

urban-gro, Inc.

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

Update

RATING
BUY

PRICE TARGET
\$ 4.70

Return Potential 219.7%
 Risk Rating High

\$20M CANNABIS WIN BUT REVISING Q4 TARGETS

urban-gro kicked off the New Year with a ~\$20m design-build contract win. The US-based customer is a vertically integrated cannabis cultivation and retail dispensary operator with a multi-state presence. UGRO shares caught a sizeable bid on the news, underpinning our belief that investors still incorrectly view the company strictly as a cannabis-centric business. In our view, investors are failing to appreciate last year's expansion into commercial sectors to offset volatility in the CEA (Controlled Environment Agriculture) business. While the new contract gives us confidence in 2024 FBe, we had anticipated that new deals in Q4 would help push revenue for the period towards \$30m. These did not materialise, and we have dialled back our targets for the October-to-December quarter accordingly. Our 2024 forecasts are unchanged. We are Buy-rated on UGRO with a \$4.7 TP.

Poor profitability has been the rub. . . After whittling down the AEBITDA loss to \$-1.3m in Q3, we now expect a comparable result in Q4 after announcements we had banked on for the period have been pushed out into this year. Nevertheless, we still expect urban-gro to bring the KPI into the black in 2024, thanks to vastly improved business diversification and a much leaner operating structure (see note of 17 August 2023). Last year, UGRO made a strong push into the industrial, healthcare, hospitality, and education sectors, and these commercial clients accounted for 72% of Q3/23 revenue (CEA: 28%). We expect this blend to persist for the next few quarters and perhaps into 2025, given the low probability of major changes in Federal weed laws in the upcoming election year. That said, we think the new Commercial business is ready to take the growth reins and drive sustained profitability, which should finally recalibrate the lens that investors view the company with.

. . . but earnings should continue to rebound The new cannabis deal tops up the backlog and lengthens revenue coverage deeper into 2024. Plus, lower inflation data and dovish comments from the Fed. . . (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2020	2021	2022	2023E	2024E	2025E
Revenue (\$m)	25.84	62.11	67.03	78.42	114.58	139.75
Y/Y growth	6.8%	140.4%	7.9%	17.0%	46.1%	32.0%
EBITDA* (\$m)	-0.65	2.68	-3.90	-8.08	0.92	2.10
EBITDA margin	-2.5%	4.3%	-5.8%	-10.3%	0.8%	1.5%
Net income (\$m)	-5.07	-0.88	-15.28	-15.26	-4.76	-3.39
EPS (diluted) (\$)	-1.06	-0.09	-1.44	-1.52	-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	-10.26	0.24	-0.18
Net gearing	-83.7%	-71.8%	-23.5%	-7.2%	-9.4%	-8.7%
Liquid assets (\$m)	0.18	34.59	12.01	1.56	1.80	1.62

* 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 12 Jan 2024

Closing Price	\$ 1.47
Shares outstanding	11.61m
Market Capitalisation	\$ 17.06m
52-week Range	\$ 1.00 / 4.37
Avg. Volume (12 Months)	95,017

Multiples	2022	2023E	2024E
P/E	n.a.	n.a.	n.a.
EV/Sales	0.2	0.2	0.1
EV/EBITDA	n.a.	n.a.	15.5
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%



. . . cheered investors, who are now betting the Fed could cut rates as early as March. A retreat in borrowing costs could trigger an upswing in projects for UGRO this year, and the company now has a turnkey business model in place to capitalise on *both* CEA and Commercial opportunities. We thus expect to see an uptick in cash flows this year, which should help convince investors of the broadened business model. We stick to our Buy rating and \$4.7 target price.

Table 1: Changes to FBe and target price

	old	new	revision	upside	dividend yield	total return
Price target (\$)	4.7	4.7	0%	220%	0.0%	220%
All figures in USD '000	2023E			2024E		
	old	new	revision	old	new	revision
Revenue	85,882	78,415	-8.7%	114,582	114,582	0.0%
Gross profit	12,676	11,938	-5.8%	17,925	17,925	0.0%
Margin (%)	14.8%	15.2%	-	15.6%	15.6%	-
AEBITDA	-6,838	-8,077	-	917	917	0.0%
Margin (%)	-8.0%	-10.3%	-	0.8%	0.8%	-
Segment revenue	old	new	revision	old	new	revision
Equipment Systems	13,348	13,071	-2.1%	19,888	19,888	0.0%
Construction Design-build	58,765	51,622	-12.2%	78,157	78,157	0.0%
Services	13,030	12,996	-0.3%	14,984	14,984	0.0%
Consumable Products	739	726	-1.7%	1,552	1,552	0.0%

VALUATION MODEL

In USD '000	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Sales	78,415	114,582	139,748	171,890	202,831	233,255	258,913	284,805
NOPLAT	-13,572	-4,762	-3,389	782	4,358	8,853	10,567	12,398
(+) depreciation & amortisation	1,098	573	699	688	608	700	699	696
Net operating cash flow	-12,474	-4,189	-2,690	1,470	4,967	9,553	11,266	13,094
(-) Total investments (CAPEX and WC)	2,212	319	-2,017	-2,675	-2,729	-2,899	-2,096	-2,188
(-) Capital expenditures	-792	-699	-852	-877	-832	-723	-803	-883
(-) Working capital	3,004	1,018	-1,164	-1,798	-1,897	-2,176	-1,293	-1,305
Free cash flows (FCF)	-10,263	-3,870	-4,707	-1,205	2,238	6,654	9,170	10,906
PV of FCF's	-10,263	-3,405	-3,623	-812	1,319	3,431	4,137	4,305

In EUR '000	
PV of FCFs in explicit period	15,350
(+) PV of FCFs in terminal period	30,665
Enterprise value (EV)	46,015
(+) Net cash / (-) net debt	8,175
(+) Investments / minority interests	0
Shareholder value	54,190
Fair value per share (\$)	4.70

	Terminal EBIT margin							
	5.9%	6.4%	6.9%	7.4%	7.9%	8.4%	8.9%	
WACC 11.3%	6.10	6.60	7.09	7.58	8.08	8.57	9.06	
WACC 12.3%	5.20	5.60	5.99	6.39	6.79	7.19	7.59	
WACC 13.3%	4.47	4.79	5.12	5.44	5.77	6.09	6.42	
WACC 14.3%	3.87	4.13	4.40	4.67	4.94	5.20	5.47	
WACC 15.3%	3.36	3.59	3.81	4.03	4.25	4.48	4.70	
WACC 16.3%	2.94	3.13	3.31	3.50	3.68	3.87	4.06	
WACC 17.3%	2.58	2.74	2.89	3.05	3.20	3.36	3.52	

Cost of equity	15.7%
Pre-tax cost of debt	9.0%
Tax rate	30.0%
After-tax cost of debt	6.3%
Share of equity capital	85.0%
Share of debt capital	15.0%
WACC	14.3%

	Terminal growth rate							
	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	
WACC 11.3%	6.81	7.04	7.30	7.58	7.90	8.26	8.67	
WACC 12.3%	5.82	5.99	6.18	6.39	6.62	6.88	7.17	
WACC 13.3%	5.01	5.14	5.28	5.44	5.61	5.80	6.01	
WACC 14.3%	4.34	4.44	4.55	4.67	4.80	4.94	5.10	
WACC 15.3%	3.77	3.85	3.94	4.03	4.13	4.24	4.36	
WACC 16.3%	3.29	3.36	3.43	3.50	3.58	3.66	3.75	
WACC 17.3%	2.89	2.94	2.99	3.05	3.11	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	78,415	114,582	139,748
Cost of goods sold	-20,122	-47,353	-52,824	-66,477	-96,657	-117,284
Gross profit	5,716	14,760	14,206	11,938	17,925	22,464
SG&A	-6,658	-13,124	-20,971	-23,471	-20,281	-23,058
Stock-based compensation	-1,803	-1,841	-2,572	-2,039	-2,406	-2,795
Operating income (EBIT)	-2,746	-205	-12,637	-13,572	-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	-15,264	-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	-15,264	-4,762	-3,389
Diluted EPS (in \$)	-1.06	-0.09	-1.44	-1.52	-0.48	-0.34
AEBITDA	-652	2,679	-3,904	-8,077	917	2,105
Ratios						
Gross margin	22.1%	23.8%	21.2%	15.2%	15.6%	16.1%
EBIT margin	-10.6%	-0.3%	-18.9%	-17.3%	-4.2%	-2.4%
AEBITDA margin	-2.5%	4.3%	-5.8%	-10.3%	0.8%	1.5%
Net margin	-19.6%	-1.4%	-22.8%	-19.5%	-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%	29.9%	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%	17.0%	46.1%	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	25,742	31,603	37,138
Cash and equivalents	185	34,591	12,008	1,559	1,797	1,618
Trade receivables	915	13,126	18,385	19,765	25,114	30,630
Inventories	537	515	320	546	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	24,669	24,822	25,002
Property, plant & equipment	129	208	1,307	1,315	1,326	1,340
Goodwill & other intangibles	991	9,568	21,023	20,709	20,824	20,963
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	50,411	56,425	62,140
Shareholders' equity & debt						
Current liabilities, total	14,546	25,005	24,256	25,691	33,922	40,086
Trade payables	654	6,067	9,960	14,570	21,185	25,706
ST debt	5,271	0	0	0	0	0
Customer deposits	4,879	13,345	2,571	3,008	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	21,508	19,152	18,558
Total consolidated equity and debt	8,161	74,155	62,066	50,411	56,425	62,140
Ratios						
Current ratio (x)	0.4	2.4	1.4	1.0	0.9	0.9
Quick ratio (x)	0.3	2.4	1.4	1.0	0.9	0.9
Equity ratio	-91%	65%	56%	43%	34%	30%
Net debt	6,197	-34,591	-8,175	-1,559	-1,797	-1,618
Net debt / EBITDA (x)	-9.5	-12.9	2.1	0.2	-2.0	-0.8
Net gearing	-84%	-72%	-24%	-7%	-9%	-9%
Return on equity (ROE)	69%	-2%	-44%	-71%	-25%	-18%
Capital employed (CE)	1,016	9,357	15,502	12,193	11,301	12,619
Return on capital employed (ROCE)	-270%	-2%	-82%	-111%	-42%	-27%



CASH FLOW STATEMENT

All figures in USD '000	2020	2021	2022	2023E	2024E	2025E
Net income	-5,074	-876	-15,278	-15,264	-4,762	-3,389
Depreciation and amortisation	258	495	1,483	1,098	573	699
Amortisation of financing instruments	558	104	0	0	0	0
Stock-based compensation	1,803	1,841	2,572	2,039	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	-11,935	-1,783	105
Change in working capital	-2,195	-3,628	-4,220	-90	2,719	569
Tax paid	0	0	0	0	0	0
Net operating cash flow	-3,633	-1,564	-12,613	-12,026	937	674
Cash flow from investing	-176	-8,337	-4,452	1,767	-699	-852
Free cash flow (FCF)	-3,809	-9,901	-17,065	-10,258	238	-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	-10,449	238	-178
Cash, start of the year	449	184	34,591	12,008	1,559	1,797
Cash, end of the year	184	34,591	12,008	1,559	1,797	1,618
EBITDA/share (in \$)	-0.14	0.27	-0.37	-0.81	0.09	0.21
Y-Y Growth						
Operating cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	-28.0%
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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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

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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	27 September 2023	\$1.40	Buy	\$6.40
4	17 November 2023	\$1.18	Buy	\$4.70
5	Today	\$1.47	Buy	\$4.70

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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

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