

urban-gro, Inc.

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

Update

RATING
PRICE TARGET

BUY
\$ 2.30

Return Potential
 Risk Rating

399.9%
 High

IF NOT NOW, WHEN?

urban-gro has announced a handful of contract wins with Fogo de Chão. The restaurateur continues to expand its Brazilian dining chain and has once again hired urban-gro to construct three new steak houses. Newsflow has been markedly better so far this year after an ultra-challenging 2024, but the company is still in catch-up mode on its SEC filings (2024 10-K). Recently published Q3/24 results were particularly weak, showing a 50% topline contraction. Consequently, we have lowered FBe until the upside potential of revamped operations becomes clearly visible. Our recalibrated DCF points to fair value of \$2.3 per share (old: \$4.7) equal to 400% upside, and we believe a painful transition has paved the way for the long-awaited turnaround. Our rating remains Buy.

If not now, when? Back in 2021, 97% of UG's business was driven by CEA (Controlled Environment Agriculture) and heavily dependent on equipment sales. Now the business split (figure 2 overleaf) is nearly 50/50 after successful expansion into various commercial spaces (food & beverage, aerospace, healthcare, industrial). But the transition has been painful. The company deepened its design-services and construction bullpen through M&A, which led to a complicated integration period. Slow moving cannabis lawmaking has also been unhelpful; then the company was blindsided last year by a lengthy and tedious re-audit (see note of 11 February 2025). This all prompted management to downsize the operating structure and greatly boost process efficiency. The shakeup has also led to massive cost cutting (FBe: \$10m p.a. in SG&A). But we still have no idea what a "normalised business" looks like and have cut our targets until we do. Mr Natrass (CEO) has done yeoman's work in realigning the business, and the slew of recently signed deals—including a \$24m cannabis contract and the Fogo de Chão work orders—hint at an attractive business model. But many investors threw in the towel in Q1 after running out of patience. This triggered a run of record share price lows, so now would be a great time to prove that the revamped business works. If not now, when? (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2020	2021	2022	2023	2024E	2025E
Revenue (\$m)	25.8	62.1	66.3	69.9	56.6	79.3
Y/Y growth	6.8%	140.4%	6.7%	5.5%	-19.1%	40.2%
AEBITDA (\$m)	-0.7	2.7	-4.5	-9.9	-4.9	1.1
AEBITDA margin	-2.5%	4.3%	-6.8%	-14.1%	-8.7%	1.4%
Net income (\$m)	-5.1	-0.9	-15.3	-25.4	-10.5	-4.0
EPS (diluted) (\$)	-1.06	-0.09	-1.41	-2.26	-0.83	-0.26
DPS (\$)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (\$m)	-3.8	-9.9	-17.1	-8.6	-0.9	0.3
Net gearing	-83.7%	-71.8%	-25.3%	21.1%	309.5%	2094.6%
Liquid assets (\$m)	0.2	34.6	11.8	1.1	2.0	2.3

RISKS

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

COMPANY PROFILE

urban-gro, Inc is an integrated professional services and Design-Build operator. The company offers value-added architectural, engineering, and construction management solutions to the CEA (Controlled Environment Agriculture) industry and various commercial sectors. Headquartered in Denver, Colorado, urban-gro operates three offices across North America and one in Europe.

MARKET DATA

As of 25 Apr 2025

Closing Price	\$ 0.46
Shares outstanding	12.07m
Market Capitalisation	\$ 5.55m
52-week Range	\$ 0.39 / 2.09
Avg. Volume (12 Months)	88,907

Multiples	2023	2024E	2025E
P/E	n.a.	n.a.	n.a.
EV/Rev	0.1	0.2	0.1
EV/AEBITDA	n.a.	n.a.	7.9
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2024

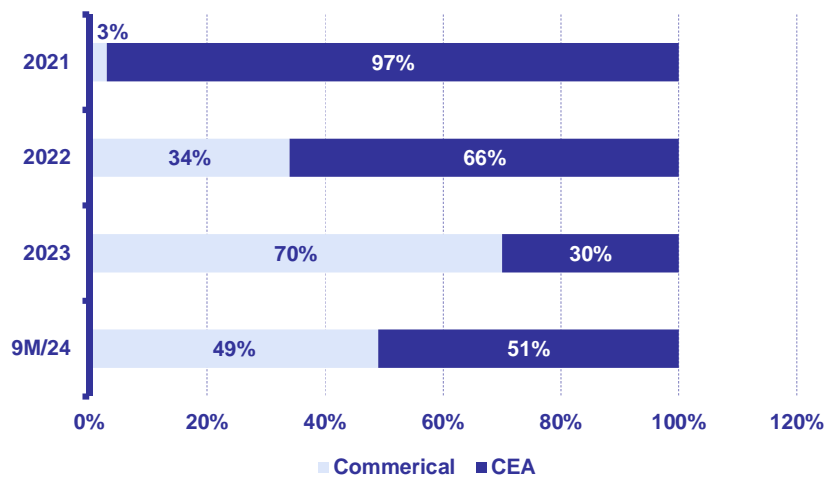
Liquid Assets	\$ 1.14m
Current Assets	\$ 33.78m
Intangible Assets	\$ 2.87m
Total Assets	\$ 49.21m
Current Liabilities	\$ 45.67m
Shareholders' Equity	\$ 2.39m

SHAREHOLDERS

Insiders	28.9%
Institutional Holdings	28.0%
Free Float	43.1%

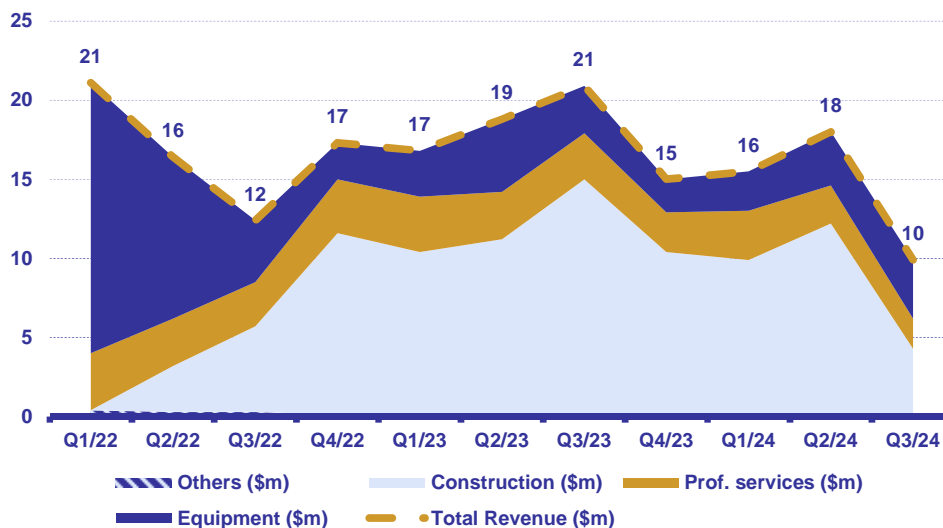


Figure 1: Move to a balanced business for CEA and Commercial



Source: First Berlin Equity Research; urban-gro

Figure 2: Transition from equipment to construction and professional services



Source: First Berlin Equity Research; urban-gro

More on the latest food & beverage contracts Last year, Fogo de Chão hired urban-gro to build a new rodízio-style steak house in Katy, Texas. Now the restaurateur wants the Design-Build specialist to construct a new location in Murray, Utah. Fogo de Chão also awarded Construction Management (CM) contracts for two further locations in Las Vegas, Nevada and Rancho Cucamonga, California. UG will oversee the construction process and act as the owner's representative in defining project objectives, deliverables, and ensuring smooth timelines. The projects will kick off straight away, and the company anticipates recording sales in Q3.



Still catching up on SEC filings As discussed in previous updates, urban-gro hired Sadler, Gibb & Associates last summer to take over auditing duties in the wake of the BF Borgers scandal. The new accountant re-audited previously filed financial statements for select quarterly and annual periods (below) as part of the onboarding. This work was completed in February, but now urban-gro's 2024 annual report (10-K) is overdue, and Nasdaq informed the company on 16 April that it is no longer compliant with Nasdaq Listing Rule 5250(c)(1). This requires listed companies to file all required periodic financial reports with the SEC in a timely manner.

The notification has *no immediate* effect on the listing of UG's common stock on the Nasdaq Capital Market, and the company has 60 days until 16 June to submit a plan to regain Nasdaq compliance. This will likely lead to an extended 180 day waiver to 13 October, and we expect UG to re-establish compliance within the prescribed periods. The latest delay was expected given that the all-hands-on-deck effort needed to accelerate the re-audit disrupted normal workflows.

Re-audit takeaways The re-audited 2022 and 2023 results contained no material impact on past revenue, AEBITDA or cash flows, but shareholders' equity (SE) did take a hit on a \$6.3m write-down of goodwill. This means SE dipped below Nasdaq's mandated \$2.5m threshold as of Q3/24 (\$2.4m). The Nasdaq authorities have also granted the company a 180 day waiver, giving the company time to work through the best options to shore up equity. If management present a credible plan, this could even be extended if needed.

Table 1: Changes to FBe and target price

	old	new	revision	upside	dividend yield	total return
Price target (\$)	4.7	2.3	-51%	400%	0.0%	400%
All figures in USD '000	old	2024E new	revision	old	2025E new	revision
Revenue	82,873	56,582	-31.7%	115,459	79,307	-31.3%
Gross profit	12,803	8,791	-31.3%	17,533	13,021	-25.7%
Margin (%)	15.4%	15.5%	-	15.2%	16.4%	-
AEBITDA	572	-4,919	n.m.	2,214	1,135	-48.7%
Margin (%)	0.7%	-8.7%	-	1.9%	1.4%	-

Source: First Berlin Equity Research estimates

Downgrading outlook We have significantly lowered FBe to take a much more conservative forecasting approach to UG until we can clearly see how a normalised business runs after the drawn-out business transition and the recent restructuring.

The latter point means annualised operating expenses will be some 42% lower vs the 2023 KPI and should land around \$13m to \$14m—Q3/24 SG&A (minus D&A) was less than \$3.7m. On our new numbers, SG&A equates to some 18% of sales compared to 35% in 2023, which we consider the right comp since 2024 was a largely disrupted year.

We have also pencilled in a 2.5m share cap hike for H2/25 once all SEC filings are again up to date, and we believe the company is exploring other options to boost bottom line earnings and help restore its equity position to complaint levels within prescribed periods.

Our WACC estimate moves up to 14.8% (old: 14.3%) and now factors in the decline in UG's shareholders' equity plus the lower yields for US government bonds since our last update. The latter point softens the impact of the former. Our overhauled forecasts and DCF model now point to fair value of \$2.3 per share (old: \$4.70).



VALUATION MODEL

Upshot In our view, 2025 is shaping up as a "prove it" year for urban-gro. Investors have run out of patience, but if the company can: (1) restore growth with its better balanced business; (2) finally boost profitability—starting with the AEBITDA level; and (3) satisfy all of its Nasdaq listing requirements, we think investors will jump back on the bandwagon. If the company can tick these boxes, we still see good value in UG and maintain our Buy rating.

Table 2: DCF model

In USD '000	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Sales	56,582	79,307	103,099	128,873	154,648	173,206	190,526	207,674
NOPLAT	-9,768	-2,908	-345	2,074	5,016	6,094	7,202	8,369
(+) depreciation & amortisation	1,301	1,257	1,222	1,224	1,469	1,645	1,810	1,973
Net operating cash flow	-8,466	-1,651	876	3,299	6,486	7,739	9,012	10,342
(-) Total investments (CAPEX and WC)	-448	-301	-444	-1,016	-1,772	-1,254	-1,459	-1,635
(-) Capital expenditures	-741	-1,031	-1,031	-1,289	-1,546	-1,732	-1,905	-2,077
(-) Working capital	293	730	587	272	-226	478	446	442
Free cash flows (FCF)	-8,914	-1,952	432	2,282	4,713	6,485	7,552	8,707
PV of FCF's	-8,914	-1,778	343	1,576	2,835	3,397	3,444	3,458

In EUR '000		Terminal EBIT margin						
PV of FCFs in explicit period	15,682		5.1%	5.6%	6.1%	6.6%	7.1%	7.6%
(+) PV of FCFs in terminal period	19,585	11.8%	2.9	3.1	3.4	3.6	3.9	4.1
Enterprise value (EV)	35,267	12.8%	2.5	2.7	2.9	3.1	3.3	3.5
(+) Net cash / (-) net debt	-882	13.8%	2.1	2.3	2.5	2.7	2.8	3.0
(+) Investments / minority interests	0	14.8%	1.9	2.0	2.2	2.3	2.4	2.6
Shareholder value	34,385	15.8%	1.6	1.8	1.9	2.0	2.1	2.2
Fair value per share (\$)	2.3	16.8%	1.4	1.5	1.6	1.7	1.8	1.9
		17.8%	1.3	1.3	1.4	1.5	1.6	1.7

		Terminal growth rate						
Cost of equity	16.1%		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%
Pre-tax cost of debt	11.0%	11.8%	3.3	3.4	3.5	3.6	3.7	3.9
Tax rate	30.0%	12.8%	2.8	2.9	3.0	3.1	3.2	3.3
After-tax cost of debt	7.7%	13.8%	2.5	2.5	2.6	2.7	2.7	2.8
Share of equity capital	85.0%	14.8%	2.1	2.2	2.2	2.3	2.4	2.4
Share of debt capital	15.0%	15.8%	1.9	1.9	2.0	2.0	2.0	2.1
WACC	14.8%	16.8%	1.6	1.7	1.7	1.7	1.8	1.8
		17.8%	1.4	1.5	1.5	1.5	1.6	1.6

*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	2026E
Revenues	25,838	62,113	66,295	69,919	56,582	79,307	103,099
Cost of goods sold	-20,122	-47,353	-54,139	-60,017	-47,791	-66,286	-85,263
Gross profit	5,716	14,760	12,155	9,902	8,791	13,021	17,836
SG&A	-6,658	-13,124	-24,516	-24,716	-16,861	-14,343	-16,532
Stock-based compensation	-1,803	-1,841	-2,572	-2,199	-1,697	-1,586	-1,650
Operating income (EBIT)	-2,746	-205	-14,933	-23,287	-9,768	-2,908	-345
Net financial result	-1,498	-334	274	-98	-867	-1,160	-1,003
Other non-operating result	-831	-337	-629	-1,701	0	0	0
Impairment loss	0	0	-951	-259	0	0	0
Pre-tax income (EBT)	-5,074	-876	-16,238	-25,344	-10,634	-4,068	-1,348
Income taxes	0	0	983	-94	150	110	50
Minority interests	0	0	0	0	0	0	0
Net income / loss	-5,074	-876	-15,255	-25,438	-10,484	-3,958	-1,298
Diluted EPS (in \$)	-1.06	-0.09	-1.41	-2.26	-0.83	-0.26	-0.09
AEBITDA	-652	2,679	-4,525	-9,886	-4,919	1,135	3,726
Ratios							
Gross margin	22.1%	23.8%	18.3%	14.2%	15.5%	16.4%	17.3%
EBIT margin	-10.6%	-0.3%	-22.5%	-33.3%	-17.3%	-3.7%	-0.3%
AEBITDA margin	-2.5%	4.3%	-6.8%	-14.1%	-8.7%	1.4%	3.6%
Net margin	-19.6%	-1.4%	-23.0%	-36.4%	-18.5%	-5.0%	-1.3%
Tax rate	15.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Expenses as % of revenues							
SG&A	25.8%	21.1%	37.0%	35.3%	29.8%	18.1%	16.0%
Stock-based compensation	7.0%	3.0%	3.9%	3.1%	3.0%	2.0%	1.6%
Y-Y Growth							
Revenues	6.8%	140.4%	6.7%	5.5%	-19.1%	40.2%	30.0%
Operating income	n.m.	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.	n.m.

Adjusted EBITDA bridge

Net income / loss	-5,074	-876	-15,255	-25,438	-10,484	-3,958	-1,298
Net financial result	1,498	970	-274	98	867	1,160	1,003
Tax result	0	0	-967	280	-150	-110	-50
Depreciation & amortisation	258	495	1,483	1,637	1,301	1,257	1,222
EBITDA	-3,318	589	-15,014	-23,423	-8,466	-1,651	876
Stock-based compensation	1,803	1,841	2,572	2,199	1,697	1,586	1,650
Impairments	0	0	2,661	258	0	0	0
IAC (Items affecting comparability)	862	249	5,256	11,080	1,850	1,200	1,200
AEBITDA	-652	2,679	-4,525	-9,886	-4,919	1,135	3,726



BALANCE SHEET

All figures in USD '000	2020	2021	2022	2023	2024E	2025E	2026E
Assets							
Current assets, total	5,245	59,480	33,338	32,910	25,845	34,078	42,495
Cash and equivalents	185	34,591	11,754	1,073	1,982	2,302	2,437
Trade receivables	915	13,126	15,133	21,649	19,377	27,160	35,308
Inventories	537	515	320	229	262	363	467
Other ST assets	3,609	11,248	6,132	9,960	4,224	4,254	4,283
Non-current assets, total	2,915	14,675	26,956	16,602	16,062	15,856	15,687
Property, plant & equipment	129	208	1,307	1,419	1,425	1,437	1,452
Goodwill & other intangibles	991	9,568	20,470	13,141	12,575	12,337	12,131
Financial assets	1,710	4,210	2,559	0	0	0	0
Other LT assets	85	690	2,619	2,041	2,062	2,082	2,103
Total assets	8,161	74,155	60,294	49,512	41,907	49,935	58,181
Shareholders' equity & debt							
Current liabilities, total	14,546	25,005	26,928	38,003	39,127	48,217	56,049
Trade payables	654	6,067	9,871	24,204	22,259	30,873	39,711
ST debt	5,360	0	3,833	3,205	6,000	6,000	4,500
Customer deposits	4,879	13,345	2,571	603	488	684	889
Provisions	1,799	3,878	5,217	5,284	4,967	5,166	5,373
Other current liabilities	1,855	1,716	5,437	4,707	5,413	5,494	5,576
Long-term liabilities, total	1,021	983	2,045	1,424	1,482	1,542	1,604
Long-term debt	1,021	0	0	0	0	0	0
Deferred tax liabilities	0	441	0	44	46	49	51
Other non-current liabilities	0	542	2,045	1,380	1,436	1,493	1,553
Shareholders' equity	-7,406	48,167	31,322	10,085	1,298	177	528
Total consolidated equity and debt	8,161	74,155	60,294	49,512	41,907	49,935	58,181
Ratios							
Current ratio (x)	0.4	2.4	1.2	0.9	0.7	0.7	0.8
Quick ratio (x)	0.3	2.4	1.2	0.9	0.7	0.7	0.7
Equity ratio	-91%	65%	52%	20%	3%	0%	1%
Net debt	6,197	-34,591	-7,921	2,132	4,018	3,698	2,063
Net debt / EBITDA (x)	-9.5	-12.9	1.8	-0.2	-0.8	3.3	0.6
Net gearing	-84%	-72%	-25%	21%	309%	2095%	391%
Return on equity (ROE)	69%	-2%	-49%	-252%	-807%	-2242%	-246%
Capital employed (CE)	1,016	9,357	12,340	2,545	1,692	735	-42
Return on capital employed (ROCE)	-270%	1%	-109%	-851%	-500%	-225%	-2091%



CASH FLOW STATEMENT

All figures in USD '000	2020	2021	2022	2023	2024E	2025E	2026E
Net income	-5,074	-876	-15,255	-25,438	-10,484	-3,958	-1,298
Depreciation and amortisation	258	495	1,483	1,637	1,301	1,257	1,222
Amortisation of financing instruments	558	104	193	460	0	0	0
Stock-based compensation	1,803	1,841	2,572	2,199	1,697	1,586	1,650
Other non-cash items	1,016	500	1,388	7,488	0	0	0
Tax result	0	0	0	94	-150	-110	-50
Net interest expense	0	0	-282	-122	867	1,160	1,003
Operating cash flow	-1,438	2,064	-9,901	-13,683	-6,769	-65	2,526
Change in working capital	-2,195	-3,628	-2,869	3,164	6,340	1,216	1,092
Tax paid	0	0	0	0	150	110	50
Net operating cash flow	-3,633	-1,564	-12,769	-10,518	-279	1,261	3,668
Cash flow from investing	-176	-8,337	-4,324	1,883	-641	-931	-931
Free cash flow (FCF)	-3,809	-9,901	-17,094	-8,636	-920	330	2,737
Equity inflow, net	0	57,747	29	0	0	1,250	0
Debt inflow, net	4,183	-5,756	0	-1,566	2,795	0	-1,500
Interest expenses paid	-638	0	0	0	-967	-1,260	-1,103
Stock buyback	0	-7,684	-4,362	0	0	0	0
Other adjustments	0	0	-1,175	-479	1	0	0
Cash flow from financing	3,545	44,308	-5,509	-2,045	1,829	-10	-2,603
Net cash flows	-264	34,407	-22,837	-10,681	909	320	135
Cash, start of the year	449	184	34,591	11,754	1,073	1,982	2,302
Cash, end of the year	184	34,591	11,754	1,073	1,982	2,302	2,437
EBITDA/share (in \$)	-0.14	0.27	-0.42	-0.88	-0.39	0.08	0.25
Y-Y Growth							
Operating cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	191%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	729.4%
AEBITDA / share	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	228%

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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...2	↓	↓	↓	↓
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	7 October 2024	\$1.48	Buy	\$4.70
10	11 February 2025	\$0.76	Buy	\$4.70
11	Today	\$0.46	Buy	\$2.30

INVESTMENT HORIZON

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

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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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