

# urban-gro, Inc.

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

Business  
 update

**RATING**  
**BUY**

**PRICE TARGET**  
**\$ 4.70**

Return Potential 217.6%  
 Risk Rating High

## CANNABIS TAILWINDS BUILDING

Recent newsflow from urban-gro has been encouraging. The company inked several commercial construction deals in September and kicked off October with a slew of contract wins totalling some \$12m with over 15 cannabis clients. UG also secured a \$2m loan with Grow Hill, LLC. This should cheer investors concerned about the low cash position (Q1: \$0.7m). The loan will help cover working capital needs associated with the new cannabis work. urban-gro has done yeoman's work diversifying into commercial sectors to offset volatility in the CEA (Controlled Environment Agriculture) business, but we reckon an uptick in the cannabis business remains the best path to improved growth and profitability. The latest announcements support our belief that we will see a material upturn in operations in H2/24. An updated DCF model factors in the decline in US treasury yields since our last update and points to a \$4.7 TP (old: \$4.3). We remain Buy-rated on urban-gro.

**Cannabis tailwinds building** The sector has been largely idling since the pandemic, and the equity story has gone stale. But regulatory tailwinds are building with the real possibility that Florida voters will legalise recreational marijuana in the upcoming November elections. Plus, the DEA (Drug Enforcement Administration) is widely expected to reclassify cannabis from a schedule 1 to a schedule 3 drug (FBe: H1/25). An administrative hearing will be held on 2 December. We believe this backdrop has sparked a sense of urgency across the sector. Operators are keen to pre-empt an industry upturn next year by getting their work orders in now. The \$12m in new contracts should help drive our turnaround scenario in the coming quarters for UG. In addition to high margin equipment procurement, the scope of the work covers engineering, architecture, and design services for cultivation, extraction, and retail dispensary projects across the US, and the company expects to book most of the associated revenue by Q1/25, giving us confidence in upcoming quarterly forecasts. (p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2020	2021	2022	2023	2024E	2025E
Revenue (\$ m)	25.8	62.1	67.0	71.5	82.9	115.5
Y/Y growth	6.8%	140.4%	7.9%	6.7%	15.8%	39.3%
EBIT (\$ m)	-0.7	2.7	-3.9	-9.7	0.6	2.2
EBIT margin	-2.5%	4.3%	-5.8%	-13.6%	0.7%	1.9%
Net income (\$ m)	-5.1	-0.9	-15.3	-18.7	-5.3	-3.0
EPS (diluted) (\$)	-1.06	-0.09	-1.44	-1.66	-0.44	-0.30
DPS (\$)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (\$m)	-3.8	-9.9	-17.1	-9.2	0.4	0.2
Net gearing	-83.7%	-71.8%	-23.5%	10.4%	7.4%	11.2%
Liquid assets (\$ m)	0.2	34.6	12.0	1.1	1.9	3.3

### 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 (Controlled Environment Agriculture) 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 04 Oct 2024

Closing Price	\$ 1.48
Shares outstanding	12.07m
Market Capitalisation	\$ 17.87m
52-week Range	\$ 1.06 / 2.82
Avg. Volume (12 Months)	62,255

Multiples	2023	2024E	2025E
P/E	n.a.	n.a.	n.a.
EV/Sales	0.3	0.2	0.2
EV/EBIT	n.a.	34.4	8.9
Div. Yield	0.0%	0.0%	0.0%

### STOCK OVERVIEW



### COMPANY DATA

As of 31 Mar 2024

Liquid Assets	\$ 0.70m
Current Assets	\$ 33.20m
Intangible Assets	\$ 4.20m
Total Assets	\$ 56.13m
Current Liabilities	\$ 35.48m
Shareholders' Equity	\$ 18.59m

### SHAREHOLDERS

Insiders	28.9%
Institutional Holdings	28.0%
Free Float	43.1%



**First things first, regain compliance with Nasdaq listing rules** While the positive operational newsflow is certainly welcome, the company still needs to publish Q2/24 results (10-Q) and is currently *not* compliant with Nasdaq Listing Rule 5250(c)(1), which requires listed companies to file all required periodic financial reports with the Securities and Exchange Commission in a timely manner.

urban-gro hired Sadler Gibb & Associates to take over auditing duties in the wake of the BF Borgers scandal. In May, the Securities and Exchange Commission charged UG's former auditor with massive fraud that affected more than 1,500 regulatory filings across its 500+ publicly listed clients.

The newly onboarded accounting firm has been re-auditing UG's historic results for 2023. The restatements centre around certain deferred tax liabilities associated with past acquisitions that were incorrectly amortised. Importantly, the restatements should have *no* impact on past revenue, AEBITDA or cash flows. We suspect this work is nearly wrapped up and think UG will be able to finally file its 10-Q for the June quarter before the end of October. With elections around the corner, the company certainly wants to re-establish Nasdaq compliance in the event that the aforementioned regulatory events do indeed unfold positively for the weed sector.

**More financial firepower to handle cannabis demand surge** The company exited Q1 with \$0.7m cash in the financial coffers. We imagine the discussed re-audit wasn't in the original budget, and the new cannabis business will also cause working capital strain. The new loan agreement with Grow Hill for \$2m should more than cover these working capital needs. If cannabis does indeed see an election day win in Florida, UG wants to be ready to capitalise on the expected demand for cultivation facilities.

The loan has a two year maturity and carries a \$100k origination fee to be added to the \$2m total. The promissory note has a 15% annual coupon and the lender will receive warrants with a 5-year expiry to purchase up to 160k UGRO shares at \$2.5 per share. We have factored the minor dilutive effects (~1.3%) into our DCF model. Plus, the cost of debt assumption in our WACC estimate moves to 11% (old: 9%) to reflect the high coupon of the loan. We also expect UG to start drawing down funds as needed in Q4 for the new workload.

**Clearing out the notebook** UG brass diversified operations into non-cannabis arenas (industrial, aerospace, laboratories, education, and hospitality) to compensate for the dormant weed sector. This continues to pay off. Recent commercial deals entail: (1) design and renovation work for Davidson Student Center located on the Columbus State University (CSU) Campus in Columbus, Georgia; (2) pre-construction, construction, and post-construction services to build a new steak house in Katy, Texas for the Brazilian restaurant chain, Fogo de Chão—the second contracted build project with the restaurateur; (3) architectural design services for Union City Fire Station #44 in Georgia; and (4) a contract with the well-known Asian restaurant, P.F. Chang's, to fully build out a restaurant location in Westminster, Colorado. The latter is the first contract under a Master Services Agreement (MSA) signed with the Asian bistro, so we expect more work to follow. No contract volumes were disclosed, but we reckon the majority of the revenues will be recognised over the next six months.



## VALUATION MODEL

The latest contract wins are encouraging, and Q4 newsflow should remain similarly positive. We expect cannabis to be reclassified, although the timeline has been a moving target, due to the high volume of comments (40k) submitted to the Department of Justice. Market watchers think this could finally happen in early 2025. The latest polls show Florida could go either way (60% approval is required), although Mr Trump, a Florida resident, has said he will vote for the ballot measure that would legalise adult recreational marijuana use.

After a challenging summer during which UG was blindsided by the BF Borgers suspension, we now think operations can return to the spotlight. We think UG is on the brink of a turnaround and maintain our Buy rating. Our TP moves to \$4.7 (old: \$4.3) after adjusting the risk free rate in our WACC estimate to 3.9% (old: 4.5%) to reflect the decline in US treasury yields.

Figure 1: DCF model

In USD '000	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
<b>Sales</b>	<b>82,873</b>	<b>115,459</b>	<b>146,633</b>	<b>178,893</b>	<b>209,304</b>	<b>234,421</b>	<b>257,863</b>	<b>281,071</b>
<b>NOPLAT</b>	<b>-5,180</b>	<b>-2,672</b>	<b>257</b>	<b>3,468</b>	<b>7,504</b>	<b>9,124</b>	<b>10,783</b>	<b>12,525</b>
(+) depreciation & amortisation	580	577	587	537	628	633	630	626
<b>Net operating cash flow</b>	<b>-4,600</b>	<b>-2,095</b>	<b>843</b>	<b>4,005</b>	<b>8,132</b>	<b>9,757</b>	<b>11,414</b>	<b>13,151</b>
(-) Total investments (CAPEX and WC)	-132	-1,130	-1,953	-1,889	-2,096	-1,387	-1,416	-1,482
(-) Capital expenditures	-671	-704	-748	-733	-649	-727	-799	-871
(-) Working capital	539	-426	-1,206	-1,156	-1,447	-661	-617	-610
Free cash flows (FCF)	-4,732	-3,226	-1,110	2,115	6,037	8,370	9,998	11,669
<b>PV of FCF's</b>	<b>-4,593</b>	<b>-2,750</b>	<b>-832</b>	<b>1,392</b>	<b>3,489</b>	<b>4,249</b>	<b>4,459</b>	<b>4,572</b>

  

In EUR '000		Terminal EBIT margin							
		5.8%	6.3%	6.8%	7.3%	7.8%	8.3%	8.8%	
PV of FCFs in explicit period	26,247	10.8%	6.0	6.5	7.0	7.5	8.0	8.5	9.0
(+) PV of FCFs in terminal period	32,899	11.8%	5.1	5.5	5.9	6.4	6.8	7.2	7.6
Enterprise value (EV)	59,147	12.8%	4.4	4.8	5.1	5.4	5.8	6.1	6.4
(+) Net cash / (-) net debt	-2,092	13.8%	3.8	4.1	4.4	4.7	4.9	5.2	5.5
(+) Investments / minority interests	0	14.8%	3.4	3.6	3.8	4.0	4.3	4.5	4.7
Shareholder value	57,055	15.8%	2.9	3.1	3.3	3.5	3.7	3.9	4.1
<b>Fair value per share (\$)</b>	<b>4.7</b>	16.8%	2.6	2.8	2.9	3.1	3.2	3.4	3.6

  

		Terminal growth rate							
		1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	
Cost of equity	14.9%	10.8%	6.7	7.0	7.2	7.5	7.9	8.3	8.7
Pre-tax cost of debt	11.0%	11.8%	5.8	5.9	6.1	6.4	6.6	6.9	7.2
Tax rate	30.0%	12.8%	5.0	5.1	5.3	5.4	5.6	5.8	6.0
After-tax cost of debt	7.7%	13.8%	4.3	4.4	4.5	4.7	4.8	5.0	5.1
Share of equity capital	85.0%	14.8%	3.8	3.9	3.9	4.0	4.1	4.3	4.4
Share of debt capital	15.0%	15.8%	3.3	3.4	3.4	3.5	3.6	3.7	3.8
<b>WACC</b>	<b>13.8%</b>	16.8%	2.9	3.0	3.0	3.1	3.1	3.2	3.3

\*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	2023	2024E	2025E
<b>Revenues</b>	<b>25,838</b>	<b>62,113</b>	<b>67,030</b>	<b>71,543</b>	<b>82,873</b>	<b>115,459</b>
Cost of goods sold	-20,122	-47,353	-52,824	-61,251	-70,069	-97,926
<b>Gross profit</b>	<b>5,716</b>	<b>14,760</b>	<b>14,206</b>	<b>10,292</b>	<b>12,803</b>	<b>17,533</b>
SG&A	-6,658	-13,124	-24,271	-24,770	-15,912	-17,896
Stock-based compensation	-1,803	-1,841	-2,572	-2,199	-2,072	-2,309
<b>Operating income (EBIT)</b>	<b>-2,746</b>	<b>-205</b>	<b>-12,637</b>	<b>-16,677</b>	<b>-5,180</b>	<b>-2,672</b>
Net financial result	-1,498	-334	274	-98	-150	-300
Other non-operating result	-831	-337	-577	-1,863	0	0
Impairment loss	0	0	-2,661	-259	0	0
<b>Pre-tax income (EBT)</b>	<b>-5,074</b>	<b>-876</b>	<b>-15,600</b>	<b>-18,897</b>	<b>-5,330</b>	<b>-2,972</b>
Income taxes	0	0	322	216	0	0
Minority interests	0	0	0	0	0	0
<b>Net income / loss</b>	<b>-5,074</b>	<b>-876</b>	<b>-15,278</b>	<b>-18,681</b>	<b>-5,330</b>	<b>-2,972</b>
<b>Diluted EPS (in \$)</b>	<b>-1.06</b>	<b>-0.09</b>	<b>-1.44</b>	<b>-1.66</b>	<b>-0.44</b>	<b>-0.30</b>
<b>AEBITDA</b>	<b>-652</b>	<b>2,679</b>	<b>-3,888</b>	<b>-9,712</b>	<b>572</b>	<b>2,214</b>
<b>Ratios</b>						
Gross margin	22.1%	23.8%	21.2%	14.4%	15.4%	15.2%
EBIT margin	-10.6%	-0.3%	-18.9%	-23.3%	-6.3%	-2.3%
AEBITDA margin	-2.5%	4.3%	-5.8%	-13.6%	0.7%	1.9%
Net margin	-19.6%	-1.4%	-22.8%	-26.1%	-6.4%	-2.6%
Tax rate	15.0%	21.0%	21.0%	21.0%	21.0%	21.0%
<b>Expenses as % of revenues</b>						
SG&A	25.8%	21.1%	36.2%	34.6%	19.2%	15.5%
Stock-based compensation	7.0%	3.0%	3.8%	3.1%	2.5%	2.0%
<b>Y-Y Growth</b>						
Revenues	6.8%	140.4%	7.9%	6.7%	15.8%	39.3%
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	2023	2024E	2025E
<b>Assets</b>						
<b>Current assets, total</b>	<b>5,245</b>	<b>59,480</b>	<b>34,558</b>	<b>40,952</b>	<b>29,874</b>	<b>38,656</b>
Cash and equivalents	185	34,591	12,008	1,113	1,863	3,284
Trade receivables	915	13,126	15,380	26,992	18,164	25,306
Inventories	537	515	320	229	384	537
Other ST assets	3,609	11,248	6,849	12,618	9,464	9,530
<b>Non-current assets, total</b>	<b>2,915</b>	<b>14,675</b>	<b>27,508</b>	<b>23,427</b>	<b>23,539</b>	<b>23,686</b>
Property, plant & equipment	129	208	1,307	1,419	1,428	1,439
Goodwill & other intangibles	991	9,568	21,023	19,967	20,049	20,165
Financial assets	1,710	4,210	2,559	0	0	0
Other LT assets	85	690	2,619	2,041	2,062	2,082
<b>Total assets</b>	<b>8,161</b>	<b>74,155</b>	<b>62,066</b>	<b>64,379</b>	<b>53,413</b>	<b>62,343</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>14,546</b>	<b>25,005</b>	<b>24,256</b>	<b>42,110</b>	<b>33,806</b>	<b>41,799</b>
Trade payables	654	6,067	9,960	25,411	17,277	24,146
ST debt	5,360	0	3,833	3,205	2,600	3,100
Customer deposits	4,879	13,345	2,571	603	698	973
Provisions	1,799	3,878	3,197	4,071	4,234	4,403
Other current liabilities	1,855	1,716	4,695	8,820	8,997	9,176
<b>Long-term liabilities, total</b>	<b>1,021</b>	<b>983</b>	<b>3,078</b>	<b>2,198</b>	<b>2,794</b>	<b>4,394</b>
Long-term debt	1,021	0	0	0	500	2,000
Deferred tax liabilities	0	441	1,033	817	858	901
Other non-current liabilities	0	542	2,045	1,380	1,436	1,493
<b>Shareholders' equity</b>	<b>-7,406</b>	<b>48,167</b>	<b>34,732</b>	<b>20,071</b>	<b>16,813</b>	<b>16,150</b>
<b>Total consolidated equity and debt</b>	<b>8,161</b>	<b>74,155</b>	<b>62,066</b>	<b>64,379</b>	<b>53,413</b>	<b>62,343</b>
<b>Ratios</b>						
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%	31%	31%	26%
Net debt	6,197	-34,591	-8,175	2,092	1,237	1,816
Net debt / EBITDA (x)	-9.5	-12.9	2.1	-0.2	2.2	0.8
Net gearing	-84%	-72%	-24%	10%	7%	11%
Return on equity (ROE)	69%	-2%	-44%	-93%	-32%	-18%
Capital employed (CE)	1,016	9,357	12,498	7,624	7,176	7,729
Return on capital employed (ROCE)	-270%	1%	-93%	-205%	-64%	-27%



## CASH FLOW STATEMENT

All figures in USD '000	2020	2021	2022	2023	2024E	2025E
<b>Net income</b>	<b>-5,074</b>	<b>-876</b>	<b>-15,278</b>	<b>-18,681</b>	<b>-5,330</b>	<b>-2,972</b>
Depreciation and amortisation	258	495	1,483	1,637	580	577
Amortisation of financing instruments	558	104	0	0	0	0
Stock-based compensation	1,803	1,841	2,572	2,199	2,072	2,309
Other non-cash items	1,016	500	3,427	1,155	0	0
Tax result	0	0	-322	-216	0	0
Net interest expense	0	0	-274	98	150	300
<b>Operating cash flow</b>	<b>-1,438</b>	<b>2,064</b>	<b>-8,393</b>	<b>-13,808</b>	<b>-2,528</b>	<b>214</b>
Change in working capital	-2,195	-3,628	-4,220	2,714	3,599	711
Tax paid	0	0	0	0	0	0
<b>Net operating cash flow</b>	<b>-3,633</b>	<b>-1,564</b>	<b>-12,613</b>	<b>-11,094</b>	<b>1,071</b>	<b>925</b>
<b>Cash flow from investing</b>	<b>-176</b>	<b>-8,337</b>	<b>-4,452</b>	<b>1,885</b>	<b>-671</b>	<b>-704</b>
<b>Free cash flow (FCF)</b>	<b>-3,809</b>	<b>-9,901</b>	<b>-17,065</b>	<b>-9,209</b>	<b>400</b>	<b>221</b>
Equity inflow, net	0	57,747	30	0	0	0
Debt inflow, net	4,183	-5,756	0	-758	500	1,500
Interest expenses paid	-638	0	0	-272	-150	-300
Stock buyback	0	-7,684	-4,362	0	0	0
Other adjustments	0	0	-1,186	-656	0	0
<b>Cash flow from financing</b>	<b>3,545</b>	<b>44,308</b>	<b>-5,518</b>	<b>-1,686</b>	<b>350</b>	<b>1,200</b>
<b>Net cash flows</b>	<b>-264</b>	<b>34,407</b>	<b>-22,583</b>	<b>-10,895</b>	<b>750</b>	<b>1,421</b>
Cash, start of the year	449	184	34,591	12,008	1,113	1,863
<b>Cash, end of the year</b>	<b>184</b>	<b>34,591</b>	<b>12,008</b>	<b>1,113</b>	<b>1,863</b>	<b>3,284</b>
<b>EBITDA/share (in \$)</b>	<b>-0.14</b>	<b>0.27</b>	<b>-0.37</b>	<b>-0.86</b>	<b>0.05</b>	<b>0.22</b>
<b>Y-Y Growth</b>						
Operating cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	-13.6%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	-44.7%
AEBITDA / share	n.m.	n.m.	n.m.	n.m.	n.m.	366%

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**PRICE TARGET DATES**

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**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 <sup>1</sup>	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%

<sup>1</sup> 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	16 January 2024	\$1.47	Buy	\$4.70
6	4 April 2024	\$1.91	Buy	\$4.30
7	2 May 2024	\$1.86	Buy	\$4.30
8	15 July 2024	\$1.50	Buy	\$4.30
9	Today	\$1.48	Buy	\$4.70

**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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- 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/>

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