



# Investor Presentation

Growing starts  
with knowing

December 2022

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# Introduction and Investment Thesis

A photograph of a retail shelf filled with various Hydrofarm products, including bags of soil and buckets of liquid nutrients, with a dark green overlay.

**Hydrofarm is well-positioned  
with 'picks and shovels'  
for the Gold Rush**

- **Serving a large and growing market**
- **Addressing a long-term opportunity in an evolving marketplace**
- **Working through a supply/demand imbalance**



# 'Picks and shovels' to the cannabis market

## Uniquely asymmetric risk/reward

### Leading manufacturer & distributor serving growing markets

Leading branded hydroponics company serving the \$12BN global Controlled Environment Agriculture market

Manufacturer and distributor with well invested supply chain platform and gold standard service

Advantaged product mix: 75%+ sales from margin-accretive proprietary & preferred brands; ~2/3 recurring revenue from consumables

11% organic revenue growth CAGR over 17 years, with an opportunity to return to double digit EBITDA margins following post-COVID industry disruption

### Navigating the path to industry normalization

State-level cannabis legalization and roll outs have been bumpy as new end markets emerge

High quality, sustainably grown hydroponic supply will eventually balance with steadily expanding recreational and medicinal volume demand

Long term, the cannabis market will mature and professionalize, with recognized brands and product innovation providing predictable consumer experiences – reliable time to onset, predictable duration, and targeted intensity

This market will be served by stronger, scaled manufacturers and distributors of branded hydroponic equipment and supplies

### Emerging stronger and compounding

Hydrofarm has taken actions to weather the storm – SG&A expense reduction and working capital management

We are pursuing additional value unlocks, including real estate monetization, and manufacturing consolidation

We are expanding our reach to serve commercial cannabis and commercial food & floral end users

We are preserving liquidity – limited draw on revolver facility until supply/demand rebalances

**As in the Gold Rush, nimble 'picks and shovel' providers are best positioned to survive & thrive**

**Leadership, talent and infrastructure to support a compounding business orders of magnitude larger**

# Where and How We Compete

# Serving a vast and growing hydroponics marketplace

Expecting robust end market growth supported by healthy gains for input markets

**Our customers' key end markets**



**Our categories**

**~\$12bn globally**  
**~\$3.7bn North America**

+ 11% CAGR to 2026E



Global CEA market wholesale inputs

\* Includes HVAC products

## Controlled Environment Agriculture

Growing and cultivation that allows end users to control key farming variables.

Through CEA, growers are able to be more efficient, effective, and sustainable.



More efficient land usage



More efficient freshwater usage



Lower fertilizer & pesticides usage



Reduced food waste



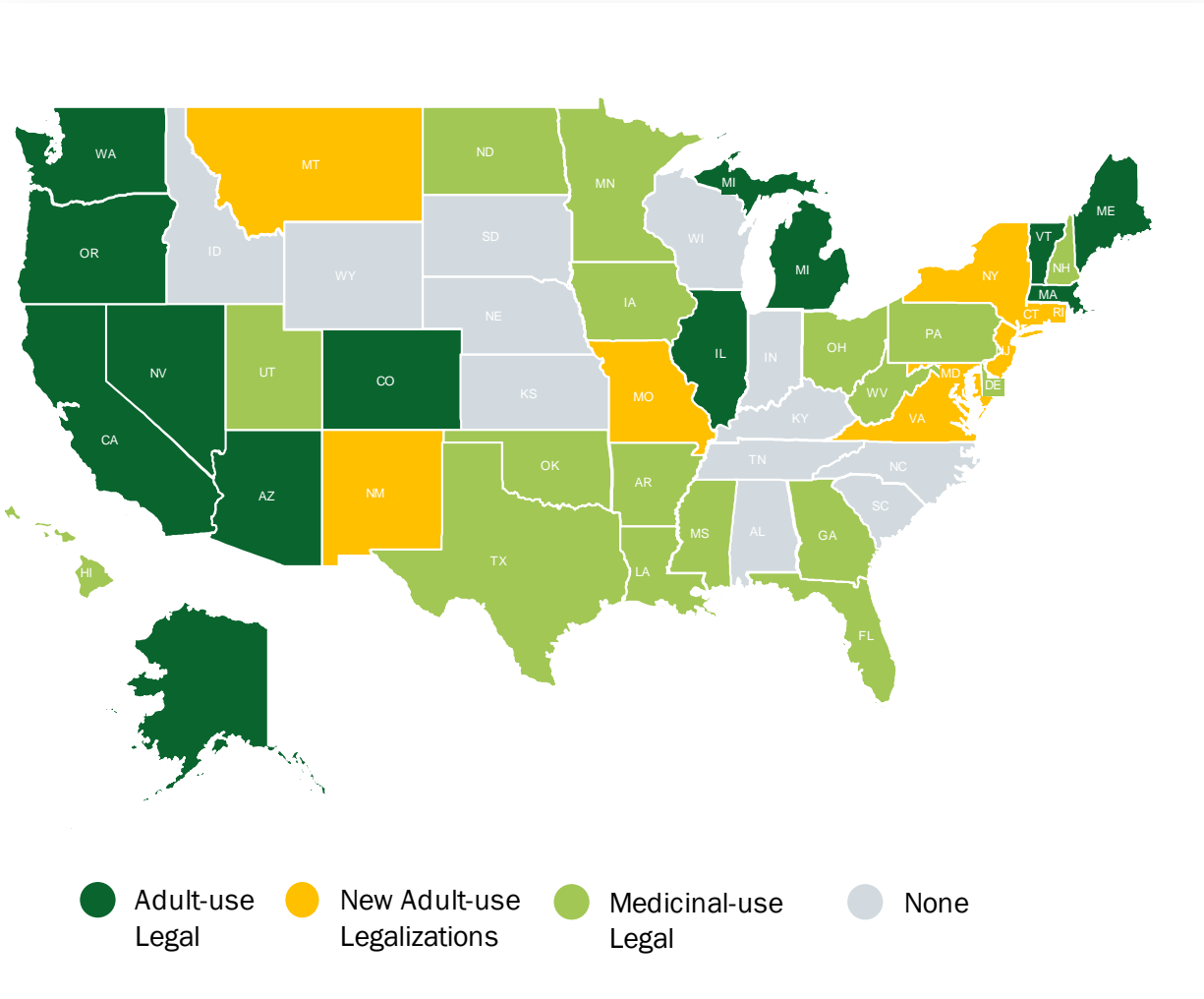
Chemical runoff prevention



Reduced carbon emissions

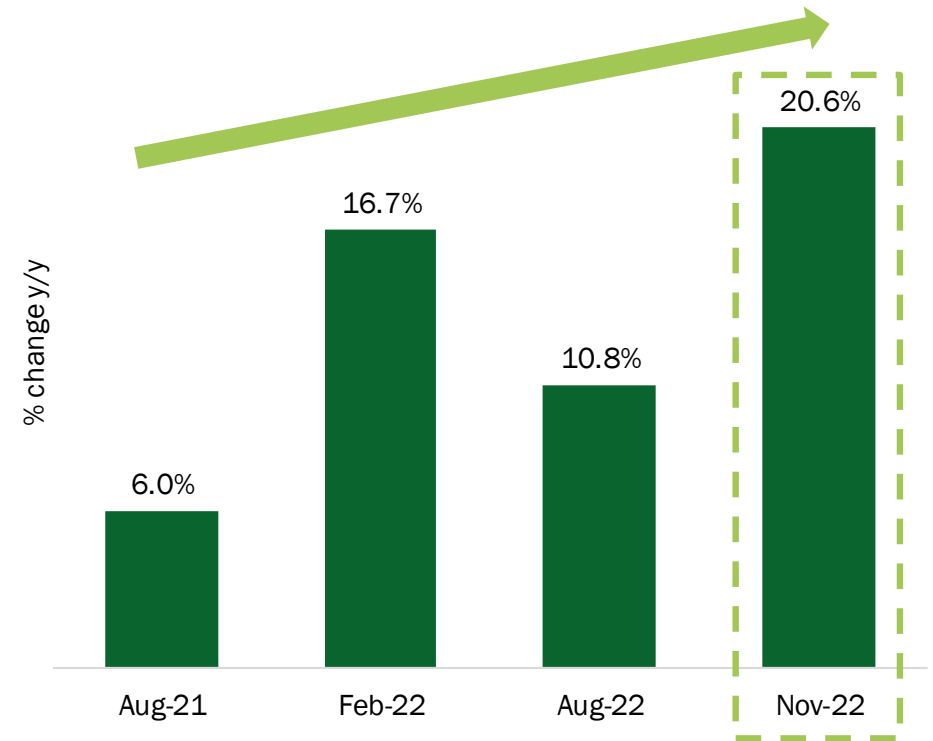
# Sustaining momentum in state-level cannabis legalization

Cannabis flower end market posting high teens volume growth in consumption



Sources: Census data, news media

## CANNABIS FLOWER CONSUMPTION RE-ACCELERATING IN FALL 2022



Source: Stifel: November 2022 Cannabis Category Update



# Branded manufacturer and distributor serving growth markets

## Adding value within a complex value chain with high barriers to entry

~75% of revenue



Source: Company Information

# Strong portfolio of solutions across key categories

## Leaning into proprietary and preferred brands and consumables to improve margins

We have end-to-end category coverage through innovative, well-recognized proprietary and preferred brands

Consumables (~67% of sales)

Durables (~33% of sales)

Nutrients

Grow Media

Supplies

Lighting

Equipment

Strong proprietary & self manufactured brands; highest margins

Prominent distributed & preferred brands; lowest margins

Diverse products & Brands; lower margins

Strong proprietary brands; demand challenges; generally higher margins

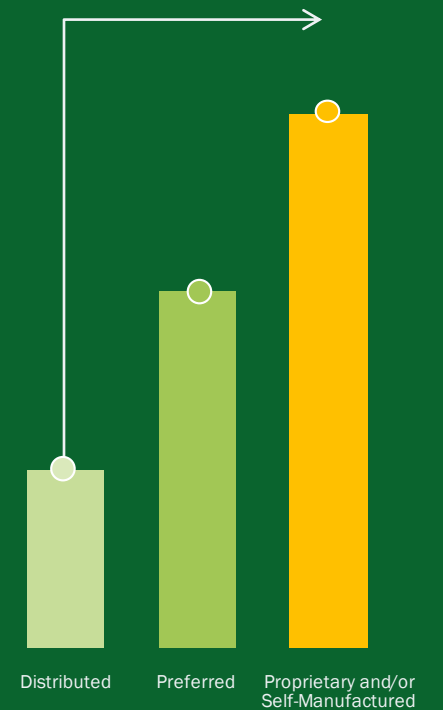
Strong proprietary brands; strength in newer states; higher margins

Proprietary (~50%)  
Up from 35% in 2020

Preferred (~25%)



Illustrative margin benefit as we move to proprietary



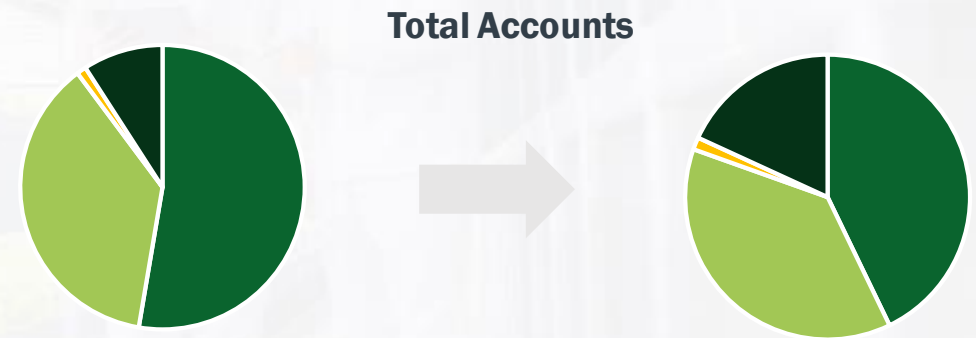
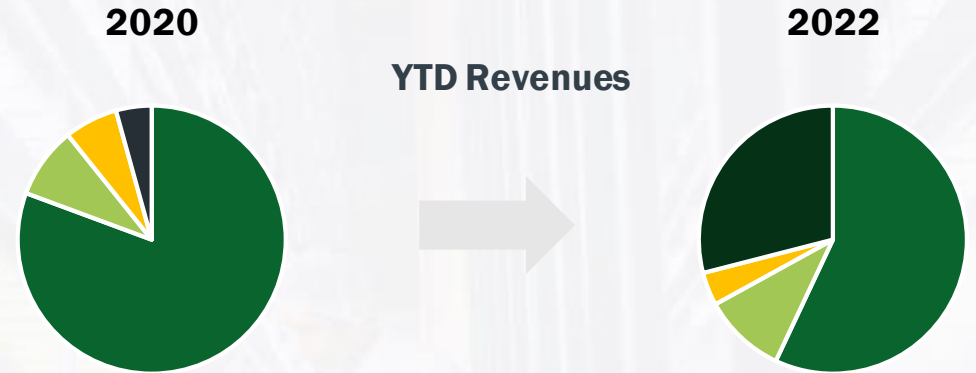
Source: Company estimates.

Brands acquired through 2021 acquisitions

# Evolving our customer base to reach the most active growers



Our sales and customer mix is evolving as the industry matures



- Specialty Hydroponic Retailers
- Lawn Garden Centers/Other Retail
- E-Commerce
- Commercial & Other Channel Partners

# Serving the unique needs of commercial and home growers

Expanding our penetration within commercial cannabis and commercial food & floral



Note: 'MSO' is multi-state operator

A photograph of two workers in white protective suits and hairnets standing in a hydroponic greenhouse. They are looking at a tablet held by one of the workers. The greenhouse has multiple levels of plants growing in trays, and the lighting is bright and even.

# Value Creation:

Past, Present and Future

# Leadership combines industry & consumer brands know-how

Proven management team with deep experience base



**Bill Toler**  
Chairman &  
Chief Executive Officer



**John Lindeman**  
EVP & Chief Financial  
Officer



**Mark Parker**  
EVP, Business  
Development



**Eric Ceresnie**  
SVP, Corporate Dev.  
& International Markets



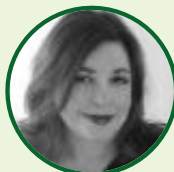
**Rob Marlow**  
Chief Information  
Officer



**Tais Martinez**  
Vice President  
Human Resources



## Diverse board with relevant experience



**Renah Persofsky**  
Vice Chair & Lead Director, Tilray



**Susan Peters**  
Former SVP HR, General Electric



**Rick Moss**  
Former CFO, Hanesbrands



**Patrick Chung**  
VP Finance, CentreCourt

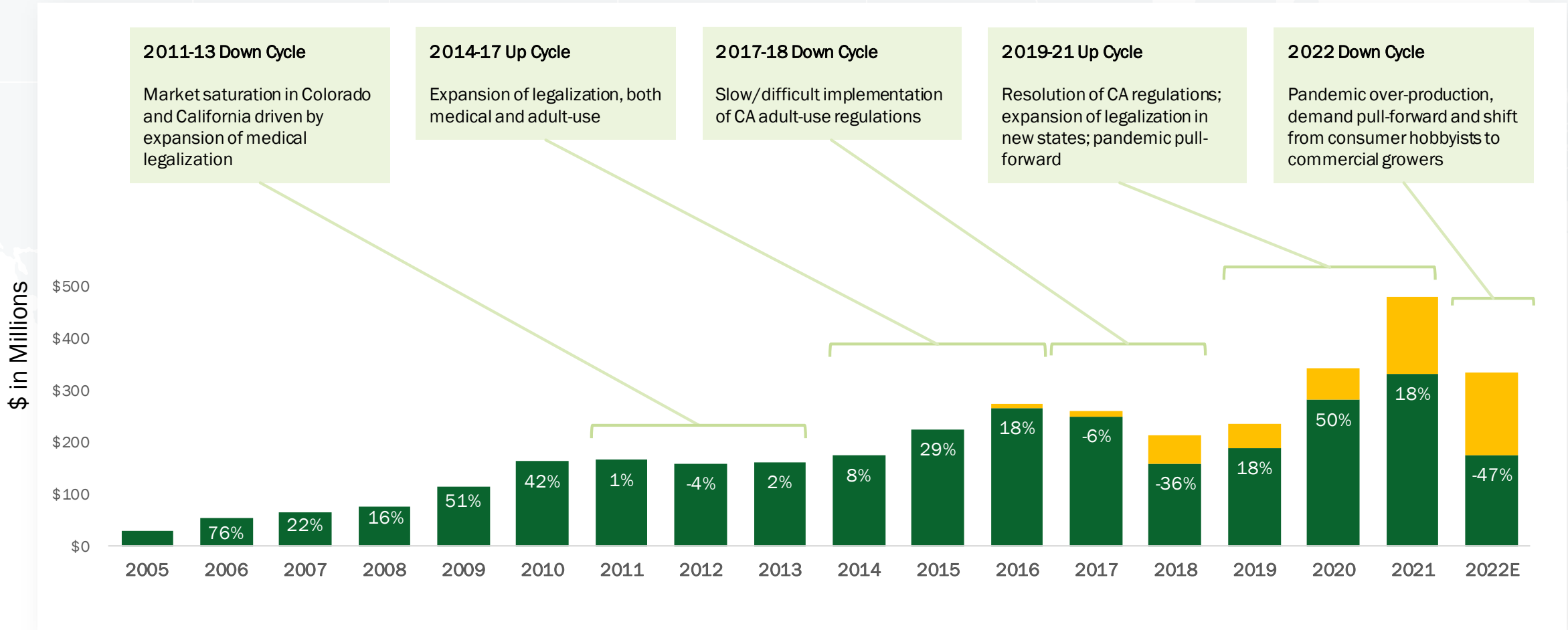


**Melisa Denis**  
Retired Lead Partner, KPMG



# Compounding in an emerging growth market

Delivering 11% organic growth CAGR from 2005-22 with a long history of healthy profitability



Source: Company estimates; note that pre-2019 unaudited management estimates of net sales.

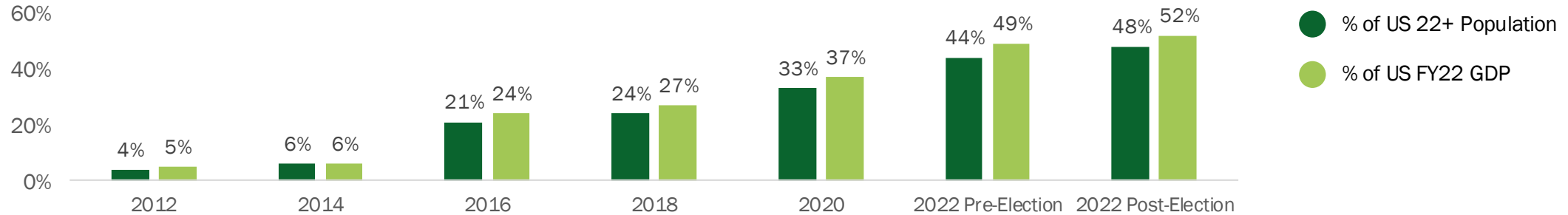
● US Organic Sales ● Acquisition Sales

# More compounding to come given solid market tailwinds

## The industry is steadily maturing into the mainstream

### Nearly Half of Americans are in An Adult-Use Cannabis state Post the Nov 22 Election

% of Population & GDP in States with Legal Adult-Use Cannabis



Sources: US Census, US Bureau of Economic Analysis & AGP

Green Thumb Industries Inc., one of the largest US cannabis producers, signed a deal with Circle K, the global convenience-store chain, to sell licensed marijuana at its Florida gasoline retailers. The partnership will begin next year with 10 of the company's 600 locations in the state, Green Thumb said.

#### A Growing Number of California Cities Are Opening Weed Cafes

Lounges where customers consume cannabis on site are the next frontier of the state's recreational marijuana industry.

"The re-scheduling of cannabis would unleash the real potential of the US cannabis industry, in terms of jobs, tax revenue, and scientific research."

— Jonathan Sandelman, CEO of Ayr Wellness

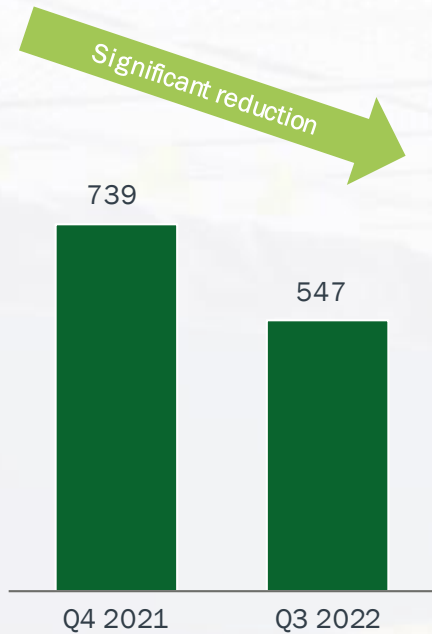


# Bold moves to focus the business in 2022, with more in 2023

## Staying nimble while riding out the path to industry normalization

### Rightsizing Workforce

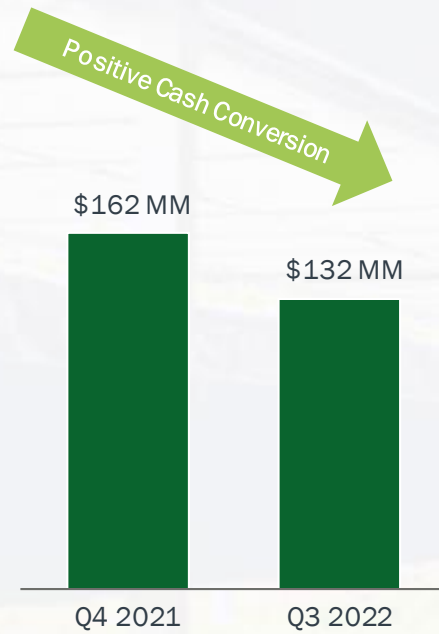
Headcount



- ✔ Reduced headcount, achieved through M&A integration efforts and better matching our workforce to current industry demand

### Working Capital Management

Net working capital investment\*



- ✔ Reduced inventory, maintained collection on receivables to help generate positive cash flow from operations

### Rationalizing brands and SKUs

- Reducing redundancy, focusing on proprietary/higher-margin brands & SKUs
- Right-sizing investment in storage, labor/handling and freight costs

### Leaning into diverse revenue streams

- Investing to better serve Food/Floral growers and Garden Center customers
- Reinvesting prudently in peat bog development

### Improving sourcing, distribution and manufacturing activities

- Centralizing and consolidating sourcing
- Consolidating nutrient manufacturing
- Sub-leasing more distribution center space

### Reallocating and rightsizing our SG&A spend

- Extract further savings in facilities, insurance & professional/outside services
- Enable reinvestment in our people and brands

\* Net working capital defined as current assets less cash/cash equivalents minus current liabilities less debt and leases

# Key value drivers with near-term and long-term goals

Focusing on near-term performance without losing focus on long-term opportunity

## KEY GOALS

### NEAR-TERM

### LONG-TERM



# Putting it all together

## How we got here and how it gets better

### The path to legalization has been bumpy

Inconsistent state ramps & COVID stimulus causing cannabis supply/demand imbalances

### The growing pains are real, but not structural

Certain key causes of bumpiness –COVID pandemic over-stimulating supply most recently – seem unlikely to repeat

### Supply/demand balance to come

Over time, supply should start to match up better with more predictable, expanding recreational and medicinal demand by state

### Brands & innovation expand

As the industry matures further, cannabis brands and innovation will expand profit pools, served by predictable, legal, sustainably grown hydroponic craft and multi-state operators

### Overdue shake out leaves fewer stronger distributors

Like the Gold Rush, the path to stabilization is wiping out some speculators. But the surviving picks and shovels suppliers should thrive

### Opportunity to invest near the bottom

Legalization trends sustain, brands and innovation grow demand. Higher quality supply meets that demand. Surviving players emerge stronger and poised to scale if federal legalization comes





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