



Ennis Inc. (EBF)

Updated February 23rd, 2023, by Ian Bezek

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|-----------------------|
| Current Price: | \$21 | 5 Year CAGR Estimate: | 10.0% | Market Cap: | \$546M |
| Fair Value Price: | \$24 | 5 Year Growth Estimate: | 3.0% | Ex-Dividend Date: | 04/14/23 ¹ |
| % Fair Value: | 86% | 5 Year Valuation Multiple Estimate: | 3.1% | Dividend Payment Date: | 05/09/23 ¹ |
| Dividend Yield: | 4.8% | 5 Year Price Target | \$28 | Years Of Dividend Growth: | 2 |
| Dividend Risk Score: | F | Retirement Suitability Score: | C | Rating: | Buy |

Overview & Current Events

Ennis is a company in the printing and business documents sector. The company provides commercial printing services, along with a variety of complementary products such as folders, forms, tags, labels, and so on. Investors might be inclined to dismiss this as a dying business. And, indeed, print volumes have been declining. However, total value has held up thanks to rising prices along with offering additional services and add-ons.

Furthermore, Ennis has been an aggressive acquirer, picking up numerous other printing businesses over the past five years. In 2021, the company bought AmeriPrint, which is involved in barcodes. Last year, Ennis acquired School Photo Marketing, which is a leader in school and sports photography. As other players seek to exit the printing industry, Ennis should have more opportunities to keep making beneficial acquisitions.

On December 19th, 2022, Ennis reported its results for its third quarter for the period ending November 30th, 2022. In it, Ennis showed strong results on both the top and bottom line. Revenues rose 7% to \$110 million. Meanwhile, earnings per share surged from \$0.29 in the same period of 2021 to \$0.44 this quarter, marking a 50% increase year-over-year. Ennis achieved the strong profit growth thanks to a 200 basis points jump in its gross margin. This came about as a result of fading inflationary pressures as the price of raw materials for making paper and other goods fell. Ennis has also been aggressive in managing costs.

Growth on a Per-Share Basis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$0.95 | \$0.50 | \$1.35 | \$1.39 | \$1.03 | \$1.29 | \$1.45 | \$1.47 | \$0.93 | \$1.11 | \$1.63 | \$1.89 |
| DPS | \$0.53 | \$0.53 | \$0.70 | \$0.70 | \$0.70 | \$0.78 | \$0.88 | \$0.90 | \$0.90 | \$0.98 | \$1.00 | \$1.16 |
| Shares | 26 | 26 | 25 | 25 | 26 | 26 | 26 | 26 | 26 | 26 | 26 | 26 |

Ennis has had a somewhat volatile earnings per share track record over the past decade. This isn't too surprising, as it is managing challenging market conditions where the demand for physical printing services tends to decline. That said, Ennis has, thus far, been able to offset any demand destruction via its consistent M&A strategy. The company continues to look for more deals and noted that it has credit available if a big opportunity were to come along.

As Ennis is a mature business with limited organic growth opportunities, it has chosen to return lots of capital to shareholders. The company has paid a large dividend, and it has nearly doubled the size of that dividend over the past decade. Up until now, Ennis has elected to focus its shareholder returns on the dividend rather than a share repurchase program.

As the company has almost finished its fiscal year 2023 already, we can be confident that earnings will be up sharply this year. We expect that growth will moderate in coming years. However, the future path of earnings growth will be largely dependent on what future acquisitions that the company is able to make.

¹ Estimated date

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 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Now | 2028 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E | 16.4 | 31.0 | 12.6 | 17.1 | 14.5 | 14.9 | 14.7 | 13.6 | 21.3 | 16.7 | 12.9 | 15.0 |
| Avg. Yld. | 2.4% | 4.0% | 4.8% | 4.0% | 4.7% | 4.4% | 4.4% | 5.1% | 4.9% | 4.3% | 4.8% | 4.1% |

Ennis has averaged a P/E ratio of 17 over the past five years. We expect the P/E ratio to settle closer to 15 over the longer-term to reflect the challenged outlook for the printing industry. Even so, shares seem attractive on a valuation basis here at 12.9x earnings.

Similarly, Ennis has tended to offer a dividend yield in the low 4% range. The current 4.8% dividend yield is above Ennis' historical average.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 56% | 106% | 52% | 50% | 68% | 60% | 61% | 61% | 97% | 88% | 61% | 61% |

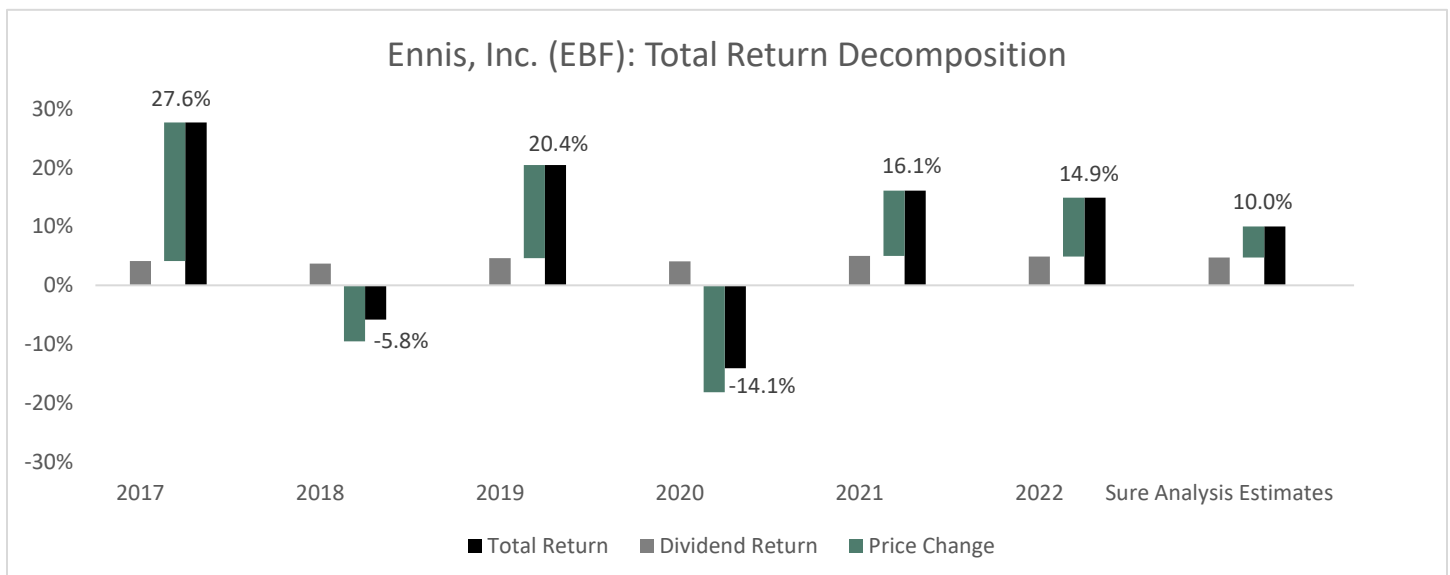
Ennis has averaged a payout ratio of 70% over the past decade. The current 61% payout ratio is below the average, and should be fairly well-supported by current earnings. That said, the payout ratio has reached as high as 97% in recent years, and Ennis could find it challenging to maintain its dividend during a recession or sharp downturn in its industry.

Ennis has a great balance sheet. It held \$87 million of cash as of November 30, 2022, while holding no long-term debt. However, management has said that it could use debt to fund an acquisition if the right deal presents itself.

Final Thoughts & Recommendation

Ennis faces long-term challenges as its core printing market will shrink amid the ongoing transition to digital printing and documentation solutions. However, the company has proven adept at growing via acquisition to counteract the decline in its core markets. There is concern about the durability of Ennis' business model. But the starting valuation appears low enough to account for the risk. We forecast 10.0% annualized total returns thanks to the high starting dividend yield, 3.1% annualized earnings growth, and a bit of multiple expansion. Ennis shares earn a buy rating today.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|-------------------------|-------|-------|--------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 534 | 542 | 380 | 386 | 357 | 370 | 401 | 438 | 358 | 400 |
| Gross Profit | 124 | 144 | 115 | 116 | 105 | 117 | 123 | 129 | 104 | 115 |
| Gross Margin | 23.3% | 26.5% | 30.3% | 30.1% | 29.3% | 31.7% | 30.8% | 29.4% | 29.0% | 28.7% |
| SG&A Exp. | 84 | 87 | 61 | 66 | 63 | 69 | 73 | 78 | 68 | 71 |
| D&A Exp. | 13 | 14 | 11 | 12 | 13 | 14 | 16 | 18 | 18 | 19 |
| Operating Profit | 40 | 57 | 54 | 51 | 42 | 48 | 50 | 51 | 35 | 43 |
| Op. Margin | 7.6% | 10.5% | 14.3% | 13.1% | 11.8% | 13.0% | 12.4% | 11.6% | 9.9% | 10.8% |
| Net Profit | 25 | 13 | (45) | 36 | 2 | 33 | 37 | 38 | 24 | 29 |
| Net Margin | 4.6% | 2.4% | -11.7% | 9.3% | 0.5% | 8.9% | 9.3% | 8.7% | 6.7% | 7.2% |
| Free Cash Flow | 47 | 28 | 62 | 82 | 56 | 43 | 47 | 54 | 49 | 44 |
| Income Tax | 14 | 19 | 20 | 19 | 14 | 14 | 12 | 13 | 9 | 13 |

Balance Sheet Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|-------------------------------|------|------|------|------|------|------|------|------|------|------|
| Total Assets | 495 | 536 | 453 | 390 | 324 | 329 | 363 | 366 | 364 | 369 |
| Cash & Equivalents | 6 | 5 | 15 | 8 | 80 | 96 | 88 | 68 | 75 | 86 |
| Acc. Receivable | 60 | 64 | 63 | 37 | 37 | 36 | 40 | 43 | 38 | 39 |
| Inventories | 110 | 130 | 120 | 28 | 28 | 26 | 35 | 35 | 33 | 39 |
| Goodwill & Int. | 206 | 227 | 141 | 117 | 125 | 120 | 143 | 139 | 141 | 134 |
| Total Liabilities | 134 | 173 | 169 | 91 | 73 | 68 | 74 | 71 | 64 | 65 |
| Accounts Payable | 22 | 22 | 21 | 14 | 14 | 12 | 14 | 17 | 15 | 17 |
| Long-Term Debt | 58 | 106 | 107 | 40 | 30 | 30 | 30 | - | - | - |
| Total Equity | 361 | 363 | 285 | 299 | 251 | 262 | 289 | 294 | 301 | 304 |
| LTD/E Ratio | 0.16 | 0.29 | 0.37 | 0.13 | 0.12 | 0.11 | 0.10 | - | - | - |

Profitability & Per Share Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|-------------------------|-------|-------|--------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 4.8% | 2.6% | -9.0% | 8.5% | 0.5% | 10.1% | 10.8% | 10.5% | 6.6% | 7.9% |
| Return on Equity | 6.9% | 3.6% | -13.8% | 12.3% | 0.6% | 12.8% | 13.6% | 13.1% | 8.1% | 9.6% |
| ROIC | 5.7% | 3.0% | -10.4% | 9.8% | 0.6% | 11.5% | 12.3% | 12.5% | 8.1% | 9.6% |
| Shares Out. | 26 | 26 | 25 | 25 | 26 | 26 | 26 | 26 | 26 | 26 |
| Revenue/Share | 20.48 | 20.75 | 14.71 | 15.00 | 13.86 | 14.56 | 15.51 | 16.84 | 13.77 | 15.32 |
| FCF/Share | 1.82 | 1.08 | 2.41 | 3.21 | 2.17 | 1.68 | 1.80 | 2.07 | 1.89 | 1.69 |

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

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