



Enterprise Bancorp Inc. (EBTC)

Updated June 6th, 2019 by Noah Horwood

Key Metrics

Current Price:	\$28	5 Year CAGR Estimate:	14.2%	Volatility Percentile:	13.8%
Fair Value Price:	\$38	5 Year Growth Estimate:	5.7%	Momentum Percentile:	82.6%
% Fair Value:	74%	5 Year Valuation Multiple Estimate:	6.2%	Growth Percentile:	10.3%
Dividend Yield:	2.3%	5 Year Price Target	\$51	Valuation Percentile:	51.9%
Dividend Risk Score:	A	Retirement Suitability Score:	A	Total Return Percentile:	88.5%

Overview & Current Events

Enterprise Bancorp Inc. was formed in 1996 as the parent holding company of Enterprise Bank and Trust Company, referred to as Enterprise Bank. Enterprise has 24 full-service branch banking offices located in the North Central region of Massachusetts and Southern New Hampshire. The company's primary business operation is gathering deposits from the general public and investing in commercial loans and investment securities. The resulting funds from operations are used to conduct the following services: expand product offerings, open new branches, and pay dividends to stockholders. The Bank offers commercial, residential and consumer loan products, cash management services, electronic banking options, insurance services, as well as wealth management. About half of the company's loan portfolio is put to commercial real estate and about a third is put to commercial construction loans. Other subsidiaries under Enterprise Bancorp are Enterprise Investment Services and Enterprise Insurance Services which cater to the bank's target market of business customers. This \$336 million market capitalization company is listed on the NASDAQ Stock Exchange under the ticker EBTC.

On May 7th, 2019 Enterprise Bancorp released Q1 results for the period ending March 31st, 2019 and full year results for the period ending December 31st, 2018 were reported on March 13th, 2019. Earnings for the quarter totaled \$8.7 million (\$0.74 per share) against \$6.8 million (\$0.59 per share) in Q1 of 2018. For the year earnings totaled \$28.9 million (\$2.47) against \$19.4 million (\$1.68) in 2017.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$0.96	\$1.15	\$1.16	\$1.28	\$1.36	\$1.44	\$1.55	\$1.70	\$1.68	\$2.47	\$2.64	\$3.49
DPS	\$0.38	\$0.40	\$0.42	\$0.44	\$0.46	\$0.48	\$0.50	\$0.52	\$0.54	\$0.58	\$0.61	\$0.73
Shares	9.1	9.3	9.5	9.7	10.0	10.2	10.4	11.5	11.6	11.7	11.8	12.0

Enterprise has been consistently increasing its EPS in the last decade with the only decline from 2016-2017. Their average growth year-over-year has been an outstanding 12% which has almost tripled their EPS in that time. The Bank had a terrific year in 2018 and was able to increase their EPS by almost 50% from 2017-2018. For our 2019 and 2024 EPS estimates we used a 5.7% growth rate. To keep up their impressive historic growth the company will need to depend on management's continued success in differentiating Enterprise Bank in the marketplace and their ability to strengthen their competitive position. The company has been doing a good job in the recent past in increasing their loans and deposits which have been increasing by roughly 12% and 10% respectively. From our calculations, we estimate that the company's 2024 EPS will reach \$3.49 which drives a 5-year price target of \$51.

Enterprises' dividend has been growing consistently since it was first introduced in 1992 for \$0.025 per share. The company now offers \$0.64 to shareholders from dividends. In the past 3-years Enterprise has achieved a dividend growth rate of 5.4% annually. The Bank's dividend has already grown into the start of 2019 as the company has increased their dividend per share by over 10% per payment (\$0.145 to \$0.16). We expect Enterprise Bank to continue to increase their dividend as the company grows, by the year 2024 we expect their dividend per share to be roughly \$0.73 per share annually with an average yield of 2.6%. The company's dividend payout ratio decreased significantly

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from 2017-2018, so with their additional funds the company could significantly increase their dividend in the foreseeable future.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	10.9	11.8	12.3	12.9	15.6	17.5	14.7	22.1	16.4	12.9	10.9	14.7
Avg. Yld.	3.5%	3.5%	2.8%	2.7%	2.5%	2.3%	2.3%	2.0%	1.6%	1.7%	2.3%	2.6%

Enterprise's average price to earnings ratio has deviated lots in the past decade around an average of 14.7. The company is currently trading under their historic average price to earnings ratio, which makes them undervalued at current prices. We expect valuation multiple growth to improve total returns by 6.2 percentage points annually over the next 5 years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	39%	35%	36%	34%	34%	33%	32%	30%	32%	23%	21%	25%

Enterprise has had a tremendous focus on dividend consistency since the company was founded just over 30 years ago. The company has operated at a profit and grown their dividend each year for the last 27 consecutive years. We expect Enterprise to continue to grow their dividend as the company grows.

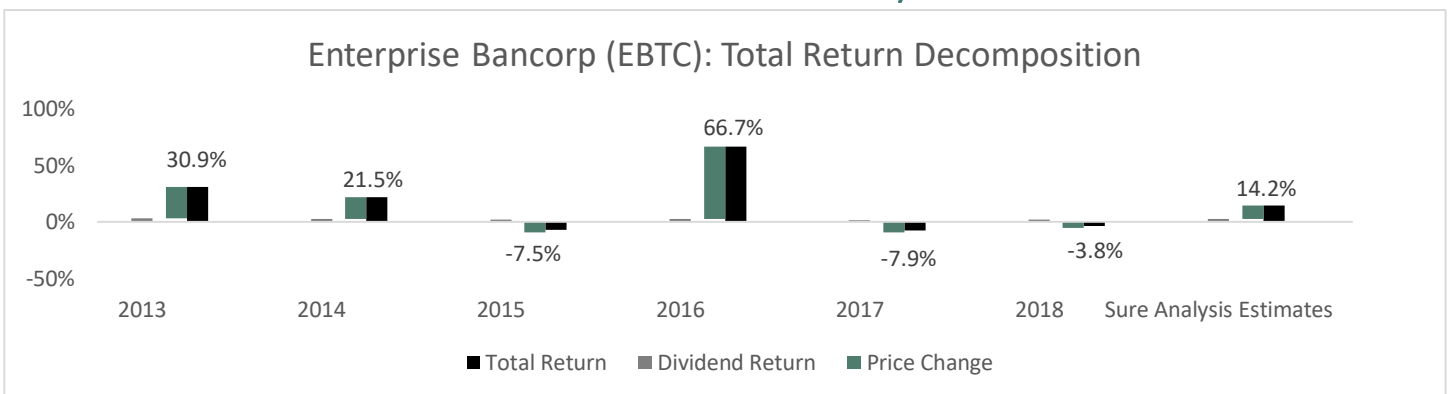
Enterprise considers their greatest asset to be their people and their company culture. The employees strive everyday to make to make Enterprise a better workplace and a better bank. Evidence of their great culture is represented in the fact that Enterprise was named to the Boston Globes "Top Places to Work in Massachusetts" for seven consecutive years, ranking in the top three among large companies in 2018.

During The Great Recession in 2008-2009, the company's share price fell by roughly 3% in the year, but their EPS was able to increase from \$0.70 to \$0.96 which is an increase of an impressive 37%. This shows how remarkably recession resistant this bank is. Note that during the same time period, much larger financial institutions faired significantly worse.

Final Thoughts & Recommendation

Enterprise Bancorp has been performing very well lately growing their EPS very well in their recent future. Despite strong recent performance, share prices are low at this point in time. From their price to earnings ratio it appears that the company is relatively undervalued currently. Overall, we expect total returns of an outstanding 14.2% annually. As a result, we rate Enterprise Bancorp as a buy at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	60	65	70	74	79	86	93	101	113	121
SG&A Exp.	33	35	37	41	43	48	51	55	60	64
D&A Exp.	3	4	4	4	5	5	6	6	7	7
Net Profit	8	11	11	12	14	15	16	19	19	29
Net Margin	10	7	15	10	29	8	22	19	30	37
Free Cash Flow	3	5	5	6	7	8	8	9	16	9
Income Tax	60	65	70	74	79	86	93	101	113	121

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	1304	1397	1489	1666	1850	2022	2286	2526	2818	2964
Cash & Equivalents	26	31	37	50	52	40	51	50	55	63
Accounts Receivable	5	6	6	6	6	7	8	9	11	11
Goodwill & Int. Ass.	6	6	6	6	6	6	6	6	6	6
Total Liabilities	1196	1281	1362	1526	1699	1855	2105	2311	2586	2709
Accounts Payable	1	1	1	1	1	1	0	0	0	1
Long-Term Debt	36	26	11	11	11	11	15	15	15	15
Shareholder's Equity	108	117	127	140	151	167	180	215	232	255
D/E Ratio	0.33	0.23	0.08	0.08	0.07	0.06	0.08	0.07	0.06	0.06

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	0.6%	0.8%	0.8%	0.8%	0.8%	0.8%	0.7%	0.8%	0.7%	1.0%
Return on Equity	8.0%	9.5%	9.0%	9.3%	9.3%	9.2%	9.3%	9.5%	8.7%	11.9%
ROIC	4.3%	7.4%	7.8%	8.6%	8.7%	8.6%	8.7%	8.8%	8.1%	11.2%
Shares Out.	9.1	9.3	9.5	9.7	10.0	10.2	10.4	11.5	11.6	11.7
Revenue/Share	6.69	6.61	6.88	7.09	7.39	8.39	8.35	9.17	9.71	10.28
FCF/Share	1.09	0.67	1.48	0.93	2.73	0.83	1.95	1.76	2.55	3.11

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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