



Hydrofarm Holdings Group, Inc.
Third Quarter 2025 Earnings – Prepared Remarks
November 12, 2025

CORPORATE PARTICIPANTS

B. John Lindeman, Chief Executive Officer

Kevin O'Brien, Chief Financial Officer

Jon DeDomenico, ICR Investor Relations

The Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) of Hydrofarm Holdings Group, Inc. (“Hydrofarm,” “we,” “us,” “our” or the “Company”) offer comments after the Company released its third quarter 2025 earnings results. The following are the prepared remarks provided regarding Hydrofarm’s third quarter 2025 on November 12, 2025.

PRESENTATION

Jon DeDomenico, ICR

Thank you for joining us for our remarks regarding the Hydrofarm Holdings Group third quarter 2025 earnings results.

By now you should have access to our third quarter 2025 earnings release and Form 8-K issued this morning, as well as an investor presentation available for reference. These documents are available on the Investors section of Hydrofarm’s website at www.hydrofarm.com.

Please note that our remarks today will include forward-looking statements. These forward-looking statements are not guarantees of future performance and therefore, you should not put undue reliance on them. These statements are also subject to numerous risks and uncertainties that could cause actual results to differ materially from our current expectations. We refer all of you to our recent SEC filings including our most recent



annual report on Form 10-K and quarterly reports on Form 10-Q for a more detailed discussion of the risks that could impact our future operating results and financial condition.

Lastly, these remarks include references to non-GAAP financial measures, which we believe can be useful in evaluating our performance. The presentation of this additional information should not be considered in isolation or as a substitute for results prepared in accordance with GAAP, and reconciliations to comparable GAAP measures are available in our earnings release.

John Lindeman, CEO

During the third quarter we delivered our best proprietary branded sales mix of 2025 at approximately 57%, a vast sequential improvement from the second quarter as we continued to execute on our restructuring plans and accelerate our focus on our higher-margin proprietary brands.

Alongside the mix improvement, we achieved our 13th consecutive quarter of year-over-year Adjusted SG&A savings, once again demonstrating our consistently disciplined cost management with a more than 7% reduction in expenses compared to the prior year period, and we are on pace to deliver a significant full-year expense reduction, consistent with our previously announced expectations for fiscal year 2025.

We are executing on our restructuring plan, as we completed significant inventory and SKU reductions in the third quarter, in line with our plan to rationalize underperforming products, continue to drive sales of our key proprietary brands and strengthen our balance sheet. We also have initiated incremental plans to further right-size our manufacturing footprint and capture other expense savings which, in aggregate, we estimate will generate nearly \$5 million in annual cost savings. This represents \$2 million of additional annual cost savings, an increase from the \$3 million we projected in the initial restructuring announcement last quarter. In addition, we have line of sight to further



estimated annual cost savings of \$4 million and the team is already executing on these cost savings actions.

By the end of this process, we will have a far more optimized product portfolio and distribution and manufacturing footprint, and we expect these actions to drive higher-quality revenue streams, enhance operational productivity, reduce our property lease liabilities, and improve profitability and our overall financial profile.

The broader industry continues to face persistent challenges including oversupply in the market, lower market pricing, and retail customer base consolidation as we believe that many customers are minimizing purchases while waiting for a positive inflection in the market. There has also been no significant progress made on industry reform despite indications that the current administration is weighing the reclassification of cannabis to Schedule III from Schedule I substance, which we believe could meaningfully free-up investment capital into the industry.

These dynamics have created inconsistent demand patterns, adversely impacting our top-line performance during the quarter and our adjusted gross profit margin which was impacted by the weaker sales. The challenges have been apparent in the durables category, particularly in lighting, which for us is heavily concentrated with proprietary brands and remains a headwind to even greater proprietary brand mix improvements. In addition, our previously announced decision in the second quarter to trim underperforming products has an impact to distributed brand sales as we carry less inventory and SKUs.

With that said we are pushing forward with our commitments to reinvigorate performance in our proprietary brands, both within our consumable and durable product categories, through increased investment and innovation. We have also onboarded several co-manufacturing agreements to produce grow media and nutrients for other third-party brands, demonstrating our manufacturing capabilities and driving additional volume through our facilities.



In the third quarter we increased our investment behind some of our branded products, specifically we have made investments to overhaul and modernize the websites for some of our key proprietary offerings. We also made investments to build on our ecommerce presence and broaden our consumer reach.

We successfully relaunched our House & Garden Soluble business with our dry nutrients. This launch has been met with very positive feedback and we are excited to continue supporting it. We have plans to introduce and invest behind additional innovations launching in early 2026. We saw strong performances from a couple of our more diversified proprietary brands as well, including Gaia Green, a key organic nutrient brand for us, and SunBlaster, an at-home oriented lighting and gardening product.

Regarding our international diversification efforts, we continued to progress on our non-US/Canadian mix with sales mix improving year-over-year driven by performance in one of our key proprietary brands, and we remain on pace to deliver an improved metric compared to 2024. We also launched initiatives to further expand our distribution presence overseas and have a number of brands that will be shipping to new geographies by 2026.

Our top strategic priority continues to be driving diverse, high quality revenue streams and we are pleased with the progress we are making on that front despite the challenged industry backdrop. We delivered a much improved proprietary brand sales mix in the third quarter which we expect to continue in the fourth quarter. We remain on track to deliver an improved mix of proprietary brand sales for the full year. We also further refined our internal CRM capabilities during the third quarter and revamped our sales protocols which are showing positive initial indications.

Managing our free cash flow and overall financial position is another key priority for us. Our effective working capital management and ongoing inventory optimization allowed us to deliver nearly break-even free cash flow during the period, which represents an approximately \$5 million year-over-year improvement.



I will now provide a brief update on the ongoing uncertain tariff environment. As a reminder, our primary exposure continues to be in the durables business as we source certain lighting and equipment products from China. We also have some exposure to India, where we import certain inputs to our Grow Media. The impact from tariffs are approximately \$0.6 million of incremental costs year-to-date, and we are managing our business to mitigate tariff exposure through careful purchasing, supplier negotiations, and modest price increases where possible.

While tariffs are a headwind, we are heightening the focus on our consumables business, which accounts for more than three-quarters of our total sales and is mainly sourced from the US and Canada.

As we move forward, we intend to continue to execute what is within our control. By concentrating our efforts on a condensed product portfolio, and with a streamlined distribution and manufacturing footprint, we are positioning ourselves to drive diverse, high-quality revenue streams, improve our profit margins, and strengthen our financial position. We will continue to invest strategically in our key proprietary brands while maintaining disciplined cost management to drive higher margin performance and to enhance long-term value for our stockholders.

With that, I'll hand it over to Kevin to further discuss the details of our third quarter financial results and provide additional color on our restructuring progress.

Kevin O'Brien, CFO

Net Sales for the third quarter were \$29.4 million, down 33.3% year-over-year, driven primarily by a 32.2% decline in volume/mix, and a 1.1% decrease in pricing. The declines were primarily related to industry oversupply.

While continued industry headwinds weighed on our topline results, we were successful at driving significant improvements in our proprietary brand mix sequentially as we



effectively executed our restructuring plan and heightened investments behind some of our key proprietary brands.

Gross Profit in the third quarter was \$3.4 million, or 11.6% of net sales, compared to \$8.5 million, or 19.4% of net sales in the prior year period. Third quarter 2025 gross profit was negatively impacted by \$0.8 million of restructuring charges we incurred during the quarter related to non-cash inventory markdowns and cash charges associated with reductions in our distribution center footprint and headcount. Adjusted Gross Profit was \$5.5 million, or 18.8% of net sales, compared to \$10.7 million, or 24.3% of net sales last year. The decrease was primarily due to lower net sales and lower manufacturing production volume.

We are now expecting our full year 2025 Adjusted Gross Profit margin to be approximately 20%. As we drive increased sales mix of our higher-margin proprietary brands, and volumes through our manufacturing facilities, we expect adjusted gross profit margin to improve in future periods.

I will now provide an update on our restructuring plan and cost-saving initiatives. As we announced last quarter, we initiated a plan to narrow and optimize the size and scope of our product portfolio and related footprint. During the third quarter, we executed inventory liquidations in the U.S. and Canada as part of our product portfolio rationalization, helping to reduce our facility footprint. We also completed the closure of one of our U.S. Distribution Centers. We remain on track to deliver annual cost savings in excess of \$3 million from this restructuring, and also continue to drive working capital benefits. We have also initiated additional actions to further consolidate our two remaining U.S. manufacturing facilities, which will be completed over the next few quarters and we believe will generate an incremental \$2 million in annual cost savings, thus totaling \$5 million in annual cost savings. Furthermore, as John mentioned, we have line of sight into an additional \$4 million of annual estimated cost savings and the team has already begun to execute against these measures. In addition to the significant cost-saving benefits, we believe this restructuring will result in improved operating leverage and efficiency, and



allow us to further heighten our focus and investment on our key, higher-margin proprietary brands.

Moving on to our Selling, General and Administrative expenses. In the third quarter, our SG&A expense was \$16.4 million, compared to \$17.6 million last year. Adjusted SG&A expenses were \$9.9 million, more than a 7% reduction when compared to \$10.7 million last year, and our 13th consecutive quarter of meaningful year-over-year Adjusted SG&A savings demonstrating the benefits of our cost-savings initiatives. We expect to realize further reductions as we look ahead from our successful restructuring initiatives and continue to operate below our pre-IPO quarterly Adjusted SG&A levels from 2020.

Adjusted EBITDA was a loss of \$(4.4) million in the third quarter. The decline from last year was due to lower net sales and Adjusted Gross Profit margin, partially offset by Adjusted SG&A savings.

Moving on to the balance sheet and overall liquidity position. Our cash balance as of September 30, 2025 was \$10.7 million. We ended the third quarter with \$114.5 million in principal balance on the term loan and approximately \$122.5 million of total debt, inclusive of financial lease liabilities. Our net debt at the end of the third quarter was approximately \$111.8 million. As a reminder, our term loan facility has no financial maintenance covenant and does not mature until October 2028.

We also continue to maintain a zero balance on our revolving credit facility, which matures on June 30, 2027. With cash on hand, and approximately \$4 million of availability on our revolving line of credit, we had \$14.7 million of total liquidity as of September 30, 2025. I should also note that today we updated our three-year shelf registration statement which is set to expire this month. We have no active plans for a securities offering, and filing this shelf registration statement is a matter of standard corporate housekeeping as it allows us to maintain flexibility.



In the third quarter, cash used in operating activities was nearly break even, and capital expenditures were \$0.2 million, yielding free cash flow of \$(0.2) million. This free cash flow performance was a significant improvement year-over-year, driven by working capital benefits. We remain on track to deliver positive free cash flow for the last nine months of 2025, and spend less than \$2 million in capital expenditures for the full year, consistent with our previously announced expectations for fiscal year 2025.

To close, in the third quarter we continued to execute on the significant restructuring plans we have initiated throughout the year to better optimize our business for future success. We remain focused on executing our strategic roadmap to drive higher quality revenue streams and improved profitability, and are confident in our ability to emerge stronger when industry conditions stabilize.

We look forward to providing another update in March of the new year on our fourth quarter earnings results.

About Hydrofarm Holdings Group, Inc.

Hydrofarm is a leading independent manufacturer and distributor of branded hydroponics equipment and supplies for controlled environment agriculture, including grow lights, climate control solutions, grow media and nutrients, as well as a broad portfolio of innovative proprietary branded products. For over 40 years, Hydrofarm has helped growers make growing easier and more productive. The Company's mission is to empower growers, farmers and cultivators with products that enable greater quality, efficiency, consistency and speed in their grow projects.