockholders' equity	<u>52,790,367</u>	<u>30,058,519</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 68,416,504</u>	<u>\$ 35,892,974</u>

Cash flow statement

	For the Nine months ended September 30,	
	2019	2018
Cash flows from operating activities:		
Net income (loss)	\$ 2,341,120	\$ (2,668,998)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	538,847	230,069
Amortization of debt discount	356,306	858,624
Stock-based compensation expense	1,075,735	920,446
Noncash operating lease expense	137,103	-
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(1,307,965)	(355,674)
Inventory	(7,331,270)	(1,246,125)
Prepaid expenses and other assets	(2,208,070)	(69,631)
Increase (decrease) in:		
Accounts payable and accrued liabilities	3,108,049	242,806
Payroll and payroll tax liabilities	327,818	39,231
Customer deposits	411,096	58,498
Sales tax payable	271,357	116,812
Net cash used in operating activities	<u>(2,279,864)</u>	<u>(1,873,942)</u>
Cash flows from investing activities:		
Assets acquired in business combinations	(8,528,698)	(5,762,763)
Purchase of furniture and equipment	(1,536,508)	(454,999)
Purchase of intangibles	(112,819)	(33,500)
Net cash used in investing activities	<u>(10,178,025)</u>	<u>(6,251,262)</u>
Cash flows from financing activities:		
Principal payments on long term debt	(340,078)	(218,740)
Proceeds from issuance of convertible debt, net of expenses	-	8,912,765
Proceeds from the sale of common stock and exercise of warrants, net of expenses	14,140,667	12,546,672
Net cash provided by financing activities	<u>13,800,589</u>	<u>21,240,697</u>
Net increase in cash		
Cash at the beginning of period	1,342,700	13,115,493
Cash at the end of period	<u>\$ 15,982,681</u>	<u>\$ 14,330,758</u>
Supplemental disclosures of non-cash financing activities:		
Cash paid for interest	\$ 35,757	14,535
Common stock issued for accrued payroll	\$ -	108,420
Common stock issued for prepaid services	\$ 96,000	-
Debt converted to equity	\$ 2,310,832	3,195,484
Warrants issued for debt discount	\$ -	4,239,000
Acquisition of vehicles with debt financing	\$ -	56,174
Assets acquired by issuance of common stock	\$ 3,339,631	5,222,799
Acquisition of assets with seller financing	\$ -	1,087,000
Right to use assets acquired under operating leases	<u>\$ 5,801,725</u>	<u>-</u>

Income statement

	Three Months Ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Sales	\$ 21,778,487	\$ 8,406,255	\$ 54,349,092	\$ 19,939,572
Cost of sales	15,276,906	6,249,129	38,340,670	14,863,600
Gross profit	6,501,581	2,157,126	16,008,422	5,075,972
Operating expenses:				
Store operations	2,744,199	1,415,150	7,360,525	3,456,960
General and administrative	803,707	375,002	1,928,020	1,137,910
Share based compensation	553,492	367,098	1,075,735	920,446
Depreciation and amortization	247,715	114,159	538,847	230,070
Salaries and related expenses	1,020,627	460,928	2,449,733	1,187,738
Total operating expenses	5,369,740	2,732,337	13,352,860	6,933,124
Income (loss) from operations	1,131,841	(575,211)	2,655,562	(1,857,152)
Other income (expense):				
Interest expense	(27,067)	4,795	(35,757)	(14,535)
Interest income	60,973	23,584	95,256	53,211
Other income (loss)	(1,838)	(1,214)	(17,635)	8,102
Amortization of debt discount	(114,210)	(236,527)	(356,306)	(858,624)
Total non-operating expense, net	(82,142)	(209,362)	(314,442)	(811,846)
Net income (loss)	\$ 1,049,699	\$ (784,573)	\$ 2,341,120	\$ (2,668,998)
Net income (loss) per shares, basic	\$.03	\$ (.03)	\$.07	\$ (.12)
Net income (loss) per shares, diluted	\$.03	\$ (.03)	\$.06	\$ (.12)
Weighted average shares outstanding, basic	35,707,788	25,646,011	31,523,679	22,056,665
Weighted average shares outstanding, diluted	41,713,369	25,646,011	37,529,260	22,056,665

Income statements with % change yoy

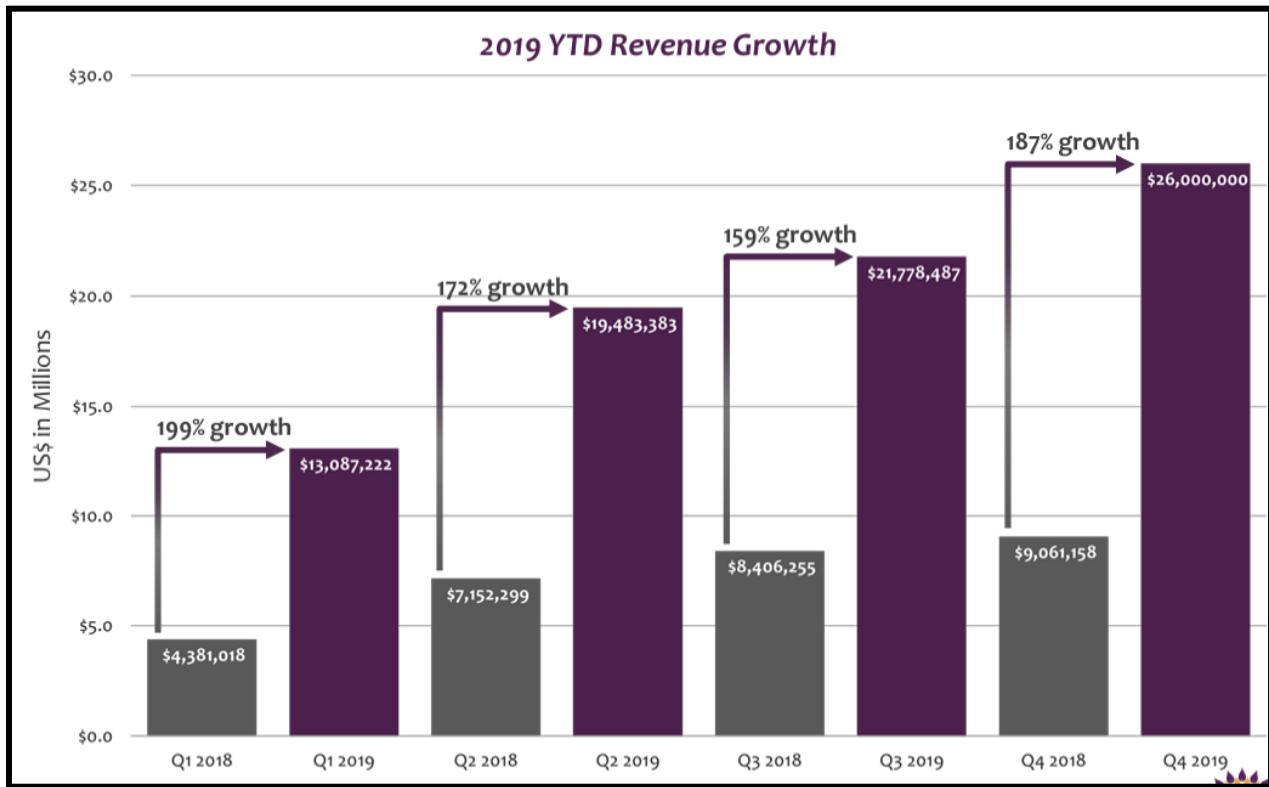
	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	\$ Variance	% Variance
Net revenue	\$ 21,778,487	\$ 8,406,255	\$ 13,372,232	159%
Cost of goods sold	15,276,906	6,249,129	9,027,777	144%
Gross profit	6,501,581	2,157,126	4,344,455	201%
Operating expenses	5,369,740	2,732,337	2,637,403	96%
Operating income (loss)	1,131,841	(575,211)	1,707,052	
Other income (expense)	(82,142)	(209,362)	127,220	(61)%
Net income (loss)	<u>\$ 1,049,699</u>	<u>\$ (784,573)</u>	<u>\$ 1,834,272</u>	

	Nine months ended September 30, 2019	Nine months ended September 30, 2018	\$ Variance	% Variance
Net revenue	\$ 54,349,092	\$ 19,939,572	\$ 34,409,520	173%
Cost of goods sold	38,340,670	14,863,600	23,477,070	158%
Gross profit	16,008,422	5,075,972	10,932,450	215%
Operating expenses	13,352,860	6,933,124	6,419,736	93%
Operating income (loss)	2,655,562	(1,857,152)	4,512,714	
Other income (expense)	(314,442)	(811,846)	497,404	61%
Net income (loss)	<u>\$ 2,341,120</u>	<u>\$ (2,668,998)</u>	<u>\$ 5,010,118</u>	

Net income and EBITDA adjustments

	Three Months Ended	
	September 30, 2019	September 30, 2018
Net income (loss)	\$ 1,049,699	\$ (784,573)
Interest	27,067	(4,795)
Depreciation and Amortization	247,715	114,159
EBITDA	1,324,481	(675,209)
Non-cash operating lease expense	54,547	-
Share based compensation (option compensation, warrant compensation, stock issued for services)	553,492	367,098
Amortization of debt discount	114,210	236,527
Adjusted EBITDA	\$ 2,046,730	\$ (71,584)
Adjusted EBITDA per share, basic	\$.06	-
Adjusted EBITDA per share, diluted	\$.05	-

	Nine months ended	
	September 30, 2019	September 30, 2018
Net income (loss)	\$ 2,341,120	\$ (2,668,998)
Interest	35,757	14,535
Depreciation and Amortization	538,847	230,070
EBITDA	2,915,724	(2,424,393)
Non-cash operating lease expense	137,103	-
Share based compensation (option compensation, warrant compensation, stock issued for services)	1,075,735	920,446
Amortization of debt discount	356,306	858,624
Adjusted EBITDA	\$ 4,484,868	(645,323)
Adjusted EBITDA per share, basic	\$.14	\$ (.03)
Adjusted EBITDA per share, diluted	\$.12	\$ (.03)



Acquisitions

	Grand Rapids Hydro	Green Life Garden	Chlorophyll	Reno Hydroponics	Palm Springs Hydroponics	Total
Inventory	\$ 1,453,100	\$ 1,038,600	\$ 1,441,000	\$ 238,000	\$ 465,500	\$ 4,636,200
Prepads and other current assets		14,100	22,000	-		36,100
Furniture and equipment	50,000	100,000	100,000	25,000	25,000	300,000
Goodwill	2,376,900	2,305,900	2,596,100	516,300	554,000	8,349,200
Total	\$ 3,880,000	\$ 3,458,600	\$ 4,159,100	\$ 779,300	\$ 1,044,500	\$ 13,321,500

The table below represents the consideration paid for the net assets acquired in business combinations.

	Grand Rapids Hydro	Green Life Garden	Chlorophyll	Reno Hydroponics	Palm Springs Hydroponics	Total
Cash	\$ 2,350,000	\$ 2,647,700	\$ 3,659,100	\$ 525,000	\$ 800,000	\$ 9,981,800
Common stock	1,530,000	810,900	500,000	254,300	244,500	3,339,700
Total	\$ 3,880,000	\$ 3,458,600	\$ 4,159,100	\$ 779,300	\$ 1,044,500	\$ 13,321,500

The following table discloses the date of the acquisitions noted above and the revenue and earnings included in the consolidated income statement from the date of acquisition to the period ended September 30, 2019.

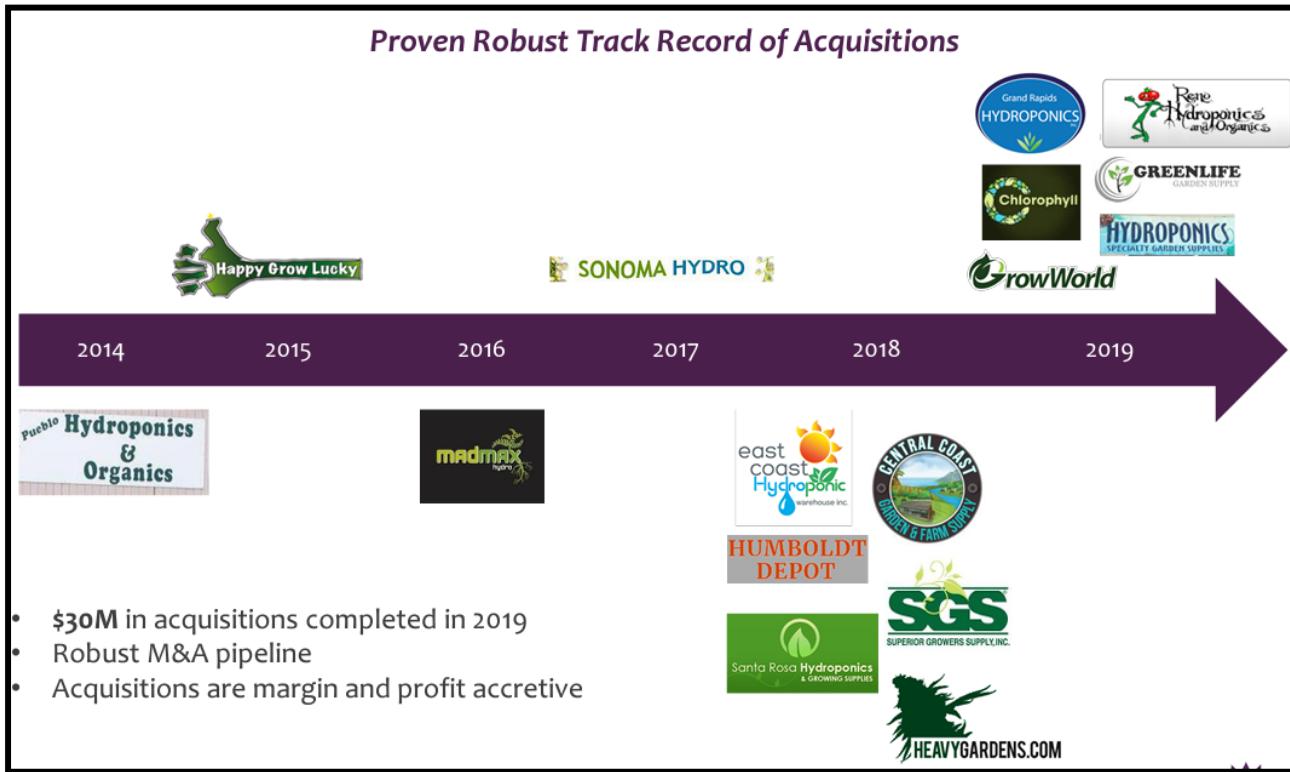
	Grand Rapids Hydro	Green Life Garden	Chlorophyll	Reno Hydroponics	Palm Springs Hydroponics	Total
Acquisition date	9/3/2019	5/14/2019	1/21/2019	2/11/2019	2/7/2019	
Revenue	\$ 612,900	\$ 3,006,100	\$ 4,489,000	\$ 1,427,600	\$ 2,318,500	\$ 11,854,100
Earnings	\$ 121,400	\$ 703,100	\$ 668,900	\$ 233,600	\$ 497,500	\$ 2,224,500

The following represents the pro forma consolidated income statement as if the acquisitions had been included in the consolidated results of the Company for the entire period for the nine months ended September 30, 2018.

Pro forma consolidated income statement

	September 30, 2018
Revenue	\$ 5,552,000
Earnings	\$ 504,400

Proven Robust Track Record of Acquisitions



- \$30M in acquisitions completed in 2019
- Robust M&A pipeline
- Acquisitions are margin and profit accretive

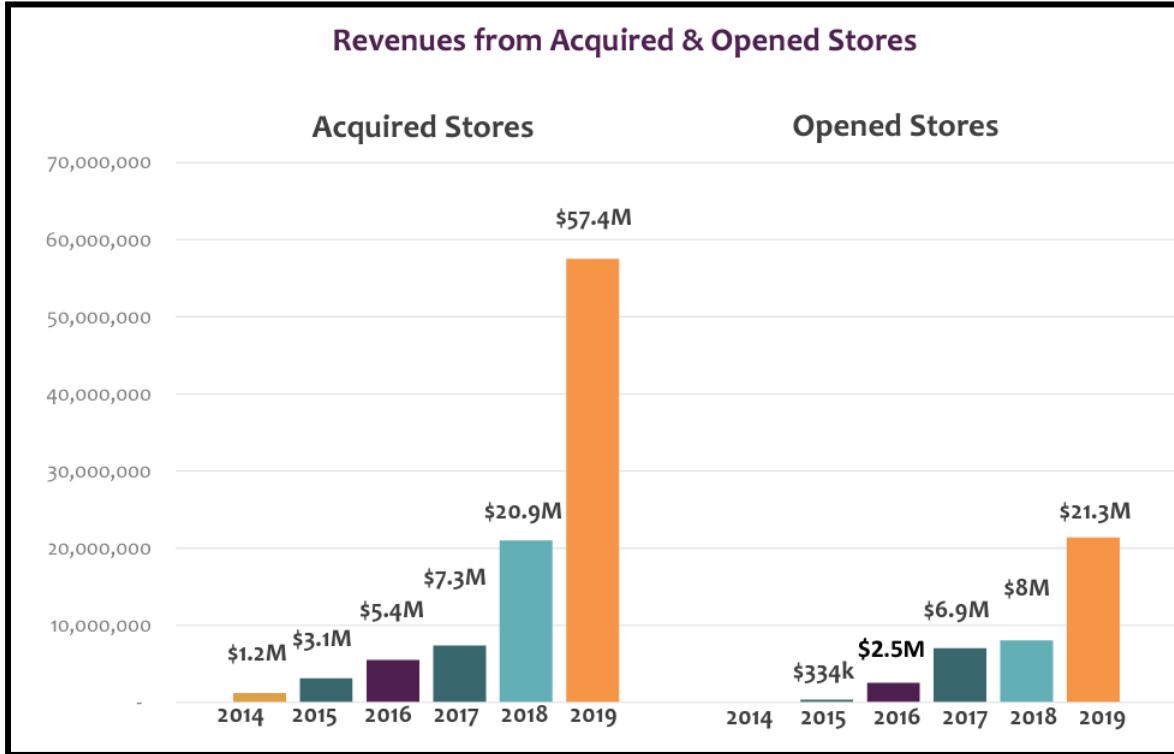
Sales by locations and E-commerce

	Sales by Market					
	Three Months Ended September 30, 2019		Three Months Ended September 30, 2018		% Variance	
	\$	4,155,797	\$	1,617,685	\$	2,538,412
Colorado	\$	4,155,797	\$	1,617,685	\$	2,538,412
California		4,467,368		2,682,616		1,784,752
Rhode Island		2,177,808		1,114,306		1,063,502
Michigan		2,259,115		1,101,356		1,157,759
Nevada		1,159,576		491,294		668,282
Washington		310,699		219,434		91,265
Oklahoma		3,361,443		-		3,361,443
Maine		2,446,501		-		2,446,501
E-commerce		1,381,677		121,537		1,260,140
Closed/consolidated locations		58,503		1,058,327		(999,824)
Total revenues	\$	21,778,487	\$	8,406,255	\$	13,372,232
						159%

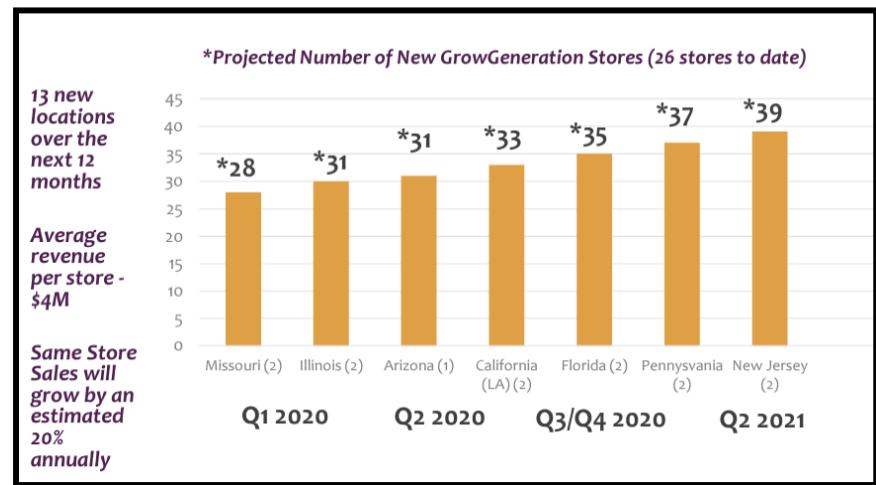
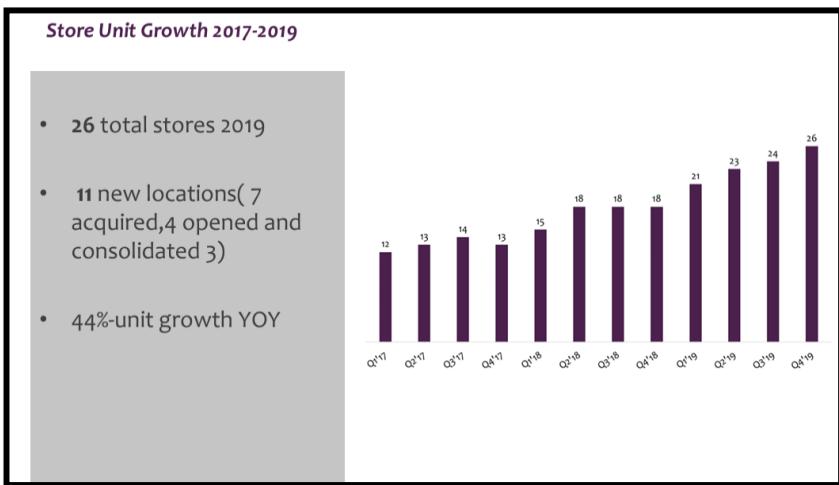
Same stores sales

	13 Same Stores All Markets			
	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Variance	% Variance
Colorado market	\$ 2,435,688	\$ 1,617,385	818,303	51%
Rhode Island	2,177,808	1,114,306	1,063,502	95%
Michigan	1,612,876	1,101,356	511,520	46%
California market	1,203,343	1,087,692	115,651	11%
Washington market	310,699	219,434	91,265	42%
Nevada market	612,598	491,294	121,304	25%
Net revenue, all markets	<u>\$ 8,353,012</u>	<u>\$ 5,631,467</u>	<u>\$ 2,721,545</u>	<u>48%</u>

	6 Same Stores All Markets			
	Nine months ended September 30, 2019	Nine months ended September 30, 2018	Variance	% Variance
Colorado market	\$ 6,897,311	\$ 4,888,915	\$ 2,008,396	41%
Washington market	988,239	718,149	270,090	38%
Nevada market	1,552,035	1,287,101	264,934	21%
Net revenue, all markets	<u>\$ 9,437,585</u>	<u>\$ 6,894,165</u>	<u>\$ 2,543,420</u>	<u>37%</u>



Actual and projected store unit growth



Projections & future plans

Fueling Growth: Plan to \$250M+ Revenue

Store acquisitions over \$30M in revenue in 2019, same target for 2020

Open 13 new stores in 6 new markets (organic growth)

2019 Revenue \$80M up from \$29M in 2018, continue same growth trajectory

SSS for 4th Q UP 62%, SSS for 2019 up 36%, double digit growth in 2020

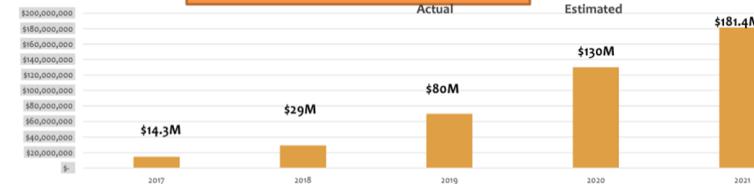
Commercial sales approaching \$5M per quarter, goal is to increase to \$30M

Ecommerce sales up reached \$5M in 2019, \$10M IN 2020

Omni channel, order online, pick up in store

Proprietary and exclusive products 10 % of overall purchases in 2020

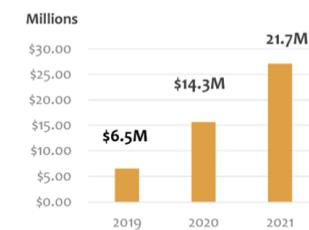
Projected Revenue



2019 Financial Highlights

- Revenue of \$80.0 million, up \$51.0 million or 176% versus 2018
- Revenue for Q4 2019 was \$26 million versus \$9.1 million for Q4 2018
- Same store sales were up 62% for Q4 2019 versus Q4 2018.
- Same store sales were up 36% for fiscal year 2019 versus 2018
- Total new store and acquired stores for 2019 totaled 11 new store locations
- Fully deployed ERP platform across all locations.
- Up listed to the Nasdaq Exchange

Estimated Adjusted EBITDA



Valuation

Valuation	Calendar	2015	2016	2017	2018	2019	Current	5-Yr	Index
Price/Sales	—	—	4.14	3.57	1.97	2.27	2.72	—	2.26
■ Price/Earnings	—	—	—	—	—	—	—	—	22.46
■ Price/Cash Flow	—	—	—	—	—	—	105.74	—	14.34
— Price/Book	—	8.73	8.21	2.03	2.85	3.50	—	—	3.26
Price/Forward Earnings	—	—	—	—	—	19.53	25.91	—	—
Earnings Yield %	—	-2.21	-2.74	-9.78	-0.98	-0.81	—	—	—
Enterprise Value (Mil)	—	25.63	64.32	50.92	142.80	165.92	—	—	—

Technical analysis



Competitors

- Competitors are separated in two different groups:
 1. Physical stores (Home depot, The Scotts Miracle-Gro Company, hydroponic family-owned stores...)
 2. Online suppliers (Pot Farmers Mart, Growers Supply, Amazon...)

CONCLUSION

Positive points (+)

- Micro capitalization in her early-mid stage growth
- Strong revenue growth (176% in 2019) (expect 63% in 2020)
- Recently profitable (With strong adjusted EBITDA growth)
- E-commerce sales are VERY strong (1003% growth in Q3 2019)
- Acquisitions are margin and profit accretive
- From 26 stores to 39 stores in Q2 2021
- Strong balance sheet
- Low institutional ownership
- High growth industry with enormous market potential (Drugs are addictive)
- Serves commercial and urban cultivators
- Approved for listing on the NASDAQ on December 2019
- Good valuation
- Good technical

Negative points (-)

- Slowing growth for the future
- More inorganic growth than organic growth (not the best for micro caps)
- Not generating cash from operating activities
- Even if they are the largest chain of specialty retail hydroponic and organic garden centers, there is a high number of unique store competitors.

Investment decision

- I think this company can be a very good exposure to the US cannabis market, the largest one in the world. Legislations are becoming more and more positive for the legalization in more states.
- Traditional cannabis companies are currently making heavy losses, but this one is already profitable with strong growth ahead.
- A small portion of the capital allocated to the Equity Growth strategy can be invested as long as the management is able to maintain its growth and her trend profitability.

In case of interrogations

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