

urban-gro, Inc.

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

Third Quarter Results

RATING
BUY

PRICE TARGET
\$ 4.70

Return Potential 298.3%
 Risk Rating High

EARNINGS TURNING THE CORNER; CANNABIS STILL CHOPPY

Q3 reporting was highlighted by a \$0.7m sequential improvement in AEBITDA to \$-1.3m (Q3/22: \$-2.3m), and UGRO is guiding towards 'break-even to slightly positive' AEBITDA for the October-to-December quarter. The company has strained this year to lower overhead costs and is now in position to hit the Q4 earnings guide with an expected uptick in turnover to close to \$30m. urban-gro also secured a credit line of up to \$8m to cover working capital needs going forward, which should give investors a higher level of comfort about the capital structure. We have overhauled our 2024 forecasts to factor in a more conservative timeline for a recovery of the cannabis sector and now expect the business mix witnessed in Q3 to persist into next year. We remain Buy-rated on UGRO with a \$4.7 TP (old: \$6.4) on the lowered forecasts.

Earnings turning the corner urban-gro brass delivered on its quest to pare down the AEBITDA loss in Q3, and the company is on track to bring the KPI into the black in Q4. Revenue for the July-to-September period rose 69% Y/Y to \$20.9m (FBe: \$24m), thanks to good momentum in the Construction Design-Build segment. The company's topline result also equated to an 11% sequential increase on the \$18.8m in sales racked up in Q2/23. The Q4 guide calls for sales to approach \$30m with a segmental mix that again leans on Construction Design-Build spurred by commercial sector contracts.

Pushing out cannabis recovery timeline Federal support for US cannabis is building with the rescheduling of marijuana and the SAFER banking act expected to be nodded through by the DEA and senate next year (see note of 27 September 2023). But the sector remains gated by legislative gridlock at the state level. Licenses continue to be awarded at a glacial pace, and we now expect customer equipment spend to remain soft into 2025. We have accordingly dialled back our forecasts (overleaf) for UGRO's higher margin Equipment Systems business until we see *clear* signals that the logjam is clearing. In the meantime, the company has successfully... (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2020	2021	2022	2023E	2024E	2025E
Revenue (\$ m)	25.84	62.11	67.03	85.88	114.58	139.75
Y-o-y growth	6.8%	140.4%	7.9%	28.1%	33.4%	32.0%
EBITDA* (\$ m)	-0.65	2.68	-3.90	-6.84	0.92	2.10
EBITDA margin	-2.5%	4.3%	-5.8%	-8.0%	0.8%	1.5%
Net income (\$ m)	-5.07	-0.88	-15.28	-14.32	-4.76	-3.39
EPS (diluted) (\$)	-1.06	-0.09	-1.44	-1.43	-0.48	-0.34
DPS (\$)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (\$m)	-3.81	-9.90	-17.06	-9.27	0.41	-0.18
Net gearing	-83.7%	-71.8%	-23.5%	-11.2%	-14.6%	-14.1%
Liquid assets (\$ m)	0.18	34.59	12.01	2.55	2.96	2.78

* 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 America and one in Europe. Urban-gro has 140 employees.

MARKET DATA

As of 16 Nov 2023

Closing Price \$ 1.18
 Shares outstanding 11.61m
 Market Capitalisation \$ 13.70m
 52-week Range \$ 1.00 / 4.95
 Avg. Volume (12 Months) 87,283

Multiples	2022	2023E	2024E
P/E	n.a.	n.a.	n.a.
EV/Sales	0.2	0.1	0.1
EV/EBITDA	n.a.	n.a.	11.9
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2023

Liquid Assets \$ 4.80m
 Current Assets \$ 34.80m
 Intangible Assets \$ 4.60m
 Total Assets \$ 58.60m
 Current Liabilities \$ 31.90m
 Shareholders' Equity \$ 24.20m

SHAREHOLDERS

Insiders 28.9%
 Institutional Holdings 28.0%
 Free Float 43.1%



. . . diversified its business and now has a fixed cost structure in place to keep earnings in the black with a quarterly topline of ~\$30m that also assumes Construction-Design Build will do the heavy lifting.

Table 1: Q3 vs FBe and prior year period

All figures in USDm	Q3/23	Q3/23E	variance	Q3/22	variance	9M/23	9M/22	variance
Revenue	20.9	25.0	-16%	12.4	69%	56.5	49.7	14%
Gross profit	2.9	3.9	-26%	2.6	12%	8.6	11.0	-22%
Margin	13.9%	15.6%	-	21.0%	-	15.2%	22.1%	-
AEBITDA	-1.3	-0.9	-	-2.3	-	-6.9	-2.2	-
Margin	-	-	-	-	-	-	-	-

Source: First Berlin Equity Research; urban-gro

Revenue up 11% Q/Q The company notched roughly \$21m in revenues for the quarter (+69% Y/Y) but missed our \$25m target chiefly on soft Equipment Systems sales that retreated some 35% Q/Q to \$3m (table 2). Meanwhile, Construction Design-Build activity remained the workhorse and was nearly treble the prior year revenue comp, while also showing a solid 35% sequential uptick. We expect momentum for this segment to continue and help propel the Q4 topline towards \$30m and prod October-to-December earnings into the black.

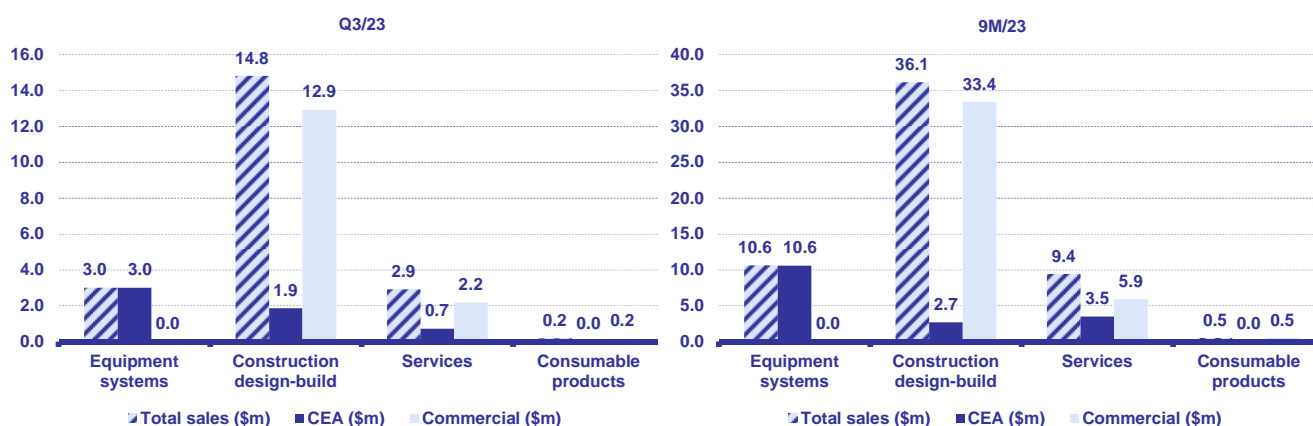
Table 2: Revenue by segment

All figures in USDm	Q3/23	Q3/23E	variance	Q3/22	variance	9M/23	9M/22	variance
Equipment systems	3.0	4.5	-32%	3.9	-22%	10.6	31.0	-66%
Services	2.9	3.1	-6%	2.8	2%	9.4	9.5	-1%
Construction Design-build	14.8	17.2	-14%	5.4	175%	36.1	8.3	335%
Other	0.2	0.2	-25%	0.3	-32%	0.5	0.9	-44%
Total revenue	20.9	25.0	-16%	12.4	69%	56.5	49.7	14%

Source: First Berlin Equity Research; urban-gro

Commercial clients accounted for 72% of Q3/23 revenue This compares to 49% in the prior year period and 66% in the second quarter. Although management think the split will revert to a 50/50 mix once the still choppy cannabis market opens up, we expect the blend to persist for the next few quarters and perhaps into 2025. Ohio recently became the 24th US State to legalise adult recreational pot use. While this is good news for sector participants, it may take nine months to a year before this translates into new business.

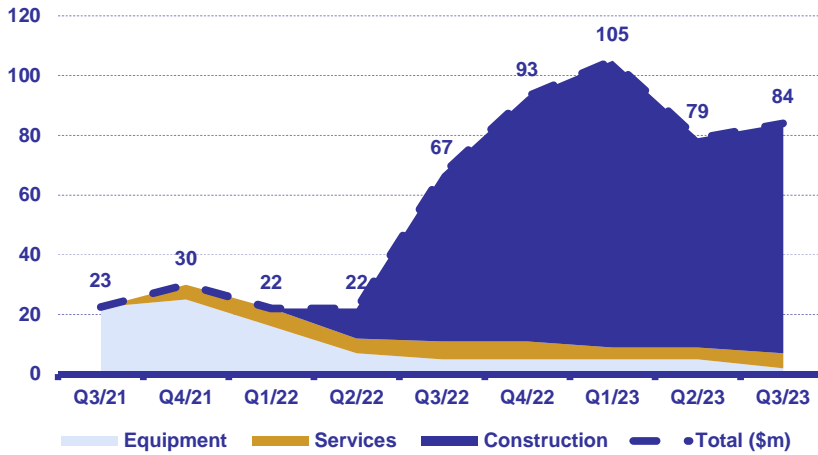
Figure 1: Q3 and 9M revenue breakdown of CEA vs Commercial



Source: First Berlin Equity Research; urban-gro



Figure 2: Order backlog developments



Source: First Berlin Equity Research; urban-gro

The backlog is down around 10% YTD occasioned by the removal of a cannabis cultivation project that had to be paused in Q2 when the client encountered funding issues. We expect urban-gro to ink some small deals by year-end to replenish the backlog and lengthen revenue coverage deeper into 2024.

Table 3: Breakdown of 9M/23 backlog

in \$m	CEA	Commerical	Total	Ratio
Equipment Systems	2	-	2	2%
Services	1	4	5	6%
Construction Design-Build	53	24	77	92%
Total backlog	56	28	84	100%
Ratio	67%	33%	100%	

Source: First Berlin Equity Research; urban-gro



urban-gro exited the nine month period with cash and liquid assets of \$4.8m vs \$8.6m at the end of Q2. The 44% Q/Q drop-off stems from the operating loss realised in the third quarter. An increase in accounts payable meant UGRO ended the period with negative working capital of roughly \$3.6m.

Table 4: Financial highlights

All figures in USDm	9M/23	2022	variance
Cash & liquid assets	4.8	12.0	-60%
Financial debt (short- and long-term)	2.0	3.8	-47%
Net debt / (net cash)	-2.8	-8.2	-
Total assets	58.6	62.1	-6%
Shareholders' equity	24.2	34.7	-30%
Equity ratio	41%	56%	-

Source: First Berlin Equity Research; urban-gro

Management noted on the Q3 earnings call that the company had negotiated a credit facility of up to \$8m to cover working capital requirements. urban-gro regards this as more of a backstop and has yet to draw down funds. If the company indeed turns the profitability corner in Q4 and early next year, it should be able to avoid taking on debt.

Table 5: Cash flow developments

All figures in USDm	9M/23	9M/22	variance
Operating cash flow	-6.5	-9.0	-
Cash flow from investing	1.9	-3.0	-
Free cash flow (FCF)	-4.6	-12.0	-
Cash flow from financing	-2.6	-4.0	-
Net change in cash	-7.2	-16.0	-

Source: First Berlin Equity Research; urban-gro

REVISED FORECASTS

Although tailwinds are building at the federal level for the US cannabis industry, states continue to process license applications at a glacial pace. We have therefore pushed our assumption for the timing of the sector upswing out a year until mid-2025.

Table 6: Changes to FBe and target price

	old	new	revision	upside	dividend yield	total return
Price target (\$)	6.4	4.7	-27%	298%	0.0%	298%
All figures in USD '000	old	new	revision	old	new	revision
Revenue	90,068	85,882	-4.6%	120,945	114,582	-5.3%
Gross profit	14,315	12,676	-11.4%	20,301	17,925	-11.7%
Margin (%)	15.9%	14.8%	-	16.8%	15.6%	-
AEBITDA	-6,586	-6,838	-	1,014	917	-9.6%
Margin (%)	-7.3%	-8.0%	-	0.8%	0.8%	-
Segment revenue	old	new	revision	old	new	revision
Equipment Systems	17,999	13,348	-25.8%	31,498	19,888	-36.9%
Construction Design-build	58,071	58,765	1.2%	72,589	78,157	7.7%
Services	13,197	13,030	-1.3%	15,177	14,984	-1.3%
Consumable Products	801	739	-7.7%	1,682	1,552	-7.7%

Source: First Berlin Equity Research; urban-gro



Our overhauled estimates now factor in: (1) a reduction in 2023 FBe to reflect the Q3 miss to our revenue target; (2) a decrease in cannabis-driven Equipment Systems turnover in 2024 and early 2025; (3) a segmental mix for 2024 more in line with the business blend witnessed the past several quarters; and (4) adjusted working capital assumptions closer to the structure reported the past two quarters. We have also moved up the risk-free rate in our WACC estimate to 4.5% (old: 3.6%) after the latest rise in 10 year US bond yields.

Target price moves to \$4.7 (old: \$6.4); maintain Buy rating Despite the more conservative revenue forecasts going forward, we reckon urban-gro is finally no longer dependent on the choppy cannabis sector to make its business work. The company believes it has adequate staffing to handle a sizable upturn in overall business, which should translate into a much lower G&A / revenue ratio next year. Q4 should confirm our view that the company has found the formula to generate positive AEBITDA consistently until cannabis comes back online.

VALUATION MODEL

In USD '000	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Sales	85,882	114,582	139,748	171,890	202,831	233,255	258,913	284,805
NOPLAT	-12,632	-4,762	-3,389	782	4,358	8,853	10,567	12,398
(+) depreciation & amortisation	1,202	573	699	688	608	700	699	696
Net operating cash flow	-11,429	-4,189	-2,690	1,470	4,967	9,553	11,266	13,094
(-) Total investments (CAPEX and WC)	1,674	781	-2,017	-2,675	-2,729	-2,899	-2,096	-2,188
(-) Capital expenditures	-867	-699	-852	-877	-832	-723	-803	-883
(-) Working capital	2,541	1,480	-1,164	-1,798	-1,897	-2,176	-1,293	-1,305
Free cash flows (FCF)	-9,756	-3,408	-4,707	-1,205	2,238	6,654	9,170	10,906
PV of FCFs	-9,596	-2,933	-3,545	-794	1,290	3,357	4,047	4,212

In EUR '000	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
PV of FCFs in explicit period	15,858							
(+) PV of FCFs in terminal period	29,999							
Enterprise value (EV)	45,857							
(+) Net cash / (-) net debt	8,175							
(+) Investments / minority interests	0							
Shareholder value	54,033							
Fair value per share (\$)	4.70							

		5.9%	6.4%	6.9%	7.4%	7.9%	8.4%	8.9%
WACC	11.3%	6.08	6.57	7.05	7.54	8.02	8.51	8.99
	12.3%	5.19	5.58	5.97	6.36	6.75	7.14	7.53
	13.3%	4.46	4.78	5.10	5.42	5.74	6.05	6.37
	14.3%	3.87	4.13	4.39	4.66	4.92	5.18	5.44
	15.3%	3.38	3.59	3.81	4.03	4.24	4.46	4.68
	16.3%	2.96	3.14	3.32	3.50	3.68	3.86	4.05
	17.3%	2.60	2.75	2.91	3.06	3.21	3.36	3.52

		1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%
WACC	11.3%	6.78	7.01	7.26	7.54	7.85	8.20	8.61
	12.3%	5.80	5.97	6.15	6.36	6.59	6.84	7.12
	13.3%	4.99	5.12	5.26	5.42	5.59	5.77	5.98
	14.3%	4.33	4.43	4.54	4.66	4.78	4.92	5.08
	15.3%	3.77	3.85	3.94	4.03	4.12	4.23	4.35
	16.3%	3.30	3.36	3.43	3.50	3.58	3.66	3.75
	17.3%	2.90	2.95	3.00	3.06	3.12	3.18	3.25

*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	85,882	114,582	139,748
Cost of goods sold	-20,122	-47,353	-52,824	-73,205	-96,657	-117,284
Gross profit	5,716	14,760	14,206	12,676	17,925	22,464
SG&A	-6,658	-13,124	-20,971	-23,075	-20,281	-23,058
Stock-based compensation	-1,803	-1,841	-2,572	-2,233	-2,406	-2,795
Operating income (EBIT)	-2,746	-205	-12,637	-12,632	-4,762	-3,389
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	-14,323	-4,762	-3,389
Income taxes	0	0	322	0	0	0
Minority interests	0	0	0	0	0	0
Net income / loss	-5,074	-876	-15,278	-14,323	-4,762	-3,389
Diluted EPS (in \$)	-1.06	-0.09	-1.44	-1.43	-0.48	-0.34
AEBITDA	-652	2,679	-3,904	-6,838	917	2,105
Ratios						
Gross margin	22.1%	23.8%	21.2%	14.8%	15.6%	16.1%
EBIT margin	-10.6%	-0.3%	-18.9%	-14.7%	-4.2%	-2.4%
AEBITDA margin	-2.5%	4.3%	-5.8%	-8.0%	0.8%	1.5%
Net margin	-19.6%	-1.4%	-22.8%	-16.7%	-4.2%	-2.4%
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%	26.9%	17.7%	16.5%
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%	28.1%	33.4%	22.0%
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	28,666	32,767	38,302
Cash and equivalents	185	34,591	12,008	2,546	2,960	2,782
Trade receivables	915	13,126	18,385	21,647	25,114	30,630
Inventories	537	515	320	602	794	964
Other ST assets	3,609	11,248	3,845	3,872	3,899	3,926
Non-current assets, total	2,915	14,675	27,508	24,640	24,792	24,973
Property, plant & equipment	129	208	1,307	1,316	1,327	1,341
Goodwill & other intangibles	991	9,568	21,023	20,679	20,794	20,934
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	53,306	57,560	63,274
Shareholders' equity & debt						
Current liabilities, total	14,546	25,005	24,256	27,453	33,922	40,086
Trade payables	654	6,067	9,960	16,045	21,185	25,706
ST debt	5,271	0	0	0	0	0
Customer deposits	4,879	13,345	2,571	3,294	4,395	5,801
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	22,642	20,287	19,693
Total consolidated equity and debt	8,161	74,155	62,066	53,306	57,560	63,274
Ratios						
Current ratio (x)	0.4	2.4	1.4	1.0	1.0	1.0
Quick ratio (x)	0.3	2.4	1.4	1.0	0.9	0.9
Equity ratio	-91%	65%	56%	42%	35%	31%
Net debt	6,197	-34,591	-8,175	-2,546	-2,960	-2,782
Net debt / EBITDA (x)	-9.5	-12.9	2.1	0.4	-3.2	-1.3
Net gearing	-84%	-72%	-24%	-11%	-15%	-14%
Return on equity (ROE)	69%	-2%	-44%	-63%	-23%	-17%
Capital employed (CE)	1,016	9,357	15,502	12,626	11,272	12,590
Return on capital employed (ROCE)	-270%	-2%	-82%	-100%	-42%	-27%



CASH FLOW STATEMENT

All figures in USD '000	2020	2021	2022	2023E	2024E	2025E
Net income	-5,074	-876	-15,278	-14,323	-4,762	-3,389
Depreciation and amortisation	258	495	1,483	1,202	573	699
Amortisation of financing instruments	558	104	0	0	0	0
Stock-based compensation	1,803	1,841	2,572	2,233	2,406	2,795
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	-10,696	-1,783	105
Change in working capital	-2,195	-3,628	-4,220	-266	2,896	569
Tax paid	0	0	0	0	0	0
Net operating cash flow	-3,633	-1,564	-12,613	-10,963	1,113	674
Cash flow from investing	-176	-8,337	-4,452	1,692	-699	-852
Free cash flow (FCF)	-3,809	-9,901	-17,065	-9,271	414	-178
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	-9,462	414	-178
Cash, start of the year	449	184	34,591	12,008	2,546	2,960
Cash, end of the year	184	34,591	12,008	2,546	2,960	2,782
EBITDA/share (in \$)	-0.14	0.27	-0.37	-0.68	0.09	0.21
Y-Y Growth						
Operating cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	-39.4%
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.	129%

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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.

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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.

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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	27 September 2023	\$1.40	Buy	\$6.40
4	Today	\$1.18	Buy	\$4.70

INVESTMENT HORIZON

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

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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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