

GrowGeneration Corp.

Second Quarter 2019 Earnings

August 8, 2019 — 4:30 p.m. E.T.

Length: 40 minutes

"While Cision has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. Cision will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Cision ait fait des efforts commercialement raisonnables afin de produire cette transcription, la société ne peut affirmer ou garantir qu'elle ne contient aucune erreur. Cision ne peut être tenue responsable pour toute perte de profits ou autres dommages ou responsabilité causé par ou découlant directement, indirectement, accessoirement ou spécialement de toute erreur liée à l'utilisation de ce texte ou à toute erreur qu'il contiendrait. »

CORPORATE PARTICIPANTS

Michael Salaman

GrowGeneration Corp. — Co-Founder & President

Darren Lampert

GrowGeneration Corp — Co-Founder & Chief Executive Officer

Monty Lamirato

GrowGeneration Corp — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Scott Fortune

ROTH Capital Partners — Analyst

Aaron Grey

Alliance Global — Analyst

Ken Hamilton

Private Investor

Elise Stern

The Benchmark Company — Analyst

Alan Brochstein

New Cannabis Ventures — Analyst

Mitch Baruchowitz

Merida Capital Partners — Analyst

PRESENTATION

Operator

Good afternoon. My name is Sylvie and I will be your conference operator today. At this time, I would like to welcome everyone to the GrowGeneration Corp. Second Quarter 2019 Earnings Conference Call. Note that 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. And if you would like to withdraw your question, all you need to do is press star followed by the number two.

At this time, I would like to turn the call over to Mr. Michael Salaman, President. Please go ahead, sir.

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

Good afternoon. My name is Michael Salaman, Co-Founder and President of GrowGeneration Corp. At this time, I would like to welcome everyone to the GrowGeneration second quarter 2019 earnings conference call. With me today is Darren Lampert, our CEO, and Monty Lamirato, our CFO, who will both be participants on our call this afternoon. After our CEO and CFO's remarks, there will be a question-and-answer session.

As always, we expect to make forward-looking statements this afternoon, but 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. Let's get started.

GrowGeneration is now the largest and fastest growing chain of hydroponic garden centers in North America. Today our supply chain reaches coast to coast, generating over 6,000 weekly transactions. Our second quarter numbers reflect our team's execution and focus on revenue and EBITDA growth. You will hear today from Darren and Monty that all of our financial metrics have improved significantly. Although we've had a successful quarter, our management team is not going to rest on one quarter results, but continue to perform and execute quarter over quarter.

In addition to our strong financial performance in the second quarter, we are proud to announce Bob Nardelli, the former CEO of Home Depot, who was appointed as Senior Strategic Advisor. Mr. Nardelli helped grow Home Depot into a \$90 billion business and will be providing advice to the company on matters relating to supply chain, merchandise, branding, distribution, new product introductions, pricing, and channel selection.

Our balance sheet is strong, which allows us to continue purchasing the best-of-breed hydroponic operators and aggressively open new GrowGeneration locations in every major city in the United States and Canada.

I will now turn the call over to Darren, who will present our second quarter 2019 results.

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

Thank you, Michael. Good afternoon and welcome to our second quarter 2019 conference call. We'd like to begin our call by thanking our shareholders, management, and employees for their continued support and belief in the mission Michael and I set forth five years ago to build the largest national chain of hydroponic garden centers in the U.S. With 23 locations in nine states today, GrowGeneration is a leading marketer and distributor of nutrients, growing media, advanced indoor and greenhouse lighting, ventilation systems, and accessories for hydroponic gardening.

The company's second quarter financial results reflect our company's continued focus on revenue growth and EBITDA expansion. We improved the financial performance of the company in all areas. Revenue was up 172% year over year at \$19.5 million. For the six-month period ending June 30, 2019, revenue was \$32.6 million versus \$11.5 million for the six-month period ended June 30, 2018, an increase of 182% year over year. Adjusted EBITDA for Q2 2019 was \$1.8 million, a positive \$0.06 per share. Adjusted EBITDA for the six months ended June 30, 2019 is now at \$0.08 per share. Our same-store sales were up 23% year over year. Gross profit margins increased to 29.9%, an increase of 5.7 basis points year over year. Gross profit dollars were \$5.8 million, an increase of \$4.1 million or 237% versus the same period year over year. Our strategies to increase margins are working by purchasing in larger volumes and buying more efficiently.

We saw significant revenue increases in all key markets. Colorado was up 106%, California 346%, Nevada 143%, Michigan 95%, and Rhode Island up 50%. Our new stores in Oklahoma contributed \$2.5 million in revenue in the second quarter and our stores in Maine added \$1.6 million, driven by three newly

acquired stores that closed on May 15th. Our ecommerce store, HeavyGardens, added over \$1 million, a 47% increase over our first quarter sales. Our commercial division added over \$3.8 million in revenue, up from \$2.5 million in the previous quarter.

With our significant top and bottom line growth, we reduced our operating expenses by 13% and our corporate overhead by over 42% as a percentage of our revenue. To highlight our four-wall economics as a percentage of revenue, gross profit was 29.9%, store operating expense was 14%, G&A not including non-cash was 7%. Adjusted EBITDA was 9.2% of revenue, up from a negative 2.8% year over year.

The company continues its rollout of its new ERP platform, adding Northern California, Michigan, Maine, Oklahoma, and Rhode Island stores to our ERP system. The GrowGen ERP platform is designed to lower cost, improve departmental productivity, and provide forecasting and reporting tools. All of our current store operations will be on our ERP platform by the end of 2019.

As our revenue continues to increase and corporate overhead stays relatively flat, we will continue to increase net income quarter over quarter. We have a strong pipeline of new acquisition targets set to close in Q3 and Q4 2019. We are also investing in an aggressive new store opening program and are now working with a national real estate company to identify strategic locations in every major city in the United States. The company continues the process of up-listing to a larger exchange. We are increasing our guidance for 2019 revenue to \$65 million to \$70 million and adjusted EBITDA to \$0.14 to \$0.18 per share for 2019 based on 34.8 million shares outstanding.

I'd like to take a few minutes to go over our second quarter 2019 financial highlights.

On a GAAP basis, net income of \$1,062,000 for Q2 2019 compared to a net loss of \$929,000 for Q2 2018, an increase of \$2 million. Adjusted EBITDA of \$1.779 million for Q2 2019 compared to adjusted EBITDA of a negative \$205,000 for Q2 2018, an increase of \$2 million.

GAAP earnings of \$0.04 per share for Q2 2019, non-GAAP adjusted earnings per share of \$0.06 per share for Q2 2019, and \$0.08 per share to-date basic. Revenue of \$19.5 million, up \$12.3 million or 172% over Q2 2018 revenues of \$7.1 million.

Same-store sales were up 23% for Q2 2019 versus Q2 2018. Gross profit margin percentage was 29.9% for Q2 2019 compared to 24.2% for Q2 2018. Store operating costs as a percentage of revenue have declined to 14% for Q2 2019 compared to 16.1% in Q2 2018.

Corporate overhead as a percentage of revenue declined to 9.8% to Q2 2019 compared to 16.8% of revenue for Q2 2018.

Completed a \$12.8 million financing. All of the company's strategic institutional investors participated in the oversubscribed offering, including lead investors, Gotham Green Partners, Merida Capital Partners, and Navy Capital. In addition to the company's three strategic investors, JW Asset Fund also participated.

The company had \$18 million in cash and cash equivalents as at June 30, 2019. As of June 30, 2019, the company had working capital \$29.6 million compared to working capital \$21.6 million at December 31, 2018.

For the six-month period the company acquired six stores, one in Denver, Colorado; Palm Springs, California; Reno, Nevada; and Manchester, New Hampshire; and two in Maine; and opened new store locations in Tulsa, Oklahoma and Brewer, Maine.

We appointed Bob Nardelli, former CEO of Home Depot, as our Senior Strategic Advisor.

With that, I'd like to turn the call over to our CFO, Monty Lamirato, who will go into more detail regarding our second quarter financials. Monty?

Monty Lamirato — Chief Financial Officer, GrowGeneration Corp.

Thanks, Darren

Some of these figures will be a repeat a little bit, but a little bit more detail. So, net revenue for the three months ended June 30, 2019 increased approximately \$12.3 million or 172% to approximately \$19.5 million compared to approximately \$7.2 million for the three months ended June 30, 2018. The increase in revenue in 2019 was primarily due to the addition of 14 new stores opened or acquired after April 1, 2018 and the new ecommerce site acquired in mid-September 2018. The 14 new stores and the new ecommerce website contributed \$12.7 million in revenue for the quarter ended June 30, 2019.

Cost of goods sold for the three months ended June 30, 2019 increased approximately \$8.2 million or 152% to approximately \$13.7 million as compared to approximately \$5.4 million for the three months ended June 30, 2018. The increase in cost of goods sold is primarily due to the 172% increase in sales comparing the three months ended June 30, 2019 to the three months ended June 30, 2018. The increase in cost of goods sold is directly attributable to the increase in the number of operating stores.

Gross profit was approximately \$5.8 million for the three months ended June 30, 2019 compared to approximately \$1.7 million for the three months ended June 30, 2018, an increase of approximately \$4.1 million or 237%. Gross profit as a percentage of sales was 29.9% for the three months ended June 30, 2019 compared to 24.2% for the three months ended June 30, 2018. The increase in the gross profit margin percentage is due to reduced pricing from vendors as a result of increased purchasing from those vendors, the sale of product acquired in a large bulk purchase in Q2 2019 at a substantial discount.

Store operating costs as a percentage of sales were 14% for the three months ended June 30, 2019 compared to 16.1% for the three months ended June 30, 2018. Store operating costs were positively impacted by the acquisition of new stores in 2018 and 2019, which have a lower percentage of operating cost to revenue due to their larger size and higher volumes. The net impact, excuse me, the net impact was lower store operating cost as a percentage of revenues.

Corporate overhead comprised of general and administrative cost, share-based compensation, depreciation and amortization, and corporate salaries was 9.8% of revenue for the three months ended June 30, 2019 and 16.8% for the three months ended June 30, 2018. Corporate overhead excluding non-cash share-based compensation, depreciation, and amortization was 7% of revenues for the three months ended June 30, 2019 and 11% of revenues for the three months ended June 30, 2018.

The company continues to focus on its nine markets and the new ecommerce site, as previously noted, and the growth opportunities and each opportunity exists in each of the markets. We continue to focus on new store acquisitions, proprietary products, and the continued development of our online and Amazon sales.

The company continues to roll out its new ERP solution, which it started in Q4 2018, adding Northern California, Michigan, Maine, Oklahoma, Rhode Island to the ERP system in 2019. The ERP system, as previously noted, is designed to improve departmental productivity and effectiveness and provide forecasting and reporting tools.

With regard to our balance sheet, as of June 30, 2019 we had working capital with \$29.6 million compared to working capital of approximately \$21.6 million as of December 31, 2018, an increase of approximately \$8 million. The increase in working capital from December 31, 2018 to June 30, 2019 was primarily due to, one, the proceeds from the sale of common stock and exercise of warrants totaling approximately \$13.1 million during that six-month period, offset by the application of a new accounting standard related to the accounting for operating leases, which resulted in a \$1.6 million increase in current liabilities, therefore reducing working capital by that \$1.6 million.

At June 30, 2019, we had cash and cash equivalents of approximately \$17.9 million. As of the date of this filing we believe that the existing cash and cash equivalents are sufficient to fund existing operations for the next 12 months.

Let's talk a little bit about the reconciliation of adjusted EBITDA to net income. The net income, on a GAAP basis, was \$1,062,000 for the three months ended June 30, 2019. With adjustments for interest, depreciation, amortization, and stock-based compensation, adjusted EBITDA was \$1,779,000 or \$0.06 per share.

Darren, let me send the call back to you.

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

Thank you, Monty.

In conclusion, GrowGeneration has built a national footprint with 23 locations in nine states. GrowGeneration is now the largest and fastest growing chain of hydroponic garden centers in North America, selling nutrients, growing media, advanced indoor and greenhouse lighting, and ventilation systems and accessories for hydroponic gardening. Our leadership position is driven through a corporate mission statement: selection, service, and solutions.

Our company improved its financial performance significantly in the second quarter of 2019 versus the second quarter of 2018. Revenues were up 172%, margins up 5.7 basis points to 29.9%, adjusted EBITDA was a positive \$0.06 per share, with store operating expenses down 13% and corporate overhead down 42% as a percentage of revenues. Q3 has started out strong. We service thousands of growers and generate over 6,000 weekly store transactions. Our balance sheet is strong, which allows us to continue purchasing the best-of-breed hydroponic operators and aggressively open new GrowGen locations in every major city in the United States.

The company continues the process of up-listing to a larger exchange. We were adjusting our guidance up for 2019 to \$65 million to \$70 million in revenue and to \$0.14 to \$0.18 in adjusted EBITDA based on 34.8 million shares outstanding. We look forward to continuing to provide guidance as need be and we're excited to share our successes with our shareholders, our management team, and partners. Now we will answer a few questions.

Q & A

Operator

Thank you. Ladies and gentlemen, if you do have any questions, please press star followed by one on your touchtone phone. You will hear a three-tone prompt acknowledging your request. Questions will be taken in the order received. If you decide to withdraw your question, simply press star followed by two. And we do ask that if you are using a speakerphone to please lift the handset before pressing any keys.

Your first question will be from Scott Fortune at ROTH Capital. Please go ahead, Scott.

Scott Fortune — Analyst, ROTH Capital Partners

Congratulations. Strong quarter for you guys.

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

Thank you, Scott.

Scott Fortune — Analyst, ROTH Capital Partners

Just want to dig in deeper. You mentioned new store openings, potentially on your own versus acquisitions. How are you looking at the states where you're located and which states are favorable for continuing to grow the GrowGen store? Do you get deeper in those states or expanding to new states? If you can provide a little color on that.

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

We're doing an analysis right now, Scott, and we're looking at the entire country and applying a model based on licensing, certainly new markets, looking at the regulatory environment, and also our criteria related to the type of facilities that we've proven to be successful. For example, in Oklahoma, we opened up two locations. Both of those locations today are doing almost a \$1 million a month in business.

So we have a model that we're following and, as we mentioned in the call, we actually just recently engaged with a national real estate company that is putting together an analysis for us and soon we will be able to announce what the potential number of new store openings will be and we're very aggressive in how we're going to be executing that plan. But we have a very specific model that we're going to follow and that model will be such that, you know, we're going to be following that as we get aggressive in starting to open up new stores.

Scott Fortune — Analyst, ROTH Capital Partners

Great. And just to follow up on that, you're still seeing good acquisition potential within this space, consolidating this space? Kind of what are the deal opportunities you are seeing out there? Just a little color on that?

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

100% Scott. We have a very full pipeline right now going into third and fourth quarters and we will continue picking up best-of-breed around the country in mature markets and continue what we've been

doing, opening stores in new markets coming online and purchasing EBITDA and best-of-breed hydroponic stores throughout the country in more mature markets.

Scott Fortune — Analyst, ROTH Capital Partners

Okay, great. And then last question from me. Your ERP system rolling out seems to be very favorable on your margin structure. When that fully rolls out, I know you're (inaudible) is up to 9%. Do you have a longer-term target on kind of the EBITDA side? And gross margin is at 30%. What's your sense of those levels going forward here?

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

I think they'll keep improving year over year, Scott. Right now, we're aggressively spending on growth and new store openings and certainly technology. As you saw the bump, certainly this year in the last few quarters, we continue to think that cost as a percentage of revenue will continue going in the right direction. And we're pretty comfortable right now where our margins are. Certainly would like a little more bump, but we'll see. And if we can keep them around 30% for the next year or two, we certainly would be comfortable with that.

Scott Fortune — Analyst, ROTH Capital Partners

Great. Thanks, guys. I'll jump back in.

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

Thank you, Scott.

Operator

Next question will be from Aaron Grey of Alliance Global. Please go ahead, Aaron.

Aaron Grey — Analyst, Alliance Global

Thanks for the questions and congrats on the quarter, guys.

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

Thank you, Aaron.

Aaron Grey — Analyst, Alliance Global

On the same store sales, you know, it's nice to see that up over 20% during the quarter. Can you just kind of break that down? Which states in terms of same-store sales kind of saw the best improvement during the quarter? Any color there would be great. Thank you.

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

Right now, Scott, we're seeing increases in all our states. But out of the numbers you saw Colorado was extremely strong. We had a wonderful same-store sales bump in Rhode Island, which was the first quarter that our purchase in Rhode Island was part of our same-store sales. What you'll see this quarter, you'll see coming onboard for us is our Michigan operations, which we're seeing tremendous growth in also. We saw it pretty much strength around the country. We've also seen tremendous growth in our new

markets that we're moving into right now into Oklahoma and certainly we're looking at new markets right now. So, the quarter basically was strength everywhere.

Aaron Grey — Analyst, Alliance Global

Okay, great. That's great to hear. And then with a market like Oklahoma, there's been a lot of saturation just given the licensing structure. It's up nicely again during the quarter sequentially. Are you seeing any kind of like peak there? What are you kind of seeing in terms of like the licensing and where are they're going to be in terms of like cultivation, in terms of continued customers for you going forward?

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

Again, I think if you look back at the growth of the industry, you're usually seeing a five-year run rate into these new states that are coming on board. Oklahoma happens to be, you know, there are over 3,000 licenses in Oklahoma. So certainly, we see a few more years of tremendous growth, and we seem to be capturing a lot of that. So we're certainly pleased with the way our stores are performing in Oklahoma right now.

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

And Aaron, one of the interesting metrics of Oklahoma, it's emerged as one of the top medical patient states behind California, Florida, and Michigan, I believe. So you're getting demand from the fact that that market is now able to support the number of licenses that have been granted. And because of that, we're actually expanding our footprint in the state. We will be opening up an additional second location in Tulsa and a second location in Oklahoma City.

Aaron Grey — Analyst, Alliance Global

Okay, great. And then just one last one, just any update on your progress with MSOs? It seems like you guys were picking up steam there, so just how much contribution you might be getting in terms of sales from MSOs and how those partnerships have been evolving.

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

Yeah, it's been a great additive to the company. As we've mentioned on some of the previous calls, we have a dedicated commercial division that we set up as a standalone entity that operates outside of our store business and we have right now about 10 individuals that are sales, you know, commercial managers, that all they do is call on the big MSOs and the big commercial accounts. And because of our purchasing power, our ability to deliver just in time and do it on a national level, we're attracting the large MSOs. And we see that growth continuing quarter over quarter. As we mentioned in the call, we were up pretty significantly quarter over quarter. We were up over \$1 million in terms of our commercial business, which we are looking at separately from the store business.

Aaron Grey — Analyst, Alliance Global

Great. Thank you very much, and best of luck.

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

Thank you, Aaron.

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

Thank you, Aaron.

Operator

Thank you. Ladies and gentlemen, as a reminder, if you do have any questions, please press star followed by one on your touchtone phone.

And your next question will be from Ken Hamilton, a private investor. Please go ahead, Ken.

Ken Hamilton — Private Investor

Congratulations on a great quarter. I've been learning a lot about this SAFE Banking bill lately. Could you speak a little bit to that and how it's impacting you now and how you feel it's going to help you once our knuckleheaded politicians get their act together and pass that thing?

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

Hey, Monty, would you like to take that?

Monty Lamirato — Chief Financial Officer, GrowGeneration Corp.

Yeah, I mean it's hard to predict exactly, in the in the political environment, when something like that is going to come to fruition. There's a lot of discussion, but action is needed. Certainly, if a bill like that were to pass, it would greatly enhance our ability to attract larger, much larger financial institutions and really consolidates a lot of our banking, which would really be very beneficial and efficient in terms of use of our time. So we hope that things will happen early, but in this political environment it's very hard to predict whether or not something like that will in fact occur. And that will help our clients as well. So it's not only going to assist us, but it's going to help our clients as well.

Ken Hamilton — Private Investor

Okay. Thank you very much.

Monty Lamirato — Chief Financial Officer, GrowGeneration Corp.

Sure.

Operator

Thank you. Next question will be from at Elise Stern of Benchmark. Please go ahead, Elise.

Elise Stern — Analyst, The Benchmark Company

Hi, gentlemen. Congratulations. Great quarter.

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

Thank you, Elise

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

Thanks, Elise.

Elise Stern — Analyst, The Benchmark Company

You're welcome. Also, congratulations on the addition of Mr. Nardelli. I mean I think that's really a tremendous addition. And I was sort of wondering specifically what types of collaborations and strategic opportunities you might be going after with his assistance.

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

Well, basically, what we're doing with Mr. Nardelli is having regular meetings that we're scheduling with our executive team and our board and really what the focus is with Mr. Nardelli and with his background of really taking Home Depot into what we think the next generation, which is where Home Depot is today. He was there from 2000 to 2007 and grew the business, you know, \$60 billion to \$90 billion when he left. And a lot of things that we're doing today he certainly implemented inside the Home Depot environment, everything from supply chain, merchandising, branding, distribution, new product introductions, pricing. These are all the strategic conversations that we're having with him.

And having him at the table has been just a wonderful opportunity and he's just a wonderful addition to our executive team. And certainly it's not a regular basis, but on a monthly, quarterly basis, we're sitting down with him. And leveraging his experience and certainly his access into the markets and

his strategic relationships are tremendous. And his background is certainly so overlays where GrowGeneration is going.

So, those are the initiatives that we have and it's an ongoing relationship and certainly, we think, it's going to be an extremely accretive one to the company.

Elise Stern — Analyst, The Benchmark Company

It certainly helps on the acquisition side I'm sure as well too.

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

Absolutely.

Elise Stern — Analyst, The Benchmark Company

Congratulations again and continued good luck.

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

Thank you, Elise.

Operator

Thank you. Next question will be from Alan Brochstein at New Cannabis Ventures. Please go ahead, Alan.

Alan Brochstein — Analyst, New Cannabis Ventures

Hey, guys. Congrats on the continued success.

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

Thank you, Alan.

Alan Brochstein — Analyst, New Cannabis Ventures

Just a quick one. I didn't hear much about hemp and last quarter you said you were starting to get going. Can you just give us a little update, maybe I missed it, on how your Hemp operations unrolling?

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

Yeah, I mean it's very interesting, because as the as the licenses are being issued, and we're in the process right now of, you know, we've secured right now about 2,000 acres of hemp that we're actively working to supply their nutrients and additives and those kind of things. And it's certainly a great overlay and a great vertical market for the company. So, we're constantly soliciting the hemp farmers for products that they're seeking and working aggressively to create a supply chain that will be one in which they will come to GrowGeneration first and foremost.

So, it's certainly a focus, Alan, for the company and we're starting to get some headway in forming a supply chain. The products are a little bit different. We've developed some products and we've sourced some products specifically for the hemp farmers. As you know, the harvest rates are one to two turns a year, so most of the hemp farmers planted seeds in the spring and they're going into harvest, and we're working with a lot of these farmers on their harvest season, which is coming up in September. But it's

certainly a focus and we're developing, as I said, new products and innovation and aggressively going after the customer.

Alan Brochstein — Analyst, New Cannabis Ventures

And when you and I spoke in January at the Benzinga Conference, you mentioned that you thought a lot of this, or a substantial amount, would be actually indoor. Are you seeing that so far? Because I hear you talking about mainly outdoor.

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

It's interesting, because we have serviced some of the hemp farmers in greenhouses. We've seen greenhouse facilities cultivate hemp. But right now we're seeing—most of it is in the outdoor markets. Kentucky, Indiana, Colorado, Oregon are the big states, North Carolina, but it seems to be more of an outdoor crop right now, creating the volume that the demand for CBD seems to be requiring in terms of the cultivation side of it. But more outdoor than indoor right now, Alan.

Alan Brochstein — Analyst, New Cannabis Ventures

And is indoor a greater opportunity given all the lights and additional things or they use those equally?

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

I mean the money certainly is indoor in greenhouse. And what you'll see going down the pike, Alan, is dependent upon the quality that's coming out of outdoors, it's much cheaper to grow outdoors than indoors. So, dependent upon pricing and quality and, again, demand in the future, you may see a change from outdoor to indoor, but, again, I think it's too early to tell. This is one of the first crops coming out, so you haven't seen that many harvests yet. So it's really, again, at this point, hard to tell where it's going to gravitate too.

Alan Brochstein — Analyst, New Cannabis Ventures

Okay. On a different subject, Scotts has been seeing a pretty nice pickup in their cannabis-related business as well and I'm just wondering, I've never heard you guys address this publicly but do you view them as competitors mainly? How do you view your relationship with Scotts or how should investors maybe compare you guys to the much larger Scotts Miracle-Gro?

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

We view them as partners right now of ours. We are their largest customer and, again, we view them as partners, we collaborate, we certainly get customers from them. So for us it's been—we have a wonderful relationship with Scotts right now.

Alan Brochstein — Analyst, New Cannabis Ventures

Great, thank you for clarifying that, and congratulations again.

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

Thank you, Alan.

Operator

Thank you. Next question will be from Mitch Baruchowitz at Merida. Please go ahead, Mitch.

Mitch Baruchowitz — Analyst, Merida Capital Partners

Gentlemen.

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

Hey, Mitch. How are you?

Mitch Baruchowitz — Analyst, Merida Capital Partners

It feels like it's a long way from the first time we did this in 2015, right?

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

It sure is. Thanks, Mitch.

Mitch Baruchowitz — Analyst, Merida Capital Partners

Yeah. So, two quick questions. First, given that you guys are much more prominent, have a much bigger footprint, how much of the impact to the efficiency with margin improvement comes from companies reaching directly out to you to carry their supplies rather than going through a distributor which used to impact margins? That's the first question.

And second, how many of those companies are willing to at least entertain potentially becoming house brands? That's really, at least at Merida, what we've seen. We know you guys pretty well. What we see is the sort of next leg is the acquisition of brands similar to how a dispensary carries a lot of stuff on their shelves. For you guys, you guys are a big impact and if a company that's growing can become your house brand, that's probably a pretty accretive acquisition for you guys. So what are you seeing on that side? And how much is your prominence now helping drive margins and how much do you expect it to improve over time?

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

I think what has occurred and one of the inflection points in the company, and I think what you've seen in margin, you know, margins going up, is the fact that we've scaled the business. The company is now a national chain with the 23 locations coast to coast in most of the major markets now. We are able to command better pricing. And it's volume driven with the run rate approaching \$80 million. We have the ability to really leverage that now with our vendors. So I think, first and foremost, we've been negotiating better deals. We're getting smarter, too. So, with our purchasing team we're getting the ability to leverage that purchasing power, which you're now seeing the accretiveness of that with our margin.

And then second, to your point about, you know, private label is certainly an area that we are developing and we're developing a lot of different products. We've already actually brought some private label products to the market and we're going to continue to develop, you know, specific additives and different products that we think are certainly margin accretive to the company that we can bring across

all locations and continue to drive the margin expansion, and that's certainly a big part of the margin expansion strategy.

Mitch Baruchowitz — Analyst, Merida Capital Partners

Guys, well, thanks a lot. Great quarter and we'll see you soon.

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

Thank you, Mitch.

Operator

Thank you. Once again, ladies and gentlemen, if you do have any questions at this time, please press star followed by one on your touchtone phone.

And at this time we have no other questions for registered, so I would like to turn the call back over to our presenters for any additional comments.

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

Just want to thank everyone for attending our second quarter earnings. We really appreciate all of the support of our management team, our employees, our shareholders, investors, and partners. And we look forward to reporting even better results in our third quarter. Thank you again and have a great afternoon.

Operator

Thank you. Ladies and gentlemen, this does indeed concludes your conference call for today. Once again, thank you for attending and at this time we do ask to please disconnect your lines. Enjoy the rest of your day.