



# Enterprise Bancorp Inc. (EBTC)

Updated October 18<sup>th</sup>, 2019 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$30	<b>5 Year CAGR Estimate:</b>	8.8%	<b>Volatility Percentile:</b>	82.1%
<b>Fair Value Price:</b>	\$33	<b>5 Year Growth Estimate:</b>	5.0%	<b>Momentum Percentile:</b>	33.1%
<b>% Fair Value:</b>	91%	<b>5 Year Valuation Multiple Estimate:</b>	1.9%	<b>Growth Percentile:</b>	41.1%
<b>Dividend Yield:</b>	2.1%	<b>5 Year Price Target</b>	\$42	<b>Valuation Percentile:</b>	79.3%
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Total Return Percentile:</b>	65.2%

## 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 \$345 million.

In mid-October, Enterprise reported (10/17/19) financial results for the third quarter of fiscal 2019. The bank grew its total assets, total loans and customer deposits by 9%, 7% and 12%, respectively, over last year's quarter. In addition, it reduced loan loss provisions. As a result, Enterprise grew its net interest income by 11% and its earnings-per-share by 12%, from \$0.68 to \$0.76. Thanks to its positive momentum, the bank remains on track to grow its earnings-per-share 11% this year.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$0.96	\$1.15	\$1.16	\$1.28	\$1.36	\$1.44	\$1.55	\$1.70	\$1.68	\$2.47	<b>\$2.75</b>	<b>\$3.51</b>
<b>DPS</b>	\$0.38	\$0.40	\$0.42	\$0.44	\$0.46	\$0.48	\$0.50	\$0.52	\$0.54	\$0.58	<b>\$0.64</b>	<b>\$0.82</b>
<b>Shares<sup>1</sup></b>	9.1	9.3	9.5	9.7	10.0	10.2	10.4	11.5	11.6	11.7	<b>11.8</b>	<b>12.3</b>

Enterprise has an outstanding performance record, as it has remained profitable for 120 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 this fall and a new branch in North Andover in late spring 2020. While the opening of two new branches is not significant for most banks, it is important for Enterprise, as it will increase its store count by 8%. 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
<b>Avg. P/E</b>	10.9	11.8	12.3	12.9	15.6	17.5	14.7	22.1	16.4	12.9	<b>10.9</b>	<b>12.0</b>
<b>Avg. Yld.</b>	3.5%	3.5%	2.8%	2.7%	2.5%	2.3%	2.3%	2.0%	1.6%	1.7%	<b>2.1%</b>	<b>1.9%</b>

<sup>1</sup> In millions.

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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 recent 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 an almost 10-year low price-to-earnings ratio of 10.9. If the stock reaches our fair value estimate over the next five years, it will enjoy a 1.9% 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%	<b>23%</b>	<b>23%</b>

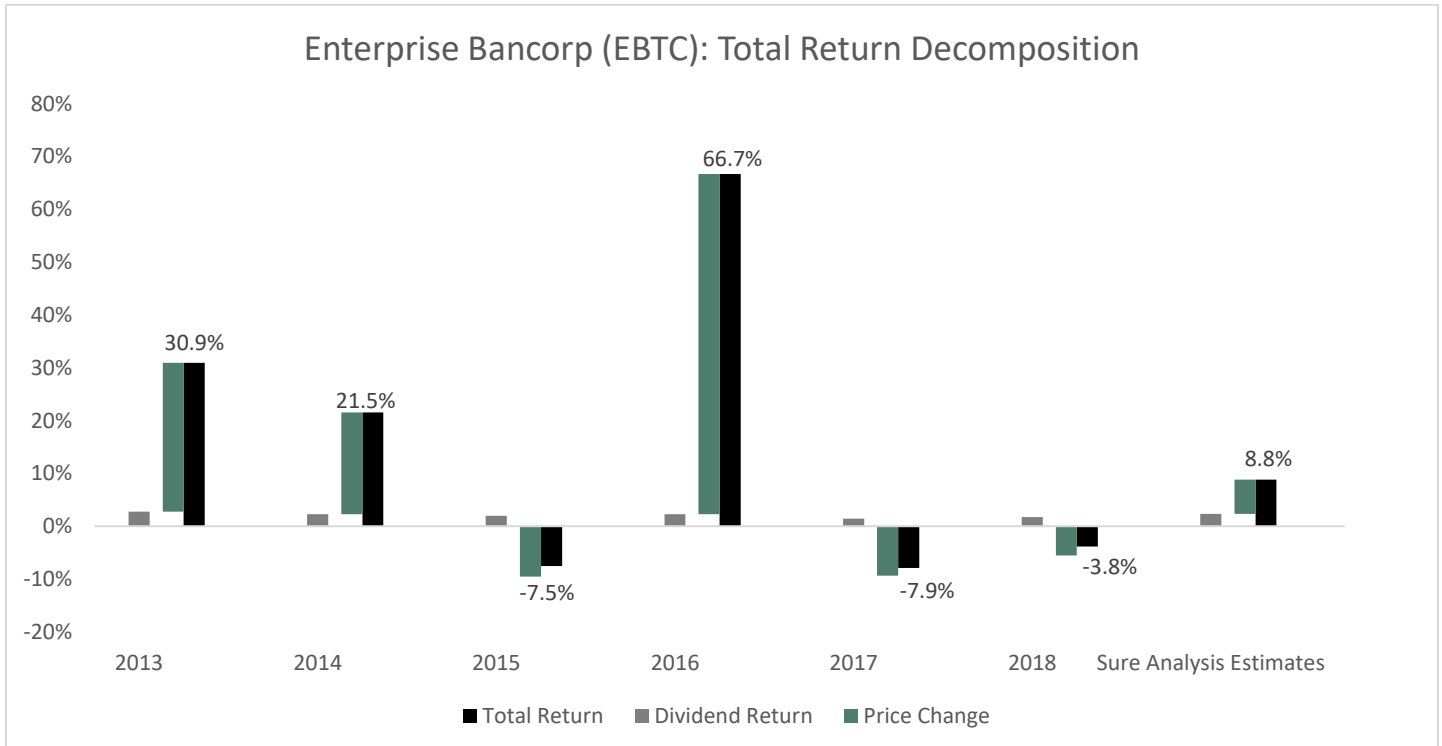
Enterprise has maintained an exceptional dividend growth record since it was founded just over 30 years ago. The company has grown its dividend for 27 consecutive years. In addition, Enterprise has been named to the Boston Globe’s “Top Places to Work in Massachusetts” for seven consecutive years, ranking 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 16 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 an 8.8% average annual return over the next five years. The security maintains its 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
<b>Revenue</b>	60	65	70	74	79	86	93	101	113	121
<b>SG&amp;A Exp.</b>	33	35	37	41	43	48	51	55	60	64
<b>D&amp;A Exp.</b>	3	4	4	4	5	5	6	6	7	7
<b>Net Profit</b>	8	11	11	12	14	15	16	19	19	29
<b>Net Margin</b>	10	7	15	10	29	8	22	19	30	37
<b>Free Cash Flow</b>	3	5	5	6	7	8	8	9	16	9
<b>Income Tax</b>	60	65	70	74	79	86	93	101	113	121

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	1304	1397	1489	1666	1850	2022	2286	2526	2818	2964
<b>Cash &amp; Equivalents</b>	26	31	37	50	52	40	51	50	55	63
<b>Accounts Receivable</b>	5	6	6	6	6	7	8	9	11	11
<b>Goodwill &amp; Int. Ass.</b>	6	6	6	6	6	6	6	6	6	6
<b>Total Liabilities</b>	1196	1281	1362	1526	1699	1855	2105	2311	2586	2709
<b>Accounts Payable</b>	1	1	1	1	1	1	0	0	0	1
<b>Long-Term Debt</b>	36	26	11	11	11	11	15	15	15	15
<b>Shareholder's Equity</b>	108	117	127	140	151	167	180	215	232	255
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	0.6%	0.8%	0.8%	0.8%	0.8%	0.8%	0.7%	0.8%	0.7%	1.0%
<b>Return on Equity</b>	8.0%	9.5%	9.0%	9.3%	9.3%	9.2%	9.3%	9.5%	8.7%	11.9%
<b>ROIC</b>	4.3%	7.4%	7.8%	8.6%	8.7%	8.6%	8.7%	8.8%	8.1%	11.2%
<b>Shares Out.</b>	9.1	9.3	9.5	9.7	10.0	10.2	10.4	11.5	11.6	11.7
<b>Revenue/Share</b>	6.69	6.61	6.88	7.09	7.39	8.39	8.35	9.17	9.71	10.28
<b>FCF/Share</b>	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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