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Zacks Small-Cap Research

Sponsored – Impartial - Comprehensive

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GrowGeneration Corp. (GRWG-OTCQX)

Target Adjusted to Reflect Inclusion of DCF Analysis; 10,000 sq. ft. location in Maine to open in early-2019

Blending our traditional comparative valuation process with a discounted cash flow model, our share price target has been adjusted to $5.40 to better reflect both industry dynamics and the company's fundamental progress.

Current Price (12/12/18)	$3.01
Valuation	**$5.40**

OUTLOOK

GrowGeneration has developed and continues to expand a retail platform to provide support to the cannabis cultivation industry. Currently, the company owns and operates 18 specialty retail hydroponic and organic gardening stores in eight states, all of which have legalized the sale of medicinal and/or recreational cannabis. Sales have grown from $3.46 million in 2015 to $23.58 million during the last 12 months. Management's strategy includes building a national network of branded, integrated hydroponic stores and developing multiple e-commerce platforms. GrowGeneration is well positioned to benefit from the legalization of cannabis.

SUMMARY DATA

52-Week High (Close)	**$8.90**
52-Week Low	**$2.56**
One-Year Return (%)	**-4.44**
Beta	**4.02**
Average Daily Volume (shrs.)	**116,887**
Shares Outstanding (million)	**27.889**
Market Capitalization ($mil.)	**$83.95**
Short Interest Ratio (days)	**0.10**
Institutional Ownership (%)	**0.01**
Insider Ownership (%)	**20.6**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/M**
P/E using 2018 Estimate	**N/M**
P/E using 2019 Estimate	**N/M**

Risk Level	**Above Average**
Type of Stock	**Small-Growth**
Industry	**Agricultural Supplies**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	1.54 A	1.91 A	2.17 A	2.36 A	7.98 A
2017	2.58 A	4.11 A	4.03 A	3.64 A	14.36 A
2018	4.38 A	7.15 A	8.41 A	10.00E	29.94 E
2019					45.00 E

Earnings per Share
(EPS is operating earnings before non-recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	-$0.01 A	-$0.02 A	-$0.00 A	-$0.03 A	-$0.05 A
2017	-$0.02 A	-$0.02 A	-$0.03 A	-$0.10 A	-$0.18 A
2018	-$0.05 A	-$0.04 A	-$0.03 A	-$0.03 E	-$0.14 E
2019					$0.02 E

Zacks Projected EPS Growth Rate - Next 5 Years % **15**

Quarterly EPS & revenue may not equal annual totals

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KEY POINTS

- **Grow Generation owns and operates 18 specialty retail hydroponic and organic gardening stores** in eight states, all of which have legalized the sale of medicinal and/or recreational cannabis.
    - stores offer a wide array of hydroponic growing supplies providing a one-stop shopping solution for both indoor and outdoor operations
    - provides supplies to small, medium and large-scale commercial cultivators as well as home growers
    - delivers a superior shopping experience with knowledgeable and well-trained employees
    - comprehensive offerings of supplies, products and accessories providing a one-stop shopping solution
    - embarking on an initiative of expanding into Canada
    - economies of scale provide competitive advantage over local, family-owned, one-location stores
- **Management's strategy** includes:
    - build a national network of branded, integrated hydroponic stores in jurisdictions where cannabis has been legalized
    - develop a specialized sales team (GrowGeneration ProServices) targeting large-scale commercial farmers
    - formed a new commercial division (GrowGeneration Management) to provide turnkey solutions, primarily to new license holders/owners, to set up and construct their initial growing facilities
    - implement an e-commerce strategy involving several platforms, including the company's website, amazon and the recently acquired HeavyGardens.com
    - develop ancillary/adjacent markets for incremental sales
        - formed a subsidiary (GrowGeneration Hemp Corp) for the purpose of increasing demand for hemp-derived products and expanding sales to this industry
- **Management guidance**:
    - anticipated sales for Q4 2018 is $10 million
    - the run rate of annualized revenues coming out of 2018 is $42 million
- **Near-term catalysts**:
    - dramatic increase of cultivation licenses in California
    - announcements of new store openings
    - news flow on the company's Canadian initiative
    - results of the online initiatives with amazon and HeavyGardens.com
- The company continues to **build awareness** by attending **Analyst Conferences**:
    - 7th Annual LD Micro Invitational Conference (June 6, 2017)
    - Rocky Mountain MicroCap Conference in Denver (September 25, 2017)
    - 30th ROTH Conference in Dana Point, California (March 11-14, 2018)
    - OTCQX Virtual Conference (October 4, 2018)
    - Dawson James Small Cap Conference in Jupiter, FL (October 29, 2018)
- GrowGeneration is well positioned to benefit from the legalization of cannabis (both medicinal and recreational) in the United States.

EXECUTIVE SUMMARY OF RECENT EVENTS

In the third quarter of 2018, **sales increased 109%** to approximately $8.41 million versus $4.03 million during the comparable quarter in 2017. **Working capital has improved** 315% to **$23,139,534** due to a $10 million private placement of common stock in May, an $8.9 million convertible debt offering in January and $2.5 million from the exercise of warrants and options. As a result, shares outstanding have increased 62.9% to 27,437,113 shares since year-end 2017.

On September 17, 2018, GrowGeneration announced the acquisition of **HeavyGardens.com**, an online seller of hydroponic, specialty and organic gardening supplies. The e-commerce site generated sales of $124,794 during the third quarter.

On October 16, 2018, GrowGeneration announced the planned formation of **GrowGeneration Canada** in order to service the Canadian cannabis cultivator. Management plans to acquire profitable hydroponic retail, wholesale and grow supply businesses in the provinces of Ontario and British Columbia, which will be financed by accessing the Canadian public markets.

The company's **second retail store/warehouse operation location in Oklahoma** is scheduled to open on January 14, 2019. Complementing the Oklahoma City location, the 10,000 square-foot facility will be located in Tulsa. The Boulder Colorado store was closed on September 30, 2018 with commercial customers now being served by the Denver store. Therefore, the company's store count will temporarily decline to 18 until the new Tulsa Oklahoma store opens in January.

GrowGeneration has entered into a lease for a 10,000 square-foot **retail store/warehouse operation location in Maine**, which is scheduled to open in early-2019.

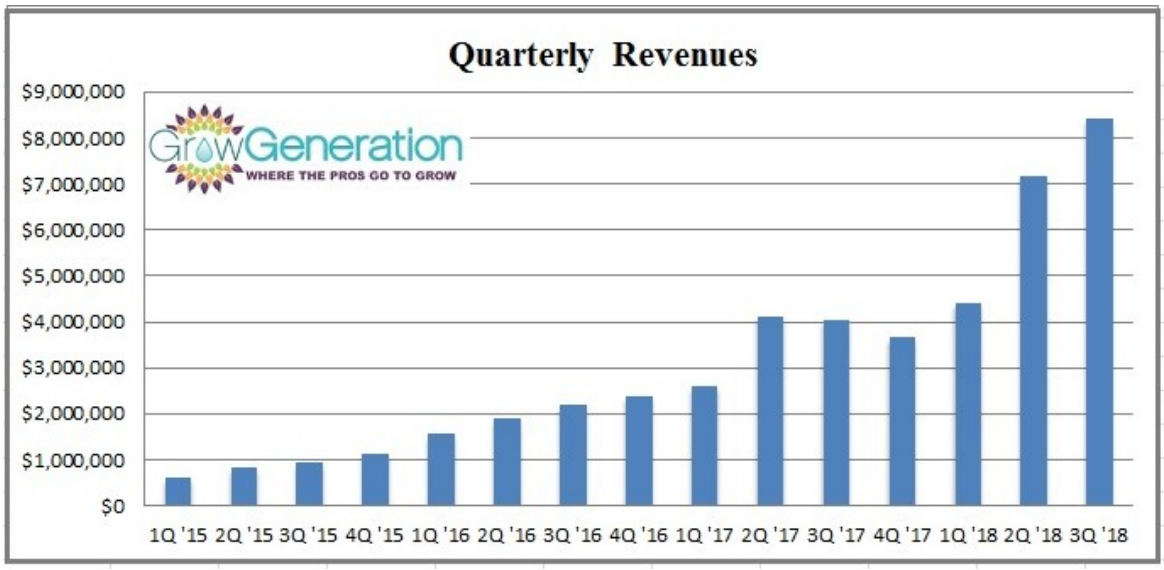
Our earnings model indicates that **the company should turn EBITDA positive in the upcoming quarter**.

Over the last two months, the **cannabis stocks have endured a significant decline** with cannabis-related companies correcting an average of 29% and speculative cannabis companies dropping 49%.

RECENT NEWS

Third Quarter Financial Results

In the third quarter of 2018, sales increased 109% to approximately $8.41 million versus $4.03 million during the comparable quarter in 2017.



The increase was primarily due to eight new stores openings, which more than offset the less than 1% declines in sales in Colorado and Nevada and the effect of store consolidations. The acquisition in Rhode Island added $1.1 in sales. **Revenues from the California market increased 319%** (or $2.6

million) to $3.4 million, primarily due to the addition of three new acquired stores, which more than offset the $81,000 decline in sales from the fires near the Santa Rosa store.

Operating expenses rose 73.6% with the main contributors being a 76.7% increase (or $614,289) in store operation expenses and a 71.2% increase (or $191,713) in salaries and related expenses.

The company's net loss contracted to $784,573 (-$0.03 per diluted share) from $460,877 (-$0.03 per diluted share) in the comparable quarter in 2017.

Since the year-end 2017, shares outstanding have increased 62.9% to 27,437,113 shares. Working capital has improved 315% to $ 23,139,534 due to the private placements completed in January and May.

Canadian Initiative

In October 2018, Canada became the largest country in the world to legalize cannabis. With burgeoning growth of licensed producers, along with provisions for micro-cultivation licenses and home-growers, Canadian cannabis consumption is expected to grow by 35%. A Deloitte survey estimates that the total Canadian cannabis market (medical, illegal, and legal recreational) could generate between $1.34 billion and $7.17 billion in sales in 2019.

On October 16, 2018, GrowGeneration announced the planned formation of **GrowGeneration Canada** in order to service the Canadian cannabis cultivator through a portfolio of one-stop, grow supply retail stores, together with supporting wholesale equipment operations and grow supply companies. Initially, management is seeking to acquire profitable hydroponic retail, wholesale and grow supply businesses in the provinces of Ontario and British Columbia. With the acquisitions estimated to cost at least $20 million, the company plans to finance GrowGeneration Canada separately from US operations by accessing the Canadian public markets.

Acquisition and Go Public Strategy

- Canada currently has 114 licensed cannabis producers and another 500 in the pipeline according to Health Canada.
- Facilities licensed by the Canadian government to cultivate cannabis, as of June, surpassed **11 million square feet** for the first time, according to data shared by Health Canada.
- **Four** is the maximum number of home-grown marijuana plants allowed per household.
- Cultivation rules include micro-cultivation licenses for smaller growers who can cultivate on as little as **2000 sq. ft.** of indoor, outdoor or greenhouse space.
- Cannabis consumption growth in Canada is expected to grow by 35%.

GrowGeneration
WHERE THE PROS GO TO GROW



To Open 2nd Location in Oklahoma

On November 29, 2018, GrowGeneration announced the signing of a lease to open its second retail store/warehouse operation location in Oklahoma. The 10,000 square-foot facility is located in Tulsa and is scheduled to open for business on January 14, 2019.

To Open Location in Maine

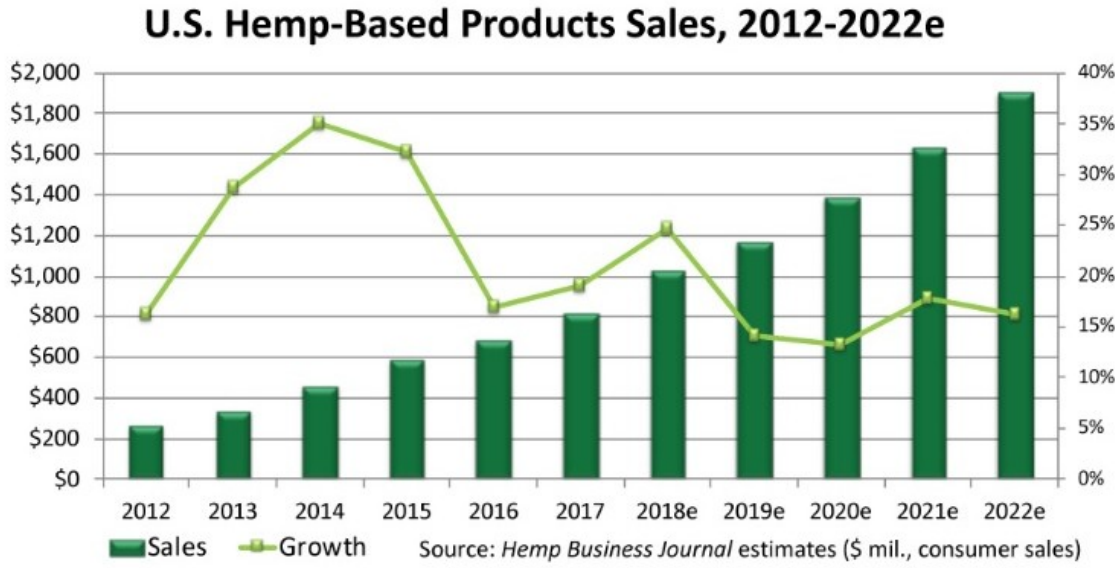
On December 11, 2018, GrowGeneration announced the signing of a lease to open 10,000 square-foot retail store/warehouse operation location in Maine. The facility is scheduled to open for business in early 2019.

Hemp Industry Initiative

On September 11, 2018, GrowGeneration announced the formation of **GrowGeneration Hemp Corp**., which will focus on helping the further development of the domestic hemp farm industry, an underserved vertical market. GrowGeneration currently serves several hemp farms (including International Hemp Exchange, Liberty Tree CBD and Green Tara Farms), which cultivate over 2,000 acres. The company's sales efforts will target thousands of hemp farms around the country, particularly in states with the highest number of licensed hemp acres in production, namely Colorado (9,700 acres), Oregon (3,469) and Kentucky (3,271).

GrowGeneration Hemp's initiatives will include

1) serving the hemp farm industry with products to enhance the production and processing of hemp
    a. provide essential growth-enhancing supplies for growing hemp
    b. obtain the distribution rights to equipment that automates and/or reduces the costs of processing hemp plants
2) help increase demand for hemp
    a. by promoting the practice of using hemp-derived products as mulch, top soil, a nutrient-rich soil additive, weed suppression and an organic pest management solution, primarily by developing a unique line of hemp-derived products for the hydroponic and organic gardening markets
    b. by forming supply chain relationships to support the sale of hemp-derived oils and hemp by-products



The Hemp Business Journal estimates that the U.S. hemp industry will grow from roughly $800 million in 2017 to slightly above $1.0 billion in 2018. The growth was bolstered by increased demand for hemp-derived cannabidiol (CBD). Hemp sales are expected to increase to $1.9 billion by 2022, representing a 5-year compound annual growth rate (CAGR) of 18.9% (2018-2022).

Since official estimates of U.S. hemp production are not available, information on the U.S. hemp industry is compiled by states and the hemp industry. The state/industry 2017 U.S. Hemp Crop Report as relayed by VoteHemp indicates that 25,713 acres produced hemp in 2017, up 163% from 9,770 acres in 2016.

B2B Platform on Amazon.com

On July 18, 2018, GrowGeneration announced the formation of a strategic partnership with The Upstart Group to offer the company's full product suite of specialized hydroponic and organic garden supplies on the amazon online platform. Management projects that a significant amount of sales will be generated through amazon.

Acquisition on Online Platform (HeavyGardens.com)

On September 17, 2018, GrowGeneration announced the acquisition of **HeavyGardens.com**, an online seller of hydroponic, specialty and organic gardening supplies. The acquisition adds an e-commerce sales channel to GrowGeneration's brick & mortar retail chain. Launched in July 2017, this online platform will ultimately expand access to the company's 10,000+ cultivation products to every state. Also, management plans to extend the reach of HeavyGardens to Canada and Mexico in the near future. Management projects that HeavyGardens will generate revenues of over $5.0 million during fiscal 2019.

VividGro Designates GrowGeneration as First Preferred Vendor for GroBar X Lighting Solutions

On November 13, 2018, VividGro announced that GrowGeneration has been designated as its first preferred vendor for the GroBar-X series of lighting solutions. In addition to carrying GroBar X GrowGeneration will carry not only GroBar X, but also VividGro's FlowerMax, GrowMax and VegMax fixtures.

VIVIDGRO GROBARX



INDUSTRY POSITION

Investor interest in the cannabis market has intensified with the passage of state legislation that allows for legal use of medical and/or recreational cannabis. Current legislation permits medical use in 31 state jurisdictions and adult recreational use in 9 states. In Canada, sales of recreational marijuana are set to begin in October 2018. Assuming no change to the current legal structure, according to New Frontier Data, the domestic cannabis market is a projected to reach $25 billion by 2025.[i] And according to Grand View Research, the global cannabis industry is projected to grow to $146.4 billion, also by 2025.[ii]



Since this graphic was produced, a medical cannabis law was passed in Oklahoma and a recreational cannabis law was passed in Vermont.

The market is comprised of many investment categories that have significant business activities, from biotech firms conducting clinical trials on cannabis extracts to licensed recreational cannabis cultivators,

from investigating novel drug delivery platforms to developing cannabis-infused consumable products (beverages and edibles), from processing equipment to dispensaries and retailers. **The cultivation of marijuana is projected to increase significantly**, so should the demand for indoor and outdoor growing supplies, with initial large capital outlays for the build-out of growing operations and subsequently by on-going purchases of consumable nutrients.

GrowGeneration has developed and continues to expand a **retail platform** to provide support to the cannabis cultivation industry by selling supplies to the growers of cannabis, from large-scale cultivation facilities to individual home growers. Known as a **pick-and-shovel investment strategy**, **GrowGeneration is selling the supplies and services to cannabis growers**. The strategy derives its name from the providers of tools and supplies to miners during the California Gold Rush of the 1840s and 1850s, such as Samuel Brannan, who retailed gold prospecting supplies (pickaxes, shovels, tents etc.), by Levi Strauss who sold dry goods and by John Studebaker who manufactured wheelbarrows for miners in California.

Management's goal is to become a national provider of equipment and supplies for growing cannabis, along with organic fruits, vegetables, herbs, greens and other plants. Over the last four years, the company opened or acquired many locations such that it currently owns and operates 18 retail stores, which have been right-sized and positioned in optimal localities. The company continues to expand targeting states where legislation is creating huge demand for cannabis cultivation. The sales staff is knowledgeable providing advice and solutions to customers. Another customer inducement is the breadth of inventory, which allows for a one-stop shopping experience. Management's other initiatives include developing e-commerce platforms (currently the company's website, HeavyGardens.com and amazon), the establishment of a national sales team and providing high-margin house brand products. Ultimately, the company's size should provide economies of scale, particularly volume discounts from manufacturers and distributors.



OVERVIEW

Headquartered in Denver, GrowGeneration owns and operates specialty retail hydroponic[iii] and organic gardening stores that target the rapidly expanding licensed cannabis cultivators in key markets throughout the United States, specifically where the use of medical and/or recreational marijuana has been recently legalized. Also, management will be expanding the company's model into Canada where recreational cannabis was legalized in June 2018.The company's stores cater to the full spectrum of growers from small home-grower operations to large-scale commercial farms, both indoor and outdoor. Starting in 2014, the company has opened and acquired numerous stores, strategically upgrading initial sites to improved locations with higher visibility, stronger customer bases, increased square-footage and higher volume potential. Currently, the company is operating **18 stores**: five in Colorado, six in California, three in Michigan one in Nevada, one in Washington State, one in Rhode Island and one in Oklahoma. Sales growth is expected to be driven by increasing the number of company retail stores, organic growth at existing stores and online initiatives with HeavyGardens.com and amazon.com. In addition, the company has formed a subsidiary, GrowGeneration Hemp Corp, to help further develop the domestic hemp farm industry and further advance GrowGeneration's penetration in serving this growing market.

GrowGeneration Retail Store Locations



GrowGeneration's stores provide a wide array of **complete product lines for hydroponic and organic gardening supplies**, including growing media, base nutrients, supplements/additives, grow containers/pots, bloom boosters, grow light ballasts, grow light bulbs, grow light reflectors, lighting accessories, hydro components, hydroponic systems & components, water pumps, water filtration products, flush & clearing solutions, beneficial microorganisms, insecticides, air filtration systems, fans, ducting, air pumps, timers, harvesting supplies (gloves, pruners/shears, drying racks) etc. GrowGeneration serves as a one-stop shopping solution to the full range of growers, from sophisticated, large-scale commercial farms to individual home growers, from traditional outdoor farms to highly-controlled indoor operations. In addition, the stores serve growers of organically-grown herbs, vegetables and fruits, including small farms, restaurants and home growers of vegetables, flowers and plants.

GrowGeneration enjoys several competitive advantages:

- Offers a comprehensive spectrum of grow products and accessories that provide a one-stop shopping solution for cultivators, from home growers to large commercial operations
- Promotes a customer-centric service model with knowledgeable and well-trained employees that speak the language of the modern grower and deliver a superior shopping experience
- Has the skill set to build a national chain of hydroponic stores that has been developed through a track record of opening greenfield stores and acquiring existing retailers, both of which have been subsequently upgraded and optimized in order to better service the company's target customers

- Benefits from economies of scale, access to capital, brand recognition, volume purchasing power and other advantages associated with a national franchise in a highly fragmented hydroponic retail market in which most stores are family-owned businesses with a single location.

Customer-Centric Service Model

Importantly, under the company's customer-centric service model, the staff at each retail store uniquely qualified and knowledgeable, having been chosen for a **high level of grow expertise** and/or experience in particular areas in the cultivation of cannabis, including soils & growing mediums, nutrients & additives, microbial inoculants, root health, etc., along with environmental enhancements to optimize lighting, airflow, temperature, irrigation and water quality. Therefore, a GrowGeneration store functions both as a hydroponic retail store and as a learning forum. The professional staff provides a personalized customer shopping experience and assists in providing solutions to each customer's particular situation, helping each one become a more educator grower.

Growth is expected to be driven from multiple initiatives:

- **Increasing the store base** by opening/acquiring new stores in markets where the cultivation of cannabis has been legalized
    - further develop and enhance currently served markets in order to better satisfy demand
    - expand geographically into new markets where cannabis has been recently legalized by initially targeting areas with high concentrations of growers
- Developing **e-commerce platforms**, including a branded e-commerce portal, a presence on amazon.com and through HeavyGardens.com.
- Enhancing the company's B2B effort with the formation of a **business-to-business sales team**
- Seeking to establish of a brand **of private labeled products**

Management's Growth Strategy

Management's **multi-prong strategy** includes expanding the company's store footprint (both organically by opening greenfield stores and by the acquisition of leading hydroponic stores) with the **goal of building out a national network of branded, integrated hydroponic stores** in states (and even Canada) where cannabis has been legalized. The company strives to be the first mover as exemplified by comprehensive portfolios of stores in Colorado and California, and most recently the entry into the emerging medical cannabis market of Oklahoma.

Management is especially pursuing certain high-volume vertical market segments, particularly large-scale commercial cultivators and new cultivation license holders. With GrowGeneration's prime customers being the large-scale commercial farmers, the company has developed **GrowGeneration ProServices**, which offers specialized services catered their needs and requirements, not only for their day-to-day supplies, but also for build-outs. Commercial customers can enjoy top-tier services, including a dedicated account manager, private shopping experiences, CAD services, warranty repairs, online account access, permitting assistance, etc.



In mid-2018, the company formed a new commercial division, **GrowGeneration Management**, which provides **turnkey solutions**, primarily to new license holders/owners who are setting up and constructing their initial growing facilities. The division's mission is being supported by a team of grow room designers, mechanical engineers and dedicated commercial salesmen.

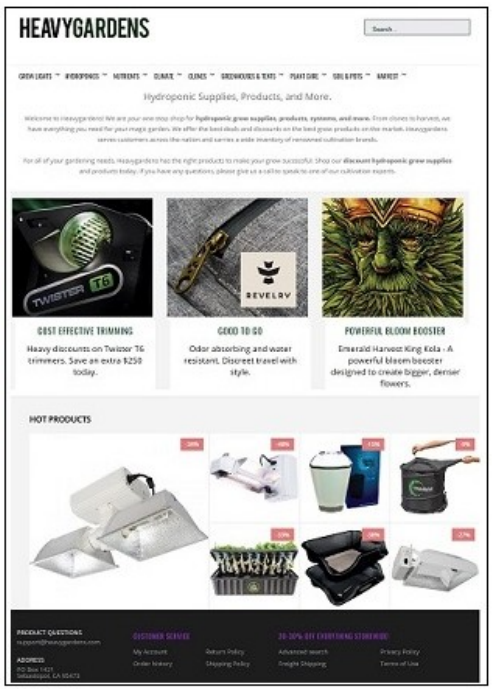
GrowGeneration launched **GGen Distribution Corp**, a wholly-owned subsidiary dedicated to securing exclusive, proprietary products for direct distribution through the company's retail channels. Subsequently, under an exclusive product development and distribution agreement with Alliance Biologics, GrowGeneration began to sell a complete line of exclusive specialty products and powder fertilizers in the second quarter of 2018. These specialty products, including soil microbials (plant growth-promoting bacteria) and powder fertilizers, stimulate root formation, plant growth and flowering, all of which contribute to enhanced yields.



As part of its **e-commerce strategy**, management is pursuing the development of several e-commerce platforms. On the company's **corporate website** (growgeneration.com), a branded e-commerce portal has been designed, which currently displays 15 product departments, under which hydroponic, specialty and organic gardening products are listed. Each product is displayed with a professional photo image and is described in detail.

In September 2018, the company also acquired and now operates **HeavyGardens.com**, an online storefront for cultivators. The acquisition added an operational e-commerce sales channel to GrowGeneration's brick & mortar store chain. Eventually, the company's 10,000+ cultivation products will become available to growers in every state via the HeavyGardens website. Management plans to extend the reach of HeavyGardens to Canada and Mexico in the near future. Management projects that HeavyGardens will generate revenues of over $5.0 million during fiscal 2019



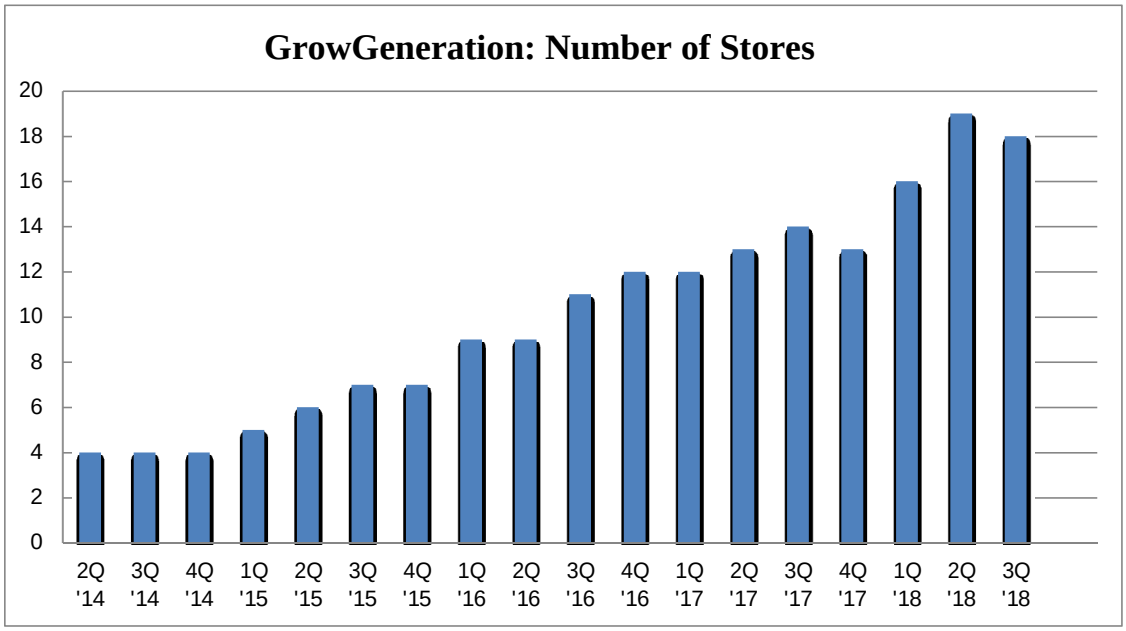


GrowGeneration is in the process of **developing a presence on amazon.com**. In July 2018, the company formed a strategic partnership with The Upstart Group in order to enable the company's full product suite of specialized hydroponic and organic garden supplies to be listed on the amazon online platform.

Also, GrowGeneration is pursuing an initiative to further tap into the hemp market. The company sells products to several hemp farms; however, this effort consists of the formation of a subsidiary (**GrowGeneration Hemp Corp**) for the purpose of increasing demand for hemp-derived products and bolstering the number of suitable products and equipment offered for sale to the hemp farm industry. The company's sales efforts will target thousands of hemp farms around the country, particularly in states with the highest number of licensed hemp acres in production, namely Colorado (9,700 acres), Oregon (3,469) and Kentucky (3,271).

Store Expansion and Sales Growth

Over the last few years, sales growth has been significant driven primarily by increasing demand from the cannabis agricultural market for hydroponic supplies and the company's increase of the number and size of its stores to satisfy this demand. Top-line growth is expected to dramatically increase as the cannabis cultivation market develops and management pursues a broader retail footprint by opening new greenfield stores, acquiring existing store locations with established customer relationships and advancement of the company's e-commerce initiatives, including at its own website, HeavyGardens.com and on amazon.



Management Guidance

In June 2018, management raised revenue guidance from $30 million to $37 million for 2018 and forecasted that the revenue run rate will be approximately $42 million coming out of 2018. When third quarter financial results were released in November, the forecasted revenue run rate remained at $42 million; however, revenue guidance for the fourth quarter was $10 million, implying that 2018 revenues are again expected to be approximately $30 million. The 2018's revenue growth over 2017 is expected to be driven by opening/acquiring new stores, organic growth at existing stores and the company's e-commerce initiatives.

Common Stock Chronicle

On November 11, 2016, GrowGeneration began trading on the OTCQB Market under the ticker symbol GRWG. The company's common stock was **up-listed to the OTCQX Best Market** on October 10, 2017.

In January 2017, GrowGeneration was added to MJIC's **U.S. Marijuana Index** and **North American Marijuana Index**, which are equal-weighted indices of the leading public cannabis companies operating in the United States and North America, respectively. The indices are rebalanced quarterly.

EXPANSION – RETAIL STORES

Management's mission is to become one of the largest specialty retail chains of hydroponic and organic gardening stores in the United States. The effort began in May 2014 with the acquisition of four store locations in Pueblo, Colorado, followed by further acquisitions and store openings through 2018. Today, GrowGeneration owns and operates 18 stores in eight states (Colorado, California, Maine, Michigan, Nevada, Oklahoma, Rhode Island and Washington State) and continues to actively seek additional hydroponic retail stores.



Colorado

In 2014, GrowGeneration acquired four stores in **Pueblo**, **Colorado**. On May 29, 2014, GrowGeneration acquired the assets of Southern Colorado Garden Supply Corp. (four retail stores d/b/a Pueblo Hydroponics). The purchase price was $499,976, which included $273,000 in inventory. The original four locations were Pueblo Downtown (113 W. 4th Street), Pueblo South (2740 S. Prairie Street), Pueblo West (609 E Enterprise Drive) and 503 N Main Street in Cañon City. Subsequently, as management consolidated stores and optimized store size to the 10,000-to-12,500 square-foot range, only Pueblo West remains open today.

In 2015, GrowGeneration opened one new store and acquired four stores. On February 15, 2015, the company opened a 3,000 square-foot GrowGeneration store in **Trinidad**, **Colorado**. Originally located at 2395 Nevada Avenue, the store was relocated to a 7,383 square-foot location at 2012 Freedom Road (Suite 65) in the first quarter of 2017 (see below).



Conifer



Cañon City


Colorado Springs

In April 2015, the company acquired the inventory of Green Growers, a hydroponic and organic supply retail store located at 723 Royal Gorge Blvd in **Cañon City**, **Colorado**. On July 15, 2016, the GrowGeneration entered into a lease agreement for 4,427 square feet of retail space at 1811 Fremont Drive (Suite E) in Cañon City and soon thereafter relocated the store there. In June 2015, GrowGeneration acquired the inventory of Happy Grow Lucky (a retail store located at 26591 Main Street, **Conifer**, **Colorado**) and entered into a 3-year lease for the premises.

On September 1, 2015, GrowGeneration signed a 5-year lease for a retail location at 917 E. Fillmore Street in **Colorado Springs**, **Colorado**. On November 28, 2015, the company acquired the inventory of Greenhouse Tech and leased the store located at that location. Subsequently, this GrowGeneration store was relocated to 310 South 8th Street and later consolidated into Denver South store.

In 2016, the company opened one new store. On March 1, 2016, GrowGeneration entered into a 3-year lease for 4,498 square feet of retail space at 4731 Lipan Street in **Denver, Colorado**. This store was later consolidated into the company's Denver South store, warehouse facility and headquarters effective December 31, 2017.

Also, during 2016, GrowGeneration opened two new stores that were subsequently consolidated into other locations. On August 1, 2016, the company opened a retail store at 100 Platte Drive in Fairplay, Colorado. However, in December 2016, GrowGeneration consolidated this store into the store in Conifer, Colorado. On October 1, 2016, GrowGeneration located opened a retail store at 1011 Caprice Drive in Castle Rock, Colorado. Subsequently, in August 2017, the company consolidated the Castle Rock store into the Denver South store

Nevada

On November 15, 2016, GrowGeneration entered into a 5-year lease for a retail store and warehouse location at 5885 South Valley View Blvd in **Las Vegas, Nevada**. The 10,000 square-foot facility officially opened on January 17, 2017. The store's revenues were $956,537 during the first half of 2018, on track to generate revenues of approximately $2.0 million this year.





On October 1, 2017, GrowGeneration began renting 5,000 square-foot facility for office and warehouse space in **North Las Vegas, Nevada** under a 4-year lease. A retail store was subsequently opened at the location to service commercial and home growers in the Las Vegas North market. Within two months of opening the store, management determined that consolidating this store into the larger, main Las Vegas facility.

Recreational marijuana was legalized in Nevada effective on July 1, 2017. The medical and recreational cannabis markets in Nevada are significant growth opportunities. According to New Frontier, **use sales in Nevada** are expected to grow to almost $622 million by 2020 driven by demand from tourists (roughly

55 million visitors annually) on the recreational side and Nevada's generous patient reciprocity laws on the medical front.

Colorado (continued)

On February 1, 2017, GrowGeneration entered into a 5-year lease for 12,837 square feet of space at 1000 W Mississippi Avenue in **Denver, Colorado**. The location, known as **Denver South**, serves as a retail showroom, warehouse and corporate headquarters. In August 2017, the company's Castle Rock store was consolidated into this Denver South location as was the company's smaller Denver store (which was opened in March 2016) a few months later on December 31, 2017.





On March 1, 2017, the company entered into a 5-year lease for a 7,300 square-foot facility at 2012 Freedom Road (Suite 65) in **Trinidad**, Colorado. The company's existing 3,000 square-foot store in Trinidad, which opened in February 2015, was consolidated into this new, larger store.



Trinidad, Colorado





2012 Freedom Road

On August 15, 2017, the company entered into a 2-year commercial lease for 1001 Lee Hill Drive in **Boulder, Colorado**. The retail store and warehouse location officially opened in September 2017. The location of this store in the **Denver metro market** was selected due to over 50 commercial growers being within the same zip code. The Boulder store was consolidated into the larger Denver location on September 30, 2018.

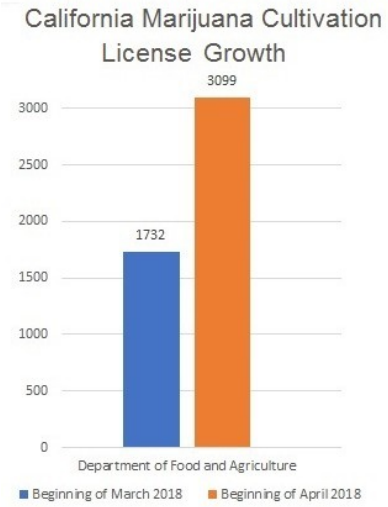
According to New Frontier Analytics, the combined medical and recreational use **market in Colorado** is expected to grow from $1.2 billion in 2016 to over $2.0 billion by 2020. There are over 600 licensed cultivation facilities throughout the state of Colorado with over 100 of them within this store location's zip code.

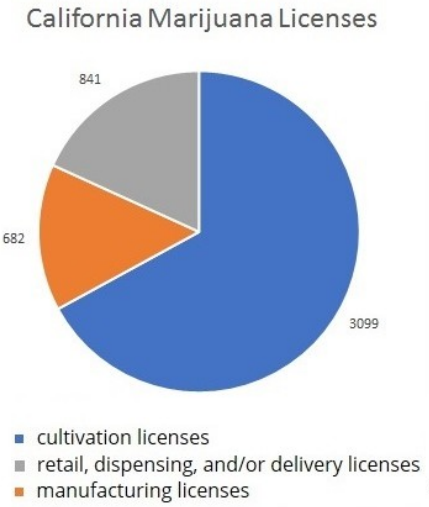
California

In 1996, medical marijuana was legalized in California (Proposition 215 aka Compassionate Use Act), the first state in the U.S. to do so. Later, on November 8, 2016, the California Marijuana Legalization Initiative (Proposition 64), which supported the legalization of recreational marijuana, was approved by voters. As a result, the sale of recreational marijuana became legal in California as of January 1, 2018.

California has several major cannabis production areas with high concentrations of cultivators, namely:

- the **Emerald Triangle**, a region in northern California encompassing Mendocino County, Humboldt County and Trinity County
- the **Inland Empire**, a region in southern California inland from Los Angeles encompassing San Bernardino County and Riverside County
- the **Central Coast**, a region between Point Mugu and Monterey Bay, roughly between Los Angeles and San Francisco.







Source: Cannabiz Media Licenses Database (www.cannabiz.media)

License Categories

Category	Outdoor	Indoor	Mixed-Light
Specialty Cottage	Up to 25 mature plants	Up to 500 sq ft	Up to 2,500 sq ft
Specialty	Up to 5,000 sq ft or up to 50 mature plants	Up to 5,000 sq ft	Up to 5,000 sq ft
Small	5,001-10,000 sq ft	5,001-10,000 sq ft	5,001-10,000 sq ft
Medium (limited)	10,001 sq ft to 1 acre	10,001- 22,000 sq ft	10,001- 22,000 sq ft
Large (not issued until 2023)	Greater than 1 acre	Greater than 22,000 sq ft	Greater than 22,000 sq ft
Nursery	No size limit defined in statute (no canopy)		
Processor	Conducts only trimming, drying, curing, grading, or packaging of cannabis and nonmanufactured cannabis products		

cdfa CALIFORNIA DEPARTMENT OF FOOD & AGRICULTURE

California's Department of Agriculture issues 18 different types of cultivation licenses from specialty cottage - outdoor (up to 25 mature plants) to medium - outdoor (10,001 square feet to 1 acre). Licenses for the large category will not be issued until 2023. The medium category indoor greenhouse category ranges from 10,001 up to 22,000 square feet.

As of June 2018, 3,844 cannabis cultivation licenses have been issued in California.[iv] According to New Frontier Data, the combined medical and recreational use **market in California** is expected to grow from $2.76 billion in 2015 to $6.5 billion by 2020, representing a compounded annual growth rate (CAGR) of 18.7%.

Northern California (Santa Rosa)

Santa Rosa, the county seat of Sonoma County, is strategically located adjacent to the Emerald Triangle. GrowGeneration has targeted this area, which is known to have a high concentration and also an expanding number of licensed cannabis cultivators.

On October 28, 2015, the company purchased the inventory of Sweet Leaf Hydroponics, a hydroponic supply retail store located in **Santa Rosa**, **California**. The purchase price was approximately $200,000. The company's initial store in northern California was later consolidated into the location of Sonoma Hydro (see next paragraph).

On February 8, 2017, GrowGeneration acquired the assets of Sonoma Hydro, a hydroponic and garden supply retail store located in **Santa Rosa, California**. GrowGeneration also entered into a 5-year commercial lease for Sonoma Hydro's location at 3535 Industrial Drive and consolidated the company's initial store in Santa Rosa into this operation.

On July 13, 2018, GrowGeneration purchased all the assets of Santa Rosa Hydroponics & Grower Supply, Inc., a retail hydroponic store located at 4180 S Moorland Avenue in **Santa Rosa, California**. This large and high-volume store/warehouse with a 16,500 square-foot building on a 3.1-acre parcel is expected to generate annual revenues over $10 million.



Total consideration for the assets purchase was approximately $6.6 million, including $1.5 million for inventory and 925,000 shares of GRWG restricted common stock (valued at approximately $3.7 million). GrowGeneration also entered into a 5-year commercial lease to continue retail operations on S Moorland Avenue.

Southern California

In order to serve commercial and home cultivators in southern California, on April 26, 2017, the company entered into a 3-year lease for an 8,000 square-foot facility at 453 South I Street in **San Bernardino, California**, located directly off the major I-215 freeway in the Inland Empire region of southern California. Officially opened in mid-May 2017, the facility serves as both a retail store and warehouse location.



Washington State

In mid-May 2017, GrowGeneration acquired all of the assets of Seattle's Hydro Spot and entered into a 3-year lease on a 4,000 square foot retail and warehouse facility located at 917 NW 49th Street, **Seattle, Washington**. Seattle's Hydro Spot has an established brand presence, having operated for roughly six years and working with 50 of the 502 licensed commercial growers in the area. Initial consideration was $130,000, including $90,000 in the inventory. The store's colorful signage was supplemented with the GrowGeneration logo in order to retain the benefits that have accrued to the original franchise's branding. GrowGeneration bolstered the location's inventory and customer accounts in February 2018 by purchased certain assets of Groco Supply, which was located in Bellevue, Washington. At the time of purchase in May 2017, Seattle's Hydro Spot was operating at an annual revenue run-rate of approximately $1 million; during the first half of 2018, the store generated revenues of $498,715.



Washington State legalized medical marijuana in 1998 and became the first U.S. state to legalize recreational use of marijuana on November 6, 2012 (Initiative-502). The marijuana **market in Washington State** is expected to increase 100% to $2.0 billion by 2020.

Rhode Island

On January 23, 2018, the company purchased all of the assets of East Coast Hydroponic Warehouse, a retail hydroponic store located at 380 Jefferson Blvd in **Warwick, Rhode Island**. GrowGeneration also entered into a 5-year commercial lease in order to continue operating the store on Jefferson Blvd. Total consideration for the assets was $1.8 million, including $1.2 million in cash, $600,000 in a note payable and 300,000 shares of GRWG common stock (valued at $552,000). Management anticipates that the store will contribute $5.0 million to the company's revenues, which appears achievable since, the store generated revenues of $2,336,334 during the first half of 2018. According to New Frontier Data, the legal cannabis **market in New England** is expected to be over $2.0 billion by 2020.

Northern California (continued)



On January 30, 2018, GrowGeneration purchased all the assets of Humboldt Depot with retail hydroponic stores located at 5201 Carlson Park Drive #2 in **Arcata, California** and 2330 Central Avenue,

McKinleyville, **California**. The company also entered into two 3-year commercial leases in order to continue retail operations at both locations. In 2017, Humboldt Depot generated approximately $4.0 million in revenues. Roughly 20% of the over 3,800 approved applications for cultivation licenses in California have been issued in Humboldt County, in which Arcata and McKinleyville are situated. In the Emerald Triangle (which composed of Humboldt, Mendocino and Trinity counties), 1,159 cultivation licenses have been issued.[v]

Michigan

During the second quarter of 2018, on April 15th, GrowGeneration purchased the assets of Superior Growers Supply, Inc. for approximately $817,950 and 75,000 shares of GRWG common stock (valued at about $290,000). GrowGeneration now operates Superior's **three retail locations in Michigan**: 3928 West Saginaw Hwy in **Lansing**, 5716 S Pennsylvania Ave in Lansing (aka **Lansing South**), and 29220 West Seven Mile Road in **Livonia** which encompass over 20,000 square feet of retail and warehouse space. Management anticipates that the stores will contribute $4 million to the company's revenue base. During the 11 weeks under GrowGeneration ownership during the second quarter of 2018, the stores generated revenues of $825,015, which is an annual run-rate of $3.9 million assuming no seasonality.

Approximately $711 million in medical marijuana sales were generated in Michigan during 2017. About 290,000 patients are registered within Michigan (second only to California), who are able to legally grow cannabis for their own use or obtain it from 43,000 registered caregivers. Voters approved medical marijuana in 2008, but the law was not enacted until 2016. It is estimated that if recreational marijuana is legalized, the market would grow to over $1 billion in annual sales.

GrowGeneration Locations in Michigan



3928 West Saginaw Hwy



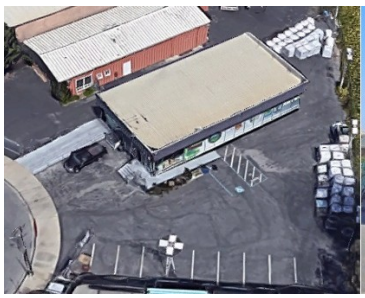
5716 S Pennsylvania Ave



29220 West Seven Mile Road

Central California

On June 11, 2018, the company purchased all of the assets of Central Coast Garden and Farm Supply located at 61 Tarp Avenue in **Salinas**, **California** in order to better serve commercial cultivators in the Central Coast California market. In 2017, this 3,273 square-foot retail store location generated approximately $1.7 million in revenues and became the company's 5th store in California where it will serve as both a retail store and warehouse location. There have been 1,065 cultivation licenses approved within the Central Coast area of California (from Santa Cruz to Santa Barbara).[vi]







Oklahoma

On August 27, 2018, the company entered into a lease for a 9,800 square-foot industrial building at 20 Northeast 46th Street in Oklahoma City, **Oklahoma**. The retail product showroom and warehouse was opened in October 2018.





GrowGeneration
WHERE THE PROS GO TO GROW

Mockup of Signage

for

Oklahoma Location

On June 26, 2018, Oklahoma voters approved State Question (SQ) 788, aka Medical Marijuana Legalization Initiative. The pre-written statute (aka Section 420 of Title 63) became effective a month later on July 26th. Marijuana Business Daily estimates that annual sales of medical marijuana in Oklahoma could grow to the $100 million to $150 million region with several years.

GrowGeneration							
Retail Stores	**Acquisition/**	**#**					
Acquired company or store opening	**Opening Date**	**of Stores**	**City**	**State**		**Square Feet**	**Comments**
Colorado Garden Supply Corp.	5/29/2014	4	Pueblo	CO	Acquired	3,300	609 E Enterprise Drive, Unit 150
Greenfield store	2/15/2015	1	Trinidad	CO	Opened	3,000	relocated to new and larger location in March 2017
Green Growers, Inc	4/1/2015	1	Cañon City	CO	Acquired	4,427	relocated to a new location in July 2016
Happy Grow Lucky	6/1/2015	1	Conifer	CO	Acquired	1,596	26591 Main Street
Greenfield store	9/1/2015	1	Colorado Springs	CO	Opened		consolidated into acquired Greenhouse Tech store in Nov. 2015
Sweet Leaf Hydroponics Inc.	10/28/2015	1	Santa Rosa	CA	Acquired		consolidated into acquired Sonoma Hydro store in 2017
Greenhouse Tech	11/28/2015	1	Colorado Springs	CO	Acquired	3,360	consolidated into Denver South store
Greenfield store	3/1/2016	1	Denver	CO	Opened	4,498	consolidated into Denver South store eff. Dec. 31, 2017
Greenfield store	8/1/2016	1	Fairplay	CO	Opened		consolidated into Conifer store in Dec. 2016
Greenfield store	10/1/2016	1	Castle Rock	CO	Opened	1,500	consolidated into Denver South store in August 2017
Greenfield store	1/17/2017	1	Las Vegas	NV	Opened	8,880	5885 South Valley View Blvd
Greenfield store	2/1/2017	1	Denver	CO	Opened	12,837	1000 W Mississippi Avenue; also HQ (aka Denver South)
Sonoma Hydro	2/8/2017	1	Santa Rosa	CA	Acquired	8,000	3535 Industrial Drive
Greenfield store	3/1/2017	1	Trinidad	CO	Opened	7,383	2012 Freedom Road
Greenfield store	5/1/2017	1	San Bernardino	CA	Opened	8,000	453 South I Street
Seattle's Hydro Spot	5/23/2017	1	Seattle	WA	Acquired	3,200	917 NW 49th Street
Greenfield store	8/15/2017	1	Boulder	CO	Opened	2,000	closed in September 2018 & consolidated into Denver store
East Coast Hydroponic Warehouse	1/23/2018	1	Warwick	RI	Acquired	9,000	380 Jefferson Blvd
Humboldt Depot	1/30/2018	2	Arcata	CA	Acquired	8,000	5201 Carlson Park Dr, Arcata & 2330 Central Ave, McKinleyville
Superior Growers Supply	4/15/2018	3	Lancing	MI	Acquired	20,000	Locations in Lansing, South Lansing and Livonia
Central Coast Garden & Farm Supply	6/11/2018	1	Salinas	CA	Acquired	3,273	61 Tarp Avenue
Santa Rosa Hydroponics & Grower Supply	7/13/2018	1	Santa Rosa	CA	Acquired	20,000	4180 S Moorland Avenue
Greenfield store	10/1/2018	1	Oklahoma City	OK	Opened	9,800	20 Northeast 46th
Greenfield store	in Jan. 2019	1	Tulsa	OK	To Open	10,000	
Greenfield store	in early 2019			ME	To Open	10,000	

FINANCING

Since 2014, GrowGeneration has financed its operations and expansion strategy through equity and debt financings.

During 2017, the company received $3,289,740 through the issuance of Units (common stock and warrants), along with $1,955,697 from the exercise of warrants and options, totaling **$5,250,063 in net proceeds**.

Thus far in 2018, GrowGeneration has

- **received net proceeds of $12,546,672** from the issuance of common stock and exercise of warrants and options
- **received net proceeds of $8,912,765** from the issuance of convertible debt

On January 12, 2018, the company completed a private placement to 23 accredited investors of 36 Units at a price of $250,000 per Unit, each consisting of a 3-year 0.1% unsecured $250,000 convertible promissory note and a 3-year warrant exercisable into 37,500 shares at a price of $.01 per share. Net proceeds of the convertible debt were $8,912,765.

On May 9, 2018, a private placement was completed to three accredited investors for 33.3333 Units at a price of $300,000 per Unit, each being comprised of 100,000 common shares and 50,000 3-year warrants exercisable 50,000 common stock at $.35 per share. Net proceeds from the private placement were approximately $9.9 million.

During 2017, financing transactions, along with stock and warrants being issued for services, increased shares outstanding 43.5% from 11,742,834 at year-end 2016 to 16,846,835 on December 31, 2017. In 2018 by the end of the third quarter, shares outstanding increased an additional 62.9% to 27,437,113.

VALUATION

Given the volatility in the market, particularly the cannabis space, we have decided to blend our comparative valuation process with a discounted cash flow model that better reflects the fundamental progress of GrowGeneration.

Comparative Analysis

Generally, the appropriate valuation methodology for retailers is based on P/E (Price/Earnings), which is a reasonable valuation metric for larger mature industry participants that can be characterized as slow-to moderately growing retail chains with a moderate amount of debt. However, if a retailer is in the early phases of its life cycle, the **applicable valuation metric** becomes **Price-to-Sales** (P/S), which combines the company's ability to generate revenues with the expectation that the growing revenue stream ultimately will manifest itself into increasing EBITDA and earnings as the emerging retailer expands its geographic footprint and its newly opened stores gain traction.

In the garden/nursery supply space, the marketplace is saturated with traditional big-box home improvement retailers (Home Depot, Lowes and Tractor Supply) and also by thousands of mom-and-pop nursery and garden supply stores, along with a handful of public chains, which all attempt to satisfy the needs of growers. These latter specialty retailers commonly turn to unique targeted product selections and higher levels of customer service to generate traffic and sales in order to secure a competitive edge.

Industry Comparables	% Chg YTD	P/E CFY	Price/ Book	Price/ Sales	Price/ CF
GROWGENERATION	-25.1	N/M	8.6	3.6	N/M
Industry Mean	-36.3	N/M	4.6	4.5	N/M
Industry Median	-32.5	N/M	6.0	1.4	N/M
S&P 500	1.0	16.6	8.7	4.0	18.2
CANNABIS-RELATED COMPANIES					
GENERATION ALPHA INC	-78.0	N/M	N/A	4.8	N/M
KUSHCO HOLDINGS INC	43.7	N/M	5.4	8.7	N/M
MEDICINE MAN TECHNOLOGIES INC	-27.5	N/M	1.8	5.1	N/M
SCOTTS MIRACLE-GRO COMPANY	-37.6	18.4	10.2	1.4	1.7
TERRA TECH CORP	-82.2	N/M	0.9	2.3	N/M
SPECULATIVE CANNABIS COMPANIES					
APHRIA INC	-58.4	N/M	1.0	24.3	N/M
AURORA CANNABIS INC	-15.1	28.9	1.8	66.5	N/M
CANN TRUST HOLDINGS	-36.7	65.5	4.1	21.5	N/M
CANOPY GROWTH	7.7	N/M	8.9	150.5	N/M
ORGANIGRAM HOLDINGS	-10.5	51.5	3.7	49.4	N/M

The current P/S valuation range for **large home improvement retailers** (Home Depot, Lowes and Tractor Supply) with moderately growing sales profiles is low, between 1.1 and 1.9 times TTM revenues with a mean P/S valuation of 1.5 times. Moving up the value chain to **companies targeting opportunities in the nascent cannabis industry**, P/S multiples are dreadfully higher, between 21.5 and 150 times TTM revenues with a mean P/S valuation of 62.4 times even after eliminating Cronus Group and Tilray, both of which sport hefty triple-digit P/S multiples. We believe that the **comparable companies** to GrowGeneration lie between the extremes of slow-growing big-box home improvement chains and speculative marijuana plays.

GrowGeneration is in the emerging growth phase of its corporate history and in the early stage of establishing its hydroponic supply store footprint. In addition, the company has already embraced digital retailing by pursuing several e-commerce initiatives. The full potential impact of management's store expansion strategy has yet to be observed financially. Comparable companies to GrowGeneration should be within the cannabis-related industry and be specifically providing supplies and/or services to cultivators of cannabis. We believe that **the appropriate valuation comparables** are KushCo Holdings (KSHB), Generation Alpha (GNAL), Medicine Man Technologies (MDCL), Scotts Miracle Gro (SMG) and Terra Tech (TRTC).

Due the character of the company's enterprise, namely a small-capitalization company in the specialty hydroponic and garden supply retail business with a fast-growing sales profile, we expect GrowGeneration to attain at least a mid-second quartile P/S ratio of the comparable cannabis-related companies listed above. On TTM sales through the third quarter of 2018, our comparative valuation price target is $4.87, which is predicated on attaining a 5.8 industry mid-second quartile P/S multiple.

Discounted Cash Flow Analysis

Utilizing discounted cash flow analysis to value GrowGeneration, we estimate future cash flows and discount them by using the cost of capital in order to attain a net present value. Revenues are being projected by initially using management's guidance (in terms of sequential YOY change) and then using a smoothed de-acceleration. To account for economies of scale, operating cash expenses as a percent-of-sales decline as the top-line grows. Capital expenditures include both maintenance capex (50% of

depreciation) and the cost of acquisitions (both for cash and stock). Since the discount rate for early stage companies in usually in the 15%-to-20% range, we are using 15% to reflect a company generating meaningful sales but not yet having achieved positive EBITDA. It is well known that the results of DCF models are highly sensitive to the input assumptions. As the company reports subsequent quarters, the DCF model is updated to more accurately dovetail with reported financial results.

GrowGeneration Corp.

DCF Model

	2018	2019	2020	2021	2022	2023	2024
Revenues	30,000,000	48,648,649	68,594,595	85,743,243	102,891,892	118,325,676	132,524,757
Cash costs	30,600,000	45,972,973	59,677,297	68,165,878	74,082,162	76,320,061	75,539,111
Capex including acq. costs	8,500,000	9,898,649	11,394,595	12,680,743	13,966,892	15,124,426	16,189,357
Tax rate	0.0%	0.0%	10.0%	21.0%	21.0%	21.0%	21.0%
Free Cash Flow after acq. costs	-9,100,000	-7,222,973	-2,229,568	3,868,331	11,725,842	21,236,139	32,229,068

	2025	2026	2027	2028	2029	2030
Revenues	145,777,232	158,897,183	171,608,958	183,621,585	194,638,880	204,370,824
Cash costs	72,159,730	66,736,817	59,205,091	49,577,828	48,659,720	49,048,998
Capex including acq. costs	17,183,292	18,167,289	19,120,672	20,021,619	20,847,916	21,577,812
Tax rate	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Free Cash Flow	44,583,026	58,454,531	73,693,725	90,077,489	98,853,683	105,657,772

Discount Rate	15%	
NPV	118,914,996	
Terminal Value	58,391,664	
Cash From Option Exercise	1,074,838	
Cash From Warrant Exercise	5,341,560	
Probability	95%	
Total Sum of Parts	174,536,905	
Debt	$3,000,000	3Q:18
Cash	$14,330,000	3Q:18
Current Shares	27,889,109	
Warrant/ Option Shares	4,193,498	3Q:18
Diluted Shares	32,082,607	3Q:18

Total NPV	188,866,905
Share Price	$5.89

Based upon the assumptions above, our discounted cash flow valuation price target is $5.89.

By equally weighting the results of our traditional comparative valuation and discounted cash flow model to better reflect both industry dynamics and the company's fundamental progress, our share **price target is $5.40**

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RISKS

- GrowGeneration purchases its indoor and outdoor growing supplies and products from suppliers and distributors, two of which represent approximately 61% of the company's purchases. With this concentration of suppliers, the loss of either supplier could have an impact on operations, though the company believes that since both suppliers provide the same type of products, the impact would not be material. In addition, GrowGeneration also has agreements with other vendors/manufacturers that could provide substitute products.
- Any restrictive action by federal or state legislatures concerning the use or cultivation of medical and/or recreational cannabis could adversely affect the business operations of GrowGeneration,

along with the company's financial condition. Also, any changes in law enforcement that would constrict the use or cultivation of marijuana would adversely affect the company.

- GrowGeneration continues to grow through the opening of greenfield stores and the acquisition of established retail locations. The issuance of equity has helped fund this growth. Shares outstanding have increased 104% from 11,742,834 at year-end 2016 to 27,437,113 at the end of the third quarter of 2018. However, concurrently, the run-rate of the sales base has increased 425%, making the equity issuance accretive in terms of revenues. It is anticipated that further equity offerings will occur as management continues to implement its expansion strategy.

BALANCE SHEET

GrowGeneration Corp.	2015	2016	2017	3Q 2018
Balance Sheet	12/31/2015	12/31/2016	12/31/2017	9/30/2018
ASSETS				
Cash and cash equivalents	699,417	606,644	1,215,265	14,330,758
Accounts receivable, net	37,554	391,235	653,568	1,009,242
Employee advances	2,950	-	-	-
Inventories, net	1,311,639	2,574,438	4,585,341	9,476,416
Prepaid and other current assets	17,036	35,256	711,852	658,416
Total current assets	**2,068,596**	**3,607,573**	**7,166,026**	**25,474,832**
Property and equipment, net	271,236	549,854	1,259,483	1,771,441
Intangible assets, net	-	-	53,286	86,133
Goodwill	243,000	243,000	592,500	8,752,912
Other assets	27,230	42,526	183,113	124,201
TOTAL ASSETS	**2,610,062**	**4,442,953**	**9,254,408**	**36,209,519**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Accounts payable	292,078	535,913	1,067,857	1,340,990
Other accrued liabilities	-	-	70,029	39,702
Payroll and payroll tax liabilities	43,925	77,068	247,887	178,697
Customer deposits	18,410	51,672	92,350	150,848
Sales tax payable	22,093	46,942	73,220	190,032
Short term borrowings	56,184	107,880	-	-
Current portion of long term debt	5,866	23,443	41,707	435,029
Total current liabilities	**438,556**	**842,918**	**1,593,050**	**2,335,298**
Long-term convertible debt, net of discount & issuance costs		-	-	2,336,905
Long term debt, net of current portion	18,133	41,726	82,537	613,649
Total Liabilities	**456,689**	**884,644**	**1,675,587**	**5,285,852**
Commitments and Contingencies	**0**	**0**	**0**	**0**
Stockholders' Equity				
Common stock	8,968	11,743	16,846	27,437
Paid in Capital	2,862,816	4,696,221	11,254,212	37,257,465
Accumulated deficit	(718,411)	(1,149,655)	(3,692,237)	(6,361,235)
Total shareholder's equity	**2,153,373**	**3,558,309**	**7,578,821**	**30,923,667**
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	**2,610,062**	**4,442,953**	**9,254,408**	**36,209,519**
Shares outstanding	8,967,834	11,742,834	16,846,835	27,437,113

PROJECTED INCOME STATEMENT

GrowGeneration Corp.

Income Statement

(For Years Ending December 31)	Year ending 12/31/2015	Year ending 12/31/2016	Year ending 12/31/2017	Year ending 12/31/2018 E
Sales	**3,455,146**	**7,980,471**	**14,363,886**	**29,939,572**
Cost of goods sold	2,351,836	5,776,194	11,094,331	22,221,776
Gross profit	**1,103,310**	**2,204,277**	**3,269,555**	**7,717,796**
Store operations	769,044	1,510,204	2,963,306	5,156,960
General and administrative	350,000	385,972	1,022,401	1,520,412
Share-based compensation	229,950	219,333	1,077,932	1,368,591
Depreciation and amortization	16,436	52,962	151,561	346,512
Salaries and related expenses	252,500	461,799	904,868	1,657,885
Total Operating Expenses	**1,617,930**	**2,630,270**	**6,120,068**	**10,050,360**
Income (loss) from operations	**(514,620)**	**(425,993)**	**(2,850,513)**	**(2,332,564)**
Interest (expense)	(2,916)	(5,251)	(15,339)	(19,380)
Interest income	-	-	-	73,211
Gain (loss) on settlements	-	-	322,058	0
Amortization of debt discount	-	-	-	(1,151,539)
Other income (expense)	(11,220)	-	1,212	9,138
Total other income (expense):	**(14,136)**	**(5,251)**	**307,931**	**(1,088,570)**
Net Income (loss)	**(528,756)**	**(431,244)**	**(2,542,582)**	**(3,421,133)**
Net eanings per share (basic and diluted)	**($0.08)**	**($0.05)**	**($0.18)**	**($0.14)**
Wgtd. avg. shares outstanding	6,563,271	9,153,053	14,510,582	23,903,159
Adjusted EBITDA	N/A	(45,574)	(1,096,580)	(535,112)

GrowGeneration Corp.

Income Statement (For Years Ending December 31)	Year ending 12/31/2016	1Q 3/31/2017	2Q 6/30/2017	3Q 9/30/2017	4Q 12/31/2017	Year ending 12/31/2017
Sales	**7,980,471**	**2,583,925**	**4,111,036**	**4,028,170**	**3,640,755**	**14,363,886**
Cost of goods sold	5,776,194	1,903,065	2,960,275	2,912,328	3,318,663	11,094,331
Gross profit	**2,204,277**	**680,860**	**1,150,761**	**1,115,842**	**322,092**	**3,269,555**
Store operations	1,510,204	541,902	750,000	800,861	870,543	2,963,306
General and administrative	385,972	187,153	225,092	237,884	372,272	1,022,401
Share-based compensation	219,333	77,000	325,408	242,984	432,540	1,077,932
Depreciation and amortization	52,962	20,523	19,524	22,987	88,527	151,561
Salaries and related expenses	461,799	136,440	168,502	269,215	330,711	904,868
Total Operating Expenses	**2,630,270**	**963,018**	**1,488,526**	**1,573,931**	**2,094,593**	**6,120,068**
Income (loss) from operations	**(425,993)**	**(282,158)**	**(337,765)**	**(458,089)**	**(1,772,501)**	**(2,850,513)**
Interest (expense)	(5,251)	(1,151)	(2,610)	(3,419)		(15,339)
Gain (loss) on settlements	-	-	-	-	-	322,058
Other income (expense)	-	-	-	621	-	1,212
Total other income (expense):	**(5,251)**	**(1,151)**	**(2,610)**	**(2,798)**	**0**	**307,931**
Net Income (loss)	**(431,244)**	**(283,309)**	**(340,375)**	**(460,887)**	**(1,772,501)**	**(2,542,582)**
Net eanings per share (basic and diluted)	**($0.05)**	**($0.02)**	**($0.02)**	**($0.03)**	**($0.10)**	**($0.18)**
Wgtd. avg. shares outstanding	9,153,053	12,115,322	14,045,692	14,819,742	17,061,572	14,510,582
Adjusted EBITDA	(45,574)	(184,635)	7,167	(191,497)	(727,615)	(1,096,580)

Income Statement (For Years Ending December 31)	Year ending 12/31/2017	1Q 3/31/2018	2Q 6/30/2018	3Q 9/30/2018	4Q E 12/31/2018	Year Estimate 12/31/2018
Sales	**14,363,886**	**4,381,018**	**7,152,299**	**8,406,255**	**10,000,000**	**29,939,572**
Cost of goods sold	11,094,331	3,191,402	5,423,069	6,249,129	7,358,176	22,221,776
Gross profit	**3,269,555**	**1,189,616**	**1,729,230**	**2,157,126**	**2,641,824**	**7,717,796**
Store operations	2,963,306	892,858	1,148,952	1,415,150	1,700,000	5,156,960
General and administrative	1,022,401	363,778	399,130	375,002	382,502	1,520,412
Share-based compensation	1,077,932	216,200	337,148	367,098	448,145	1,368,591
Depreciation and amortization	151,561	45,012	70,899	114,159	116,442	346,512
Salaries and related expenses	904,868	331,732	395,078	460,928	470,147	1,657,885
Total Operating Expenses	**6,120,068**	**1,849,580**	**2,351,207**	**2,732,337**	**3,117,236**	**10,050,360**
Income (loss) from operations	**(2,850,513)**	**(659,964)**	**(621,977)**	**(575,211)**	**(475,412)**	**(2,332,564)**
Interest (expense)	(15,339)	(8,018)	(11,312)	4,795	(4,845)	(19,380)
Interest income	-	15,589	14,038	23,584	20,000	73,211
Gain (loss) on settlements	322,058	-	-	-	-	0
Amortization of debt discount	-	(317,255)	(304,842)	(236,527)	(292,915)	(1,151,539)
Other income (expense)	1,212	16,218	(5,866)	(1,214)	0	9,138
Total other income (expense):	**307,931**	**(293,466)**	**(307,982)**	**(209,362)**	**(277,760)**	**(1,088,570)**
Net Income (loss)	**(2,542,582)**	**(953,430)**	**(929,959)**	**(784,573)**	**(753,171)**	**(3,421,133)**
Net eanings per share (basic and diluted)	**($0.18)**	**($0.05)**	**($0.04)**	**($0.03)**	**($0.03)**	**($0.14)**
Wgtd. avg. shares outstanding	14,510,582	18,419,519	21,901,093	25,646,011	29,646,011	23,903,159
Adjusted EBITDA	(1,096,580)	(366,945)	(205,758)	(71,584)	109,175	(535,112)

HISTORICAL STOCK PRICE



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[i] The U.S. Cannabis Report: 2018 Industry Outlook, https://newfrontierdata.com/marijuana-insights/new-frontier-data-projects-u-s-legal-cannabis-market-grow-25-billion-2025/

[ii] Legal Marijuana Market Worth $146.4 Billion by 2025 | CAGR: 34.6%, April 2018, https://www.grandviewresearch.com/press-release/global-legal-marijuana-market

[iii] Though hydroponic specifically refers to a method of farming that utilizes waters with liquid nutrients in water to grow plants instead of soil, hydroponic has now become a generic term to indicate the specialty of cannabis cultivation, both indoors and out.

[iv] Keating, Ed, The Growth of Marijuana Licenses in California: Q1-Q2 2018, July 10, 2018: https://cannabiz.media/the-growth-of-marijuana-licenses-in-california-q1-q2-2018.

[v] GrowGeneration Press Release: GrowGeneration Purchases All the Assets of Central Coast Garden and Farm Supply, June 12, 2018

[vi] Ibid.