

Friday, March 13, 2020

VALUATION (GRWG)

Current Price	\$3.63 (USD)
52 Week Range	\$2.52– \$6.78
Market Cap (\$-Mn)	136
Ent. Value (\$-Mn)	128
Shares Out. (Mn)	37.5
Short Int (% Ft)	1.7%
Daily Vol	421K
P/Book	2.5x
EV/ Sales	2.0x
EV/EBITDA	NM
P/E (CY20)	14x

FUNDAMENTALS

Sales (CY19)	USD \$80 Mn
Sales (CY20)	USD \$137 Mn
Sales (CY21)	USD \$189 Mn
Insider Owner	30%
Employees	215
EPS (CY20)	\$0.23
ROIC	-
Net Cash	USD \$14 Mn

RELATIVE PERFORMANCE



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GrowGeneration Corp. (GRWG)**Expands to Florida, Opens Largest Hydroponic Store in the U.S.****Exposure to Home Growers Insulates GRWG from COVID-19**

- Key Takeaway:** In line with the strategy of expanding to key states via capital-efficient bolt-on acquisitions, GRWG entered the Florida market through an accretive \$12 million acquisition of Healthy Harvest and is on track to enter 12 of the largest 15 state markets in the U.S. The company also strengthened its leadership position by opening Super Garden Center, the largest hydroponic retail store in the U.S. This 40,000 square outlet in Tulsa will serve as GRWG's central division's hub, as well as the model store for its new e-commerce pick, pack, and ship fulfillment center program that will be replicated 4 to 6 more times throughout the U.S. GRWG is also among the few companies that are insulated from the impact of COVID-19 thanks to a strong home grower client base and e-commerce operations that are likely to be beneficiaries of the rising aversion to shopping in crowded places. Valuation remains attractive given strong growth prospects and lower business risks, making current weakness a buying opportunity.
- GRWG expanded to its 10th state – Florida – with an accretive \$12 million acquisition of Healthy Harvest.** GRWG purchased the assets of Healthy Harvest, the largest hydroponic operation in the Southeast region. With over 15,000 sq. ft. of warehouse and retail space, Healthy Harvest gives GRWG access to growers in Florida, Puerto Rico, Caribbean, and South America. This is GRWG's first acquisition in 2020 and continuing with its track record of efficient capital allocation, it will add an accretive \$12 million to GRWG's topline in 2020. This makes Healthy Harvest GRWG's biggest acquisition till date.
- The acquisition is in line GRWG's strategy of expanding to key state markets as Florida's medical marijuana market is expected to grow to ~\$3.5 billion by 2025.** Florida's medical cannabis market is growing rapidly, with patients up 165% year-over-year, cannabis volume up 128% year-over-year, and 2019 medical cannabis sales totaling \$450-\$550 million. The Sunshine State is a limited license market and virtually every major multi-state cannabis company operates or plans to operate in Florida with 22 licensed companies. Given GRWG's strong MSO client base across states, the company is in a good position to cross sell and take market share away from mom-and-pop shops and smaller retailers. The acquisition is also in line with GRWG's strategy of expanding to states with strong growth prospects – GRWG is either already present in or is planning to enter 12 of the 15 state markets that are expected to dominate cannabis sales in the U.S. in 2025. Management has also guided for expansion to the following five states in 2020 – Arizona, Missouri, Illinois, Pennsylvania, and New Jersey.
- GRWG further strengthened its leadership position by opening the largest hydroponic store – Super Garden Center – in the U.S.** The company has officially opened its 2nd Tulsa operation. This 40,000 square foot retail location – the biggest in the U.S. – will serve as GRWG's central division's hub for its rapidly-growing commercial, retail, and e-commerce business, as well as, the model store for its new e-commerce pick, pack, and ship fulfillment center program that will be replicated 4 to 6 more times throughout the U.S. The store strengthens GRWG's presence in the fast-growing Oklahoma market that is tracking ~\$10 million (and growing) in annualized revenue for the company with an impressive revenue per store of \$6.7 million, a number that will likely go up with the launch of the Super Garden Center that delivers turnkey solutions to grow hydroponically and will allow growers to see live indoor vertical gardens operate, interact with GRWG's Grow Pro's, and learn from industry experts.

- **Strong home grower client base and online operations insulate GRWG's business from the coronavirus (COVID-19) impact.** GRWG client segment includes two distinct groups of customers, namely commercial growers and smaller growers. While demand from MSOs may exhibit some volatility in the short term due to the [impact of COVID-19 on the cannabis industry's value chain](#), demand from home growers is unlikely to be impacted as their business is not dependent on the vaping and packaging segments. Rather, demand from this segment is driven by higher yield and food quality of hydroponic techniques. This insulates the company to a large extent from the coronavirus impact as does the company's online operations – GrowGen.pro – which generated \$5 million in sales in 2019 and has over 50,000 unique visitors per month. Given the rising aversion to crowded places, we expect GRWG's online sales to experience a strong rise as home growers and even MSOs will prefer to purchase online and reduce external exposure. This will accelerate market share gains for GRWG as other retailers, especially smaller ones, do not offer e-commerce sales.
- **Valuation is attractive given GRWG's strong growth prospects and lower business risks compared with other cannabis companies.** GRWG's net income is expected to grow from ~\$3.5 million in 2019 to \$22.5 million in 2022. More importantly, ROE and ROIC are likely to expand to 20%+ in the next couple of years. **We believe that GRWG's intrinsic value is ~\$350 million or \$9.21 per share, 18x CY22(E) EPS of \$0.51.** However, the company is trading at \$136 million or \$3.63 per share. Therefore, we view the current weakness as a buying opportunity and expect the price-value gap to plug as investors take notice of GRWG's business strength of being the only national-scale hydroponic play that can build and acquire assets at a low cost of capital and generate sustainable and best-in-class sales growth and margins.

Chart 1: GRWG – Financial Model

GrowGeneration	GRWG												Price	5.34					INTRINSIC VALUE					9.21	72%
<i>Wright</i>																		(18x CY12 EPS of \$0.51)							
	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20E	3Q20E	4Q20E	1Q21E	2Q21E	3Q21E	4Q21E	CY17	CY18	CY19	CY20E	CY21E	CY22E			
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-21			
STORE STATS																									
Same Store Sales (%Δ)	3%	-21%	-4%	12%	42%	23%	48%	62%	5%	12%	1%	0%	10%	10%	10%	10%	35%	-5%	36%	5%	10%	2%			
Number of Stores	15	18	18	21	21	23	23	25	31	33	35	35	37	39	41	45	13	18	26	35	45	55			
Avg Store Sales (Annualized '000)	1,168	1,589	1,868	2,014	2,493	3,388	3,788	3,946	3,433	3,870	4,124	4,582	3,776	4,257	4,536	5,040	1,743	1,660	3,404	4,002	4,402	4,500			
CONSOLIDATED INCOME STATEMENT																									
REVENUE	4,381	7,152	8,406	9,061	13,087	19,483	21,778	25,651	26,602	31,925	36,084	40,092	39,556	45,201	52,443	51,215	14,364	29,001	80,000	134,703	188,415	(210,742)			
Cost of Sales	3,191	5,423	6,249	7,693	9,401	13,663	15,277	17,681	18,400	22,268	24,881	27,563	27,360	31,528	36,050	34,900	11,094	22,556	56,022	93,122	129,838	141,329			
Gross Profit	1,190	1,729	2,157	1,368	3,686	5,820	6,501	7,970	8,202	9,657	11,193	12,529	12,196	13,673	16,393	16,315	3,270	6,445	23,978	41,581	58,577	69,413			
Store Operations	893	1,149	1,415	1,745	1,958	2,735	2,744	3,559	3,650	4,100	4,800	5,625	5,491	6,149	6,200	6,350	2,963	5,202	10,996	18,175	24,190	26,331			
General Administrative	364	399	375	466	493	549	804	876	854	803	837	808	900	1,071	648	450	1,022	1,604	2,722	3,301	3,069	3,341			
Share based Compensation	216	337	367	975	80	391	553	850	210	370	476	450	312	524	450	271	1,078	1,895	1,874	1,506	1,557	1,695			
Depreciation & Amortization	45	71	114	121	147	151	248	253	255	242	286	290	380	343	400	371	152	351	799	1,074	1,494	1,636			
Salaries & Related Expenses	322	395	461	460	659	821	1,021	1,221	1,003	923	1,086	1,205	1,491	1,307	1,579	1,400	905	1,648	3,723	4,217	5,777	6,288			
EBIT	(660)	(224)	(975)	(2,399)	349	1,173	1,131	1,211	2,230	3,220	3,709	4,151	3,622	4,280	7,116	7,473	(2,851)	(4,255)	3,865	13,309	22,490	30,133			
EBITDA	(399)	(612)	(574)	(1,303)	576	1,715	1,932	2,314	2,485	3,462	3,994	4,441	4,001	4,622	7,516	7,844	(1,621)	(2,009)	6,538	14,382	23,984	31,759			
EBITDA Margin	-9.1%	-3.0%	-1.1%	-14.4%	4.4%	8.8%	8.9%	9.0%	9.3%	10.8%	11.1%	11.1%	10.1%	10.2%	14.3%	15.3%	-7%	8%	11%	13%	15%	15%			
Interest Income	-	14	24	42	19	15	61	40	14	10	8	7	20	20	15	18	0	80	135	39	73	73			
Interest Expense	(8)	(11)	5	(9)	(7)	(3)	(27)	(20)	(6)	(8)	(10)	(11)	(30)	(25)	(22)	(25)	(15)	(23)	(35)	(102)	(102)	(102)			
Other Income (Loss)	32	(6)	(1)	91	(7)	(7)	(2)	-	(240)	(850)	(350)	(250)	497	377	957	600	323	116	(16)	(1,690)	2,431	2,431			
Amortization of Debt	(317)	(305)	(237)	(131)	(125)	(117)	(114)	(88)	(74)	(100)	(58)	(45)	(100)	80	(65)	(50)	0	(990)	(444)	(277)	(295)	(295)			
Pretax Income	(953)	(930)	(784)	(2,406)	229	1,061	1,049	1,143	1,924	2,272	2,399	3,852	4,009	4,572	8,001	8,016	(2,543)	(5,072)	3,483	11,346	24,597	30,206			
Taxes	0	0	0	0	0	0	0	0	0	0	762	887	902	1,029	1,801	1,804	0	0	0	1,629	5,537	7,552			
Net Income	(953)	(930)	(784)	(2,406)	229	1,061	1,049	1,143	1,924	2,272	2,537	2,965	3,106	3,543	6,200	6,212	(2,543)	(5,072)	3,483	9,717	19,060	22,655			
EPS (GAAP)	(\$0.05)	(\$0.04)	(\$0.03)	(\$0.09)	\$0.01	\$0.03	\$0.03	\$0.03	\$0.04	\$0.05	\$0.06	\$0.07	\$0.07	\$0.08	\$0.14	\$0.14	(\$0.18)	(\$0.21)	\$0.09	\$0.22	\$0.43	\$0.51			
Diluted average shares	18,420	21,901	25,646	28,004	34,263	36,312	41,713	42,131	42,762	42,762	43,838	44,276	44,276	44,276	44,276	44,276	14,511	23,493	38,605	43,570	44,276	44,276			
GROWTH																									
Annual																									
Revenue	70%	74%	109%	149%	199%	172%	159%	183%	103%	64%	66%	56%	49%	42%	45%	28%	80%	102%	176%	68%	40%	11.9%			
Gross Profit	70%	50%	93%	353%	210%	237%	201%	483%	123%	66%	72%	57%	49%	42%	46%	20%	78%	97%	222%	73%	41%	9.2%			
Net Income	-	-	-	-	124%	214%	234%	148%	73%	114%	142%	161%	61%	56%	144%	108%	-	99%	-169%	179%	96%	9.4%			
EPS	-	-	-	-	113%	169%	182%	132%	57%	82%	130%	148%	56%	51%	142%	108%	-	20%	-142%	153%	93%	9.4%			
Sequential																									
Revenue	20%	63%	18%	8%	44%	49%	12%	18%	4%	20%	13%	11%	-1%	14%	16%	-2%	(2,543)	(5,072)	3,483	9,717	19,060	22,655			
Gross Profit	294%	45%	25%	-37%	169%	58%	12%	23%	3%	18%	16%	12%	-3%	12%	20%	-0%	152	351	799	1,074	1,494	1,494			
Net Income	-	2%	16%	-207%	110%	363%	-1%	9%	68%	18%	12%	18%	4%	14%	75%	0%	(2,761)	3,593	(9,629)	(17,337)	(14,046)	1,191			
EPS	-	18%	28%	-181%	108%	337%	-14%	8%	66%	18%	9%	16%	4%	14%	75%	0%	1,129	687	2,149	2,159	2,572	2,572			
MARGINS/RETURNS																									
Gross Margin	27%	24%	26%	15%	28%	30%	30%	31%	31%	30%	31%	31%	30%	31%	31%	32%	23%	22%	30%	31%	31%	33%			
EBITDA Margin	-15%	-9%	-7%	-26%	3%	6%	5%	5%	8%	10%	10%	10%	9%	9%	14%	15%	-11%	-7%	9%	11%	13%	15%			
Net Margin	-22%	-13%	-9%	-27%	2%	5%	5%	4%	7%	7%	7%	7%	8%	8%	12%	12%	-20%	-15%	5%	10%	12%	14%			
ROA	-18%	-12%	-9%	-27%	2%	7%	6%	7%	11%	12%	13%	15%	15%	16%	26%	25%	-18%	-17%	4%	7%	10%	11%			
ROE	-28%	-15%	-10%	-32%	3%	9%	8%	8%	13%	15%	16%	18%	18%	20%	32%	30%	-27%	-14%	5%	12%	19%	19%			
ROC	-31%	-25%	-14%	-45%	2%	10%	8%	8%	13%	15%	16%	18%	17%	17%	27%	27%	-34%	-17%	6%	15%	23%	21%			
CASH FLOW																									
Net Income	(953)	(930)	(784)	(2,406)	229	1,061	1,049	1,143	1,924	2,272	2,537	2,965	3,106	3,543	6,200	6,212	(2,543)	(5,072)	3,483	9,717	19,060	22,655			
+ DBA	45	71	114	121	147	151	248	253	255	242	286	290	380	343	400	371	152	351	799	1,074	1,494	1,494			
+ Chg. Working Cap.	(224)	(554)	1,604	2,767	(2,585)	546	(2,468)	(5,122)	(1,644)	(9,520)	(3,126)	(3,048)	1,456	(8,311)	(9,695)	2,503	(2,761)	3,593	(9,629)	(17,337)	(14,046)	1,191			
CASH	661	421	(594)	188	536	629	484	500	500	500	550	600	625	650	650	650	1,129	687	2,149	2,159	2,572	2,572			
Free Cash Flow	(1,838)	(1,905)	1,414	163	(2,892)	978	(1,903)	(4,226)	36	(7,506)	(854)	(373)	4,317	(5,076)	(3,745)	8,436	(3,973)	(442)	(3,198)	(4,397)	9,083	22,764			
less Acquisitions/Other	(1,838)	(1,905)	1,414	163	(2,892)	978	(1,903)	(4,226)	36	(7,506)	(854)	(373)	4,317	(5,076)	(3,745)	8,436	(4,181)	(2,166)	(8,043)	(8,697)	3,933	22,764			
Available Free Cash Flow	-0.10	-0.09	0.06	0.01	-0.08	0.03	-0.05	-0.10	0.00	-0.18	-0.02	-0.01	0.10	-0.11	-0.08	0.19	-0.29	-0.13	-0.20	-0.20	0.09	0.51			
FCF per Share																									
BALANCE SHEET																									
Cash & Investments	8,763	17,433	14,331	14,640	6,561	17,859	15,983	13,500	13,536	6,030	5,176	4,803	9,120	4,044	299	8,735	1,215	14,640	13,500	4,803	8,735	31,499			
A/R-net	745	954	1,009	862	1,078	1,420	2,170	2,556	2,956	3,547	4,009	4,455	4,395	5,022	5,827	5,691	654	862	2,556	4,455	5,691	5,774			
Inventory	6,713	8,089	9,476	8,869	15,065	15,129	19,384	22,830	23,511	28,453	31,805	34,607	33,744	38,184	42,859	40,717	4,585	8,869	22,830	34,607	40,717	38,720			
PP&E, Net	1,298	1,412	1,771	1,821	6,882	8,294	10,786	10,786	11,031	11,289	11,553	11,862	12,108	12,415	12,665	12,944	1,259	1,821	10,786	11,862	12,944	14,025			
Other Assets	3,520	4,166	9,622	9,700	14,120	16,851	20,094	20,112	20,858	25,021	25,538	25,538	24,210	27,664	32,097	32,097	1,541	9,700	20,112	25,538	32,097	32,310			
Total Assets	21,038	32,055	36,210	35,893	43,706	59,553	68,417	69,785	71,891	74,350	77,080	80,264	83,576	87,330	93,748	100,183	9,254	35,893	69,785	80,264	100,183	122,529			
Debt	4,996	5,127	3,986	2,857	7,537	8,224	8,277	8,277	8,277	8,277	8,277	8,277	8,277	8,277	8,277	8,277	124	2,857	8,277	8,277	8,277	8,277			
Other Liabilities	2,198	2,291	1,900	2,978	4,583	4,438	7,349	6,078	6,260	6,448	6,642	6,841	7,046	7,257	7,475	7,699	1,551	2,978	6,078	6,841	7,699	8,381			
Shareholder equity	13,844	24,637	30,924	30,059	31,586	46,891	52,790	55,430	57,354	59,625	62,162	65,147	68,253	71,795	77,995	84,207	7,579	30,059	55,430	65,147	84,207	105,671			
Ratio / Book Analysis																					</				

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