



# Enterprise Bancorp Inc. (EBTC)

Updated August 22<sup>nd</sup>, 2023 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$30	<b>5 Year CAGR Estimate:</b>	13.4%	<b>Market Cap:</b>	\$364 M
<b>Fair Value Price:</b>	\$44	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	8/10/2023
<b>% Fair Value:</b>	68%	<b>5 Year Valuation Multiple Estimate:</b>	7.9%	<b>Dividend Payment Date:</b>	9/1/2023
<b>Dividend Yield:</b>	3.1%	<b>5 Year Price Target</b>	\$51	<b>Years Of Dividend Growth:</b>	29
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	Buy

## 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 27 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 \$364 million and is an exceptionally managed bank, which has remained profitable in every single quarter since its formation. In late July, Enterprise reported (7/25/23) financial results for the second quarter of fiscal 2023. The bank grew its loans by 9% and its deposits by 1% over the prior year's quarter. It also enhanced its net interest margin from 3.45% to 3.55% thanks to higher interest rates and thus it grew its net interest income by 6% and its earnings-per-share by 18%, from \$0.67 to \$0.79. The stock has declined -17% this year due to sell-off of regional banks after the collapse of Silicon Valley Bank, Credit Suisse and First Republic. However, we remain confident in this exemplary bank, which has proved essentially immune to downturns thanks to its rock-solid business model. Enterprise has grown its deposits this year and hence it is not facing any liquidity issues. We still expect record earnings-per-share this year.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$1.36	\$1.44	\$1.55	\$1.70	\$1.68	\$2.47	\$2.89	\$2.64	\$3.50	\$3.52	<b>\$3.65</b>	<b>\$4.23</b>
<b>DPS</b>	\$0.46	\$0.48	\$0.50	\$0.52	\$0.54	\$0.58	\$0.64	\$0.70	\$0.74	\$0.82	<b>\$0.92</b>	<b>\$1.26</b>
<b>Shares<sup>1</sup></b>	10.0	10.2	10.4	11.5	11.6	11.7	11.9	12.0	12.1	12.2	<b>12.3</b>	<b>12.8</b>

Enterprise has an outstanding performance record, as it has remained profitable for 135 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 two years throughout this period.

Enterprise opened a new branch in North Andover in January 2021 and its 27<sup>th</sup> branch in Londonderry, New Hampshire, in May 2022. While the opening of two new branches is not significant for most banks, it is important for Enterprise, as it has increased its branch count by 8%. Moreover, the pandemic has subsided and the Fed is raising interest rates in an effort to keep inflation under control. It has thus enhanced the net interest margin of banks, including Enterprise. Thanks to these tailwinds, we expect Enterprise to grow its earnings-per-share by 4% this year and by 3% per year beyond this year. We have not assumed a higher growth rate due to the high comparison base formed this year by the all-time high expected earnings-per-share of \$3.65. The bank may grow even faster, but we prefer to be conservative due to its small market cap.

<sup>1</sup> 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	12.9	15.6	17.5	14.7	22.1	16.4	10.5	9.4	9.8	9.9	8.2	12.0
Avg. Yld.	2.6%	2.1%	1.8%	2.1%	1.5%	1.4%	2.1%	2.8%	2.2%	2.3%	3.1%	2.5%

Enterprise has traded at an average price-to-earnings ratio of 13.9 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 8.2. If it reaches our fair value estimate over the next five years, it will enjoy a 7.9% annualized gain in its returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	34%	33%	32%	30%	32%	23%	22%	27%	21%	23%	25%	30%

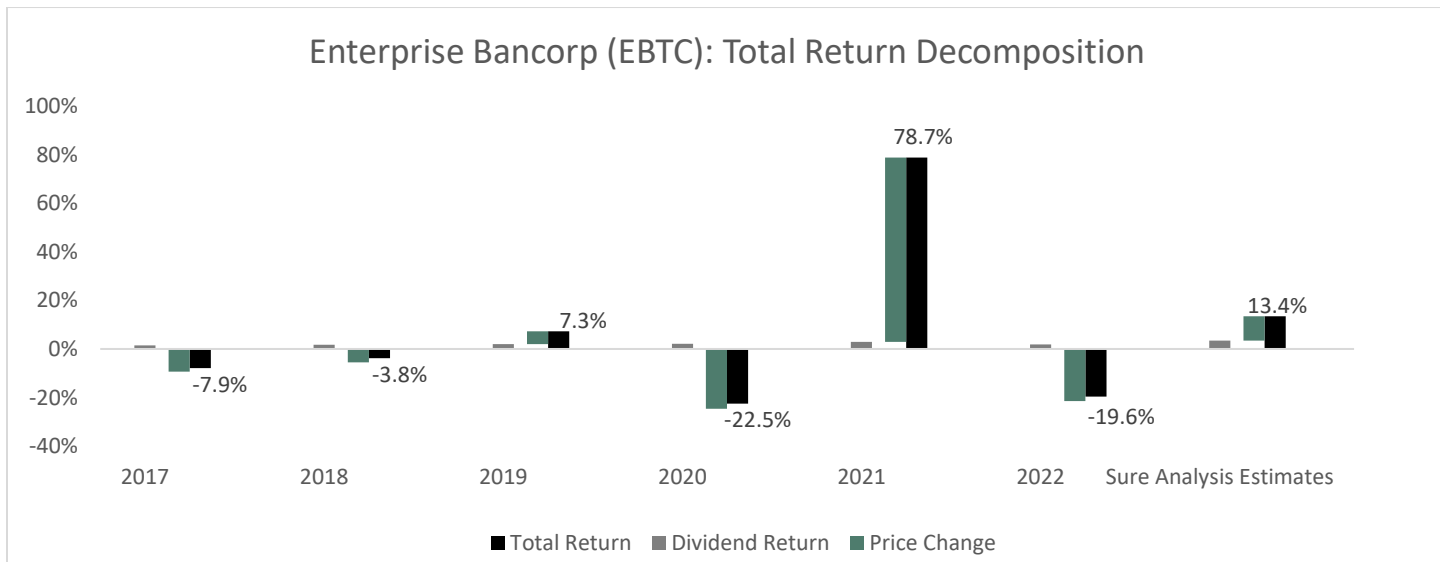
Enterprise has grown its dividend for 29 consecutive years. During the last decade, the bank has grown its dividend at a 6.6% average annual rate. In addition, Enterprise has been named to the Boston Globe's "Top Places to Work in Massachusetts" for eleven consecutive years, and was ranked 7<sup>th</sup> 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 proved resilient to the pandemic.

## Final Thoughts & Recommendation

The stock of Enterprise has shed -17% this year due to the indiscriminate sell-off of regional banks. We are confident that Enterprise will easily endure the ongoing financial turmoil and hence we view the plunge of the stock as a rare investing opportunity. We expect the stock to offer a 13.4% average annual return over the next five years thanks to 3.0% growth of earnings-per-share, its 3.1% dividend and a 7.9% valuation tailwind. 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. The stock receives a strong buy rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	79	86	93	101	113	121	132	147	160	170
SG&A Exp.	43	48	51	55	60	64	68	76	82	77
D&A Exp.	5	5	6	6	7	7	6	7	8	7
Net Profit	14	15	16	19	19	29	34	31	42	43
Free Cash Flow	29	8	22	19	30	37	31	34	58	43
Income Tax	7	8	8	9	16	9	10	10	14	13

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1850	2022	2286	2526	2818	2964	3235	4014	4447	4438
Cash & Equivalents	52	40	51	50	55	63	64	254	437	268
Accounts Receivable	6	7	8	9	11	11	12	16	13	17
Goodwill & Int. Ass.	6	6	6	6	6	6	6	6	6	6
Total Liabilities	1699	1855	2105	2311	2586	2709	2938	3680	4101	4156
Accounts Payable	1	1	0	0	0	1	1	2	2	2
Long-Term Debt	47	70	68	26	104	115	111	79	64	62
Shareholder's Equity	151	167	180	215	232	255	297	334	347	282
LTD/E Ratio	0.31	0.42	0.38	0.12	0.45	0.45	0.37	0.23	0.19	0.22

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.8%	0.8%	0.7%	0.8%	0.7%	1.0%	1.1%	0.9%	1.0%	1.0%
Return on Equity	9.3%	9.2%	9.3%	9.5%	8.7%	11.9%	12.4%	10.0%	12.4%	13.6%
ROIC	8.7%	8.6%	8.7%	8.8%	8.1%	11.2%	11.8%	7.7%	10.2%	11.3%
Shares Out.	10.0	10.2	10.4	11.5	11.6	11.7	11.9	12.0	12.1	12.1
Revenue/Share	7.39	8.39	8.35	9.17	9.71	10.28	11.17	12.36	13.25	14.01
FCF/Share	2.73	0.83	1.95	1.76	2.55	3.11	2.63	2.82	4.82	3.55

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

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