

First Quarter 2024 Earnings Presentation

May 14, 2024



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**Projected Financial Information.** This presentation also contains estimates and other statistical data made by independent parties and by us relating to market size and growth and other data about our industry. This data involves a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. In addition, projections, assumptions, and estimates of our future performance and the future performance of the markets in which we operate are necessarily subject to a high degree of uncertainty and risk.

**Non-GAAP Financial Information.** This presentation contains financial information determined by methods other than in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Management uses these "non-GAAP" measures in its analysis of the Company's performance. Management believes these non-GAAP financial measures allow for better comparability of period to period operating performance. Additionally, the Company believes this information is utilized by regulators and market analysts to evaluate a company's financial condition and therefore, such information is useful to investors. These disclosures should not be viewed as a substitute for operating results determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. A reconciliation of the non-GAAP measures used in this presentation to the most directly comparable GAAP measures is provided in the Appendix to this presentation.

## **Business Overview**



## First Quarter 2024: Key Profitability Metrics Improved

#### Net Sales performance on-track to achieve full year guide

- March '24 marked the fifth consecutive month of sequential net sales growth
- Q1 industry demand levels were generally in-line with our internal expectations

### Improved Adjusted EBITDA to +\$0.3MM from (\$2.1MM) last year

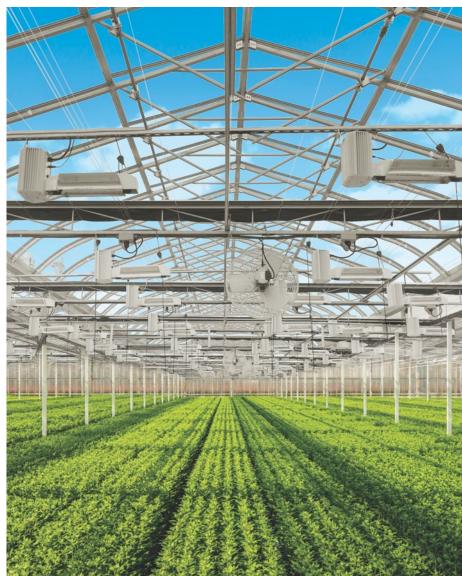
- Positive Adjusted EBITDA now recognized in three of the last four quarters
- Adjusted Gross Profit margin % improved for the fifth consecutive quarter
- Adjusted SG&A expense decreased by 24% versus Q1'23

### Free Cash Flow improved significantly in Q1 versus last year

- Continued to manage working capital and liquidity well
- Free Cash Flow increased to (\$3.7MM) in Q1'24 from (\$10.6MM) in Q1'23
- Q1 seasonally low period for cash flow primarily due to Canadian lawn and garden activity

## Reaffirming our Outlook for 2024

Adjusted Gross Profit, Adjusted SG&A Expense and Adjusted EBITDA are non-GAAP measures. Please see appendix for reconciliation of non-GAAP to GAAP measures.





## **2024 Strategic Priorities**

- Positioning brand and product portfolio for potential industry catalysts
- ✓ Focusing on diverse revenue streams
- Driving improved sales mix via Proprietary Brands
- Continue right-sizing our cost structure
- ✓ Further improving our Adjusted EBITDA margin



## **Financial Overview**



## **Financial Summary**

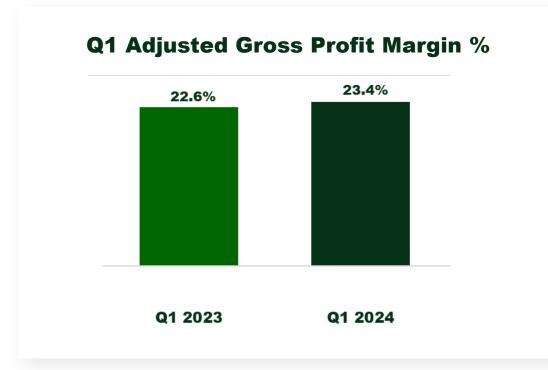
	2023	2024	0/ Channel
Three months ending (\$ in thousands)	Q1	Q1	% Change
Net Sales	<mark>62,17</mark> 8	54,172	-13%
Adjusted Gross Profit	14,073	12,665	-10%
% of Net Sales	22.6%	23.4%	+ 80 bps
Adjusted SG&A Expense	16,203	12,336	-24%
% of Net Sales	26.1%	22.8%	2470
% Of INEL Sales	20.1%	22.8%	
Adjusted EBITDA	(2,130)	329	-115%
% of Net Sales	-3.4%	0.6%	+ 400 bps

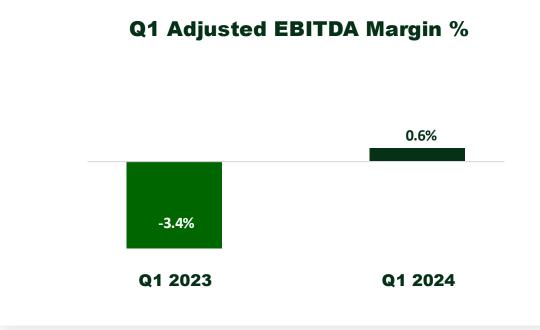


Adjusted Gross Profit, Adjusted SG&A Expense and Adjusted EBITDA are non-GAAP measures. Please see appendix for reconciliation of non-GAAP to GAAP measures.



## **Margin Improvement Continued in Q1**





### +80 basis point increase in Adj. Gross Profit Margin

- Marks the fifth consecutive quarter of AGPM% YoY increases
- Driven by productivity improvements at select manufacturing facilities

### +400 basis point increase in Adj. EBITDA Margin

- Aided by restructuring and cost savings initiatives
- Facilities, professional fees, insurance, headcount declined



## **Liquidity and Cash Flow Remain Strong**

\$24.2MM				
\$130.0MM				
\$105.8MM				
(\$2.3)MM				
(\$1.4)MM				
(\$3.7)MM				

Free Cash Flow improved by +\$6.9MM vs. Last Year



'Total Debt' is defined as Term Loan debt principal outstanding plus finance leases. Net Debt, Liquidity and Free Cash Flow are non-GAAP measures. Please see appendix for reconciliation of non-GAAP to GAAP measures.

## **Debt Details**

Un-utilized Revolving Credit facility and Covenant-light Term Loan that does not mature until 2028

#### Revolving Line of Credit

 $\checkmark$ 

 $\checkmark$ 

 $\checkmark$ 

 $\checkmark$ 

 $\checkmark$ 

- ✓ \$55MM Total Facility Size \$0MM Drawn and \$25MM (estimated) available as of 3/31/24 **Debt Maturities Schedule** Adjusted Term SOFR Rate + grid-based spread (\$ in MMs as of 3/31/2024) Availability varies with borrowing base \$116.0 Recently extended maturity to June 2026 Senior Secured Term Loan ✓ \$120.5MM in principal outstanding as of 3/31/24 \$2.9 ✓ Adjusted Term SOFR Rate + 5.50% \$1.3 \$1.3 **\$1.3**  No financial maintenance covenants 2024 2026 2028 2025 2027 Principal amortizes 0.25% per guarter until October 2028
  - Proceeds from Asset Sales subject to debt payment provisions\*  $\checkmark$
  - 0% call premium after October 25, 2023  $\checkmark$
  - Matures October 2028  $\checkmark$

\* A portion of the net cash proceeds from 2023 Eugene property sale-leaseback of \$8.3MM were not reinvested and were used to paydown debt in Q1'24 (~\$1.7MM). Debt maturities schedule includes full year 2024 estimated long-term debt principal payments, based on assumptions as of 3/31/2024.

## **Reaffirming Fiscal 2024 Outlook**

Key Financial Metrics and Assumptions

#### Net Sales

- Proprietary product sales to increase as % of total
- Improving revenue diversity

#### Adjusted EBITDA

- Productivity in manufacturing
- Productivity in distribution centers
- SG&A savings to more than offset growth/productivity investments
- Minimal non-restructuring inventory reserves or related charges

#### Free Cash Flow

3

- Further reduce inventory and working capital levels
- Capital expenditures, primarily growth/productivity, of between \$4MM to 5MM

## HYDROFARM

#### Reaffirming 2024 Full Year Outlook

Decline low to high teens in % terms

#### Positive Adjusted EBITDA for the Full Year

Positive Free Cash Flow for Full Year

## Appendix

## **Reconciliation of Non-GAAP Financial Measures to Reported Financial Measures**

LTM

(\$ in thousands)

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	Three months ended March 31,				Three months ended March 31,			ended March 31,		
	2024		2023		20	024		2023		2024 <sup>6</sup>
Reconciliation of Adjusted Gross Profit:				Net loss (GAAP)	\$ (12	2,608)	\$	(16,849)	\$	(60,572)
Gross Profit (GAAP)	\$ 10,925	\$	11,381	Interest expense		3,931		3,692		15,681
Depreciation, depletion and amortization	1,649		1,455	Income tax expense (benefit)		196		147		(164)
Restructuring expenses <sup>1</sup>	91		1,237	Depreciation, depletion and amortization		7,885		8,007		31,953
Adjusted Gross Profit (Non-GAAP)	\$ 12,665	\$	14,073	Restructuring expenses <sup>1</sup>		138		1,411		9,996
				Stock-based compensation <sup>2</sup>		868		1,207		4,775
As a percent of net sales:				Other income, net		(215)		(40)		(293)
Gross Profit Margin (GAAP)	20.2%		18.3%			-		-		51
Adjusted Gross Profit Margin (Non-GAAP)	23.4%		22.6%	Severance and other <sup>4</sup>		134		295		1,298
				Adjusted EBITDA (Non-GAAP)	\$	329	\$	(2,130)	\$	2,725
	Three months ended March 31,		s ended	As a percent of net sales:						
			51,	Net loss (GAAP)	(23.3)			(27.1)%		
	2024		2023	Adjusted EBITDA (Non-GAAP)		0.6 %		(3.4)%		
Reconciliation of Adjusted SG&A:										
Selling, general and administrative	0 40 004				-					
(GAAP)	\$ 19,621	\$	24,431		Three months ended					
Depreciation, depletion and amortization	6,236		6,552		March 31, 2024 2023					
Restructuring expenses <sup>1</sup>	47		174			024		2025		
Stock-based compensation <sup>2</sup>	868		1,207	Reconciliation of Free Cash Flow <sup>5</sup> :						
Severance and other <sup>4</sup>	134		295	Net cash (used in) operating activities			-			
Adjusted SG&A (Non-GAAP)	\$ 12,336	\$	16,203	(GAAP)⁵:		2,297)	\$	(8,950)		
				Capital expenditures of Property, Plant and				(4.050)		
As a percent of net sales:				Equipment (GAAP)		1,442)	_	(1,653)		
SG&A (GAAP)	36.2%		39.3%		\$ (3	3,739)	\$	(10,603)		
Adjusted SG&A (Non-GAAP)	22.8%		26.1%							

We define **Adjusted EBITDA** (non-GAAP) as net loss (GAAP) excluding interest expense, income taxes, depreciation, depletion and amortization, stock-based compensation including employer payroll taxes on stock-based compensation, restructuring charges which represent fundamental changes to our operations, and other non-cash, unusual and/or infrequent costs (i.e., impairments, severance, acquisition and integration expenses, distribution center exit costs, and other income/expense, net), which we do not consider in our evaluation of ongoing operating performance.

We define **Adjusted Gross Profit** (non-GAAP) as gross profit (GAAP) excluding depreciation, depletion, and amortization, restructuring charges, and other non-cash, unusual and/or infrequent costs (i.e., severance and other expenses, and acquisition and integration expenses), which we do not consider in our evaluation of ongoing operating performance.

We define **Adjusted SG&A** (non-GAAP) as SG&A (GAAP) excluding depreciation, depletion, and amortization, stock-based compensation including employer payroll taxes on stock-based compensation, restructuring charges, and other non-cash, unusual and/or infrequent costs (i.e., severance and other expenses, acquisition and integration expenses, and distribution center exit costs), which we do not consider in our evaluation of ongoing operating performance.

We define **Free Cash Flow** (non-GAAP) as Net cash from (used in) operating activities less capital expenditures for property, plant and equipment. We believe this provides additional insight into the Company's ability to generate cash and maintain liquidity. However, Free Cash Flow does not represent funds available for investment or other discretionary uses since it does not deduct cash used to service our debt or other cash flows from financing activities.

We define **Liquidity** as total cash, cash equivalents and restricted cash, plus available borrowing capacity on our Revolving Credit Facility.

We define **Net Debt** as total debt principal outstanding plus finance lease liabilities, less cash, cash equivalents and restricted cash.

1. For the three months ended March 31, 2024, restructuring expenses related primarily to manufacturing facility consolidations, and the charges incurred to relocate and terminate certain facilities. For the three months ended March 31, 2023, restructuring expenses related primarily to the relocation and termination of certain facilities in Canada and the closure of the Company's supply chain management office in China.

2.Includes stock-based compensation and related employer payroll taxes on stock-based compensation for the periods presented.

3.Other income, net related primarily to foreign currency exchange rate gains and losses and other non-operating income and expenses.

4.For the three months ended March 31, 2024, Severance and other charges primarily related to and estimated legal costs related to certain litigation. For the three months ended March 31, 2023, the charges included the sale-leaseback transaction. 5.Gross proceeds of \$8.6 million received during the first quarter of 2023 from a sale-leaseback of real estate located in Eugene, Oregon, was classified as a financing activity and is not reflected in cash flows from operating activities or Free Cash Flow. 6.Latest Twelve Months ended March 31, 2024. Refer to individual quarterly earnings releases for further details.



