



Enterprise Bancorp Inc. (EBTC)

Updated January 27th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	\$28	5 Year CAGR Estimate:	9.8%	Market Cap:	\$329 M
Fair Value Price:	\$26	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	5/8/2020
% Fair Value:	106%	5 Year Valuation Multiple Estimate:	-1.2%	Dividend Payment Date:	6/1/2020
Dividend Yield:	2.5%	5 Year Price Target	\$41	Years Of Dividend Growth:	26
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	9.4%

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 25 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 \$329 million.

In late April, Enterprise reported (4/27/20) financial results for the first quarter of fiscal 2020. Total loans and customer deposits grew 13% and 7%, respectively, over last year's quarter. However, earnings-per-share slumped -54%, from \$0.74 to \$0.34 per share, due to a material increase in the provision for loan losses, which resulted from the recession caused by the outbreak of the coronavirus. Management did not provide any guidance for the year. Due to the recession caused by the pandemic, we have lowered our earnings-per-share forecast for the year from \$3.05 to \$2.20. On the other hand, as the duration and the severity of this recession is unknown, it is impossible to forecast the earnings of this small-cap bank with any degree of accuracy.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$1.15	\$1.16	\$1.28	\$1.36	\$1.44	\$1.55	\$1.70	\$1.68	\$2.47	\$2.89	\$2.20	\$3.38
DPS	\$0.40	\$0.42	\$0.44	\$0.46	\$0.48	\$0.50	\$0.52	\$0.54	\$0.58	\$0.64	\$0.70	\$0.89
Shares¹	9.3	9.5	9.7	10.0	10.2	10.4	11.5	11.6	11.7	11.9	12.0	12.4

Enterprise has an outstanding performance record, as it has remained profitable for 121 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 a 10.8% average annual rate in the last decade and has grown its earnings-per-share in all but one year throughout this period.

Enterprise opened a new branch in Lexington in March and is on track to open a new branch in North Andover in the summer. While the opening of two new branches is not significant for most banks, it is important for Enterprise, as it will increase its branch count by 8%. In the short term, Enterprise is facing a strong headwind from the coronavirus, but we expect the bank to recover from next year, along with the economy. Thanks to the opening of new stores and the low comparison base formed this year, we expect Enterprise to grow its earnings-per-share by about 9% 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.

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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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	11.8	12.3	12.9	15.6	17.5	14.7	22.1	16.4	12.9	10.5	12.7	12.0
Avg. Yld.	3.5%	2.8%	2.7%	2.5%	2.3%	2.3%	2.0%	1.6%	1.7%	2.1%	2.5%	2.2%

Enterprise has traded at an average price-to-earnings ratio of 14.5 in the last decade. Given the small market cap of the bank, we consider its fair earnings multiple to be around 12.0. The stock is currently trading at a price-to-earnings ratio of 12.7. If it reaches our fair value estimate over the next five years, it will incur a -1.2% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	35%	36%	34%	34%	33%	32%	30%	32%	23%	22%	32%	26%

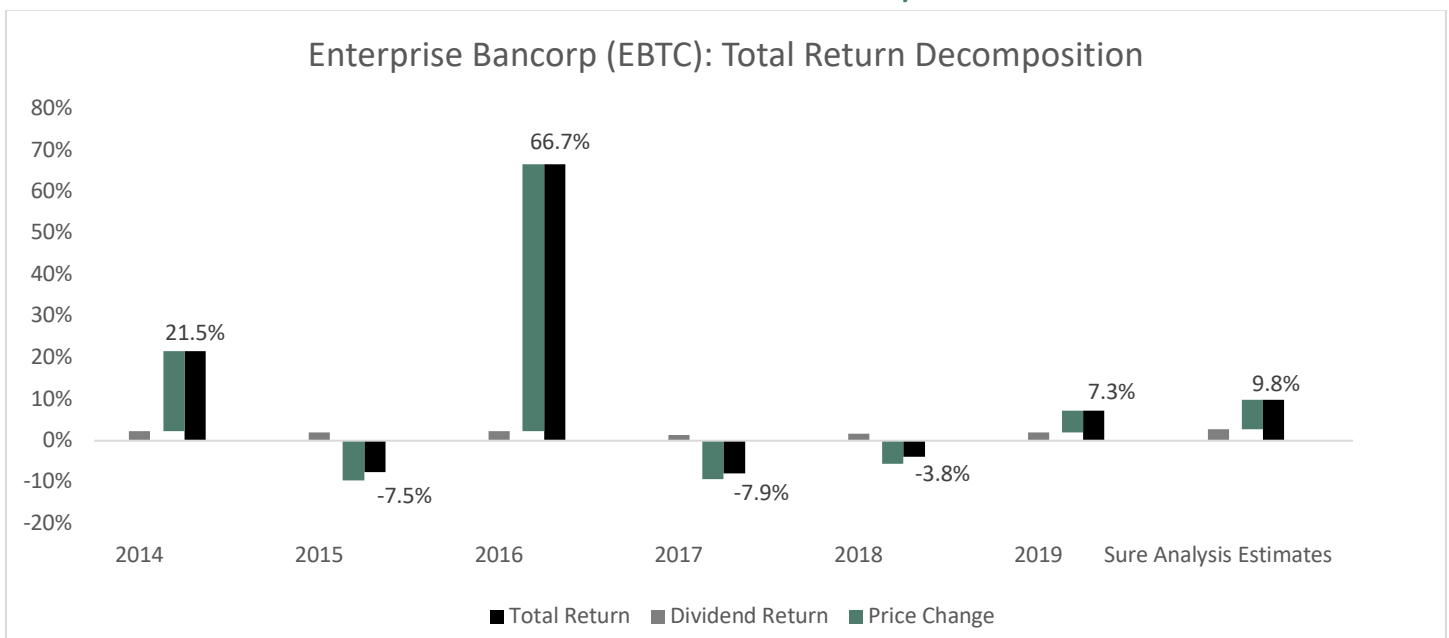
Enterprise has grown its dividend for 26 consecutive years. During the last decade, the bank has grown its dividend at a 5.8% average annual rate. In addition, Enterprise has been named to the Boston Globe's "Top Places to Work in Massachusetts" for eight consecutive years, ranking in the top three among large companies in 2018. The emphasis of the bank on its work force provides a slight 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 and its resilience to recessions. On the other hand, as the bank was in high-growth mode back then, investors should not expect a similar performance in the ongoing recession, though we expect the bank to remain resilient.

Final Thoughts & Recommendation

The stock of Enterprise has lost -20% in about four months due to the recession caused by the pandemic. We expect the bank to recover from the recession from next year and thus we expect the stock to offer a 9.8% average annual return over the next five years. The security receives a hold rating due to the risks associated with small-cap stocks, such as low liquidity and increased stock price volatility during downturns. We need a higher expected return to rate it as a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	65	70	74	79	86	93	101	113	121	132
SG&A Exp.	35	37	41	43	48	51	55	60	64	68
D&A Exp.	4	4	4	5	5	6	6	7	7	6
Net Profit	11	11	12	14	15	16	19	19	29	34
Net Margin	7	15	10	29	8	22	19	30	37	31
Free Cash Flow	5	5	6	7	8	8	9	16	9	10
Income Tax	5	5	6	7	8	8	9	16	9	10

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	1397	1489	1666	1850	2022	2286	2526	2818	2964	3235
Cash & Equivalents	31	37	50	52	40	51	50	55	63	64
Accounts Receivable	6	6	6	6	7	8	9	11	11	12
Goodwill & Int. Ass.	6	6	6	6	6	6	6	6	6	6
Total Liabilities	1281	1362	1526	1699	1855	2105	2311	2586	2709	2938
Accounts Payable	1	1	1	1	1	0	0	0	1	1
Long-Term Debt	26	11	11	11	11	15	15	15	15	15
Shareholder's Equity	117	127	140	151	167	180	215	232	255	297
D/E Ratio	0.23	0.08	0.08	0.07	0.06	0.08	0.07	0.06	0.06	0.05

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	0.8%	0.8%	0.8%	0.8%	0.8%	0.7%	0.8%	0.7%	1.0%	1.1%
Return on Equity	9.5%	9.0%	9.3%	9.3%	9.2%	9.3%	9.5%	8.7%	11.9%	12.4%
ROIC	7.4%	7.8%	8.6%	8.7%	8.6%	8.7%	8.8%	8.1%	11.2%	11.8%
Shares Out.	9.3	9.5	9.7	10.0	10.2	10.4	11.5	11.6	11.7	11.9
Revenue/Share	6.61	6.88	7.09	7.39	8.39	8.35	9.17	9.71	10.28	11.17
FCF/Share	0.67	1.48	0.93	2.73	0.83	1.95	1.76	2.55	3.11	2.63

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

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