FINAL TRANSCRIPT

GrowGeneration Corp.

2019 Fiscal Year End Earnings

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PRESENTATION

Operator

Good morning. My name is Joanna and I will be your conference operator today. At this time, I would like to welcome everyone to the GrowGeneration Corp. 2019 Fiscal Year End Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad. If you would like to withdraw your question, please press star followed by two.

Thank you. Mr. Michael Salaman, President and Co-Founder, you may begin your conference.

Michael Salaman — Co-Founder & President, GrowGeneration Corp.

Thank you. Good morning. My name is Michael Salaman. I'm Co-Founder and President of GrowGeneration Corp. At this time, I would like to welcome everyone to the GrowGeneration 2019 earnings conference call. With me this morning is Darren Lampert, our CEO and Co-Founder; Monty Lamirato, our CFO; and Tony Sullivan, our COO, who will all be participants on our call this morning. After our presentation, there will be a question-and-answer session.

As always, we expect to make forward-looking statements this afternoon. I want to caution you that our actual results could differ materially from what we say here. Investors should familiarize themselves of the full range of risk factors that could impact our results and those are filed in our Form 10-K, which we filed with the Securities and Exchange Commission. I'd also remind everyone that today's call is being recorded and an archived version of our call will be available on our website later today.

As we all tackle and cope with the COVID-19 outbreak, GrowGeneration has implemented protocols, procedures, and processes to keep our employees and customers safe while continuing to service our customers. Darren and Tony will outline in more detail the steps we have taken. As we report to you today, all 27 locations are all open for business. GrowGen has been designated essential as we are a critical part of the supply chain to the agricultural and farming industries.

Our just-in-time supply chain is operating extremely well, with more customers ordering through our online channel, growgen.pro and using our curbside and will-call options to pick up at our garden centers. We are fulfilling virtually all of the critical products that our customers need to nourish their plants as well as the many safety products like gloves, isopropyl alcohol, and other items needed to keep their employees and cultivation facilities safe and clean.

You will hear today from Darren and Monty that all of our financial metrics continue to be positive, all the while investing in technology and infrastructure. Our balance sheet is strong, allowing us to continue to execute our plan, focusing on internal growth initiatives that include same store sales. Our omnichannel strategy, buy online, pickup in store, private label products, while continuing to purchase the best of breed hydroponic operators and opening up new GrowGen garden centers around the country.

With that, I will turn the call over to Darren, who will present our 2019 results. Darren?

Darren Lampert — Co-Founder & Chief Executive Officer, GrowGeneration Corp.

Thank you, Michael. Good morning and welcome to our 2019 earnings call.

Before we begin our 2019 earnings call, I'd like to begin by thanking our staff and customers during this time of uncertainty. As we continue to monitor the COVID-19 outbreak, GrowGen is considered an essential supplier to the agricultural industry, supplying the nutrients and nourishments required to feed their plants. Accordingly, all our 27 stores are open during this difficult time and will remain open for the foreseeable future. We have plans and procedures in place to ensure our customers and employees stay safe during this time of uncertainty. All of us at GrowGeneration remain committed to the safety and wellbeing of our customers and employees and send our prayers and thoughts to all in the growing community and beyond. To do our part, GrowGeneration has committed to donate up to $500,000 of free product to our loyal customers and local communities that have been severely affected.

The Company's fiscal year 2019 record financial results reflect our continued focus on revenue growth and adjusted EBITDA expansion. Revenue was up 175% year over year to approximately $80 million. Adjusted EBITDA was $6.6 million for 2019 compared to a loss of $823,000 for 2018. Adjusted EBITDA for 2019 was $0.20 per share basic, $0.02 above our high end guidance, compared to a negative $0.04 per share basic in 2018.

Our same store sales were up 62% in Q4 2019 versus Q4 2018. For the full year, same store sales were up 36% versus full year 2018. Our online business, growgen.pro, is projected to exceed $10 million in revenue in 2020.

Our omnichannel strategy will connect all our store inventory to our ecommerce site, allowing for buy online and pickup in store functionality. GrowGen's just-in-time supply chain delivers our products safely and timely to our customers. Today, we offer will call, curbside, and direct-to-farm shipments from all our store locations, and through our online ecommerce platform we can ship to all 50 states. Recently, we have seen a surge in online sales and we are well-prepared to fulfill these orders.

Our commercial division is projected to do $30 million in annual sales for 2020. The Company completed the rollout of its new ERP platform in 2019 and it is now fully deployed, providing business intelligence to lower costs, improve departmental productivity, integrate our online and store sales and supply channels, providing real time forecasting and reporting tools.

The 10 newly acquired stores and new store openings are all performing better than expected and have been successfully integrated into the operations of the overall Company. The Company successfully integrated both GrowGen Portland December 2019 acquisition and GrowGen Miami, a February acquisition, into its portfolio, with both operations now contributing revenue and positive EBITDA. On March 7, 2020 we opened the largest hydroponic garden center in the United States, a 40,000 square foot commercial and online fulfillment center located in Tulsa, Oklahoma.

To highlight our market by market growth, Colorado was up 132% year over year at $15.4 million; California was up 161% at $15.6 million; Michigan was up 200% at $9.3 million; Oklahoma was up 2,400% at $11.8 million. Our commercial sales finished its first full year at $17 million and our ecommerce sales finished the year at $4.8 million.

Due to the COVID-19 outbreak, the Company is focusing more in internal growth versus external growth for the next few quarters. We’re focused on margin expansion strategies that include furthering the deployment of more private label products, executing and growing our buy online pickup in store plan, and improving our customer service from both a customer acquisition and retention perspective. With

Portland, Miami, and Tulsa 2 now contributing revenue and EBITDA, we continue to drive growth during these difficult times.

The Company rang the NASDAQ bell on December 30, 2019, capping off a great year, and is now listed and trading on the NASDAQ exchange. We added five analysts that are now covering the Company from investment banks that include Roth Capital, Ladenburg Thalmann, Lake Street Capital Markets, Alliance Global Partners, and Craig-Hallum.

Revenue guidance for 2020 is $130 million to $135 million, adjusted EBITDA guidance for 2020 is $11.5 million to $13.5 million, revenue guidance for Q1 2020 is $31.5 million to $32.5 million.

I'll now turn the call over to Tony Sullivan, our Chief Operating Officer who will brief everyone on our COVID-19 risk mitigation procedures, then to our CFO, Monty Lamirato, who will provide more details to 2019 year results. Tony?

Tony Sullivan — Chief Operating Officer, GrowGeneration Corp.

Thank you, Darren.

And as Darren has stated, our top priority continues to be the safety of our team, their families, and our customers. We are classified as an essential business, supply chain for agricultural and medical, and we are continuing to monitor multiple times a day our city, county, state, and federal mandates, updates and changes, as well as communicating that daily across our entire organization.

We have deployed remote working environments for all non-essential store personnel. For example, store support center teams, ecommerce, commercial, IT, purchasing, et cetera. Daily calls with our executive team, management team and store teams continue to help keep everybody aware of everything that's going on, specifically emphasizing the importance of our team's safety, our team's families' safety, and the customers' safety, giving guidelines and tips to help make sure that we ensure this at all levels.

We continue to review the safety standards and protocols, six-foot distancing, how to handle transactions, cleaning protocols, as well as additional tips on supplies that we have available to make sure these protocols are carried out at every level. We discuss and track team members that have self quarantined and/or are feeling any symptoms and to date we can report that no team members have tested positive.

We have been very proactive. We've developed a level-one-through-five protocol and a set of policies to handle current state to a complete shutdown at the store level. If we were mandated to go to level five, we will still have revenue through commercial, ecommerce, delivery, and will call pickup with no interaction with the customers other than on the phone. And we have a state that has currently mandated all team members traveling to and from work that will need to carry a letter. So we have letters that are available for all states in which we operate in. This is currently being deployed in Michigan and is up and running. We have reduced hours across the entire chain to all opening days closing at 5:00 p.m. This allows us with several states that have mandated curfews and helps our team be able to get closed up in the location and home safely.

Safety protocols and communication are in place across the entire organization. Communicate safety protocols also to over 10,000 customers. We've developed a customer reach program in place where our stores, commercial, and ecommerce have touched base with customers and reached out to let them know how can we help you. Whether it is delivery, pickup, phone ahead, we can have it ready same day, next day.

We also have daily supply chain updates for all internal purchasers and executives. We have currently a vendor newsletter that keeps everyone updated on the challenges and impacts from each of our vendors and today we are posting on all channels that GrowGeneration is a safe, one-stop solution provider and we have multiple options in which we can provide goods and services with all of the safety protocols in place.

And at this time I'm going to turn it over to Monty for 2019 financial highlights. Monty?

Monty Lamirato — Chief Financial Officer, GrowGeneration Corp.

Thanks, Tony.

2019 highlights: Revenues were up 175% to $79.7 million for 2019 versus $29 million for 2018. The increase in revenues is due to the addition of 10 new retail stores opened or acquired during 2019 for which there were no sales for these retail stores for the year ending December 31, 2018 and eight stores and the ecommerce site opened or acquired at various times during 2018 that were opened for all of 2019. Sales in the 10 stores opened or acquired in 2019 were approximately $26 million. Sales from the ecommerce site and the eight stores opened in 2018 were approximately $38.3 million for the year ended

December 31, 2019 compared to approximately $14.5 million for the year ended December 31, 2018. Same store sales were $13 million for 2019 versus $9.5 million for 2018, a 36% increase.

Adjusted EBITDA was $6.6 million for 2019 compared to a negative $824,000 for 2018, which translated to adjusted EBITDA of $0.20 per share basic. Net income per share basic was $0.06 for 2019 versus $0.22 for 2018. Net income loss per share fully diluted was $0.05 per share for 2019 versus a $0.22 loss for 2018. The net income for the year ended December 31, 2019 was approximately $1.9 million compared to a loss of approximately $5.1 million for the year ended December 31, 2018, an increase of $6.9 million. The net income for 2019 compared to the net loss for 2018 was primarily due to the 175% increase in revenues with only a 154% increase in cost of goods sold, thereby increasing both margin percentage and margin dollars by $16.1 million for 2019. Store operating costs increased only $4.9 million in 2019 compared to 2018, so the store operations contributed $11.6 million more in store profit in 2019 than in 2018.

Gross profit was $22.6 million for the year ended December 31, 2019 as compared to $6.4 million for the year ended December 31, 2018, an increase of approximately $16.1 million or 250%. Gross profit as a percentage of sales was 28.3% for the year ended December 31, 2019 compared to 22.2% for the year ended December 31, 2018. The increase in the gross profit margin percentage in 2019 was due to, one, reduced pricing from vendors as a result of our increasing purchases from those vendors and, two, the sale of product acquired in a large bulk purchase in the first quarter of 2019 at a substantial discount. The increase in the gross profit percentage was also due to the slight increase in non-cash inventory valuation adjustments of approximately $870,000 in 2018 compared to $809,000 in 2019. The inventory valuation adjustments consist of a reserve for obsolete inventory as well as the write-down of inventory resulting from physical inventory counts and to its current fair value where that is lower than cost.

Operating expenses are comprised of store operations, primarily payroll, rent and utilities, and corporate overhead. Store operating costs were approximately $10.1 million for the year ended December 31, 2019 compared to approximately $5.2 million for the year ended December 31, 2018, an increase of approximately $4.9 million or 94%. The increase in store operating cost was due to the addition of ten new stores in 2019 and nine new stores in 2018. As previously noted, revenues increased 175% but store operating cost increased only 94%.

Store operating cost as a percentage of sales were 12.7% for the year ended December 31, 2019 compared to 17.9% for the year ended December 31, 2018, a 41% improvement. Store operating costs were positively impacted by the acquisition of new stores in 2019 and 2018, which have a lower percentage of operating costs to revenue due to their larger size and higher volume. The net impact, as noted above and previously, resulted in lower store operating cost as a percentage of revenue.

Corporate overhead is comprised of share-based compensation, depreciation and amortization, general and administrative costs, and corporate salaries and related expenses that were approximately $10.3 million for the year ended December 31, 2019 compared to $5.5 million for the year ended December 31, 2018. Corporate overhead costs were 13% of revenue for the year ended December 31, 2019 compared to 19% for the year ended December 31, 2018.

The increase in salaries and related expenses from 2018 to 2019 was due to the increase in corporate staff, primarily accounting and finance, inventory management, sales, information technology, and store operations to support both current and future operations and to increase store commercial sales.

Corporate salaries as a percentage of sales were $4.5 million for the year ended December 31, 2019 and 5.7% for the year ended December 31, 2018. The decrease in this percentage is because corporate staff costs do not rise directly commensurate with the increase in revenues. Corporate staff levels will not rise commensurate with increase in revenues in the future and the percentage of salaries to sales will continue to decline.

General and administrative expenses, comprised mainly of advertising and promotions, travel and entertainment, professional fees and insurance, was approximately $3.2 million for the year ended December 31, 2019 and approximately $1.6 million for the year ended December 31, 2018 with the majority of the increase in advertising, promotion, travel, and entertainment. General and administrative cost as a percentage of revenue was 4% for the year ended December 31, 2019 compared to 5.5% for the year ended December 31, 2018. The decrease in this percentage once again is because the general administrative costs do not rise commensurate with the increase in revenues.

Corporate overhead includes some non-cash expenses consisting primarily of depreciation, amortization, and share-based compensation, which was $3.5 million for the year ended December 31, 2019 compared to approximately $2.2 million for the year ended December 31, 2018. Cash at December 31, 2019 was $13 million. Cash at March 23, 2020 was $10.7 million.

Working capital was $30.6 million at December 31, 2019 versus $21.6 million at December 31, 2018. Also during 2019, the Company received proceeds from the sale of common stock and warrants of

$10.4 million. All convertible debt was converted to common stock in 2019. In addition, as we announced, for 2020 we have changed our independent auditors to Plante Moran, a 90-year old, 3,100-man public accounting firm with 25 offices in the U.S. and internationally.

Darren, let me send it back to you.

Darren Lampert — Co-Founder & Chief Executive Officer, GrowGeneration Corp.

Thank you, Monty.

In conclusion, GrowGeneration has built an essential supply chain for the agricultural industry. Our leadership position is driven through our corporate mission statement to be the largest hydroponic service provider in world.

We continue to cultivate the best and most knowledgeable staff in the country. We are focused on world class customer service, a commitment to our customers. We continue to invest in our supply chain and technology, creating more efficiencies across all departments. Execution of our financial goals and guidance is evident with the 2019 numbers we reported with revenue up 175% year over year and adjusted EBITDA earnings $0.20 a share, $0.02 higher than our guidance.

Our first quarter 2020 has been strong, as we have successfully added Miami, Portland, and Tulsa 2 to the portfolio. Our balance sheet is strong, which allows us to continue to execute our internal growth initiatives while we continue to purchase the best-of-breed hydroponic operations and open new GrowGen locations. We have set 2020 revenue guidance at $130 million to $135 million, adjusted EBITDA guidance for 2020 is $11.5 million to $13.5 million, revenue guidance for Q1 2020 is $31.5 million to $32.5

million. We look forward to continuing to provide guidance as need be and we are excited to share our successes with our shareholders, our management team, and partners.

We will now answer a few brief questions.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the star followed by one on your touchtone phone. You will hear a three-tone prompt acknowledging your request. Should you wish to decline from the polling process, please press star followed by two. And if you are using a speakerphone, please lift the handset before pressing any keys.

The first question is from Aaron Grey from Alliance Global Partners. Please go ahead.

Aaron Grey — Analyst, Alliance Global Partners

Good morning and congrats on a strong finish to the 2019 year. First, certainly appreciate you providing guidance amid this uncertainty we have in the market, so I just wanted to dig a little bit deeper into that, especially in terms of the top line.

In January, when you announced preliminary sales, you called out some planned store openings in about six cities and some acquisitions in the pipeline. I know you executed on one with Miami and you also had Tulsa as well. But just as we look to guidance you announced on Friday and then what you had probably had planned in January before the market environment changed, just how much of an impact did that have in terms your 2020 outlook, both in terms of like top line and number of stores you plan to have at the end of the year? Any kind of context in terms of how much that changes given the uncertainty with COVID would be helpful. Thank you.

Darren Lampert — Co-Founder & Chief Executive Officer, GrowGeneration Corp.

Aaron, this is Darren. I'll give you my best estimates and certainly, as we all know, it's pretty hard to gauge right now. The one good thing from our guidance that we've given today is the $130 million to $135 million in sales for 2020 is based upon what we see in our portfolio today. Like anything else, as we've given guidance in the past, we've been giving guidance and upping guidance as we closed deals throughout the year. And what you'll see from our first quarter numbers is the $130 million to $135 million, if the stores continue to function and our stores continue to stay open, these are the numbers that we're seeing internally right now.

We certainly see, the latter part of the year, our acquisitions will continue, our new store openings will continue but, like anything else right now, we've put all external acquisitions and store openings on hold for at least a few months, pending a little more clarity of the COVID outbreak.

Aaron Grey — Analyst, Alliance Global Partners

Okay, great. Thanks a lot. That's really helpful and good to hear. It's just based on the current store base.

Darren Lampert — Co-Founder & Chief Executive Officer, GrowGeneration Corp.

That's correct, Aaron.

Aaron Grey — Analyst, Alliance Global Partners

Okay, great. So I just want to drop down to the bottom line guidance on (inaudible) specifically. The implied margin gets you to about 9.4%, so about a 100 basis points margin expansion at the midpoint, so I just want to kind of conceptualize where you kind of see that margin expansion come from, where you might be able to see some upside there, because I know you guys do have your private label initiative that's going to start rolling out this year and then you also have your ERP system fully implemented, so it sounds like there's a lot of opportunity for additional SG&A leverage. Where do you kind of see the opportunity in terms of that EBITDA margin expansion in terms of SG&A and the gross margin as we look forward to 2020? Thanks.

Michael Salaman — Co-Founder & President, GrowGeneration Corp.

Darren, I'll take that. Real quick. I just want to address and then, Darren, I'll throw it back to you. Aaron, absolutely. I mean the Company is certainly focused on internal initiatives, which includes not only the private label with same store sales, private label, you know, also the efficiencies that we're going to gain from a buy online, which is certainly being implemented as part of this COVID outbreak situation with will-calls and curbside. So, we see efficiencies coming from a variety of areas internally.

And certainly with the ERP system and Tony Sullivan's initiatives from the operation side, we see a lot of corporate efficiencies that will translate into some margin expansion. We're also very aggressive on our commercial business. Our commercial business continues to expand, which is more revenue and a little lower margin. So we balance that business against the expansion initiatives that we have in the Company. But we certainly are focused on margin and EBITDA and I think the initiatives that we have set forth are the ones that we're focused on to the next several quarters.

I'm sorry, Darren. I'll go back to you.

Darren Lampert — Co-Founder & Chief Executive Officer, GrowGeneration Corp.

No. I think that was perfect, Michael. I think that you answered the question. Thank you.

Operator

Thank you. The next question comes from Eric Des Lauriers of Craig-Hallum. Please go ahead.

Eric Des Lauriers — Analyst, Craig-Hallum

Hi, guys. Thanks for taking my questions and congrats as well on a great year. I'd just like to start off with one quick clarification. Did I hear correctly that Tulsa 2 opened March 7, 2020 is already contributing to EBITDA?

Darren Lampert — Co-Founder & Chief Executive Officer, GrowGeneration Corp.

That is correct, Eric. The store has been open going on three weeks and the store is performing well.

Eric Des Lauriers — Analyst, Craig-Hallum

That's great to hear. First question for me is I just wonder if I could dive into the newly disclosed hemp division or, I guess, newly broken out. What kind of products are you guys currently selling through that channel and could you give us an idea of ecommerce versus physical breakdown and which geographies that might be most concentrated in?

Darren Lampert — Co-Founder & Chief Executive Officer, GrowGeneration Corp.

Michael, do you want to take that?

Michael Salaman — Co-Founder & President, GrowGeneration Corp.

Yeah, I'll take that. I mean basically, you know, what's nice about our market is that we have a portfolio of product that transfers over into multiple vertical markets. And certainly we're focused today in the hydroponic space. Cannabis is certainly the fast moving market, which is where we spend a lot of our time, but certainly vertical market, hemp, hydroponically grown produce, is a big vertical market that we see ourselves ultimately getting into.

With this at home economy that's evolving, the Company is certainly looking at products that could satisfy the home market as well. So, we have products that are suitable for outdoor growing. We have salts, we have our own private label products that we just launched under the Sunleaves brand, which is a product that is certainly a product that the hemp farmers could use for outdoor growing, certainly cloning and other types of propagation products the farmers use. So, the portfolio of inventory that the Company has today can satisfy the hemp market, so we have that in place today to take care of it.

In terms of ecommerce, Eric, ecommerce is something that is certainly an initiative that is part of our omnichannel and certainly the big focus for the spring is to integrate our online business with our infrastructure that we've built over this over the last several years. Giving our customers the optionality to order online and pick up at any one of our locations, whether it's a will-call curbside, and have that transaction consummated, whether it's an online transaction or it's being consummated at the store, we're putting that technology, implementing that technology right now. We've been working on it for many, many months. And right now the plan is to have that operational, that functionality of buy online and pick up in store sometime in spring, pending that there's no additional changes based on this COVID outbreak.

But we are on a schedule and right now we are on a pace to implement that functionality in the spring. And that's something that we think will bring more revenue to the Company, both online and offline, and will drive more, we think, more customers to our local garden centers, we think will drive more ecommerce business. And also, we believe, will also bring more brand awareness, more commercial sign-ups.

So, it's a really multifaceted marketing strategy and sales strategy that we've been planning to implement and we've been working on. We couldn't get to an implementation until our ERP system was in place, which was completed at the end of last year. Now all of our 27 locations are on our ERP system, on one database, and we're now able to implement an omnichannel strategy, which we think will have a significant top and bottom line effect on the Company.

Eric Des Lauriers — Analyst, Craig-Hallum

Okay. That's great. And then final one for me was just private label. I know you guys kind of just started to get products out in Q4, just looking for a quick update there. I know it's early days overall, but have you guys received any kind of feedback on your products on the private label side?

Michael Salaman — Co-Founder & President, GrowGeneration Corp.

People are responding very favorably. And we do a lot of testing, we do a lot of research, and we're very selective to what private label products we bring in to the market, but I could tell you that there's significant upside. We think there's 10% to 20% over the next 12 to 24 months of margin expansion of a percentage of purchasing of what we will buy will be private label products. Tony's been leading that team that we have internally and we believe that we will have a private label product within every department that we have within the Company and there's tremendous margin expansion, anywhere from 30% to 50% of margin that we can pick up through a private label product.

But I can tell you we will only bring a product to the market that is equal to or better than what's out in the marketplace today. Quality and price is certainly the mantra that we have in our private label division. It's a tremendous focus for the Company. It's evolving. It's developing. Our first five items actually are in market right now and we're bringing another wave of product that will hit the stores in the second quarter, some which will include some pods and scissors and some trellis, so we're very much on plan and we see that being a tremendous margin expansion for the Company.

Eric Des Lauriers — Analyst, Craig-Hallum

That's great to hear. Congrats again, guys. I'll hop back in the queue.

Darren Lampert — Co-Founder & Chief Executive Officer, GrowGeneration Corp.

Thanks, Eric.

Operator

Thank you. The next question comes from Scott Fortune at Roth Capital Partners. Please go ahead.

Scott Fortune — Analyst, Roth Capital Partners

Good morning. Congrats on the quarter. I wanted to break down a little bit kind of coming up against same store comp sales. Does it get tougher through 2020? Are you providing any more guidance on kind of same store comp sales here going forward?

Darren Lampert — Co-Founder & Chief Executive Officer, GrowGeneration Corp.

I think we will quarter to quarter, Scott. Right now we will not (inaudible).

Scott Fortune — Analyst, Roth Capital Partners

Okay. And just want to look kind of can you call out on California market and what's going on there? We know we've seen a lot of weakness in that state that is offset by growth in other states that you're doing well in, Oklahoma and such, that market. And then last question for me is what percentage of revenues coming from recurring products like the nutrients, fertilizers, the safety gear, or the stuff you need from a recurring standpoint? If you could break that out, that'd be great.

Darren Lampert — Co-Founder & Chief Executive Officer, GrowGeneration Corp.

Scott, currently we're not seeing any weakness in our California markets at all. As you probably know from looking at our portfolio, GrowGen is very strong in Northern California. We only have one store down in Palm Springs, which is our Southern California location. But as of now we're seeing no weakness up in Northern California at all in our stores.

Mike, do you want to take the second part of that question?

Michael Salaman — Co-Founder & President, GrowGeneration Corp.

Scott, do me a favor. Repeat that question again. I'm sorry.

Scott Fortune — Analyst, Roth Capital Partners

Just the recurring revenue part of it that comes from nutrients and fertilizers and the goods that are needed. Do you break out that percentage?

Michael Salaman — Co-Founder & President, GrowGeneration Corp.

I mean, one of the, which is right now we've been designated essential because of the fact that GrowGen is feeding the plants, so farmers, cultivation facilities, the medical patients, they need their product and GrowGen provides the nutrients, the additives, the food, if you will, for the plants. And that's the consumable side of the business, the continuity side of the business. Scott, it's about 30% to 40% of the business comes from the consumable side. And it's a cash flow business because of that. The farmer is coming to GrowGen weekly or monthly to continue to satisfy the feeding regimens for their plants, so

GrowGen is certainly an essential component of that supply chain, and that's a big part of the consumable, the continuity side of the business, which also tends to have a higher margin.

Darren Lampert — Co-Founder & Chief Executive Officer, GrowGeneration Corp.

Hey, Scott, one other quick thing on same store sales, first quarter, as you probably can see from guidance of $31.5 million to $32.5 million with only a few new stores added to our portfolio, first quarter same store sales remain very strong.

Scott Fortune — Analyst, Roth Capital Partners

That's helpful. I appreciate it. Thanks for the color.

Operator

Thank you. The next question comes from Glenn Mattson of Ladenburg. Please go ahead.

Glenn Mattson — Analyst, Ladenburg Thalmann

Hi, guys. Congrats on the year as well, nice quarter, and thanks for taking the question. Curious about two things really. Number one is how you think seasonality will play into the year in 2020, if there'll be some significant impact that we should model for? And then as that relates to gross margin, do you imagine that ticking back up in Q1 a bit and do you imagine it steady throughout the year or fluctuating quarter to quarter?

Michael Salaman — Co-Founder & President, GrowGeneration Corp.

Do you want to take that, Darren?

Darren Lampert — Co-Founder & Chief Executive Officer, GrowGeneration Corp.

Yeah, I'll take that question. Glenn, first of all, margins, certainly we see pretty steady throughout the year. A lot of times what you will see is you may see a point up or down based upon a few very large sales during certain quarters. We've usually seen, you know, through 2019 we've seen margins tick up during the year opposed to tick down. So hopefully we do see that again in this year. There is only so much data we have to look at.

Seasonality. The second quarter is usually our strongest quarter based upon what we've seen in the last five years of running GrowGeneration. That's based upon outdoor sales in certain of our markets, Northern California, Southern Colorado, on certain outdoor growing. So, what you usually will see our second quarter that's coming up right now is usually the strongest quarter. We're seeing less seasonality at GrowGen because of the amount of states we're in, the amount of medical customers we have out there, and really the large commercial growers that are mostly growing inside right now. But you will see usually, based upon what we've seen, a little uptick in the second quarter.

Glenn Mattson — Analyst, Ladenburg Thalmann

That's it for me. Thanks, guys.

Operator

Thank you. Your next question comes from Brian Nagel of Oppenheimer. Please go ahead.

Brian Nagel — Analyst, Oppenheimer & Co.

Good morning, guys. First off, (inaudible)... The first question I have, it may be a bit of a follow-up to some of the prior questions, but if we step back and really kind of take in the coronavirus crisis weighing upon various aspects of the U.S. economy and other economies, how are you, if you're close with your customers, and clearly your stores are open and very much out there supporting your core customers, if you look at your customers, has it pretty much changed in their underlying activity or do you foresee much change coming as this coronavirus crisis likely persists for a while?

Darren Lampert — Co-Founder & Chief Executive Officer, GrowGeneration Corp.

I think, Brian, the easy way, I guess, to answer that question is our business is based upon our customers' business and what we're hearing right now, and I think everyone has also been reading, is the underlying cannabis companies right now remain strong. Business remains strong at the dispensary level and also at the cultivation level. So, as long as we're seeing that, we're seeing that trickle down to GrowGeneration right now.

Secondly, coming into the second quarter, it's outdoor season and it's gardening season also for gardeners. And we also usually do see a pickup soil pots from regular gardeners, guys growing tomatoes in their backyard. And based upon what's going on right now with COVID, we think growing is just going to get stronger and continue and people will be buying organic products from our stores. So, as long as people are able to shop and also we have increased our online presence dramatically and we continue to, that we're a wonderful option for the individuals out there right now and also to the corporations too.

Brian Nagel — Analyst, Oppenheimer & Co.

And the second question I have, you've talked in this call about just taking this as an opportunity to really focus more internally than externally, which makes a lot of sense, but as you think about your operations and your stores and your store operations, where do you think some bigger opportunities are to sort of say tweak your internal (inaudible) internal operations?

Darren Lampert — Co-Founder & Chief Executive Officer, GrowGeneration Corp.

I mean certainly SKU rationalization. With all the purchases that we've made over the last four years, we have an enormous amount of inventory and an enormous amount of SKUs. And the one thing for GrowGeneration is we're working on SKU rationalization right now. We want to bring down the number of SKUs at our stores. We're working on our omnichannel, you know, buy online, pickup in stores.

So we're having some time and we've done so many acquisitions over the last three years and certainly with Tony Sullivan coming on, this is a good time to breathe and we're going to take the next few months working on our inventory levels, work on our SKUs, work on our private label. We think it'll make GrowGeneration stronger for the future and certainly stronger for this for the second half of 2020.

We also do believe that we will see better pricing out there. We'll see the stores that we're looking to purchase we think we'll get better pricing because of what's going on in the economy right now. So, we're gearing up for an extremely strong second half. Like anything else, it's based upon the world coming back to some normalcy.

Brian Nagel — Analyst, Oppenheimer & Co.

Got it. I appreciate the color. Best of luck. Thank you.

Darren Lampert — Co-Founder & Chief Executive Officer, GrowGeneration Corp.

Thank you, Brian.

Operator

Thank you. The next question comes from Mark Smith from Lake Street Capital. Please go ahead.

Mark Smith — Analyst, Lake Street Capital Markets

Hi. Good morning, guys. First off, just looking at unit growth, do you guys currently have any leases signed?

Darren Lampert — Co-Founder & Chief Executive Officer, GrowGeneration Corp.

For new stores?

Mark Smith — Analyst, Lake Street Capital Markets

Yes, for new stores.

Darren Lampert — Co-Founder & Chief Executive Officer, GrowGeneration Corp.

We do not. There's a lot of LOI on my desk right now, but there is nothing currently right now that we're sitting with that we have not opened.

Mark Smith — Analyst, Lake Street Capital Markets

Okay. Perfect. And then just kind of a follow-up from the last question, as we look at potential increased demand due to COVID-19, can you walk us through kind of the timing of how that may work? Would we see most of that impact here in Q2? Are you already seeing maybe potential increased traffic online or people calling into the stores to start to refill the channel?

Michael Salaman — Co-Founder & President, GrowGeneration Corp.

What we're saying, and I'll take this one, Darren. Basically, we're seeing our business trend the way that it normally trends. I mean we're seeing a little increase in isopropyl alcohol and gloves, but nothing from a material perspective. I mean we're seeing growth as we normally would see across the portfolio. And because we've added new stores, new markets, and there is a behavioral change that we are seeing in terms of people ordering online and certainly picking up through a curbside or will-call, which has been part of the plan for the company as it is getting close to implementing it on a national level, it's omnichannel, so it's not something that we're seeing as an unusual spike. It's something that is coming through the same store sales, you know, we see increases.

And this has all been part of the budget, part of the forecast. The new stores that we added in the first quarter, Portland basically came in at the end of the fourth quarter. You'll see a full quarter of their revenue. Miami came in mid-quarter. Tulsa 2 came in at the end. All of those operations are now contributing both, top line and bottom line. So, we're not seeing big spikes that we will see come away and be not in our numbers coming into the second quarter. We see really traditional seasonality coming, which is, as Darren mentioned, has smoothed out as we diversified the portfolio. So, we're seeing growth coming from the acquisitions that we made and continued demand for the products that we sell.

Darren Lampert — Co-Founder & Chief Executive Officer, GrowGeneration Corp.

Mark, one last thing also. One of the things that we did over at GrowGen few months ago when COVID started is built up on inventory. We increased inventory almost $3 million, probably even a little more. So, one of the things right now is we're winning customers from other stores and from other groups around the country because we're well stocked. We certainly got ahead of some of the Chinese products, some of the nutrient products. And again, you're starting to see a little slowdown in supply chain. But one of the nice parts is GrowGen has never been as well stocked and certainly we're pulling customers from a lot of different places right now. And I think these customers will be with us for many years to come. So, during times of trouble, people come to where they feel comfortable they can get their products and GrowGen right now is so well stocked, from soup to nuts, that we're winning new customers all over the country right now.

Mark Smith — Analyst, Lake Street Capital Markets

Okay, great. And that was part of my next question, was just looking at the supply chain and what you see out there today, if there's any issues in the supply chain. And then secondly, maybe speak to, you know, as being the largest hydroponic store chain that's out there, does this give you an opportunity within the supply chain where you will get supply maybe before your competitors will?

Darren Lampert — Co-Founder & Chief Executive Officer, GrowGeneration Corp.

I think we've taken a lot of supply before our competitors have gotten it. So, like anything else, we're not looking for everything, but we bulked our stores up to a point where we wanted to have inventory and stock for our customers. And since we're capitalized, we were able to do that. The small hydroponic stores don't have the money nor do they have the space to store products. So when supply chain slows down and you have no space to put products, you can't order them. So what you're seeing right now is usually larger companies, if you walked into Home Depot and you walked into Lowe's right now, they're well stocked and their stores continue to run. So, like anything else, the bigger you get, sometimes it becomes a little easier. We have a big staff right now. Certainly we're working on skeleton staff, but we can rotate staff members around also. The smaller stores cannot.

So, we think we're starting to win a lot of customers around the country. Business remains strong and we certainly will monitor it. We monitor on a daily basis right now, Mark. So, if we see dramatic changes in the industry or in the stores, Wall Street will be the first to know.

Mark Smith — Analyst, Lake Street Capital Markets

Perfect. Thank you.

Operator

Thank you. And the next question comes from Peter Wright at Intro-act. Please go ahead.

Peter Wright — Analyst, Intro-act

Great. Thank you and congratulations, guys, on a great year and great finish to it. Two questions. First question is I'm hoping you can help us think about what the experience and economics of the superstore versus your typical store are? In light of your comments of SKU rationalization, are there incremental services or incremental experiences you get in the superstore that you don't get in a typical store and does it result in any type of economic numbers that you feel comfortable sharing with us, average cart size, customers per day? What is kind of the difference between those two stores? And I have one follow-up.

Michael Salaman — Co-Founder & President, GrowGeneration Corp.

The superstores that we're creating are in that 30,000 to 40,000-square-foot range have multiple functionalities. Not only does it act as a retail commercial outfit for the Company, but they're also being positioned as fulfillment services for and distribution points for our online business.

As we begin, and we talked a lot about buying online and picking up at the stores, and also going into our private label business and landing bulk buys in larger stores that act as a fulfillment center, so the store in Tulsa 2, which is our largest facility, the largest hydroponic garden center in the United States, is acting not only as a local inventory just-in-time retail/commercial business, but also will act as a supply chain for our online business. So, it does have a multifunction for the Company. It also will act as a distribution hub for a region. That Tulsa 2 store will certainly be utilized for regional distribution in addition to being tied to our omnichannel.

Peter Wright — Analyst, Intro-act

That's helpful. And a follow-up to that is, you know, when looking at your scale, and it was alluded to in a prior question now being the largest hydroponic retailer out there, 10 new stores last year, if you look at the next 10 stores, can you help us understand, now that you guys are the biggest, you know how to build them, how many of the next 10 do you think are going to be built by you guys versus bought and what are some of the critical thinking that we could be thinking about there?

Darren Lampert — Co-Founder & Chief Executive Officer, GrowGeneration Corp.

Critical thinking certainly follows legalization. Right now, if you see legalization in New York, New Jersey, Connecticut, a little more advanced than up in Pennsylvania, you'll see GrowGen get very strong on the East Coast. What you're usually seeing, our mantra is we buy stores in mature states where we understand balance sheets and income statements, stores that have been in business for some time that have predictable cash flow. New states, you usually can’t find stores that fit that model both size wise, revenue wise, EBITDA wise.

So, we follow what’s going on in the world right now as we did in Oklahoma. So, what you’ll see from GrowGen when the COVID-19 outbreak slows down and the world again gets back to some normalcy, you will see stores from GrowGen in Illinois, you’ll see stores from GrowGen in Missouri, and any other states that are getting more aggressive. We’re looking very closely right now at Arizona. Again we monitor what’s going on in New York and New Jersey very closely right now.

So, again, right now, we just don’t know where we’re going to see some changes in legalization with what’s going on in the world right now. And everyone looking for tax dollars, we certainly think there will be some changes in some of the laws in the state by state right now, but we’re still waiting. And again, like anything else, you probably will see stores from us in Illinois this year. Hopefully, you’ll see stores from us in Arizona, Missouri, and somewhere back East just depending upon changing of laws. And you also will probably see, hopefully in the fall, something in Southern California from GrowGeneration in the LA area.

Operator

Peter, are you finished?

Peter Wright — Analyst, Intro-act

Yes. Thank you, guys. Thank you very much.

Operator

Thank you. There are no further questions at this time. You may proceed.

Michael Salaman — Co-Founder & President, GrowGeneration Corp.

We want to thank everyone for their time and certainly want to send out prayers and make sure everyone stays healthy and safe during this COVID outbreak and we appreciate all of our staff members, our shareholders, and the support that we've gotten. So, thank you again. Appreciate your time and we're here for any additional questions afterwards as well. But, stay safe and stay healthy. Thank you.

Darren Lampert — Co-Founder & Chief Executive Officer, GrowGeneration Corp.

Guys, like one other thing is something was very important that was in our press release today that GrowGen is giving back. We've committed to give over a $0.5 million to communities and growers in need and we will continue to. We've taken wonderful care of our staff. We have not let one of our staff members go. We will be bonusing our staff for working during these trying times. GrowGen will continue to do its part as the leader in this industry and we're quite proud of it and, as Michael said, thank you everyone and be safe and we look forward to updating you on further calls. Thank you.

Operator

Ladies and gentlemen, this concludes the conference call for today. We thank you for participating and we ask that you please disconnect your lines.