Trickle Research

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

Fiscal 2024 Earnings Update, Allocation Increase and Target Decrease

ENTERPRISE GROUP, INC.

Enterprise Group, Inc.

(OTC:ETOLF, TSX: E.TO)

Report Date: 03/31/25

12- 24 month Price Target: *US$3.25

Allocation: **5

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

Closing Stock Price at This Allocation Increase and Price Target Decrease Update (Closing Px: 03/31/25): US$.98

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

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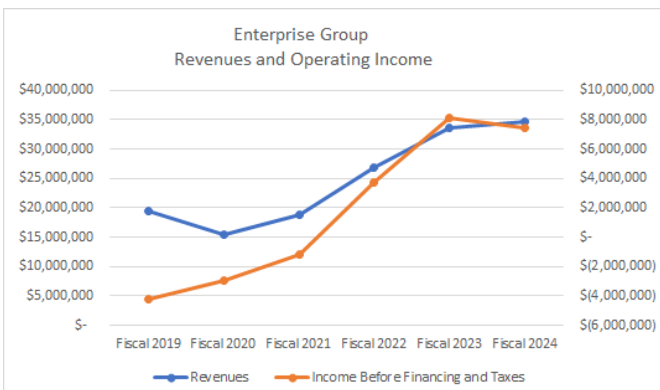
Disclosure: Portions of this report are excerpted from Enterprise Group's filings, website(s), presentations or other public collateral. We have attempted to identify those excerpts by *italicizing* them in the text.

For Fiscal 2024, EGI reported revenues of CAN $34.7 million, Adjusted EBITDA of CAN$13.1 million, Net Income of CAN$4.5 million and diluted EPS of $0.07. Those compared to our estimates of CAN$39.4 million, Adjusted EBITDA of CAN$17.2 million, Net Income of $8.4 million, and EPS of $.14. Clearly, our estimates were markedly higher than the actual results. Recapping, for Q1F24 the Company reported better numbers than we anticipated, while for the second half of F24 our estimates were woefully overstated in each of the associated quarters.

Recall, the Company's 3QF24 narrative referenced "*apprehension and preparation for a potentially severe forest fire season, leading some customers to delay the execution of planned projects to the end of the forest fire season. The second reason was some customers took advantage of the summer months to allow employees extended time off to prepare employees for the up coming demands of another year of busy field activity".* On the other hand, the 4QF24 narrative noted, *"many of the Company's natural gas producers were preparing for the start-up of the LNG plant in Kitimat, B.C. However, when the target start-up date was pushed to mid 2025, some of the Company's customers adjusted their work plans and as a result, activity in the fourth quarter only increased at a moderate rate".* First, we think it is important to note that while the second half of F24 was well below our expectations, we think they were well below the expectations of others who follow the Company as well as below the expectations of the Company itself. That being the case, we are going to revisit our original thesis here in the context of these lower-than-expected results.

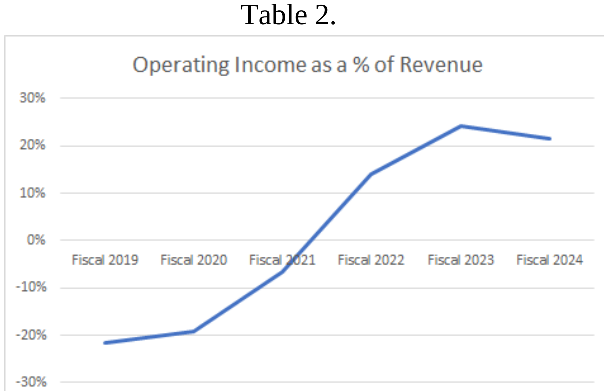
Recall, our enthusiasm for Enterprise Group stems from a handful of drivers that we believe are coalescing into a compelling growth story. First, some of that enthusiasm centers around the simple comparative math:

Table 1.



Setting aside the weaker second half performance (which we will address in a moment) the Company exited the pandemic and strung together an impressive trajectory of revenue growth. Further, that growth was accompanied by sequentially impressive expansion in their operating margins:

Table 2.

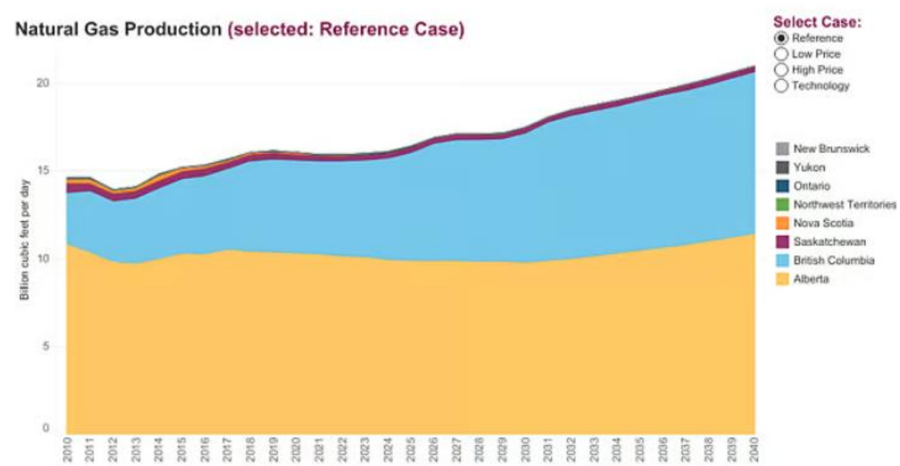


To that end, we are of the view that the structure of the business includes marked operating leverage, which we think will lead to continued expansion of operating margins as revenues advance.

We submit, the 2024 v. 2023 comparative data do not reflect that view on the face, as revenues increased (albeit modestly) but operating margins declined. To that end, we would note that for fiscal 2024 over 2023, the Company added roughly $15 million of property plant and equipment, which impacted some of the comparative operating line items as well as related financing costs. They did that in anticipation of what they believe will be a marked expansion of their business around the launch of Canada's first LNG (export) facility. That brings us to another, and perhaps the most important, of our anticipated valuation drivers.

As we have noted along the way, Canada generally ranks as the 5th or 6th largest natural gas producer in the world. We are of the view, and we think we have considerable company in that regard, that they could produce more if they had somewhere to sell it. Succinctly, LNG Canada, the nation's first LNG facility will provide them access to new market that will provide them access to more places to sell it. Further, Canada has a handful of additional LNG projects that are either underway or awaiting permitting et al. We believe, as do many in the Canadian energy sector, that Canada's new LNG capability will lead to a marked expansion in Canadian gas production as reflected in **Table 3**. That brings us to our assessment of how that catalyst might impact Enterprise Group as well.

Table 3.



Canadian gas production to 2040 Canadian Energy Regulator (CER)

In our initiating coverage, we suggested that the competitive landscape of the oil field infrastructure services the Company provides in western Canada is largely fragmented with a number of small players. In that regard, we believe Enterprise Group is among the largest site infrastructure suppliers in the field. Further, as they have demonstrated, they are also deploying state-of-the-art platforms that we think may give them a distinct comparative advantage over their competitors. For instance, on November 20, 2024 Enterprise Group made the following announcement regarding a platform we also discussed in our initiating coverage. Below is an excerpt from that announcement:

> *St. Albert, Alberta--(Newsfile Corp. - November 20, 2024) - Enterprise Group, Inc. (TSX: E) (OTCQB: ETOLF) (the "Company" or "Enterprise"). Enterprise, a consolidator of energy services (including specialized equipment and services to the energy/resource sector), emphasizes technologies that mitigate,*

reduce, or eliminate CO2 and Green House Gas (GHG) and other harmful emissions for small local and Tier One resource clients.

Enterprise Group, along with its wholly owned subsidiary, Evolution Power Projects ("EPP"), is pleased to announce the early success of an ongoing flare gas utilization project in North Central Alberta with a new client. Desmond O'Kell, President of Enterprise Group, emphasized the significance of this achievement, noting, "Firstly, it allows us to support a client in leveraging excess natural gas production in areas restricted by minimal infrastructure. Secondly, our advanced turbine technology offers Operators and Midstreamers a novel method to meet stringent flaring and emissions standards effectively." This initiative showcases our commitment to providing environmentally friendly, low-emission mobile power systems, demonstrating their efficacy in delivering cost-effective and advanced solutions for remote power needs. This project adds to our expanding portfolio of clients who prioritize efficient and sustainable energy solutions.

EPP's mobile turbine power generation units, known for their significant fuel tolerance, are now utilizing the client's excess gas production to generate about 1 megawatt of continuous power. This power is now readily available for various on-site applications, including production enhancement, further field development, and other local infrastructure needs.

Enterprise views this flare gas solution as highly beneficial for the industry, especially as regulations on flaring have become much stricter in recent years. EPP is compiling daily operational performance data to be used in marketing and business development efforts, which the company expects will boost demand for its mobile turbine equipment as this project site is currently utilizing approximately 13% of EPP's natural gas power fleet.

Enterprise Group continues to advance its position as the sole provider of low emission site electrification power systems to the Canadian energy industry. *Canadian energy producers who are enthusiastic about emission reductions, efficiency, safety and drastically lowering their fuel costs are turning to Enterprise's methods by displacing diesel and utilizing natural gas on their project sites. On the majority of project sites, natural gas produced locally by the client is powering the turbine power generators, thus eliminating third party fuel costs.*

In our view, this is a highly constructive announcement with respect to our thesis that Enterprise occupies an advantageous competitive posture in a market that is set to experience a new level of growth. Additionally, this announcement is the result of a collaboration the Company announced two months prior with *FlexEnergy Solutions, a globally recognized original equipment manufacturer of turbine and microturbine power generation equipment.* That announcement noted that the agreement between Enterprise and Flex established Enterprise as *"**the sole provider** of short-term turbine and microturbine applications across all commercial and industrial sectors in Alberta and British Columbia".* This exclusive agreement is the basis for our view we covered above, that they are "deploying state-of-the-art platforms that we think may give them a distinct comparative advantage over their competitors".

The above noted, we are not minimizing the poor second half, we just do not believe it is indicative of the Company's likely trajectory. As the Company alluded to in their discussion of F24, we think the misses share some correlation to the delays in the start of LNG Canada. Specifically, it appears that the project is now slated for a July (2025) start. Apparently, weather pushed that start from the original anticipated target of the end of 2024, but we are not sure any of the prior targets were definitive given the breadth of the undertaking. Whatever the case, we believe those delays likely impacted some of the production decisions of Enterprise customers, which in turn impacted Enterprise's 2HF24 performance. While 2HF24 results were certainly below our expectations, as well as we suspect those of most of the Company's major stakeholders, they have not changed our basic investment thesis.

Lastly, debt pay down. The Company raised approximately $35 million during fiscal 2024 through the sale of common shares via two separate transactions. Further, (from their F24 MD&A),

> "*...on February 28, 2025, the Company repaid its bank loan facility by way of a cash payment of $15,675,574 which included a negotiated settlement discount from the lender in the amount of $1,500,000. Upon receipt of the funds, all securities held by the lender under the credit agreement were released. The Company is currently in the process of negotiating a new bank loan facility with a tier one lender and expects to have it completed on the first quarter of 2025".*

We think this is notable on a few fronts. First, we were/are constructive on the capital raises, especially the second of the two, because our high-level view is that Enterprise will ultimately be able to deploy/utilize whatever equipment they are able to add. Thus, more capital leads to more equipment, which leads to more revenue. To that end, if our math is correct, the Company added about $17 million of property, plant and equipment during F24, ostensibly in anticipation of the LNG catalyst we discussed. Frankly that ramp, in the face of the delays we also covered above, contributed to some of the misses in the financial results, but again, we view access to capital (and in turn access to added capacity), as a cornerstone of the Company's growth. In that regard, we thought the second raise of (gross) $25 million would likely be followed by news of an acquisition or some other expansion of capacity. Instead, it looks like the initial earmark for some of those funds was the pay down of the bank facility noted above. We think that event was a positive development in that they negotiated a $1.5 million discount from the principal. It is still unclear to us how they were able to negotiate that and perhaps what issues their lender was considering in accepting that discount. Regardless, as the MD&A reference above notes, we expect them to have a new credit facility in place shortly, which should provide the basis for the expansion of capacity we anticipated originally. With that in mind, we would reiterate, we think one of management's strengths has been its ability to acquire accretive pieces along the way, so again, a new credit facility could provide for that opening and being able to replace the old facility at a discount and perhaps add a new facility with a stronger lender is positive development.

To conclude, while we were looking for better numbers in 2HF24, we continue to believe that our thesis remains intact. Further, with the large capital raise subsequent to our initiation, and at a premium of about 40% to our initiating price, we think it is fair to say that the Company is in a better position financially than they were at the time of that initiation. As a result, we view the recent compression in the share price, ostensibly around the soft 4QF24 results to levels below our initiating price, as an opportunity. That noted, our recent misses leave us a bit more guarded about visibility, so we are lowering our price target from $3.50 to *$3.25 until we get a better handled on the LNG Canada rollout (as well as some of the impending tariff issues we did not address above), and their collective impact on Enterprise's future results. We would add, we have adjusted our fiscal 2025 projections around those same themes. However, we are also **increasing our allocation** from 4 to **5 based on the compression in the share price relative to our price target and in conjunction with our notion that the Company's financial posture continues to improve. We will revisit each as more information emerges.

Projected Operating Model

Enterprise Group, Inc.						
Projected Operating Statement						
(Expressed in CAD)						
By: Trickle Research	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)
	3/31/2025	**6/30/2025**	**9/30/2025**	**12/31/2025**	**Fiscal 2025**	**Fiscal 2026**
Revenues	$11,449,969	$7,088,459	$11,067,080	$13,668,809	$43,274,317	$50,399,057
Direct Expenses	$ 5,305,242	$4,236,672	$ 5,211,435	$ 5,848,858	$20,602,208	$22,347,769
					$ -	$ -
Gross Margin	$ 6,144,727	$2,851,786	$ 5,855,645	$ 7,819,951	$22,672,109	$28,051,288
					$ -	$ -
General & Admin. Expenses	$ 624,799	$ 520,123	$ 615,610	$ 678,051	$ 2,438,584	$ 2,609,577
Depreciation - PP&E	$ 883,490	$ 905,548	$ 927,595	$ 949,632	$ 3,666,265	$ 4,041,157
Depreciation - Right of Use Assets	$ 327,534	$ 330,318	$ 333,126	$ 335,957	$ 1,326,935	$ 1,372,630
Share Based Payments	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 200,000	$ 200,000
Amortization of Intangibles	$ 12,500	$ 12,500	$ 12,500	$ 12,500	$ 50,000	$ 50,000
Acquisition Costs	$ -	$ -	$ -	$ -	$ -	$ -
(Gain)/Loss on Sale of Assets	$ -	$ -	$ -	$ -	$ -	$ -
					$ -	$ -
Total Operating Expenses	$ 1,898,323	$1,818,489	$ 1,938,831	$ 2,026,140	$ 7,681,784	$ 8,273,364
					$ -	$ -
Income Before Financing and Taxes	$ 4,246,403	$1,033,297	$ 3,916,814	$ 5,793,811	$14,990,325	$19,777,924
					$ -	$ -
Finance Expense	$ 480,375	$ 166,232	$ 163,294	$ 158,949	$ 968,850	$ 601,654
Impairments of PP&E	$ -	$ -	$ -	$ -	$ -	$ -
					$ -	$ -
Income Before Taxes	$ 3,766,028	$ 867,065	$ 3,753,520	$ 5,634,862	$14,021,475	$19,176,270
					$ -	$ -
Income Tax Expense	$ -	$ -	$ -	$ -	$ -	$ -
					$ -	$ -
Net Income	$ 3,766,028	$ 867,065	$ 3,753,520	$ 5,634,862	$14,021,475	$19,176,270
Income Per Share- Basic	$ 0.05	$ 0.01	$ 0.05	$ 0.07	$ 0.18	$ 0.25
Income Per Share-Diluted	$ 0.05	$ 0.01	$ 0.05	$ 0.07	$ 0.17	$ 0.24
Basic Shares Outstanding	77,277,989	77,327,989	77,377,989	77,427,989	77,352,989	77,552,989
Diluted Shares Outstanding	80,579,521	80,706,484	80,829,783	80,949,591	80,766,345	81,233,072

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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.