



Enterprise Bancorp Inc. (EBTC)

Updated January 31st, 2022 by Aristofanis Papadatos

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|----------|
| Current Price: | \$42 | 5 Year CAGR Estimate: | 6.3% | Market Cap: | \$508 M |
| Fair Value Price: | \$41 | 5 Year Growth Estimate: | 5.0% | Ex-Dividend Date: | 2/7/2022 |
| % Fair Value: | 103% | 5 Year Valuation Multiple Estimate: | -0.6% | Dividend Payment Date: | 3/1/2022 |
| Dividend Yield: | 2.0% | 5 Year Price Target | \$52 | Years Of Dividend Growth: | 28 |
| Dividend Risk Score: | A | Retirement Suitability Score: | B | Last Dividend Increase: | 10.8% |

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 26 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 \$508 million and is an exceptionally managed bank, which has remained profitable in every single quarter since its formation. In late January, Enterprise reported (1/27/22) financial results for the fourth quarter of fiscal 2021. The bank grew its net interest income 4% over the prior year's quarter, primarily thanks to Paycheck Protection Program loans. In addition, thanks to the continued recovery of the economy from the pandemic, the bank nearly eliminated its loan loss provisions. Moreover, its non-interest income grew 27%, mostly due to a non-recurring \$1.1 million gain on a sale. As a result, earnings-per-share grew 10%, from \$0.82 to \$0.90. Thanks to strong business outlook, Enterprise raised its dividend by 10.8%. The record earnings in 2021 and the dividend raise are testaments to the high quality of this bank and its resilience to downturns.

Growth on a Per-Share Basis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$1.28 | \$1.36 | \$1.44 | \$1.55 | \$1.70 | \$1.68 | \$2.47 | \$2.89 | \$2.64 | \$3.50 | \$3.40 | \$4.34 |
| DPS | \$0.44 | \$0.46 | \$0.48 | \$0.50 | \$0.52 | \$0.54 | \$0.58 | \$0.64 | \$0.70 | \$0.74 | \$0.82 | \$1.12 |
| Shares¹ | 9.7 | 10.0 | 10.2 | 10.4 | 11.5 | 11.6 | 11.7 | 11.9 | 12.0 | 12.1 | 12.2 | 12.7 |

Enterprise has an outstanding performance record, as it has remained profitable for 129 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 11.8% average annual rate in the last decade and has grown its earnings-per-share in all but two years throughout this period.

Enterprise opened a new branch in North Andover in January-2021 and expects to open its 27th branch in Londonderry, New Hampshire, in the third quarter of 2022. 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%. Moreover, the pandemic has begun to subside thanks to the massive rollout of vaccines and the Fed is about to begin raising interest rates at a fast pace. It will thus enhance the net interest margin of banks, including Enterprise. Thanks to these tailwinds, we expect Enterprise to grow its earnings-per-share by about 5% per year over the next five years. We have not assumed a higher growth rate due to the high comparison base formed this year by the nearly all-time high expected earnings-per-share of \$3.40. 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 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now | 2027 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E | 12.3 | 12.9 | 15.6 | 17.5 | 14.7 | 22.1 | 16.4 | 10.5 | 9.4 | 9.8 | 12.4 | 12.0 |
| Avg. Yld. | 2.8% | 2.6% | 2.1% | 1.8% | 2.1% | 1.5% | 1.4% | 2.1% | 2.8% | 2.2% | 2.0% | 2.2% |

Enterprise has traded at an average price-to-earnings ratio of 14.1 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 12.4. If it reaches our fair value estimate over the next five years, it will incur a -0.6% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 34% | 34% | 33% | 32% | 30% | 32% | 23% | 22% | 27% | 21% | 24% | 26% |

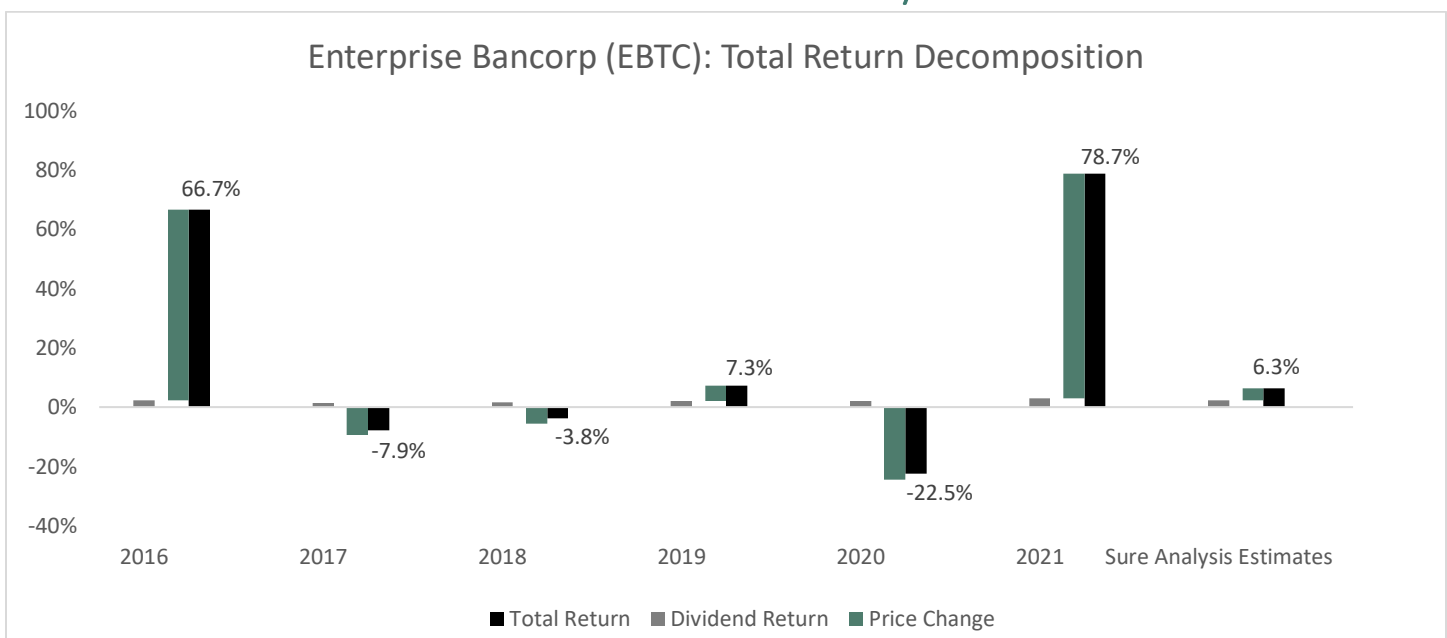
Enterprise has grown its dividend for 28 consecutive years. During the last decade, the bank has grown its dividend at a 5.9% average annual rate. In addition, Enterprise has been named to the Boston Globe's "Top Places to Work in Massachusetts" for ten consecutive years, and was ranked 4th among large companies in 2020. 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 next recession, though the bank has remained resilient to the pandemic.

Final Thoughts & Recommendation

The stock of Enterprise has more than doubled in about 15 months, but it remains attractive. We expect Enterprise to maintain its strong business performance and offer a 6.3% average annual return over the next five years. Despite the risks associated with small-cap stocks, such as low liquidity and increased stock price volatility during downturns, we view Enterprise as one of the highest-quality banks. Nevertheless, due to its steep rally, we rate it as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-----------------------|------|------|------|------|------|------|------|------|------|
| Revenue | 74 | 79 | 86 | 93 | 101 | 113 | 121 | 132 | 147 |
| SG&A Exp. | 41 | 43 | 48 | 51 | 55 | 60 | 64 | 68 | 76 |
| D&A Exp. | 4 | 5 | 5 | 6 | 6 | 7 | 7 | 6 | 7 |
| Net Profit | 12 | 14 | 15 | 16 | 19 | 19 | 29 | 34 | 31 |
| Free Cash Flow | 10 | 29 | 8 | 22 | 19 | 30 | 37 | 31 | 34 |
| Income Tax | 6 | 7 | 8 | 8 | 9 | 16 | 9 | 10 | 10 |

Balance Sheet Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---------------------------------|------|------|------|------|------|------|------|------|------|
| Total Assets | 1666 | 1850 | 2022 | 2286 | 2526 | 2818 | 2964 | 3235 | 4014 |
| Cash & Equivalents | 50 | 52 | 40 | 51 | 50 | 55 | 63 | 64 | 254 |
| Accounts Receivable | 6 | 6 | 7 | 8 | 9 | 11 | 11 | 12 | 16 |
| Goodwill & Int. Ass. | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Total Liabilities | 1526 | 1699 | 1855 | 2105 | 2311 | 2586 | 2709 | 2938 | 3680 |
| Accounts Payable | 1 | 1 | 1 | 0 | 0 | 0 | 1 | 1 | 2 |
| Long-Term Debt | 37 | 47 | 70 | 68 | 26 | 104 | 115 | 111 | 79 |
| Shareholder's Equity | 140 | 151 | 167 | 180 | 215 | 232 | 255 | 297 | 334 |
| D/E Ratio | 0.27 | 0.31 | 0.42 | 0.38 | 0.12 | 0.45 | 0.45 | 0.37 | 0.23 |

Profitability & Per Share Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-------------------------|------|------|------|------|------|------|-------|-------|-------|
| Return on Assets | 0.8% | 0.8% | 0.8% | 0.7% | 0.8% | 0.7% | 1.0% | 1.1% | 0.9% |
| Return on Equity | 9.3% | 9.3% | 9.2% | 9.3% | 9.5% | 8.7% | 11.9% | 12.4% | 10.0% |
| ROIC | 8.6% | 8.7% | 8.6% | 8.7% | 8.8% | 8.1% | 11.2% | 11.8% | 7.7% |
| Shares Out. | 9.7 | 10.0 | 10.2 | 10.4 | 11.5 | 11.6 | 11.7 | 11.9 | 12.0 |
| Revenue/Share | 7.09 | 7.39 | 8.39 | 8.35 | 9.17 | 9.71 | 10.28 | 11.17 | 12.36 |
| FCF/Share | 0.93 | 2.73 | 0.83 | 1.95 | 1.76 | 2.55 | 3.11 | 2.63 | 2.82 |

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

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