Trickle Research

Every raging river, every great lake, every deep blue sea starts … with a trickle

2QF24 Earnings Update

Enterprise Group, Inc.

(OTC:ETOLF, TSX: E.TO)

Report Date: 08/08/24

12- 24 month Price Target: US$3.50

Allocation: 4

Closing Stock Price at Initiation (Closing Px: 08/02/24): US$.99

Closing Stock Price at This Update (Closing Px: 08/07/24): US$1.10

(Share price data is in U.S. Dollars. The attached Projected Operating Model is in Canadian Dollars)

Prepared By:
David L. Lavigne
Senior Analyst, Managing Partner
Trickle Research

Disclosure: Portions of this report are excerpted from Enterprise Group's filings, website(s), presentations or other public collateral. We have attempted to identify those excerpts by *italicizing* them in the text.

We just initiated our coverage of Enterprise Group, Inc. ("EGI") a few days ago so we will keep this brief. In retrospect, we probably should have waited for this earnings release to initiate the stock, but we did not expect the earnings to be particularly consequential one way or the other. As it turned out, the numbers were measurably better than we anticipated in the initiating coverage. Here are some of the highlights.

For 2QF24, EGI reported revenues of CAN $7.7 million, Adjusted EBITDA of CAN$2.65 million, Net Income of CAN$76,000 and EPS of $0.00. Those compared to our estimates of CAN$6.5 million, Adjusted EBITDA of CAN$2 million, Net Income of <CAN$358,000>, and EPS of <$0.00>. Again, those results were markedly better than our estimates.

Recall, in our initiating coverage, we noted that 2Q is typically the Company's weakest quarter. For instance, EGI has lost money in each 2Q for the past five years, which they generally look to make up for in seasonally stronger quarters. In our view, that swing to profitability in a perennial weak quarter supports a portion of our thesis, which is that the Company has added capacity that should lift them to improving comparative YoY revenue results, while at the same time taking advantage of relative operating leverage resulting in improved net margins. Obviously, given the shift to profitability, that is exactly what happened in the quarter. We think that bodes well for future periods.

Looking ahead, we would note the following with respect to our price target/valuation assessments relative to the current share price. As our model indicates, we are looking for F2024 diluted eps of CAN$.17. Through the first half of the year, they are at 44% of the way there with the weakest quarter behind them. To reiterate a point from the initiating coverage, we believe F2024 results will be bolstered by added capacity. For reference, if that estimate proves accurate, the Company will post a 37% increase in eps. Looking to F2025, we expect them to grow eps by just under 25% versus F2024. In that scenario, at that point (the end of F2025), our target (CAN$4.80) would represent a *trailing Price/Earnings* ratio of 23X. Again, for reference, as a back of the napkin analysis, we typically believe P/E multiples should approximate eps growth. In other words, a stock that is growing eps at 20% per year should trade with a P/E multiple in the 20X range. From that view, while we recognize our current target is roughly 340% of the current share price, we stand by our assessment that EGI shares are markedly undervalued. Further, for those who prefer to fucus on operating cash flow, keep in mind that while we expect them to continue to improve earnings, their marked capex additions (to build capacity), provide even better EBITDA/Cash Flow metrics. To that end, through the first half of F2024, they generated Net Income of CAN$4.1 million but CAN$9 million of EBITDA. EGI's 2QF24 results bolster our view that the shares represent a marked value at current levels.

We reiterate our allocation of 4 (although given the results, we are inclined to boost that), as well as our 12-24 month price target of US$3.50 (CAN$4.80), which we will likely revisit soon as well.

Projected Operating Model

Enterprise Group, Inc.						
Projected Operating Statement						
(Expressed in CAD)						
By: Trickle Research	(Actual)	(Actual)	(Estimate)	(Estimate)	(Estimate)	(Estimate)
	3/31/2024	**6/30/2024**	**9/30/2024**	**12/31/2024**	**Fiscal 2024**	**Fiscal 2025**
Revenues	$ 12,326,288	$ 7,707,282	$10,114,978	$ 12,507,806	$ 42,656,354	$ 46,683,230
Direct Expenses	$ 5,429,944	$ 4,388,946	$ 4,927,595	$ 5,501,873	$ 20,248,358	$ 21,203,975
					$ -	$ -
Gross Margin	$ 6,896,344	$ 3,318,336	$ 5,187,383	$ 7,005,933	$ 22,407,996	$ 25,479,255
					$ -	$ -
General & Admin. Expenses	$ 558,491	$ 666,642	$ 567,759	$ 625,187	$ 2,418,080	$ 2,420,398
Depreciation - PP&E	$ 1,258,326	$ 1,283,092	$ 1,330,324	$ 1,365,185	$ 5,236,926	$ 5,809,002
Depreciation - Right of Use Assets	$ 333,836	$ 393,052	$ 322,036	$ 324,773	$ 1,373,698	$ 1,326,935
Share Based Payments	$ 47,265	$ 70,741	$ 50,000	$ 50,000	$ 218,006	$ 200,000
Amortization of Intangibles	$ 12,536	$ 12,536	$ 12,500	$ 12,500	$ 50,072	$ 50,000
Acquisition Costs	$ -	$ -	$ -	$ -	$ -	$ -
(Gain)/Loss on Sale of Assets	$ (3,014)	$ 96,170	$ -	$ -	$ 93,156	$ -
					$ -	$ -
Total Operating Expenses	$ 2,207,440	$ 2,522,233	$ 2,282,619	$ 2,377,646	$ 9,389,938	$ 9,806,335
					$ -	$ -
Income Before Financing and Taxes	$ 4,688,904	$ 796,103	$ 2,904,764	$ 4,628,287	$ 13,018,058	$ 15,672,920
					$ -	$ -
Finance Expense	$ 697,390	$ 719,680	$ 687,779	$ 685,003	$ 2,789,852	$ 2,716,966
Impairments of PP&E	$ -	$ -	$ -	$ -	$ -	$ -
					$ -	$ -
Income Before Taxes	$ 3,991,514	$ 76,423	$ 2,216,984	$ 3,943,285	$ 10,228,206	$ 12,955,954
					$ -	$ -
Income Tax Expense	$ -	$ -	$ -	$ -	$ -	$ -
					$ -	$ -
Net Income	$ 3,991,514	$ 76,423	$ 2,216,984	$ 3,943,285	$ 10,228,206	$ 12,955,954
Income Per Share- Basic	$ 0.08	$ 0.00	$ 0.04	$ 0.07	$ 0.18	$ 0.22
Income Per Share-Diluted	$ 0.07	$ 0.00	$ 0.04	$ 0.06	$ 0.17	$ 0.21
Basic Shares Outstanding	51,435,755	59,208,399	59,208,399	59,208,399	57,265,238	59,208,399
Diluted Shares Outstanding	57,971,724	60,941,327	60,999,653	61,055,200	60,241,976	61,181,308

General Disclaimer:

Trickle Research LLC produces and publishes independent research, due diligence and analysis for the benefit of it investor base. Our publications are for information purposes only. Readers should review all available information on any company mentioned in our reports or updates, including, but not limited to, the company's annual report, quarterly report, press releases, as well as other regulatory filings. Trickle Research is not registered as a securities broker-dealer or an investment advisor either with the U.S. Securities and Exchange Commission or with any state securities regulatory authority. Readers should consult with their own independent tax, business and financial advisors with respect to any reported company. Trickle Research and/or its officers, investors and employees, and/or members of their families may have long/short positions in the securities mentioned in our research and analysis and may make purchases and/or sales for their own account of those securities. David Lavigne does not hold a position in Enterprise Group, Inc.

Trickle Research co-sponsors two microcap conferences each year. Trickle Research encourages its coverage companies to present at those conferences and Trickle charges them a fee to do so. Companies are under no obligation to present at these conferences. As of the publishing of this document, Enterprise Group, Inc. has not paid fees to present at Trickle co-sponsored conferences but Trickle will encourage them to do so in the future.

Portions of this publication excerpted from company filings or other sources are noted in *italics* and referenced throughout the report.

Rating System Overview:

There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1 "investment unit" (for my performance purposes, 1 "investment unit" equals $250) and 10 representing 10 investment units or $2,500. Obviously, a rating of 10 would suggest that I favor the stock (at respective/current levels) more than a stock with a rating of 1. As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let's use that as a guideline. Hypothetically, if you think you would like to commit $25,000 to buying micro-cap stocks, that would assume an investment of $1000 per stock (using the diversification approach we just mentioned, and the 20-stock coverage list we suggested and leaving some room to add to positions around allocation upgrades. We generally start initial coverage stocks with an allocation of 4. Thus, at $1000 invested per stock and a typical starting allocation of 4, your "investment unit" would be the same $250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting $1000 into the position ($250 * 4). If we later raise the allocation to 6, you might consider adding two additional units or $500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

For those attached to more traditional rating systems (Buy, Sell, Hold) we would submit the following guidelines.

A Trickle rating of 1 thru 3 would best correspond to a "Hold" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.

A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.

A Trickle rating of 7 thru 10 would best correspond to a "Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.