

GrowGeneration Corp

First Quarter 2020 Earnings

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Roth Capital Partners

Glen Mattson

Ladenburg Thalmann

Mark Smith

Lake Street Capital

Peter Wright

Intro Act

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the GrowGeneration Corp First Quarter 2020 Earnings Conference Call.

At this time all lines are in listen-only mode. Following the presentation we will conduct a question-and-answer session. If at any time during this call you require immediate assistance, please press star, zero for the Operator. This call is being recorded on Thursday, May 14, 2020.

I would now like to turn the conference over to Michael Salaman. Please go ahead.

Michael Salaman

Thank you. Good morning. My name is Michael Salaman, Co-Founder and President of GrowGeneration. At this time, I'd like to welcome everyone to the GrowGeneration First Quarter 2020 Earnings Conference Call.

With me this morning is Darren Lampert, our CEO and Co-Founder; Monty Lamirato, our Chief Financial Officer; and Tony Sullivan, our Chief Operating Officer, who will all be participants on our call this morning. After our remarks, there'll be a question-and-answer session.

As always, we expect to make forward-looking statements this morning, but I want to caution you that our actual results could differ materially from what we say here. Investors should familiarize themselves with 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I'd also remind everyone that today's call is being recorded, and an archived version of our call will be available on our website later today.

We have a lot to go over let's get started.

GrowGeneration recorded its tenth consecutive record quarter of increased revenues, and we achieved record Adjusted EBITDA for the quarter ended March 31, 2020. Despite the challenging times, due to COVID-19, abbreviated hours, and a six-day workweek, GrowGen recorded sales milestones that included a single day sales record of \$1,043,000. Our commercial team broke over a million dollars for a week. And for the month of April, our e-commerce division fell just shy of a million dollars. All record sells.

Our Company has tremendous growth and momentum built into the next quarters and the balance of this year. Our store acquisitions and new store openings continue to drive growth while we deliver double digit, same store sales results quarter-over-quarter. All stores will be connected to our e-commerce platform in Q2, providing our customers to buy online and pick up in store options. During the COVID outbreak we successfully implemented a will call and curbside same day pickup from our website, highlighting the demand we believe will be created once our buy online pickup in store option is available.

We're very proud to announce the opening of our store Support Center located in the Art District, right outside of Denver, Colorado, an 8,000 square foot complex that will serve as our Support Center for all of our stores, our commercial customers and our e-commerce channel.

How you respond during a crisis says a lot about people and a company. GrowGeneration's preparedness delivered record results and this execution discipline continues to deliver positive results quarter-over-quarter.

I will now turn the call over to Darren who will present our Q1 2020 results. Darren.

Darren Lampert

Thank you, Michael. Good morning and welcome to our Q1 2020 earnings call.

I'd like to begin by thanking our staff and customers for their hard work, dedication and loyalty 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 nourishment required to feed their plants. Accordingly all our 27 stores are open during this difficult time and remain open. 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. 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 Q1 2020 record financial results reflect our continued focus on revenue growth and Adjusted EBITDA expansion. Q1 2020 was the Company's tenth consecutive record quarter of revenue.

As we continue to outpace our guidance, we were increasing Fiscal year 2020 revenue guidance to \$135 million to \$140 million and increasing Adjusted EBITDA guidance for 2020 to \$12 million to \$14 million.

We've set 2020 full year GAAP pre-tax net income guidance to \$5.5 million to \$7.5 million revenue guidance for Q2 2020 is \$36 million to \$37 million.

Adjusted EBITDA Q2 2020 is \$3.6 million, and GAAP pretax net income is \$2.1 million.

Revenue was up 152% quarter-over-quarter to approximately \$33 million versus \$13.1 million for Q1 2019.

Adjusted EBITDA was \$2.7 million for Q1 2020 compared to \$615,000 for Q1 2019. Adjusted EBITDA for Q1 2020 was \$0.07 per share basic.

Net income from store operations was approximately \$5.3 million compared to \$1.7 million for Q1 2019, an increase of 207%.

Our same store sales were 58% in Q1 2020 versus Q1 2019.

For online business, growgen.pro is projected to exceed \$10 million in revenue in 2020. Our omni channel strategy will connect all 27 of our stores inventory to our e-commerce site, allowing for buy online and pickup in store functionality.

GrowGen's just in time supply chain delivers our product safely and timely to our customers. Today we offer will call, curbside and direct to farm shipment from all our store locations, and through our online e-commerce 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 Q4 2019 and is now fully deployed, providing business intelligence to lower costs, improve departmental productivity, integrate our online 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 operation of the overall Company. The Company successfully integrated both GrowGen Portland, a December 2019 acquisition, and GrowGen Miami, a late February 2020 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. In its first full month of business in April. The super hydroponic center did \$770,000 in sales.

To highlight our market by market growth, Colorado was up 23.6% quarter-over-quarter, California plus 53.3%, Michigan plus 275% and Oklahoma plus 305%. Our commercial sales finished Q1 2020 at \$8.4 million, and our e-commerce sales finished Q1 2020 at \$2 million.

We are focused on margin expansion strategies that include furthering the deployment of more private label products and driving more efficiencies at the purchasing level as we continue to scale. We have new acquisitions and new store openings we plan to close during the remainder of 2020 as we continue to drive growth during these difficult times.

GrowGen has a tremendous team of essential employees who have made a commitment to our Company and customers and I couldn't be any prouder. I am inspired by their efforts and dedication; that they have worked tirelessly to service our customers and communities.

I will now turn the call over to Tony Sullivan, our Chief Operating Officer, whose preparation and focus during the COVID-19 outbreak was nothing but exceptional. And Tony will brief everyone on our current COVID-19 risk mitigation procedures, and then to our CFO Monty Lamirato, who will provide more details on our Q1 2020 results.

Tony.

Tony Sullivan

Thank you, Darren.

As Darren and Michael have stated, our top priority is the safety of our team, their families and our customers. Currently, all 27 of our locations are open and operating efficiently. We have been relentless and one step ahead with all our safety protocols throughout this pandemic. We are classified as an essential business, supply chain for agricultural and medical, and COVID-19 city, county, state and federal mandates, updates and changes are monitored multiple times a day and communicated daily. We have deployed remote working environments for all non-essential store personnel and our store Support Center e-com, commercial, IT, purchasing and accounting departments.

We currently have two out of the 10 states we operate in who have lifted the stay at home mandate. And even though the stay at home mandate was lifted in these two states only, all protocols remain in place. We must wear masks, continue our six-foot distancing rule and also not allowing more than 10 gathering in a location at any given time. Based on this being a fluid and ever-changing situation, we continue to manage, monitor and communicate to everyone daily. We have built a new level-one protocol that prepares us for opening back up in each store and state. We will maintain all communication, safety and cleaning protocols as we work towards our new normal business practices. We are monitoring and have significant cleaning and safety supplies in all locations to handle the pandemic as we move

forward. We will continue staying one step ahead, operating with stricter protocols, keeping our team and our customers safe.

We have developed a customer reach program that ensures we communicate to our customers' daily finding the best way to provide service, consumables and solutions, keeping each customer updated on all of our new ways that we can serve them safely and ensuring that they have the latest update on vendor shipping and delays. We are currently posting on all panels that GrowGeneration is your state, one stop solution provider, and that we have multiple options available to serve you.

Couple of key takeaways for everybody on the call: our relentless proactive safety, communication and approach paid off. We have had no reported COVID-19 positive tests. Considering the COVID-19 impact, we have produced record quarter results.

As stated earlier, we were able to deploy and test critical omni channel functionality: buy online pick up in store, curbside pickup, will call, and pick pack and ship. This early knowledge as we get ready to roll out our omni channel is invaluable. We have our new level-one plan ready to go for all areas that begin to lift their stay at home mandate.

And most importantly, we are prepared to maintain our safety level protecting our team and our customers.

At this time, I'm going to turn it over to Monti for the financial updates, Monty.

Monty Lamirato

Thanks, Tony.

Let's go over the Q1 financial highlights.

Revenues were up 152% to \$33 million for Q1 2020 versus \$13.1 million for Q1 2019. The increase in revenues is due to the addition of 10 new retail stores opened or acquired during 2019, an increase in commercial business and an increase in our online sales and the e-commerce site opened or acquired at various times during 2018 that were open for all of Q1 2020.

Sales in the 14 stores opened or acquired for more than 12 months in Q1 2020 were \$15 million. Same store sales were \$15.2 million for Q1 2020 versus \$9.6 million for Q1 2019, a 58% increase

Adjusted EBITDA was \$2.7 million for Q1 2020 compared to \$615,000 for Q1 2019, which translated to Adjusted EBITDA of \$0.07 per share basic for Q1 2020.

On a GAAP basis, the Company showed a net loss of \$2.1 million for Q1 2020 compared to net income of \$229,000 for Q1 2019, which is attributable to a \$4.1 million in non-cash share based compensation, both stock and options, for the first quarter ended March 31 2020.

The increase in non-cash share-based compensation was primarily the result of several new Executive employment agreements, which became effective January 1, 2020 that had some accelerated vesting provisions. The non-cash share-based compensation for the remainder of 2020 is substantially less than the amount recorded in the first quarter of 2020 and based on current awards outstanding is estimated to be approximately \$2.3 million for the remainder of 2020. Had the new share-based award been level vested and not front invested, the Company would have had Q1 net income of approximately \$332,000 on a GAAP basis.

Net income from store operations, which was approximately \$5.3 million for the quarter ended March 31, 2020 compared to \$1.7 million for the quarter ended March 31, 2019, an increase of 207%.

Gross profit was \$8.9 million for the quarter ended March 31, 2020 as compared to \$3.7 million for Q1 2019, an increase of approximately \$5.3 million or 143%.

Gross profit as a percentage of sales was 27.1% for Q1 2020 compared to 28.2% for Q1 2019. The decrease in the gross profit margin percentage is due to a greater percentage of our sales for the quarter ended March 31, 2020 related to larger commercial and e-commerce sales, whose margin are historically lower. Commercial and e-commerce accounted for approximately 32% of the overall sales for the quarter ended March 31, 2020, resulting in a margin reduction of approximately 0.8%.

Operating Expenses are comprised of store operations primarily payroll, rent, utilities, and corporate overhead. Store operating costs were approximately \$3.6 million for Q1 2020, compared to

approximately \$2 million for Q1 2019, an increase of approximately \$1.6 million or 86%. Store operating costs as a percentage of sales was 11% for Q1 2020 versus 15% for Q1 2019, a 27% reduction.

Corporate overhead is comprised of share-based compensation, depreciation and amortization, general and administrative costs and corporate salaries and related expenses, and was approximately \$7.4 million for Q1 2020 compared to \$1.4 million for Q1 2019. Corporate overhead costs were 22% of revenue for Q1 2020 compared to 10.5% for Q1 2019.

The increase in corporate overhead as a percentage of revenue for the quarter ended March 31 2020 was primarily due to the increase in non-cash share based compensation from approximately \$80,000 for the quarter ended March 31 2019, to approximately \$4.1 million for the quarter ended March 31 2020. Again the increase in non-cash share based compensation was a result of several new Executive employment agreements, which became effective January 1, 2020, which resulted in vesting of common stock and common stock options during the quarter, as well as options issued in 2018 and '19 that vested in 2020. The vesting of these shares and options was significantly higher in the first quarter 2020 than they were in the period subsequent to March 31, 2020. The non-cash share-based compensation for the remainder of 2020 is substantially less than the amount recorded in the first quarter of 2020, and once again based on current awards outstanding, is estimated to be approximately \$2.3 million for the remainder of 2020.

The increase in salaries expense from 2019 to 2020 was primarily due to the increase in corporate staff to support expanding operations, including purchase store manager integrations, accounting and

finance, information systems, purchasing and commercial sales staff. Corporate salaries and related payroll costs as a percentage of sales were 5.5% for the three months ended March 31, 2020 compared to 5% for the three months ended March 31, 2019.

General administrative expenses comprised mainly of advertising promotion, travel, entertainment, professional fees and insurance was approximately \$1.2 million for the three months ended March 31, 2020 and approximately \$493,000 for the three months ended March 31, 2019, with a majority of the increase related to advertising and promotion, travel, legal fees and entertainment.

General administrative costs as a percentage of revenue was 3.5% for the three months ended March 31, 2020, and 3.8% for the three months ended March 31, 2019. As noted earlier corporate overhead which includes non-cash expenses, consisting primarily of depreciation, amortization and share based compensation was approximately \$4.5 million for the three months ended March 31, 2020, compared to approximately \$227,000, for the three months ended March 31, 2019.

Our cash position at May 11, 2020 was \$12.9 million. Working capital was \$31.7 million at March 31, 2020 versus \$30.6 million at December 31, 2019.

For the quarter ended March 31, 2020, we had proceeds from the exercise of warrants of approximately \$510,000. For 2020 we 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's send it back to you.

Darren Lampert

Thank you, Monty.

In conclusion, GrowGeneration recorded its 10 consecutive record quarter of increased revenue, and we achieved record adjusted earnings. Our Company has tremendous growth and momentum built into the next quarters and balance of the year. Our store acquisitions and new store openings continue to drive growth while we delivered double digit same store sales results quarter-over-quarter. All stores will be connected to our e-commerce platform in Q2, providing our customers the buy online and pick up in store option. During the COVID outbreak we successfully implemented a roll call and curbside same day pickup from our website, highlighting the demand we believe will be created once our buy online pick up in store option is available. We're proud to announce the opening of our store Support Center located in the Art District outside of Denver, an 8,000 square foot complex that will serve as a support center for all stores, commercial customers and our e-commerce channel.

The preparedness during the crisis says a lot about people and a Company.

GrowGen's preparedness delivered record results, and this execution discipline will continue to deliver positive results quarter-over-quarter. 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 the world.

We continue to cultivate the best and most knowledgeable staff in the country. We are focused on world class customer service. 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 Q1 2020 numbers we reported.

With revenue up 152% quarter-over-quarter and Adjusted EBITDA earnings \$2.7 million or \$0.07 a share our first quarter 2020 was strong as we successfully added Miami, Portland and Tulsa, too, to the portfolio.

Our balance sheet is strong with \$13 million in cash, which allows us to continue to execute our internal growth initiatives, while we continue to purchase the best in breed hydroponic operations and open new GrowGen locations.

We've increased Fiscal Year 2020 revenue guidance to \$135 million to \$140 million.

Adjusted EBITDA guides for 2020 is \$12 million to \$14 million and full year GAAP pretax net income guidance to \$5.5 million to \$7.5 million.

Revenue guidance for Q2 2020 is \$36 million to \$37 million.

Adjusted EBITDA Q2 2020 guidance is \$3.6 million and GAAP pretax net income is \$2.1 million.

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

Now we will answer a few questions.

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 touch tone phone, you will hear a three-tone prompt acknowledging your request and your questions will be polled in the order they are received. Should you wish to decline for the polling process please press star, followed by two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment for your first question.

Okay, your first question comes from Aaron Grey from Alliance, please go ahead.

Aaron Grey

Good morning, guys and congrats on the quarter.

Darren Lampert

Thank you, Aaron.

Aaron Grey

First question from me. So I see you guys raise guidance, and you also have strong 2Q guidance, which seems like momentum is continued into April. But just when I look at the guidance that it would imply for the back half of the year at the moment, it looks like it'd be roughly flat or even potential decline in the back half. Is that more just given the uncertainty of COVID? Is there anything that would be an indicator of anything kind of slowing down for you guys, or can you kind of speak to kind of what the guidance would imply for the back half of the year as we reconcile 2Q and the full year updated guidance. Thank you.

Darren Lampert

Sure, I'll take that, this is Darren.

Once again, as you know, from GrowGen, we are conservative with guidance, especially in light of COVID-19. So we only can guide with what we're seeing right now. We're a month and a half into the

second quarter, which remains extremely strong. So we felt quite comfortable giving second quarter guidance out to Wall Street today, just to let Wall Street know how strong our business is proceeding. As we've said in the past, the numbers today and also the numbers in the first quarter are based on no new acquisitions for the remainder of the year, and no more store openings and our portfolio remains very strong, both from the new store opening side and the purchase side.

Once this COVID certainly resigns a notch, we're going to get back on the road and you know, start you know, start back with acquisitions and new store openings. So we're quite confident right now that the remainder of the year is going to be strong. And again, we will update guidance as need be as we continue to purchase, and we continue and if we see COVID certainly residing in the future.

Operator

Your next question comes from Eric Des Lauriers from Craig Hallum-Capital Group. Please go ahead.

Eric Des Lauriers

Alright, great. Well, thanks for taking my question guys and congrats on the strong quarter especially amid the reduced hours with COVID, so I just want to offer my congrats before I get into the question. First with me, just kind of piggyback on that previous question. So I appreciate that does not include any M&A we're still down and potentially in the back half, can you talk to any kind of seasonality

you guys are seeing you know, as it relates to outdoor growing and some of your some of those markets? And then you know, if we should still sort of expect any sort of Q4 seasonality, or if it's potential that you guys could you know, continue to realize your record growth quarter-over-quarter.

Darren Lampert

Yes, I'll answer that Eric.

As we continue to grow and spread out through the country, seasonality is becoming much, much less relevant to the Company. We're really not seeing tremendous seasonality; we do have a pretty large outdoor growth community that we do service. But it's a very small part of our portfolio right now. So right, as of now again, we're not really seeing seasonality, and we look forward to again to revenue increasing throughout the year.

Eric Des Lauriers

Okay, great. And then maybe one from Michael really whoever but I was just looking for a bit of an update on the private label initiative, and any timing on the impact of gross margins. And just overall how we should think about margins given sort of tailwinds from a private label initiative sort of offset by headwinds with the growing mix of commercial and e-commerce and that's it for me, thanks.

Michael Salaman

The private label business is certainly a very focused initiative for the Company, as we reported earlier that we've already put into our stores our first private label product line under the brand Sunleaves, and actually, that brand is now contributing in this quarter about 1% of revenue. And we see going forward an increase in that number, we're getting some real momentum and some real interest in the products that we're bringing out. So as you see quarter-over-quarter, you're going to see new products being introduced under our own brands under the private label, and each one of those brands are going to have an accretive and positive impact on gross profit margins. So as you look to Q2, Q3 and Q4, you will start to see additional private label products hit our shelves and you're going to see some positive impacts coming, you know from the sales of those products in terms of gross profit margin.

Operator

Your next question comes from Scott Fortune of Roth Capital Partners. Please go ahead.

Scott Fortune

Good afternoon, congrats on a great quarter.

Real quick just to kind of follow up on the M&A strategy and are you guys looking at it more opportunistic now? It seems like you know, legislatively wise with the tax revenues hit because of COVID we're going to see a lot of legalization probably in the second half here. But in calling out the state that

you're looking to move into next, previously, how are you looking at the opportunities now and the competitive environment? Are they struggling in the COVID environment currently?

Darren Lampert

Oh, I'll answer that, Scott. We continue to hold a strong pipeline of store acquisitions, and new locations in all the adult use legal markets, Missouri, California, Illinois, Arizona, New York, Pennsylvania, and New Jersey. And we're off with tracking all the states and we are targeting either a new store or an acquisition space just mentioned. We certainly again, our pipeline has remained strong over the last couple of years. We certainly are seeing you know more stores pop off on the market of recent. And again, I think a lot has to do with COVID. And again, we only buy best of breed right now. So we are looking, we have some LOIs that are signed and hopefully the second half of the year will be quite exciting on the acquisition front and the new store openings front for GrowGen.

Scott Fortune

Okay (audio interference).

Operator

Your next question comes from Glen Mattson of Ladenburg Thalmann, please go ahead.

Glen Mattson

Hi, thanks for taking the question and nice quarter as well.

Curious, as the margins picked up sequentially, you mentioned down year-over-year due to a combination of large commercial business and e-commerce. You also had a number of large commercial orders in Q4. So maybe you could just kind of quantify if you can, the rate of change in the large commercial business sequentially and how to think about that over the rest of the year and how that plays into margins overall.

Michael Salaman

I'll answer that. Darren, I'll throw it back to you on the margin.

But on the commercial side, guys, we're seeing tremendous growth in our commercial business. We did \$8.4 million, which was certainly above our internal projection and we continue to acquire and service you know, commercial business. For the full year we put out projections of \$30 million, which is off of \$17 million last year, so the Company's commercial division continues to perform and execute at a very high level. And we see that trending in this quarter as well Q2. Even though there is some margin pressure there, but we're certainly increasing revenue and gaining additional commercial business quarter-over-quarter. That's one of the impacts that you see this quarter on gross profit margin.

In addition to that, our e-commerce business is expanding, we did around \$2 million this year, so, between commercial and our e-commerce business in combination that represented almost a third of our overall sales, but offset of that will be you know, the things that we're doing relative to private label, the efficiencies that we're building into the business through our scale and our purchasing power we're getting much better pricing in the market.

We see in a blended quarter-over-quarter, margins maintaining themselves, and actually increasing quarter-over-quarter, but this particular quarter, we did have a higher percentage of commercial business than we originally projected.

Glen Mattson

Great, and I guess just one more thing you mentioned that other various markets you're looking to get into and they're going to be some mix of acquisition and new stores. Did you give a guidance on cap ex for the year and if not, can you just give us an update on that and then that will be it for me?

Darren Lampert

Yes, Glen. That's really hard right now for us to comment on in light of this until the acquisitions are completed, so they're dependent upon how many acquisitions we do have and how many new store openings. Right now it's a little it's a little early to tell you that.

Again, I will keep you posted as transactions do close.

Operator

Your next question comes from Mark Smith of Lake Street Capital. Please go ahead.

Mark Smith

Hi, guys. Good morning. Thanks for taking the questions.

First one from me, online sales sounds like it was like \$2 million during the quarter. Can you talk about sequential changes maybe what you signed in March versus January? And it sounds like April's continued to ramp, is that coming from just customers naturally moving over to e-com or did you see a big bump as we sell more stay at home orders?

Michael Salaman

Mark, this is Michael.

I think it was a combination of our increase in digital marketing. We're able to acquire a customer online at a very attractive acquisition cost and we continue to increase that spend because of that. That's driving more traffic, more unique visitors, more transactions. We had some impact on some products

related to COVID that we think will continue over the next several quarters in terms of some hand sanitizers and isopropylene alcohol and those kinds of products.

Our e-commerce business is being integrated with all of our locations, and we're very, very excited about the impact that our online business which is now able to offer tens of thousands of different items in an online environment and have the customer through our omni channel functionality either order online or go to one of our stores and pick it up or have to drop shipped right to their farm. That optionality we think in in our roll call, and curbside experience certainly has proven to us that our customer has a propensity to order through that type of process.

I think it's really just a combination of we're spending more money online, we're getting more activity, we're closing more business and we see that continuing. And that integrated omni channel approach, we think is going to have multiple effects of more online business, more traffic to the stores will pick up we believe more commercial business as we centralize our online and offline strategy.

Mark Smith

Perfect, and then as we look at kind of inventory and supply chain looks like you guys have been pretty smart about buying inventory at the right times and having the right levels. As you look at the supply chain, are there any issues or risks out there that you see right now?

Darren Lampert

Tony, you want to take that. Tony?

Tony Sullivan

Yes, certainly as we look at the supply chain moving forward we're very excited about the opportunities that present themselves right now. We know that, as Michael stated, the omni channel approach with the ability to serve our customers in multiple ways. With our new fulfillment center in Tulsa. Our confidence level in serving our customers in multiple ways just gets stronger, and we believe as we move forward with this fulfillment approach we're going to have the ability to serve in multiple ways and put us ahead of the competition.

Mark Smith

Okay, great.

Tony Sullivan

Hey, Glen. On a side note, we bulked up on inventory into the COVID pandemic, we brought inventory of about \$3 million on and it's well served our customers and I think that's what differentiates GrowGen from a lot of other smaller stores. Our stores have never been so well stocked, and we stayed

ahead of any supply chain disruptions. We've seen very little supply chain disruptions, but the ones that have been out there, we've been way ahead of.

Mark Smith

Perfect, thank you.

Operator

Your next question comes from Peter Wright of Intro Act. Please go ahead.

Peter Wright

Great, thank you for taking my question and congratulations on the beat and raise. Great quarter. My question is (multiple speakers), my first question is on your BizNet pipeline. You did some great qualitative color, my first question is quantitatively, can you comment as the acquirer kind of in the hydroponic space? Can you discuss kind of your expectations on any magnitude at this point of kind of the better deal you're getting today on kind of acquiring these names as you have been having in the past.

My second question, I'll just throw them back out there is really on the white label strategy. And so it's 1%. Right now. What I'd love to better understand is where can this go? What is maturity there and in the hydroponics market? One way I'm trying to think of it is the concept of brand loyalty, how brand

loyal are these customers? And how easy is it going to be for you to switch customers in the segments that you're targeting to a white label solution?

Tony Sullivan

(Multiple speakers). I'll take the first part; I'll give you the second part.

As a manner of what we're seeing out in the markets, again, our pipeline is strong. Pricing, we've been paying such unbelievable prices for, for stores out there, can pricing get better? I don't think so we're seeing more out there than we've ever seen before. But again, pricing remains the same for us. We're looking at larger transactions than smaller transactions. Back a few years ago we were looking for smaller transactions. Now it's best to breed in the States and the mature states we're looking to get into, if not GrowGen opens, we'll open a store in that state. So, on a pricing side of it, I don't think you're seeing that much variation we're paying you know, anywhere from you know, one and a half to two and a half times EBITDA plus inventory. So those prices we see still remain the same you may see you know, a little downtick, but I don't think anything substantial or material

Michael Salaman

My theory regarding private label, one of the things that we're very proud of is our staff. With over 200 employees now, most of them are professional growers or agronomists, they understand cultivation, they understand gardening. And that experience is what we deliver day in day out at any part of the

business. So our capability of introducing new products new technology is very unique in the hydroponic space, I don't believe anyone has a capability that we have in terms of delivering new product and new technology, our ability to source products on a global basis. We acquired 14 trademarks last year, Sunleaves being the first one. We put an internal goal of this year of 10% of our sales to be one of the private label products that we're bringing to the market, which includes a lot of commodity products, scissors, traveler's pots, those are things that are very commodity driven, that we can deliver high quality at a great price.

Over time we think it could be 20% to maybe 30% of the overall business and margins that will exceed 50%. And that's what we're seeing in the sourcing, and the savings that we're getting by going direct to manufacturer. So it's a tremendous long term initiative and I think you're going to see the rewards quarter-over-quarter in terms of increased profit and also loyalty to products that GrowGeneration is backing and putting its name on and we're just really getting started with the Sunleaves brand and you're going to see many, many more new products come to come to the stores and be sold through all the various channels that GrowGen can offer.

Tony Sullivan

(Multiple speakers) this is a 10-year initiative, so this will be going on from you know, this will be a decade long initiative to GrowGen. So you know, it's not going to take effect in one day, it's going to be you will see a gradual increase quarter-over-quarter. Now you'll see a beautiful chart up swinging

throughout so on. But once again it's going to take some time for it to take hold, and start to start to affect margins for GrowGen.

Peter Wright

That's fantastic. What, if I could add one little question there? How, what is your data strategy in light of kind of your white label strategy? And, you know the heart of my question is really, you guys are the largest kind of highly fragmented market. You have a loyalty program plan, how is it that your kind of treating data to aggregate kind of how aggressive you could go with this and in certain SKUs and where you got the most room (inaudible)?

Michael Salaman

I mean, you look at it look, we have 10 departments, 10 product departments, we actually just added an eleventh Department called the clean room, which is going to be everything related to sanitizing your cultivation facility, we recently did a deal with 3M on an adhesive material that basically sanitizes your cultivation facilities. We can develop product and we can deliver solutions for our customers based on the market needs, and we're very nimble, we have the ability to really react with our ERP system.

We have tremendous knowledge now of what's selling, and we're certainly looking at that data on a regular basis and making business decisions based on the business intelligence that we're gathering. And everything that we do has a financial analysis attached to it. And we look at margin, we're not going to go

into a private label product, unless we can see some real margin expansion, and it makes sense from a marketing and sales perspective. So, we take that all into account. But as we said, there's tremendous upside. There's tremendous opportunity to continue to build that side of the business, which will drive as Darren said, this is a long-term strategy, this is a strategy that we can constantly be developing new products and bringing product to stores. And, again, we see a very successful start to the private label Sunleaves brand.

Tony Sullivan

Michael, it's Tony, I'd add to that to that we really have just deployed our business intelligence dashboard system that gives us clear visibility down to the SKU turn GM ROI. So for the first time, we really have the dashboard system and the clear visibility on all of our items, and it's going to help us in the future.

Michael Salaman

One-hundred percent, Tony.

Operator

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

Brian Nagel

Good morning. Thanks for taking my questions. Congratulations, nice work.

Michael, you had mentioned in your prepared comments and this may be a bit of a follow up to some of the other questions but you talked about the buy online pick up in store, the question is maybe just elaborate little bit further on that. I just wonder to what extent has this been rolled out so far. Clearly other retailers, they're somewhat similar to GrowGen use it successfully. But how do you think about either what you're seeing already are your thoughts about how this could really enhance that relationship with the customer, will it bring a new customer will it help to improve frequency to the stores and such?

Michael Salaman

Yes, I think what we've proven out during the COVID situation is that our customer will absolutely go to the internet, fill out a form or go to a shopping cart and have an order pick packed and ready for pickup. And we've demonstrated that already, we've done over 500 transactions over the last six weeks in that type of format, so it showed us and again, we've been working on the buy online pick up integration for about 12 months now, we partnered with Adobe Magento we've been developing the website and integrating our inventory across all 27 locations. So we think it's going to have a tremendous impact. I mean, the ability of our customer to search through inventory, to really drill down into inventory, complimentary products, and have that service where the product will be delivered will be available and or delivered same day or next day.

We think it's going to have a tremendous impact on repeat buys, we think our average transaction, which we're seeing online is significantly higher than our walk in traffic, which we get over 1,000 individuals a day right now, that number is increasing. So I think it's going to have really a dynamic impact on our business.

You know, more online sales, more in store activity in terms of transaction, we think the average basket will be higher. So we also think we'll pick up more commercial business as everything centralizes. And we continue to increase our digital marketing spend, which has been relatively modest in terms of our spend, and seeing our acquisition costs, either with the gradual increase of online spending that we started to do this quarter, we've still been able to maintain a very attractive cost of acquisition. And we're going to start to ramp that up as we move the omni channel functionality into a live position which is scheduled for the month of June. So right now, we've only done some soft testing through our own website where the customer comes in, but the full blown integrated omni channel solution will be available to all of our customers in in the month of June.

Brian Nagel

That's great. Well, I appreciate all the color. Thank you very much.

Operator

Ladies and gentlemen, as a reminder, should you have a question please press star, followed by the one. Okay, so there are no further questions at this time. Please proceed.

Michael Salaman

Thank you for your time. And thank you for your support and interest in GrowGeneration. We're very thankful to our employees, shareholders and investors for all their support. With this time of COVID, we certainly you know, send our best wishes to everyone to be safe and healthy, and we look forward to sharing our Q2 2020 results with everyone.

Thank you very much.

Operator

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