

urban-gro, Inc.

United States / AgTech
 Primary: Nasdaq
 Secondary: Frankfurt Stock Exchange
 Bloomberg: UGRO US
 ISIN: US91704K2024

Update

RATING
BUY

PRICE TARGET
\$ 6.40

Return Potential 357.1%
 Risk Rating High

SUMMER NEWS WAVE

Newsflow from urban-gro has been encouraging this summer. The company inked several deals this month totalling \$16m to top up its backlog, and it received a \$2.3m cash injection from an investment sale. Political winds are also changing in the US. The Department of Health and Human Services (HHS) recommended that the DEA reschedule cannabis to a lower-risk Schedule III drug. Sector stocks and UGRO shares caught a bid on the news, and reclassification could be a significant catalyst for the cannabis sector. Plus, US senators unveiled a revamped marijuana banking bill last week, and a key vote is expected today. Meanwhile, the German federal parliament is due to vote on a bill recently passed by the *Bundeskabine*tt to legalise weed for recreational use. A positive decision would be good news for UGRO's nascent EU operations. We are Buy-rated on urban-gro with a \$6.4 TP.

Contracts boost backlog 20%, but diversification is the point The company closed a slew of contract wins this month with an aggregate \$16m volume to replenish the backlog (Q2/23: \$79m). The continued diversification into non-cannabis arenas (industrial, aerospace, laboratories and hospitality) is welcome and underpins management's goal to expand beyond cannabis work. The cannabis deals also included a win in Western Europe for the Netherlands-based team, and the company expects to recognise \$3m in revenue from these deals in the coming three quarters, while \$2m of non-cannabis jobs should be realised over the next six months. Another deal was inked yesterday for \$11m with an existing US-based client in the hospitality sector. This work covers architecture, design, engineering and construction management services and is expected to be realised over the coming six quarters.

Cash injection from investment sale XS Financial Inc, a cannabis equipment finance company, bought back convertible notes held by urban-gro at a 10% discount to book value for a cash payment of \$2.3m. This is on top of the \$0.3m in interest earned since Q4/21. urban-gro exited Q2 with. . . (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

| | 2020 | 2021 | 2022 | 2023E | 2024E | 2025E |
|---------------------|--------|--------|--------|--------|--------|--------|
| Revenue (\$m) | 25.84 | 62.11 | 67.03 | 90.07 | 120.95 | 161.45 |
| Y/Y growth | 6.8% | 140.4% | 7.9% | 34.4% | 34.3% | 32.0% |
| AEBITDA* (\$m) | -0.65 | 2.68 | -3.90 | -6.59 | 1.01 | 3.06 |
| AEBITDA margin | -2.5% | 4.3% | -5.8% | -7.3% | 0.8% | 1.9% |
| Net income (\$m) | -5.07 | -0.88 | -15.28 | -12.63 | -4.13 | -2.47 |
| EPS (diluted) (\$) | -1.06 | -0.09 | -1.44 | -1.26 | -0.41 | -0.25 |
| DPS (\$) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| FCF (\$m) | -3.81 | -9.90 | -17.06 | -8.82 | -0.48 | 2.12 |
| Net gearing | -83.7% | -71.8% | -23.5% | -12.3% | -11.0% | -19.7% |
| Liquid assets (\$m) | 0.18 | 34.59 | 12.01 | 3.00 | 2.52 | 4.64 |

* adjusted EBITDA

RISKS

Risks include but aren't limited to regulatory, financing and market cyclicality, particularly in the cannabis sector.

COMPANY PROFILE

urban-gro, Inc is a provider of professional turnkey facility services to the CEA industry and various commercial sectors. Headquartered in Denver, Colorado, the company now operates six offices across North American and one in Europe. Operations are executed by a staff numbering 140 employees.

MARKET DATA

As of 26 Sep 2023

| | |
|-------------------------|----------------|
| Closing Price | \$ 1.40 |
| Shares outstanding | 11.61m |
| Market Capitalisation | \$ 16.25m |
| 52-week Range | \$ 1.00 / 4.95 |
| Avg. Volume (12 Months) | 91,934 |

| Multiples | 2022 | 2023E | 2024E |
|------------|------|-------|-------|
| P/E | n.a. | n.a. | n.a. |
| EV/Sales | 0.2 | 0.1 | 0.1 |
| EV/AEBITDA | n.a. | n.a. | 10.4 |
| Div. Yield | 0.0% | 0.0% | 0.0% |

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2023

| | |
|----------------------|-----------|
| Liquid Assets | \$ 8.56m |
| Current Assets | \$ 34.52m |
| Intangible Assets | \$ 4.87m |
| Total Assets | \$ 61.29m |
| Current Liabilities | \$ 31.82m |
| Shareholders' Equity | \$ 26.73m |

SHAREHOLDERS

| | |
|------------------------|-------|
| Insiders | 28.9% |
| Institutional Holdings | 28.0% |
| Free Float | 43.1% |



. . . some \$8.6m in cash and liquid assets. The \$2.3m booster will give the company some extra breathing room as it strains to bring adjusted earnings into the black by YE23 prodded by measures initiated to slash overhead costs earlier this year.

AMERICA'S POLITICAL WINDS ARE CHANGING

HHS wants to reclassify cannabis Since the 1970s, marijuana has been listed alongside Heroin and LSD as a Schedule I drug under the Controlled Substances Act, meaning it's considered to have no accepted medical use as well as high potential for abuse. Despite being legalised for recreational use in nearly half of America's states, marijuana's federal classification has hemmed in industry growth.

On 29 August, the US Department of Health and Human Services sent a letter to DEA officials recommending to reclassify marijuana as a lower-risk Schedule III drug. This is defined as a substance with moderate to low potential for physical and psychological dependence, and this landmark change would ease restrictions holding back the budding industry.

After enjoying a surge in sales during the pandemic, the cannabis industry has been in an extended slump as investors have backed away, and capital is drying up. The industry also is essentially barred from most banking services (overleaf), while cannabis cannot be traded across state lines resulting in a glut of product in many states along with a drop in prices.

What reclassification could mean for the weed industry Currently, the Internal Revenue Service code known as 280E prevents companies trafficking in Schedule I substances from writing off expenses on their federal tax returns, meaning any expense unrelated to cost of goods sold is non-deductible.

Congress established 280E in 1982 during peak drug hysteria and spiking drug-related incarcerations, mainly to prevent illicit drug dealers from claiming their business expenses as tax deductions. But this outdated code is now causing financial and operational hardships for licensed cannabis businesses. Industry observers say that 280E jacks up their federal tax rates to 40% to 80% compared to the normal 21% corporate tax rate. Consequently, this is consuming liquidity that state-legal marijuana companies badly need for CapEx and operational growth.

In our view, the removal of 280E would have a widespread material impact on the financial health and growth performance of every cannabis operator in the US, large and small, public and private. We reckon urban-gro's business verticals in Equipment Systems and Construction Design-build would greatly benefit from the resulting increased industry investment.

Aside from greater cash flows for cannabis players to invest, the potential rescheduling would: (1) allow for more interstate commerce; (2) expand avenues for research and medical uses; (3) lighten criminal penalties for cannabis-related violations; (4) draw investors back during the present capital crunch; and (5) attract new entrepreneurs to the space.

Historically, the DEA has never gone against a scheduling recommendation from the HHS, and now with more evidence validating the medical benefits, a key argument against rescheduling carries even less weight. We could thus see a rescheduling of cannabis in 2024, which should be a major catalyst for the nascent industry, and urban-gro should catch a bid as a result.



What rescheduling will not cure. . . . Banking headaches. Schedule III drugs are still considered a risk for banking institutions as long as federal laws remain unchanged. Under current federal law, many businesses—particularly small, independent operators—have no access to bank accounts, credit card processing, and other traditional financial services.

. . . but the SAFER Banking Act will help SAFER Banking is short for Secure and Fair Enforcement Regulation, and America’s Senate Committee on Banking, Housing and Urban Affairs will mark up the SAFER Banking Act potentially paving the way for a major milestone for marijuana reform in Congress.

This legislation would give legal cannabis businesses access to traditional financial institutions, including bank accounts and small business loans. Financial institutions would not be compelled to offer banking services to cannabis companies, but the bill would discourage banks and credit unions from denying such services based on “personal beliefs or political motivations”.

The markup hearing, which often includes a vote on the legislation by the panel, is scheduled for today and is the traditional precursor to a full Senate floor vote. SAFER is a big step forward, but it will not cure all banking headaches for cannabis operators. The largely cash-based industry still has to battle the Bank Secrecy Act, which compels financial institutions to report deposits north of \$10k. This flags normal and legal transactions, and the added scrutiny can tie up significant resources.

Here too, we see good potential for UGRO to catch a bid with the positive vote from the senate. Reclassification and banking access would be a major double-win for the industry and help remove the industry stigma.



GERMAN CABINET APPROVES BILL TO LEGALISE CANNABIS USE

Malta currently has the most tolerant laws in the EU concerning the cultivation, consumption and possession of cannabis. Adults may possess up to 7g of weed and grow as many as four plants at home, thanks to legislation passed in 2021. Sparking up in public, however, is still prohibited.

Now Germany has taken a step closer to becoming the second EU country to legalise recreational pot smoking. In August, the German government (*Bundeskabinett*) approved a ground-breaking bill that would make it legal for adults to buy and carry small amounts of weed.

The two-phase plan (see note of 22 June 2023) would initially allow adults over 18 to possess up to 25g (0.9 ounces) of cannabis for personal or recreational use and grow up to three plants. There will also be a framework for so-called "cannabis social clubs", which supply members with high quality cannabis products from their own cultivation.

According to federal government figures, ~4.5m German adults used cannabis at least once in the last year. Germany's health minister, Karl Lauterbach said, "the aim is to curb the black market and drug-related criminality, as well as the trade in adulterated or toxic substances and the number of consumers". Young people and children will still be prohibited from carrying and consuming pot, and Mr Lauterbach wants to simultaneously ratchet up education about the risks of smoking weed.

Proponents of the bill in Germany's coalition government want to legalise the drug this year, but they face resistance from conservative lawmakers, along with a few physicians and law enforcement officials. Opposition parties fear the new laws would encourage the use of the drug and put minors at risk, while a group of judges claim it will likely increase the burden on the judicial system.

The legislation still needs to be voted on by the federal parliament, and lawmakers are expected to convene to debate the bill with summer breaks now over. Legalisation could happen as early as 2024.



VALUATION MODEL

We remain Buy-rated on urban-gro Newsflow has been encouraging of late, and industry tailwinds could pick up around the time that urban-gro operations turn the profitability corner. We think the combination will compel investors to acknowledge the positive shifts in the business over the past quarters. Our TP remains \$6.4.

Figure 1: DCF model

| In USD '000 | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
|--------------------------------------|---------------|---------------|---------------|------------|--------------|--------------|--------------|--------------|
| Sales | 90,068 | 120,945 | 161,450 | 198,583 | 234,328 | 269,477 | 299,120 | 329,032 |
| NOPLAT | -10,217 | -3,768 | -1,666 | 2,822 | 6,950 | 10,528 | 12,534 | 14,675 |
| (+) depreciation & amortisation | 811 | 605 | 807 | 794 | 703 | 808 | 808 | 804 |
| Net operating cash flow | -9,407 | -3,163 | -859 | 3,616 | 7,653 | 11,336 | 13,342 | 15,479 |
| (-) Total investments (CAPEX and WC) | 1,978 | -1,857 | -2,433 | -2,482 | -2,407 | -2,212 | -2,016 | -2,118 |
| (-) Capital expenditures | -730 | -738 | -985 | -1,013 | -961 | -835 | -927 | -1,020 |
| (-) Working capital | 2,707 | -1,120 | -1,448 | -1,469 | -1,446 | -1,377 | -1,088 | -1,098 |
| Free cash flow s (FCF) | -7,429 | -5,020 | -3,292 | 1,134 | 5,246 | 9,124 | 11,326 | 13,361 |
| PV of FCFs | -7,077 | -4,203 | -2,422 | 733 | 2,980 | 4,555 | 4,968 | 5,151 |

| In EUR '000 | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
|--------------------------------------|-------------|-------|-------|-------|-------|-------|-------|-------|
| PV of FCFs in explicit period | 28,663 | | | | | | | |
| (+) PV of FCFs in terminal period | 37,896 | | | | | | | |
| Enterprise value (EV) | 66,559 | | | | | | | |
| (+) Net cash / (-) net debt | 8,175 | | | | | | | |
| (+) Investments / minority interests | 0 | | | | | | | |
| Shareholder value | 74,735 | | | | | | | |
| Fair value per share (\$) | 6.40 | | | | | | | |

| | WACC | 6.1% | 6.6% | 7.1% | 7.6% | 8.1% | 8.6% | 9.1% |
|------|-------|------|------|------|-------|-------|-------|-------|
| WACC | 10.8% | 8.43 | 9.04 | 9.65 | 10.26 | 10.87 | 11.48 | 12.09 |
| | 11.8% | 7.22 | 7.71 | 8.20 | 8.68 | 9.17 | 9.66 | 10.14 |
| | 12.8% | 6.26 | 6.65 | 7.05 | 7.44 | 7.83 | 8.23 | 8.62 |
| | 13.8% | 5.47 | 5.80 | 6.12 | 6.44 | 6.76 | 7.08 | 7.40 |
| | 14.8% | 4.82 | 5.09 | 5.35 | 5.62 | 5.88 | 6.15 | 6.41 |
| | 15.8% | 4.28 | 4.50 | 4.72 | 4.94 | 5.16 | 5.38 | 5.60 |
| | 16.8% | 3.81 | 4.00 | 4.18 | 4.36 | 4.55 | 4.73 | 4.92 |

| | WACC | 1.0% | 1.5% | 2.0% | 2.5% | 3.0% | 3.5% | 4.0% |
|------|-------|------|------|------|-------|-------|-------|-------|
| WACC | 10.8% | 9.23 | 9.54 | 9.88 | 10.26 | 10.68 | 11.17 | 11.73 |
| | 11.8% | 7.93 | 8.16 | 8.41 | 8.68 | 8.99 | 9.33 | 9.72 |
| | 12.8% | 6.88 | 7.05 | 7.24 | 7.44 | 7.66 | 7.91 | 8.19 |
| | 13.8% | 6.01 | 6.14 | 6.29 | 6.44 | 6.61 | 6.79 | 6.99 |
| | 14.8% | 5.29 | 5.39 | 5.50 | 5.62 | 5.75 | 5.89 | 6.04 |
| | 15.8% | 4.68 | 4.76 | 4.85 | 4.94 | 5.04 | 5.14 | 5.26 |
| | 16.8% | 4.16 | 4.23 | 4.29 | 4.36 | 4.44 | 4.52 | 4.61 |

*Please note our model runs through 2035 and we have only shown the abbreviated version for formatting purposes



INCOME STATEMENT

| All figures in USD '000 | 2020 | 2021 | 2022 | 2023E | 2024E | 2025E |
|----------------------------------|---------------|---------------|----------------|----------------|----------------|----------------|
| Revenues | 25,838 | 62,113 | 67,030 | 90,068 | 120,945 | 161,450 |
| Cost of goods sold | -20,122 | -47,353 | -52,824 | -75,753 | -100,645 | -133,571 |
| Gross profit | 5,716 | 14,760 | 14,206 | 14,315 | 20,301 | 27,879 |
| SG&A | -6,658 | -13,124 | -20,971 | -22,911 | -21,891 | -27,124 |
| Stock-based compensation | -1,803 | -1,841 | -2,572 | -2,342 | -2,540 | -3,229 |
| Operating income (EBIT) | -2,746 | -205 | -12,637 | -10,938 | -4,130 | -2,473 |
| Net financial result | -1,498 | -334 | 274 | -192 | 0 | 0 |
| Other non-operating result | -831 | -337 | -577 | -1,500 | 0 | 0 |
| Impairment loss | 0 | 0 | -2,661 | 0 | 0 | 0 |
| Pre-tax income (EBT) | -5,074 | -876 | -15,600 | -12,630 | -4,130 | -2,473 |
| Income taxes | 0 | 0 | 322 | 0 | 0 | 0 |
| Minority interests | 0 | 0 | 0 | 0 | 0 | 0 |
| Net income / loss | -5,074 | -876 | -15,278 | -12,630 | -4,130 | -2,473 |
| Diluted EPS (in \$) | -1.06 | -0.09 | -1.44 | -1.26 | -0.41 | -0.25 |
| AEBITDA | -652 | 2,679 | -3,904 | -6,586 | 1,014 | 3,063 |
| Ratios | | | | | | |
| Gross margin | 22.1% | 23.8% | 21.2% | 15.9% | 16.8% | 17.3% |
| EBIT margin | -10.6% | -0.3% | -18.9% | -12.1% | -3.4% | -1.5% |
| AEBITDA margin | -2.5% | 4.3% | -5.8% | -7.3% | 0.8% | 1.9% |
| Net margin | -19.6% | -1.4% | -22.8% | -14.0% | -3.4% | -1.5% |
| Tax rate | 15.0% | 21.0% | 21.0% | 21.0% | 21.0% | 21.0% |
| Expenses as % of revenues | | | | | | |
| SG&A | 25.8% | 21.1% | 31.3% | 25.4% | 18.1% | 16.8% |
| Stock-based compensation | 7.0% | 3.0% | 3.8% | 2.6% | 2.1% | 2.0% |
| Y-Y Growth | | | | | | |
| Revenues | 6.8% | 140.4% | 7.9% | 34.4% | 34.3% | 33.5% |
| Operating income | n.m. | n.m. | n.m. | n.m. | n.m. | n.m. |
| Net income/ loss | n.m. | n.m. | n.m. | n.m. | n.m. | n.m. |



BALANCE SHEET

| All figures in USD '000 | 2020 | 2021 | 2022 | 2023E | 2024E | 2025E |
|---|---------------|---------------|---------------|---------------|---------------|---------------|
| Assets | | | | | | |
| Current assets, total | 5,245 | 59,480 | 34,558 | 21,622 | 23,880 | 29,544 |
| Cash and equivalents | 185 | 34,591 | 12,008 | 2,998 | 2,522 | 4,644 |
| Trade receivables | 915 | 13,126 | 15,380 | 11,104 | 13,586 | 16,808 |
| Inventories | 537 | 515 | 320 | 623 | 827 | 1,098 |
| Other ST assets | 3,609 | 11,248 | 6,849 | 6,897 | 6,945 | 6,994 |
| Non-current assets, total | 2,915 | 14,675 | 27,508 | 25,074 | 25,233 | 25,438 |
| Property, plant & equipment | 129 | 208 | 1,307 | 1,316 | 1,328 | 1,344 |
| Goodwill & other intangibles | 991 | 9,568 | 21,023 | 21,113 | 21,234 | 21,395 |
| Financial assets | 1,710 | 4,210 | 2,559 | 0 | 0 | 0 |
| Other LT assets | 85 | 690 | 2,619 | 2,645 | 2,671 | 2,698 |
| Total assets | 8,161 | 74,155 | 62,066 | 46,696 | 49,113 | 54,982 |
| Shareholders' equity & debt | | | | | | |
| Current liabilities, total | 14,546 | 25,005 | 24,256 | 19,040 | 22,908 | 27,876 |
| Trade payables | 654 | 6,067 | 9,960 | 7,472 | 9,927 | 13,174 |
| ST debt | 5,271 | 0 | 0 | 0 | 0 | 0 |
| Customer deposits | 4,879 | 13,345 | 2,571 | 3,455 | 4,639 | 6,124 |
| Provisions | 1,799 | 3,878 | 3,197 | 3,325 | 3,458 | 3,596 |
| Other current liabilities | 1,944 | 1,716 | 8,527 | 4,788 | 4,884 | 4,982 |
| Long-term liabilities, total | 1,021 | 983 | 3,078 | 3,212 | 3,351 | 3,496 |
| Long-term debt | 1,021 | 0 | 0 | 0 | 0 | 0 |
| Deferred tax liabilities | 0 | 441 | 1,033 | 1,085 | 1,139 | 1,196 |
| Other non-current liabilities | 0 | 542 | 2,045 | 2,127 | 2,212 | 2,300 |
| Shareholders' equity | -7,406 | 48,167 | 34,732 | 24,445 | 22,854 | 23,610 |
| Total consolidated equity and debt | 8,161 | 74,155 | 62,066 | 46,696 | 49,113 | 54,982 |
| Ratios | | | | | | |
| Current ratio (x) | 0.4 | 2.4 | 1.4 | 1.1 | 1.0 | 1.1 |
| Quick ratio (x) | 0.3 | 2.4 | 1.4 | 1.1 | 1.0 | 1.0 |
| Equity ratio | -91% | 65% | 56% | 52% | 47% | 43% |
| Net debt | 6,197 | -34,591 | -8,175 | -2,998 | -2,522 | -4,644 |
| Net debt / EBITDA (x) | -9.5 | -12.9 | 2.1 | 0.5 | -2.5 | -1.5 |
| Net gearing | -84% | -72% | -24% | -12% | -11% | -20% |
| Return on equity (ROE) | 69% | -2% | -44% | -52% | -18% | -10% |
| Capital employed (CE) | 1,016 | 9,357 | 12,498 | 11,112 | 11,476 | 11,900 |
| Return on capital employed (ROCE) | -270% | -2% | -101% | -98% | -36% | -21% |



CASH FLOW STATEMENT

| All figures in USD '000 | 2020 | 2021 | 2022 | 2023E | 2024E | 2025E |
|---------------------------------------|---------------|---------------|----------------|----------------|---------------|---------------|
| Net income | -5,074 | -876 | -15,278 | -12,630 | -4,130 | -2,473 |
| Depreciation and amortisation | 258 | 495 | 1,483 | 811 | 605 | 807 |
| Amortisation of financing instruments | 558 | 104 | 0 | 0 | 0 | 0 |
| Stock-based compensation | 1,803 | 1,841 | 2,572 | 2,342 | 2,540 | 3,229 |
| Other non-cash items | 1,016 | 500 | 3,427 | 0 | 0 | 0 |
| Tax result | 0 | 0 | -322 | 0 | 0 | 0 |
| Net interest expense | 0 | 0 | -274 | 192 | 0 | 0 |
| Operating cash flow | -1,438 | 2,064 | -8,393 | -9,286 | -986 | 1,563 |
| Change in working capital | -2,195 | -3,628 | -4,220 | -1,183 | 1,247 | 1,545 |
| Tax paid | 0 | 0 | 0 | 0 | 0 | 0 |
| Net operating cash flow | -3,633 | -1,564 | -12,613 | -10,469 | 261 | 3,108 |
| Cash flow from investing | -176 | -8,337 | -4,452 | 1,650 | -738 | -985 |
| Free cash flow (FCF) | -3,809 | -9,901 | -17,065 | -8,819 | -477 | 2,123 |
| Equity inflow , net | 0 | 57,747 | 30 | 0 | 0 | 0 |
| Debt inflow , net | 4,183 | -5,756 | 0 | 0 | 0 | 0 |
| Interest expenses paid | -638 | 0 | 0 | -192 | 0 | 0 |
| Stock buyback | 0 | -7,684 | -4,362 | 0 | 0 | 0 |
| Other adjustments | 0 | 0 | -1,186 | 1 | 0 | 0 |
| Cash flow from financing | 3,545 | 44,308 | -5,518 | -191 | 0 | 0 |
| Net cash flows | -264 | 34,407 | -22,583 | -9,010 | -477 | 2,123 |
| Cash, start of the year | 449 | 184 | 34,591 | 12,008 | 2,998 | 2,522 |
| Cash, end of the year | 184 | 34,591 | 12,008 | 2,998 | 2,522 | 4,644 |
| EBITDA/share (in \$) | -0.14 | 0.27 | -0.37 | -0.66 | 0.10 | 0.31 |
| Y-Y Growth | | | | | | |
| Operating cash flow | n.m. | n.m. | n.m. | n.m. | n.m. | 1090.8% |
| Free cash flow | n.m. | n.m. | n.m. | n.m. | n.m. | n.m. |
| AEBITDA / share | n.m. | n.m. | n.m. | n.m. | n.m. | 202% |

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Anschrift:

First Berlin Equity Research GmbH
Friedrichstr. 34
10117 Berlin
Germany

Vertreten durch den Geschäftsführer: Martin Bailey

Telefon: +49 (0) 30-80 93 9 680

Fax: +49 (0) 30-80 93 9 687

E-Mail: info@firstberlin.com

Amtsgericht Berlin Charlottenburg HR B 103329 B

UST-Id.: 251601797

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First Berlin Equity Research GmbH

Authored by: Ellis Acklin, Senior Analyst

All publications of the last 12 months were authored by Ellis Acklin.

Company responsible for preparation: First Berlin Equity Research GmbH, Friedrichstraße 69, 10117 Berlin

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PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

| Category | | 1 | 2 |
|--------------------------------------|--|---------------|-------------|
| Current market capitalisation (in €) | | 0 - 2 billion | > 2 billion |
| Strong Buy ¹ | An expected favourable price trend of: | > 50% | > 30% |
| Buy | An expected favourable price trend of: | > 25% | > 15% |
| Add | An expected favourable price trend of: | 0% to 25% | 0% to 15% |
| Reduce | An expected negative price trend of: | 0% to -15% | 0% to -10% |
| Sell | An expected negative price trend of: | < -15% | < -10% |

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

RECOMMENDATION & PRICE TARGET HISTORY

| Report No.: | Date of publication | Previous day closing price | Recommendation | Price target |
|----------------|---------------------|----------------------------|----------------|--------------|
| Initial Report | 27 June 2023 | \$1.21 | Buy | \$7.00 |
| 2 | 17 August 2023 | \$1.11 | Buy | \$6.40 |
| 3 | Today | \$1.40 | Buy | \$6.40 |

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

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Legally required information regarding

- key sources of information in the preparation of this research report
- valuation methods and principles

- sensitivity of valuation parameters

can be accessed through the following internet link: <https://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Marie-Curie-Straße 24-28, 60439 Frankfurt am Main

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