



Enterprise Bancorp Inc. (EBTC)

Updated September 2nd, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	\$29	5 Year CAGR Estimate:	9.6%	Volatility Percentile:	81.9%
Fair Value Price:	\$33	5 Year Growth Estimate:	5.0%	Momentum Percentile:	20.6%
% Fair Value:	88%	5 Year Valuation Multiple Estimate:	2.6%	Growth Percentile:	39.1%
Dividend Yield:	2.2%	5 Year Price Target	\$42	Valuation Percentile:	77.7%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	62.3%

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 branches 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 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 in commercial real estate and about a third is in 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. Enterprise Bancorp has a market cap of \$338 million.

In mid-July, Enterprise reported (7/18/19) financial results for the second quarter of fiscal 2019. The bank grew its total assets, total loans and customer deposits by 8%, 5% and 14%, respectively, over last year's quarter. In addition, it reduced the portion of non-performing loans from 2.54% to 2.37%. As a result, the bank grew its net interest income by 6% and its earnings-per-share by 3%, from \$0.64 to \$0.66.

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	\$2.75	\$3.51
DPS	\$0.38	\$0.40	\$0.42	\$0.44	\$0.46	\$0.48	\$0.50	\$0.52	\$0.54	\$0.58	\$0.64	\$0.82
Shares¹	9.1	9.3	9.5	9.7	10.0	10.2	10.4	11.5	11.6	11.7	11.8	12.3

Enterprise has an outstanding performance record, as it has remained profitable for 119 consecutive quarters. This is a testament to its prudent management and its focus on sustainable long-term growth. The bank has grown its earnings-per-share at an 11.1 % average annual rate in the last decade and has grown its earnings-per-share in all but one year throughout this period.

Enterprise recently announced that it will open a new branch in Lexington, Massachusetts, this fall. While the opening of a new branch is not significant for most banks, it is important for Enterprise, as it will increase its store count by 4%. Moreover, thanks to the strong performance of Enterprise in the first half of the year, we have raised our earnings-per-share estimate for this year by 4%, from \$2.64 to \$2.75. Thanks to strong organic performance and the opening of new branches, we expect Enterprise to grow its earnings-per-share by about 5% per year over the next five years. The bank may grow even faster but we prefer to be conservative due to its small market cap.

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	10.5	12.0
Avg. Yld.	3.5%	3.5%	2.8%	2.7%	2.5%	2.3%	2.3%	2.0%	1.6%	1.7%	2.2%	2.0%

1. In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Enterprise has traded at an average price to earnings ratio of 14.7 in the last decade. Given the small market cap of the bank, we consider its fair earnings multiple to be around 12.0. Due to the indiscriminate share price declines of financial stocks, which has resulted from the shift of the Fed to a more dovish stance this year, Enterprise is currently trading at a 10-year low price-to-earnings ratio of 10.5. If the stock reaches our fair value estimate over the next 5 years, it will enjoy a 2.6% annualized boost in its returns.

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%	23%	23%

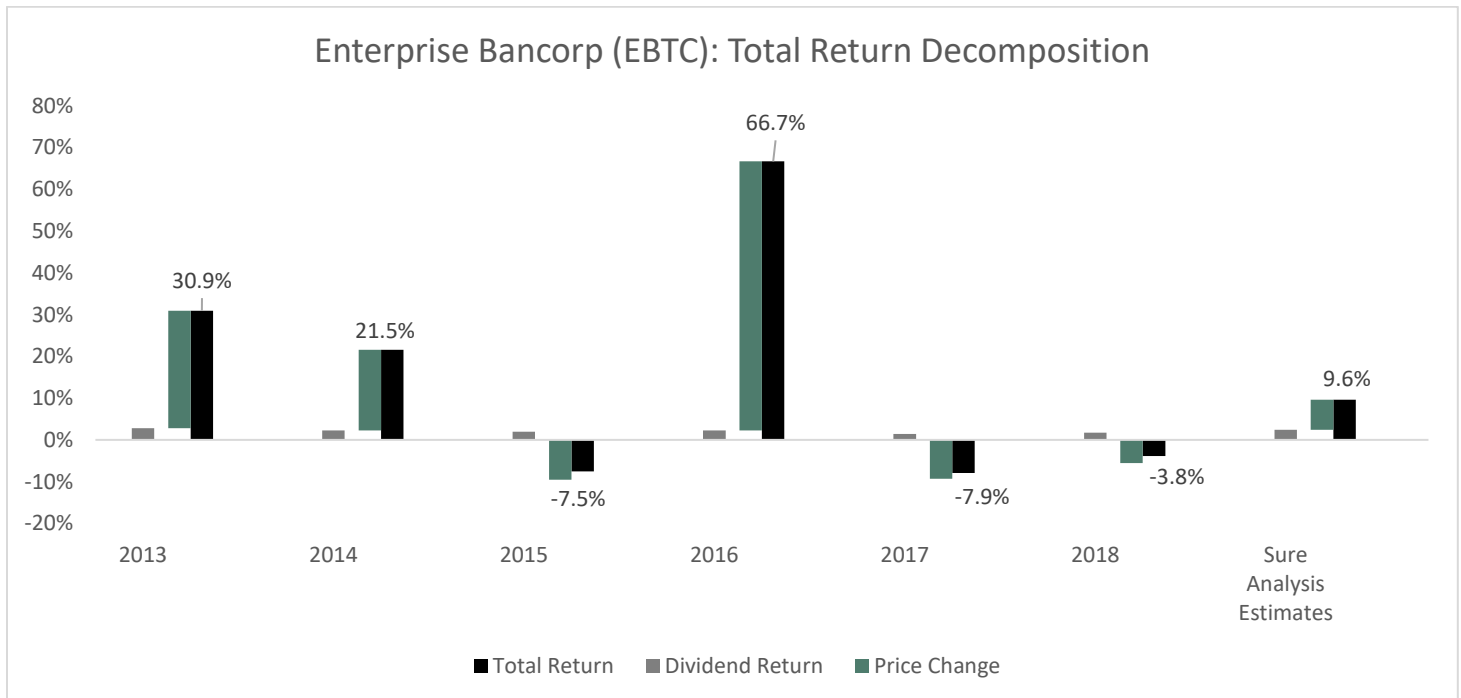
Enterprise has maintained an exceptional dividend growth record since it was founded just over 30 years ago. The company has grown its dividend for 27 consecutive years. In addition, Enterprise has been named to the Boston Globe's "Top Places to Work in Massachusetts" for seven consecutive years, ranking in the top three among large companies in 2018. The emphasis of the bank on its work force provides some sort of competitive advantage.

During the Great Recession, the stock fell only 3% and its earnings-per-share jumped 37%, from \$0.70 to \$0.96. The outstanding performance in the worst financial crisis of the last 90 years is a testament to the great management of the bank.

Final Thoughts & Recommendation

The stock of Enterprise has lost 30% in the last 14 months, mostly due to the indiscriminate share price declines of financial stocks that has resulted from the dovish stance of the Fed this year. As a result, Enterprise has become attractive and could now offer a 9.6% average annual return over the next five years. The security earns a buy rating, though investors should be aware of the risks associated with small-cap stocks, such as low liquidity and increased stock price volatility during downturns.

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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