



FEATURED OPTIONS RADAR REPORT



Bull Spread Targets Cannabis Play as Peer Gives Positive Commentary

Ticker/Price: HYFM (\$37.45)

Hydrofarm Holdings (HYFM) with an interesting large trade on 11/3 that sold 3000 December \$30 puts to open and bought 3000 of the \$35/\$45 call spreads at a net debit of \$1.75. Even more interesting was the trade occurred early after the opening bell and followed comments made by Scott's Miracle-Gro (SMG) on the Cannabis industry and its Hawthorne unit and HYFM will report on 11-11 having already warned on 10-26. HYFM also has 1000 March \$55/\$85 call spreads bought in open interest and 3000 March \$25 short puts. HYFM was a hot IPO in late 2020 and shares ran up to \$95 in early 2021 but have collapsed trending lower all year with a recent low at \$31.30 but put in a strong move on 11/3 back above its 8 and 21 day moving averages. Hydrofarm sits at the intersection of two of the most compelling market opportunities of our time: the consumer-led movement towards the legalization of cannabis in the U.S. and its legalization in Canada, and a revolution in controlled environment agriculture (CEA). CEA empowers farmers to operate more efficiently and sustainably. CEA requires less land and less water, and substantially eliminates chemical run-off. The result is superior crop yields with reduced levels of carbon emissions, water usage and environmental impact, while providing for significant optimization throughout the value chain. The CEA market is seen reaching over \$100B in the next several years. HYFM is a leading independent distributor and manufacturer of controlled environment agriculture equipment and supplies, including a broad portfolio of its own innovative portfolio of proprietary branded products. Hydroponics is the farming of plants using soilless growing media and often artificial lighting in a controlled indoor or greenhouse environment. Hydroponics is the primary category of CEA. According to industry publications, the global wholesale CEA equipment and supplies industry totaled approximately \$8 billion in 2019 and is expected to grow at a CAGR of 12.8% from 2019 to 2025. HYFM currently has a market cap of \$1.7B and trades 28.5X Earnings, 15X FY22 EBITDA and has a strong balance sheet flush with cash and no debt. HYFM revenues grew 45.6% in 2020 and seen growing 49% in 2021 and 28% in 2022 with EBITDA seen rising 186% in 2021 and 62% in 2022. HYFM has been very active with acquisitions the last six months including House & Garden for \$125M, Aurora Innovations for \$161M, Greenstar Plant Products for \$83M, and Growers Equipment for \$58M. Analysts have an average target of \$55 with short interest at 8.8% of the float. Truist with a lowered \$65 target and Buy rating on 9/28 noting recent weakness in HYFM/SMG from concerns of cannabis oversupply in California is unlikely to impair the longer term opportunity and sees the pullback as an excellent opportunity to play the cannabis legalization trend. UBS started shares Buy on 6/23 with a \$66 target.

Hawk Vision:



Hawk's Perspective: HYFM looks quite attractive for the expected growth at this valuation and still see it as a strong pick & shovel play on Cannabis which I expect to be a multi-year growth trend, so the reward/risk here is compelling.

Confidence Ranking: \$\$