ENTERPRISE GROUP, INC. (E-TSX)

Oilfield Services

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INITIATING COVERAGE

Enterprise Group: Initiating Coverage

RECOMMENDATION

We are initiating coverage on Enterprise Group, Inc. (E-TSX) with a $3.75/share target price, and Outperform rating. While Enterprise has four businesses, there is only one that we think really matters, and that's Evolution Power; it is the fastest growing and highest return segment with the largest addressable market and that's where we think most of the incremental value for public equity investors will accrue in the future. In our view, implied market expectations are too conservative, and underestimate potential for value creation.

ANALYSIS

In our base case, we see Evolution delivering a 5-Yr CAGR in revenue and Adj. EBITDA of ~22% and ~27%, respectively — Evolution's value proposition is hard to overlook, centered around >50% fuel cost reduction for customers and significant emission reductions. Customer appetite is clearly there, and demand appears to be outpacing supply. Unit economics are also very attractive; we estimate that incremental ROIC is +20%. Finally, we estimate Evolution is only penetrating ~8% of our core total addressable market. Our base case assumes that Evolution penetrates ~30% of their core addressable market (low end of range for dominant businesses in other oilfield service vertices), and assign zero credit for success outside those core markets.

Being a first mover has advantages — Evolution is largely competing with legacy solutions (diesel generators), and was able to negotiate a long-term exclusivity agreement with their supplier for what we view as best-in-class natural gas turbine equipment. Enterprise also signs multi-year MSAs to lock up demand. Even if new competition enters the space, we think Evolution is starting the race with a commanding lead, and historically, the dominant incumbent in other oilfield service verticals is rarely unseated.

Strong balance sheet — Following the equity raise in 4Q24, we expect Enterprise to end 2024 in a net cash position. Even with the growth laid out in our base case, we have Enterprise growing cash through our forecast period; distributable cash flow conversion from Adj. EBITDA is high (+60%), and consistently outpaces capex through our forecast period. That growing cash balance has optionality: it can be deployed to accelerate growth beyond our base case; could be deployed to vertically integrate via M&A; or get returned to shareholders via buybacks/dividends. In our view, the stock doesn't reflect any credit for this option value.

Attractive valuation — Our model suggests there is 56% upside to the current share price in our base case (119% upside in our bull case). The market appears to only be pricing in ~25% of our base case growth, which only represents value for the existing business plus 14 incremental units already ordered (delivered through 2025). Additionally, Enterprise is trading at a distributable cash flow yield of ~11/14% on our 2025/2026E, respectively. This strikes us as attractive given the high reinvestment rate potential, great incremental ROIC, and strong balance sheet.

VALUATION

We derive our $3.75/share target price using a 5Y discounted cash flow (DCF) model. See our Valuation and Recommendation section for more details.

Outperform 2
Target Price C$3.75

Suitability	MA/ACC

MARKET DATA

Current Price (Feb-3-25)	C$2.40
Market Cap (mln)	C$183
Current Net Debt (mln)	C$(9)
Enterprise Value (mln)	C$174
Shares Outstanding (mln)	76.3
30-Day Avg. Daily Value (mln)	C$0.9
Dividend	C$0.00
Dividend Yield	0.0%
52-Week Range	C$0.80 - C$2.69

KEY FINANCIAL METRICS

	1Q	2Q	3Q	4Q
Adj. EBITDA (mln) (C$, Dec FY)				
2023A	4	1	3	4
2024E	6 A	3 A	2 A	6
2025E	7	4	7	8
2026E	9	5	10	10

	2023A	2024E	2025E	2026E
Adj. EBITDA (mln) (C$, Dec FY)	13	17	27	34
Revenue (mln) (C$, Dec FY)	34	39	58	71
Adj. EBITDA Margin (Dec FY)	39.7%	42.7%	46.7%	48.4%
EPS (C$, Dec FY)	0.12	0.10	0.14	0.19
Capex (mln) (C$, Dec FY)	15	16	25	23
Net Debt/EBITDA (Dec FY)	1.6x	(0.5)x	(0.2)x	(0.3)x
EV/EBITDA (Dec FY)	3.0x	6.3x	6.6x	5.1x

Source: FactSet OnDemand, Raymond James Ltd. Quarterly figures may not add to full year due to rounding.

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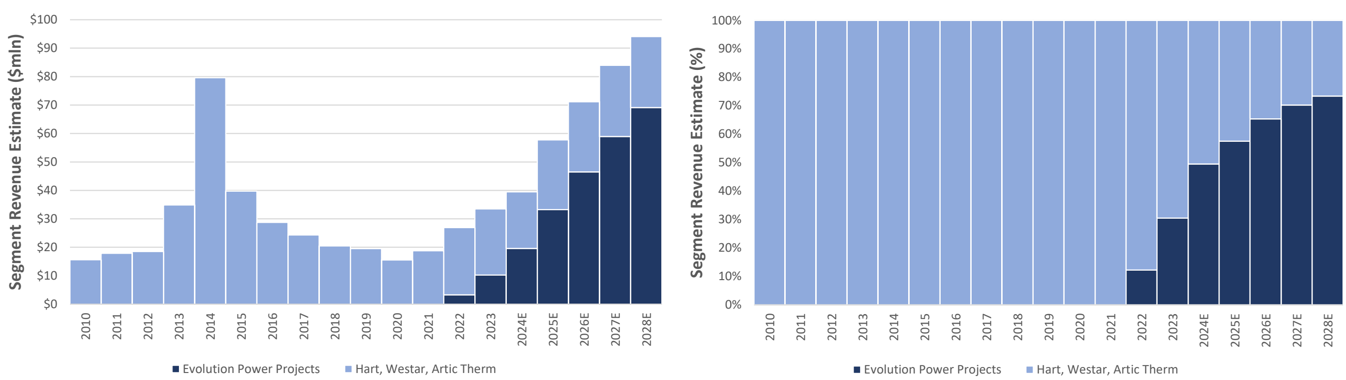
COMPANY OVERVIEW

Enterprise Group is currently organized around four business units: Hart Oilfield Rentals, Westar Oilfield Rentals, Artic Therm International, and Evolution Power. The first three business units in that list fall in the camp of traditional oilfield rentals like diesel generators, light towers, medic trailers, well-site trailers, combo trucks, flameless heaters, and so on. Given the cyclicality, high capital requirements, and lower returns, it's hard to get excited about that space. What really gets us excited is Evolution Power Projects (Evolution), which is a relatively new business unit (formed in 2022) that provides mobile natural gas power solutions and associated surface infrastructure to customers across Western Canada. Evolution is the fastest growing and highest return segment with the largest addressable market, and that's where we think most of the incremental value for public equity investors will accrue in the future.

Enterprise doesn't explicitly break out revenue contributions by segment, but we have enough data to make an educated guess between Evolution and the rest of the business. Exhibit 1 shows our educated guess historically alongside our forecast period. Revenue has already increased by +100% from 2021 to 2024E, with the majority of that top line growth coming from Evolution, and we expect that to continue.

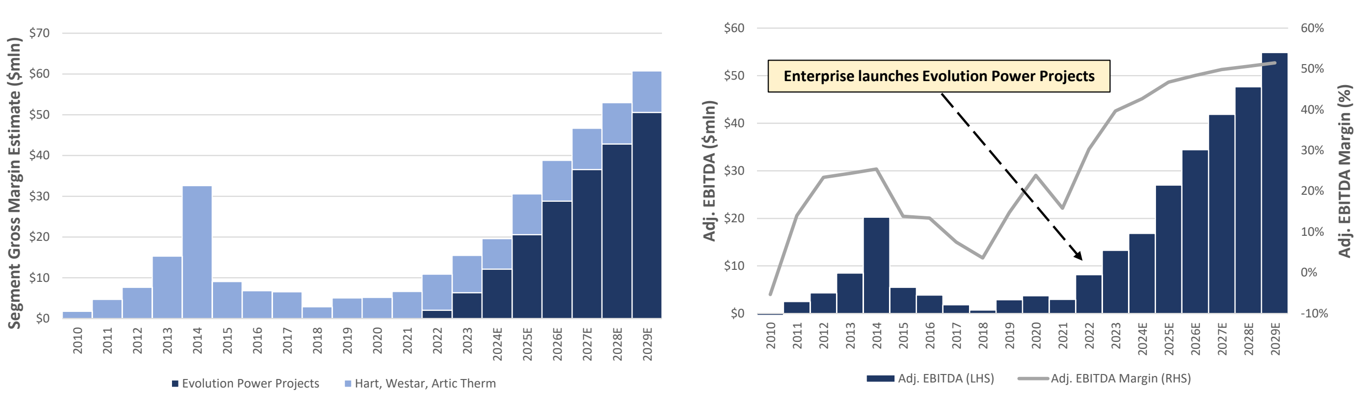
Exhibit 1: Evolution Segment Revenue vs. Legacy Business



Source: Enterprise Group, Inc., Raymond James Ltd.

Revenue growth is one thing, but the other nuance here is that Evolution has much higher margins than the legacy segments. Again, the company doesn't explicitly break out segment data across their portfolio, but our educated guess is that Evolution has gross margins in the ~60-65% range vs. the legacy business more likely in the ~35-40% range. Based on this, Exhibit 2 shows that Enterprise's total Adj. EBITDA margin increased from ~16% in 2021 to +40% in 2024E. This combination of revenue growth and margin expansion is primarily driven by Evolution and has resulted in a nearly 5.0x increase in Adj. EBITDA from 2021 to 2024E.

Exhibit 2: Segment Gross Margin, Adj. EBITDA, and Adj. EBITDA Margins



Source: Enterprise Group Inc., Raymond James Ltd.

We think it's clear that Evolution is the big thing that matters. As such, we'll spend the bulk of our attention through the rest of this report explaining that business and the opportunity for continued growth. For those interested, a brief history and overview of the other segments can be found in Appendix 6.

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EVOLUTION POWER PROJECTS

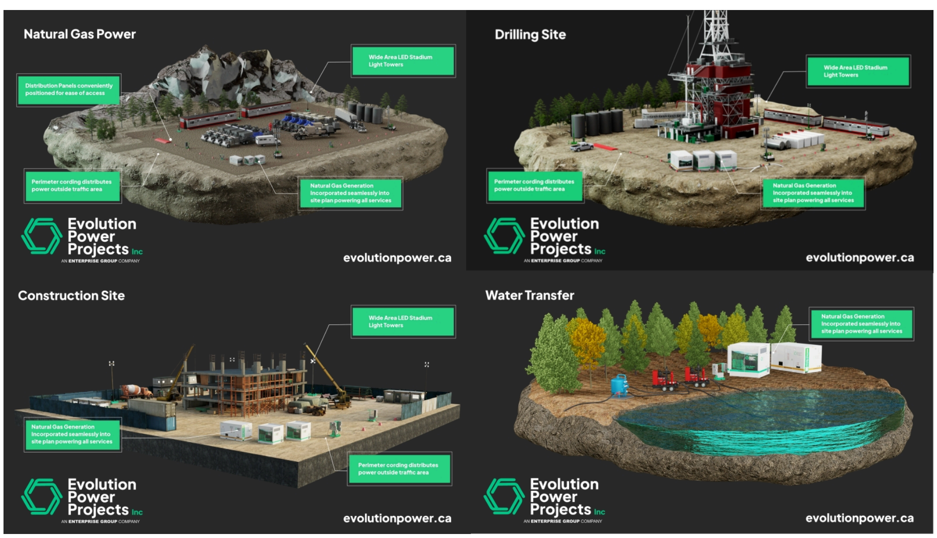
What does this business do?

Evolution owns and rents natural gas powered turbines and associated micro-grid transmission infrastructure for remote job sites where grid connectivity has historically been a challenge. To-date, this infrastructure has primarily been deployed to power remote sites in the resource sector (specifically oil and gas) in Alberta and British Columbia — it's this core market that we'll largely focus on throughout this report. Exhibit 3 shows the 333 kW unit most commonly deployed in the field (Exhibit 4 shows example project sites), and it's these units that customers like Canadian Natural Resources, Tourmaline, Cenovus, Petronas, Conoco, Chevron, Shell and many others rent from Evolution under a day rate structure. While revenue is still very much generated on a pay-for-use basis (the day rate model), most customers sign multi-year Master Service Agreements (MSAs) that generally secure demand from that customer for longer duration than other oilfield services like drilling and completions.

Exhibit 3: 333 kW Micro Natural Gas Turbine Unit

Source: Enterprise Group, Inc.

Exhibit 4: Evolution Deployment Examples



Source: Enterprise Group, Inc.

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The Evolution Value Proposition

The default power supply option for many remote sites has been diesel-powered generators, and that's especially true for the energy industry in Western Canada. In our view, Evolution's natural gas powered turbines are clearly superior substitutes, and they add value in two ways: first, they significantly reduce customer fuel costs given the relative price of diesel and natural gas; and second, they significantly reduce both greenhouse gas (GHG) and other pollutants. Exhibit 5 summarizes the cost and emissions intensity advantages of using Evolution's standard 333 kW natural gas turbine over a comparable 350 kW diesel generator.

Exhibit 5: Fuel Consumption/Cost Comparison; Diesel vs. Natural Gas

	350 kW Diesel Generator	333 kW Gas Turbine CNG	333 kW Gas Turbine Wellhead gas
Volume	2,400 litres/day	74.7 mcf/d	74.7 mcf/d
Price	$1.60/litre	$21.00/mcf	$0.00/mcf
Fuel Cost per Day	$3,840	$1,569	$0
Fuel Cost per 90 Day Job	$345,600	$141,183	$0
Fuel Cost per Year	$1,401,600	$572,576	$0
Savings Relative to Diesel		-59%	-100%

Pollutant	350 kW Diesel Generator Emission Rate (kg/d)	333 kW Gas Turbine Emission Rate (kg/d)	Reduction
PM2.5	9.59	0.34	-96.5%
PM10	9.59	0.34	-96.5%
SOX	8.93	0.00	-100.0%
NOX	135.11	16.53	-87.8%
VOC	10.96	0.11	-99.0%
CO	29.11	0.04	-99.9%

Source: Enterprise Group, Inc., Raymond James Ltd.

While reduction in emission intensity is important, it's our view that the single largest piece of the value proposition is the fuel cost savings evident above. These Evolution units can frequently use wellhead gas on site, which virtually eliminates the fuel component of opex for their customers (even if we assume some foregone $1.00-2.00/mcf netbacks, it would still be a +95% reduction in fuel cost). Even in instances where relatively expensive compressed natural gas (CNG) is required we note the fuel cost savings are still upwards of 50%.

Beyond this, there appear to be plenty of other benefits from switching to natural gas turbines and Evolution's micro-grids:

- **Maintenance Frequency**: diesel generators typically require maintenance every ~600 hours, and that maintenance is often completed in the field. By comparison, the maintenance cycle on Evolution's natural gas turbines is closer to ~10,000 hours and is typically completed once per year at an Evolution yard (never shutting down on site). The net result is fewer interruptions for customers and lower opex (which the customer pays). It's also worth nothing that diesel generators constantly need manual refueling while on site (handful of times a day).
- **Physical Space**: while we compared like-for-like generators in Exhibit 5, in reality most project sites have dozens of smaller diesel generators positioned around the job site. Evolution's 333 kW turbine paired with their micro-grid transmission, eliminates the dozens of dispersed diesel generators.
- **Noise**: gas turbines produce significantly less noise pollution than diesel generators, and that's important for operators on site 24/7.

In just about any category, it appears that natural gas turbines should be preferred to diesel generators, and Evolution's success to-date appears to validate that view.

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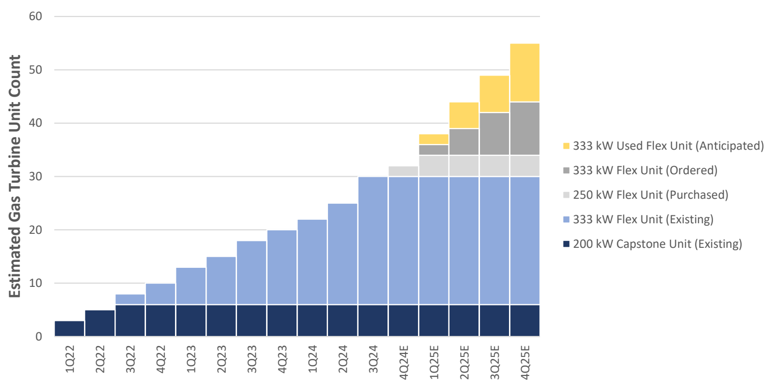
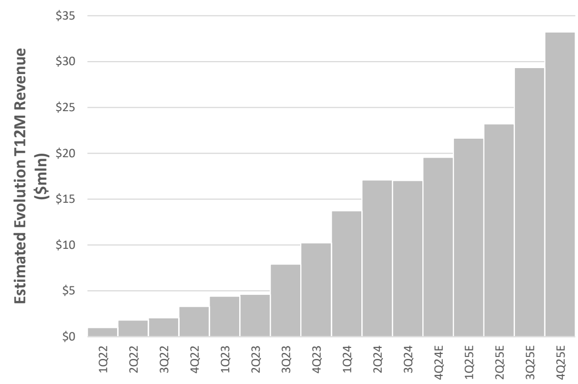
Success To-Date and Existing Fleet

After experimenting with smaller Capstone units early on, Enterprise pivoted suppliers and now exclusively purchases units from a private company called FlexEnergy Solutions (Flex) in Colorado. Flex only produces ~30 of these units a year, and Enterprise is their largest customer (purchasing roughly 10 of these units every year). As we understand it, supply of new units has been a constraint for Enterprise. Customer appetite is sufficiently high that management has indicated they would buy more new units if they could. To get around that supply challenge, Evolution works with Flex (who builds and leases these units) to purchase off-lease units (typically used for 2-3 years, versus an expected useful life of 20 years). **Demand for Evolution's services appears to be outstripping their ability to supply those services. In our view, this is clear validation of the value proposition.**

Exhibit 6: Estimated Gas Turbine Units; Evolution T12M Revenue





Source: Enterprise Group, Inc., Raymond James Ltd.

The proof really is in the pudding, and Exhibit 6 shows our best estimate of the Evolution unit count and revenue since inception in 2022, with a forecast through 2025 based on what we already know of current orders and anticipated off-lease unit purchases. Some guesswork is required here, but we do know that Evolution was started in 2022 and that the business ended 3Q24 with 30 units. We also know that the company purchased 4 used 250 kW Flex units (delivered through December/January), ordered 10 new 333 kW Flex units (delivered linearly through 2025), and intends to purchase as many off-lease Flex units as they can get their hands on from Flex. In revenue terms, this business should hit a run-rate revenue of >$40mln per year by 4Q25, up from nil in 2021. Customer appetite is clearly there!

As a side note, Evolution has experienced this growth without any notable in-house sales effort. This growth has been a function of unsolicited customer inbounds and word of mouth in the field. In September 2024 Enterprise hired a VP of Business Development to sit in Calgary and begin actively marketing Evolution's services. At worst, we'd expect an active sales effort will help maintain current momentum for years to come, and best case we suspect this active sales effort could accelerate deployment of these units.

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Competitive Position

We think about competition in the primary market Evolution serves as being diesel generators, with Evolution being the first mover on the natural gas turbine side and largely just filling white space. In our view, there is a lot of white space to fill (see The Addressable Market and Market Share section). While we believe that the runway for Evolution is long, it's fair to ask who else might step in to compete for that market. Are other service providers able to meet that demand?

As we understand it, there appear to be two primary equipment challenges in this market that are unique to natural gas turbines:

1. First, many of the remote areas that Evolution serves regularly experience extreme cold temperatures, and at times these units have to operate at temperatures below -30 degrees Celsius.

2. Second is that these units need to be capable of consuming gas with impurities (field gas, flare gas, solution gas), which is a different beast than compressed natural gas (CNG).

There are very few suppliers of small natural gas turbines in North America, and many of those turbines don't appear well suited for the dual challenges of extreme cold temperatures and extreme fuel tolerance. The Flex units that Evolution uses today are a rare exception, and Evolution has secured a 5-year exclusivity agreement (with extension options) with Flex that covers all of Western Canada. Anecdotally, we've heard of examples where an adjacent service provider trialed a different generator in the field, experienced issues with extreme cold and/or wellhead gas consumption, and reached out to Evolution to look at leasing their Flex units. We're hesitant to hang our hat on this, but it appears that being a first mover and securing an exclusivity agreement on best-in-class equipment should (at least in the short-medium term) create barriers for new competition in the Western Canadian energy market.

Another dynamic we've come to appreciate is that Evolution's units and micro-grid transmission technology will typically be installed at a job site from start to finish, which might be 2-3 months. By contrast, other service providers in the energy industry are typically on site for a fraction of the time. For example, a drilling rig operator might be on site for ~20 days, a pressure pumping operator might be on site for another ~7-14 days, and so on. That's not to say these other service providers couldn't create new business units to compete for this business, but rather, it's not a natural extension of the work they already do for these customers.

It's also worth pointing out that there is no real direct competition at present. There are many small competitors providing diesel generators to the energy sector, but we're not convinced many (if any) of these small competitors will successfully pivot given the very different technical demands of the substitute technology. These natural gas turbines operate 480 volt systems, and utilize DLO (diesel locomotive standard) cabling, requiring trained electricians to operate and maintain the equipment (and install the micro-grids). Over the last several years, Evolution has accumulated a workforce of master electricians, journeymen electricians and red seal electricians. This isn't an insurmountable problem for the small incumbent diesel generator competitors, but it does create a headwind for smaller competitors to enter and scale this market when availability of skilled labor is tight.

The final point we'd like to make is that the addressable market for small natural gas turbines in Western Canada is small relative to other oilfield service niches; the aggregate capital cost of natural gas turbines in a fully penetrated market would pale in comparison to pressure pumping, drilling, gas compression, or waste processing markets. We find it unlikely that customers or adjacent service providers would make a concerted effort to in-source this service or compete in this space given the associated fixed costs, CNG logistics, and risk of delivering worse performance when the first mover is already achieving scale and locking down customers with MSAs.

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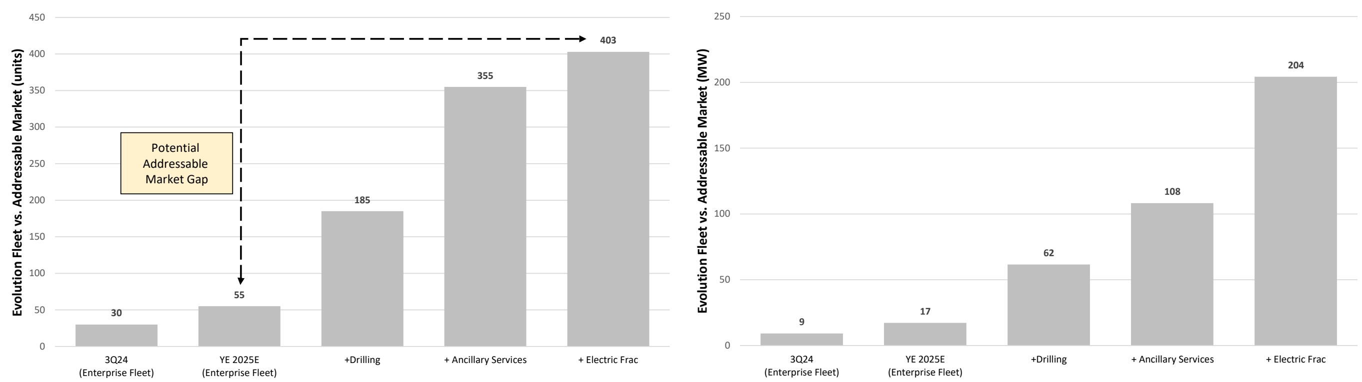
The Addressable Market and Market Share

On the latest conference call, management indicated that "*we've only penetrated 15% to 18% of the marketplace that's in front of us*", although also acknowledged that they haven't surgically defined their addressable market. With Evolution ending 3Q24 with 30 units, that would imply the company thinks the market "*in front of us*" could support ~170-200 units. That happens to line up the T12M average Canadian rig count as of 3Q24 of 183 rigs. Conceptually, every active rig should sit at a site that is addressable by Evolution, which suggests that the active rig count is a reasonable proxy for the addressable market Evolution is currently pursuing.

Beyond providing power for drilling and completion job sites, there are ancillary use cases (see Exhibit 4) like providing power to water transfer pumps (bringing fresh water to wells to complete a frac job). Similarly, there are general construction applications where work is done in remote regions of Western Canada.

There is also the potential to lease large 2 MW units (vs the standard 333 kW) to power electric frac fleets, should the pressure pumping industry move in that direction (talking with management, we know it's currently being explored). These are just a few of the ways we can build up to a broader addressable market, and Exhibit 7 shows what that could look like from both a unit and capacity (MW) perspective.

Exhibit 7: Illustrative Size of Addressable Markets



Source: Enterprise Group, Inc., Raymond James Ltd.

The company is also exploring new end markets, both geographically (Eastern Canada) and by sector (mining, data centers, etc). In most of these new channels, Evolution would provide temporary power solutions under short-term leases, but the demand could still add up quickly. Even if we ignore these new exploratory markets, Exhibit 7 makes it clear that Evolution is currently penetrating a very small percentage of their core Western Canadian energy market. For example, if we just look at the Drilling + Ancillary Services total addressable market, our best guess is that Evolution is only penetrating ~8% of that market today.

The margin of error on forecasting 5 years out would be very wide, but we still think it's helpful to think through where market share and penetration could end up in Evolution's core market today. To do that, we look at other examples in the Western Canadian oilfield service space: CES Energy Solutions (CEU-TSX) has a ~35% market share in Canadian drilling fluids; Precision Drilling (PD-TSX) has a ~30-35% share of the active rig count in Canada; Trican Well Service (TCW-TSX) has a ~50% market share in their Montney/Deep Basin cementing business; and SES is pushing 70% share in their waste water business. It's clear that 1-2 large providers tend to own a significant portion of any niche oilfield service market, and we see no reason that should be different for Evolution. As a first mover with an exclusivity agreement on best-in-class equipment — even if new entrants enter the space — it wouldn't surprise us if Evolution ultimately retained ~40-50% market share in a fully penetrated market. In the narrow scope of just a Drilling + Ancillary Services total addressable market, that would mean Evolution could 5.0x the size of their current fleet. If no other new growth initiatives worked out, that'd be enough to keep Evolution busy for the foreseeable future.

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Unit Economics

While we don't have exact data to model unit economics, Enterprise has provided enough tidbits in various communications to triangulate estimates. For example, we know the individual capital cost of the natural gas turbine (both new and used, and of various sizes), the micro-grid, and the backup diesel generator. Management has also communicated payback periods for both the natural gas turbines and the micro-grid independently. Furthermore, we have a reasonably accurate view on maintenance capital spending and timing, useful life of equipment, and flow-through fuel costs. We can use these tidbits of information to piece together a full picture of unit economics and estimate the IRR and NPV on a single deployment (see Exhibit 8). We then analyzed incremental ROIC since Evolution launched in 2022 and ran multi-linear regressions to triangulate and validate our unit economic assumptions. Bottom line, we feel good about the numbers.

Exhibit 8: Unit Economic Analysis

New 333 kW Gas Turbine	$000	900
Micro-grid	$000	250
Backup Diesel Generator	$000	550
Total Capital Cost per Deployment	**$000**	**1,700**
D/EBITDA		0.50x
Debt	$000	230
Equity	$000	1,470

Year		0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Day Rate	$		2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750
Day Cost	$		-1,046	-1,046	-1,046	-1,046	-1,046	-1,046	-1,046	-1,046	-1,046	-1,046	-1,046	-1,046	-1,046	-1,046	-1,046	-1,046	-1,046	-1,046	-1,046	-1,046
Day Margin	$		1,704	1,704	1,704	1,704	1,704	1,704	1,704	1,704	1,704	1,704	1,704	1,704	1,704	1,704	1,704	1,704	1,704	1,704	1,704	1,704
Gross Margin	%		62%	62%	62%	62%	62%	62%	62%	62%	62%	62%	62%	62%	62%	62%	62%	62%	62%	62%	62%	62%
Utilization	%		75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
Utilization Days	Days		23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23
Revenue	$000		743	743	743	743	743	743	743	743	743	743	743	743	743	743	743	743	743	743	743	743
Opex	$000		-282	-282	-282	-282	-282	-282	-282	-282	-282	-282	-282	-282	-282	-282	-282	-282	-282	-282	-282	-282
EBITDA	**$000**		**460**	**460**	**460**	**460**	**460**	**460**	**460**	**460**	**460**	**460**	**460**	**460**	**460**	**460**	**460**	**460**	**460**	**460**	**460**	**460**
Depreciation	$000		-85	-85	-85	-85	-85	-85	-85	-85	-85	-85	-85	-85	-85	-85	-85	-85	-85	-85	-85	-85
EBIT	**$000**		**375**	**375**	**375**	**375**	**375**	**375**	**375**	**375**	**375**	**375**	**375**	**375**	**375**	**375**	**375**	**375**	**375**	**375**	**375**	**375**
Interest	$000		-23	-23	-23	-23	-23	-23	-23	-23	-23	-23	-23	-23	-23	-23	-23	-23	-23	-23	-23	-23
EBT	**$000**		**352**	**352**	**352**	**352**	**352**	**352**	**352**	**352**	**352**	**352**	**352**	**352**	**352**	**352**	**352**	**352**	**352**	**352**	**352**	**352**
Cash Taxes	$000		-23	-65	-84	-84	-84	-84	-84	-84	-84	-84	-84	-84	-84	-84	-84	-84	-84	-84	-84	-84
Net Income	**$000**		**329**	**287**	**268**	**268**	**268**	**268**	**268**	**268**	**268**	**268**	**268**	**268**	**268**	**268**	**268**	**268**	**268**	**268**	**268**	**268**
Net Income	$000		329	287	268	268	268	268	268	268	268	268	268	268	268	268	268	268	268	268	268	268
Add Depreciation	$000		85	85	85	85	85	85	85	85	85	85	85	85	85	85	85	85	85	85	85	85
Less Capex	$000		-21	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21
Change in Debt	$000		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	$000		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FCFE	**$000**	**-1,470**	**393**	**351**	**332**	**332**	**332**	**332**	**332**	**332**	**332**	**332**	**332**	**332**	**332**	**332**	**332**	**332**	**332**	**332**	**332**	**332**
Levered After-Tax IRR	**23%**																					
Levered After-Tax NPV @ 10%	1,295																					
EBIT	$000		375	375	375	375	375	375	375	375	375	375	375	375	375	375	375	375	375	375	375	375
Add Taxes	$000		-24	-69	-90	-90	-90	-90	-90	-90	-90	-90	-90	-90	-90	-90	-90	-90	-90	-90	-90	-90
Add Depreciation	$000		85	85	85	85	85	85	85	85	85	85	85	85	85	85	85	85	85	85	85	85
Less Capex	$000		-21	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21
Other	$000		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FCFF	**$000**	**-1,700**	**415**	**370**	**349**	**349**	**349**	**349**	**349**	**349**	**349**	**349**	**349**	**349**	**349**	**349**	**349**	**349**	**349**	**349**	**349**	**349**
Unlevered After-Tax IRR	**21%**																					
Unlevered After-Tax NPV @ 10%	1,226																					

Source: Enterprise Group, Inc., Raymond James Ltd.

The math in Exhibit 8 suggests that levered after-tax IRRs at the unit level are in the low-to-mid 20% range using very modest debt, but these are for brand-new units — when Evolution buys off-lease units (2-3 years old) we suspect those IRRs approach 30%. Said differently, for every dollar Enterprise spends growing this business, we estimate they're accruing at least ~$0.88 of equity NPV.

At the current share price of $2.40/share, adding 10 new units increases the fair value of equity by ~$0.15. To put this into perspective, if our ballpark guess on addressable market and mature market share prove to be even remotely correct, it's reasonable for us to underwrite that Enterprise could add +100 units to the existing fleet, this would increase fair value of equity by ~$1.50.

It's worth circling back to the point we made in Exhibit 5, which is that annual fuel cost savings on a 333 kW unit are at worst ~$800k (for CNG), and at best ~$1.4mln (for wellhead gas). The company indicated that the CNG/wellhead split is roughly 15/85%, so implicitly the weighted-average annual fuel savings per unit is ~$1.3mln. By comparison, we estimate that Evolution generates ~$740k/year/unit in revenue and just ~$460k/year/unit in gross margin (where flow-through fuel costs would be included in revenue/COGS). This means that Evolution captures ~35% of this fuel savings ($460k / $1.3mln), while the customer is capturing the remaining ~65% — to us its clear that customers are enjoying the bulk of the fuel savings advantage from switching to natural gas turbines. This win/win structure gives us some comfort that these unit economics are defendable for the foreseeable future.

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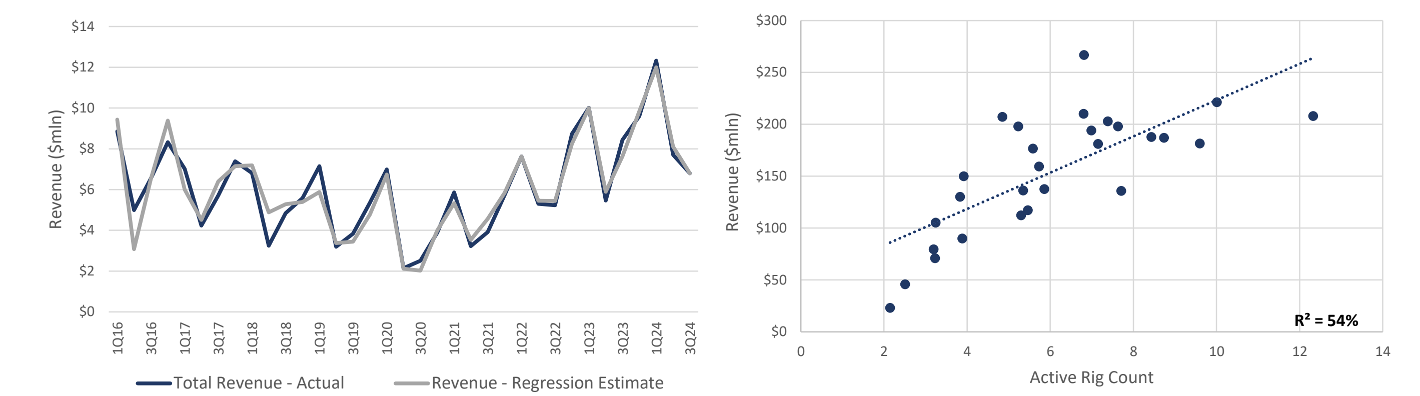
TYING IT ALL TOGETHER

Given the lack of reported KPIs, a lot of elbow grease went into estimating the revenue split between Evolution and all the other segments. To better understand key drivers, we paired what we know about Evolution fleet size and unit economics with a multi-linear regression to better understand cyclical, seasonal, and other factors that impact all parts of this business. It turns out our multi-linear regression did a very good job at explaining changes in revenue historically (see Exhibit 9), with independent variables that included the Canadian active rig count, a true/false wildfire variable, and Evolution fleet size. We use this multi-linear regression to forecast revenue for Enterprise as a whole, and estimate revenue splits between the various businesses.

Exhibit 9: Actual Revenue vs. Regression Prediction; Correlation Between Actual Revenue and Canadian Rig Count



Source: Enterprise Group, Inc., Raymond James Ltd.

The most important observation we make here is the degree to which revenue is tied to the active rig count in Canada (seen clearly in Exhibit 9 given the consistent seasonality year after year), which is unsurprising given the legacy oilfield rental business and end market currently being pursued by Evolution. Despite the clear exposure to cyclical end markets, we remain constructive on activity levels in Canada: TMX helped extend the runway for conventional oil production growth; LNG Canada Phase 1 and subsequent LNG projects should support natural gas and NGL growth through the end of the decade; and producers are in stronger financial positions than we've seen in the last decade (strong balance sheets, lots of excess free cash flow, low breakevens). Even with the recently announced threat of tariffs on Canadian oil and gas, we expect that producers will still generate plenty of excess free cash flow beyond current capital budgets and dividends; we think producers won't be forced into cutting activity levels, and supports our view that activity should remain relatively healthy.

It's also worth noting that there is significant white space for Evolution to grow into. In a scenario where the active rig count in Canada moves lower, it wouldn't surprise us to see continued revenue growth. This idea that cyclical businesses can drastically outperform conventional barometers of oilfield activity isn't unique; we've seen this play out before, with CEU being the most notable example.

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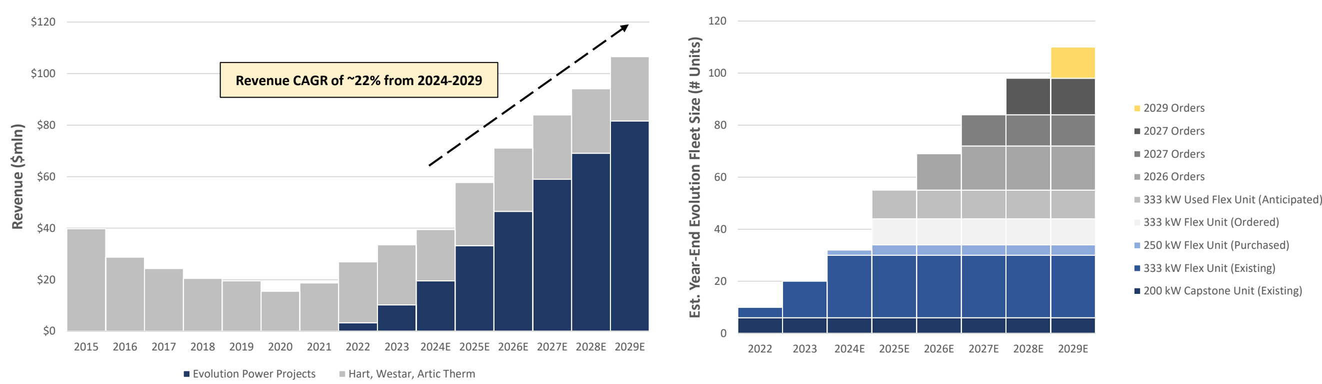
FINANCIAL ANALYSIS AND OUTLOOK

Revenue Outlook

We expect the Canadian rig count to remain relatively flat, resulting in stable contributions from the legacy oilfield rental business, with growth primarily driven by increased penetration at Evolution.

Exhibit 10 shows our base case revenue assumptions and Evolution unit growth. By 2029, we have Evolution growing to 110 units, which suggests penetration of the Drilling + Ancillary Services total addressable market of ~30%. That's still at the low end of the range vs the dominant incumbent penetration in other niche oilfield markets, and gives Evolution no credit for growth outside that core total addressable market being targeted today. **Against that backdrop, our base case with a 5-Yr CAGR of ~22% through 2029E feels reasonable to underwrite, and if anything, it feels like we're pulling our punches.**

Exhibit 10: Enterprise Revenue and Evolution Fleet Estimates

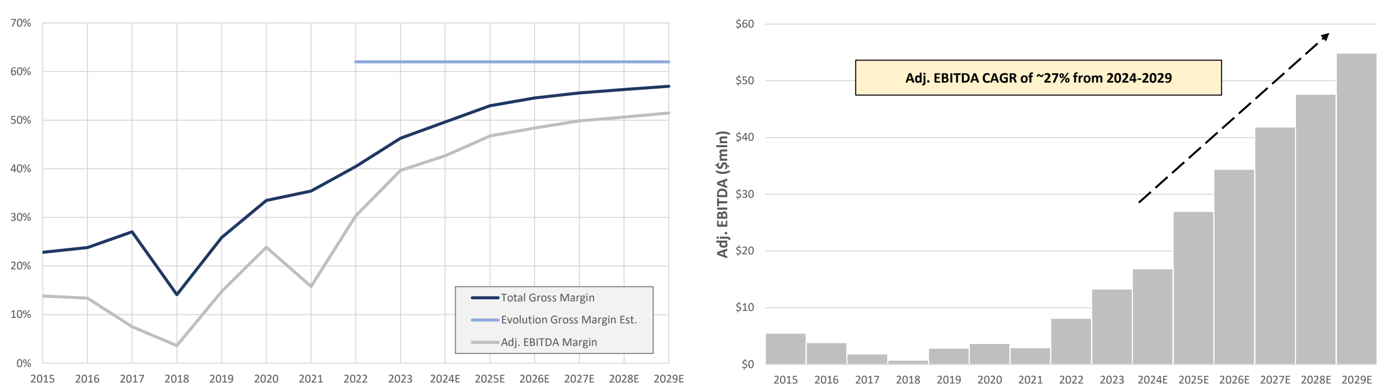


Source: Enterprise Group, Inc., Raymond James Ltd.

Margins and Adj. EBITDA Outlook

We estimate that segment margins from Evolution are significantly higher than the legacy business, and our base case assumes that the individual segment margin profiles remain unchanged from here. If Evolutions revenue contribution proportionally increases, it follows that we expect to see continued gross margin expansion at the total company level. While historically we've also witnessed some SG&A leverage, we do assume that SG&A scales linearly from here and that Adj. EBITDA margins expand in tandem with gross margins. The net effect is a 5-Yr Adj. EBITDA CAGR of ~27%.

Exhibit 11: Gross Margin, Adj. EBITDA Margin, and Adj. EBITDA Estimates



Source: Enterprise Group, Inc., Raymond James Ltd.

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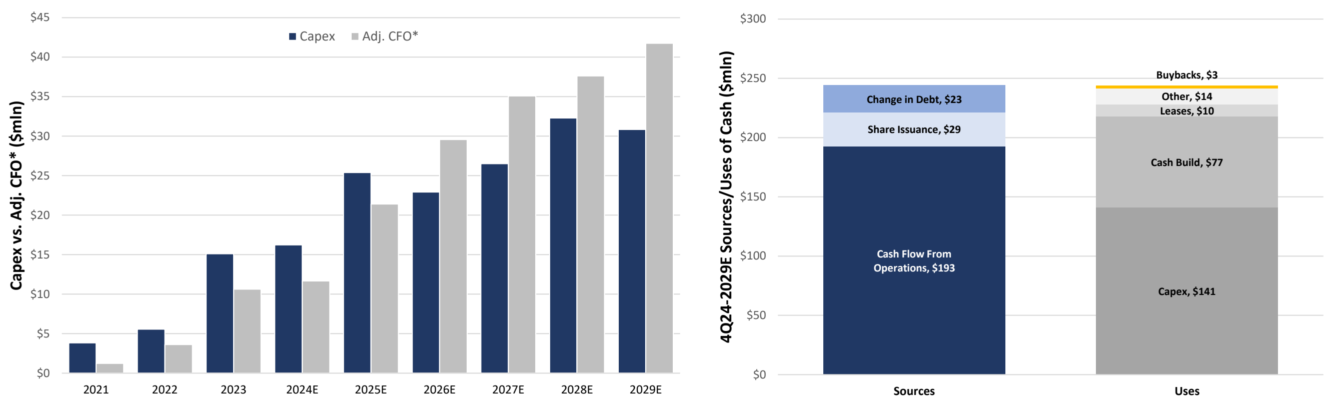
Capital Allocation and Financial Position

Given expansion of the Evolution fleet that we expect in our base case, it's unsurprising that we have high capital expenditure estimates for Enterprise. Exhibit 12 shows our capex estimates against Adj. CFO (see Exhibit 12). Despite the increased spending, we expect that Adj. CFO will outstrip capex such that Enterprise actual builds cash through the forecast period. Exhibit 12 also breaks down sources/uses of cash from 4Q24-2029E — **the primary takeaway is that plenty of excess liquidity exists to accelerate the already significant growth we model in the base case.**

Exhibit 12: Capex vs. Cash Flow; Sources and Uses of Cash 4Q24-2029E

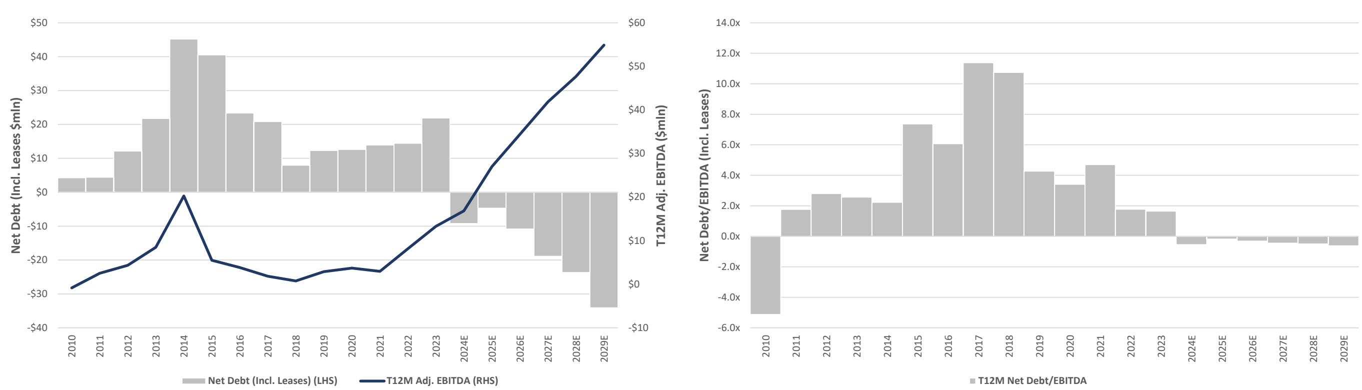


Source: Enterprise Group, Inc., Raymond James Ltd.

*Note: *Adj. CFO = CFO less finance charges and lease principal payments; effectively free cash flow before capex*

Enterprise completed an equity raise in 4Q24, and should end the year in a net cash position. With the growth laid out in our base case, Exhibit 13 shows that this net cash position only grows over time (we assume the business targets a Debt/EBITDA ratio of <1.0x, and allows cash to fluctuate around that). By our terminal year, Net Debt/EBITDA hits about -0.6x. In our view, cash could get deployed through some combination of organic growth, M&A, or distributions to shareholders (buybacks, dividends); **bottom line, this business has significant financial flexibility, and that flexibility has some option value that we think is underappreciated by the market today.**

Exhibit 13: Absolute and Relative Leverage



Source: Enterprise Group, Inc., Raymond James Ltd.

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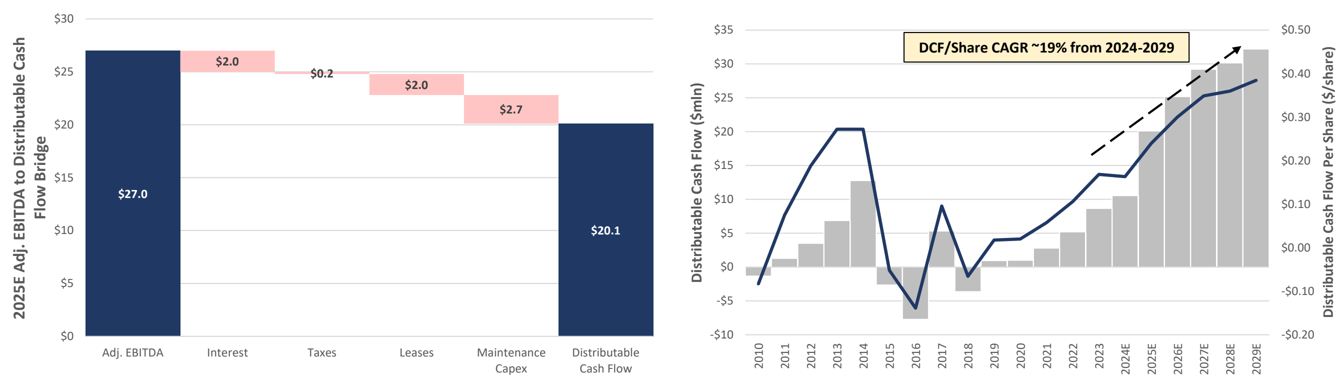
Distributable Cash Flow

While Enterprise doesn't officially report a distributable cash flow (DCF) figure, we still view it as a helpful metric to think about because it represents the cash left over to pay dividends, grow the business, pay down debt, or repurchase shares. In our minds, it's a good enough proxy for sustaining free cash flow.

Exhibit 14 shows our 2025E Adj. EBITDA to DCF bridge and a time series of DCF and DCF/share. The first thing to note is that DCF conversion from EBITDA is really high (+60%): interest expense and lease payments are small; cash taxes are minimal, for now; and, maintenance capital requirements are low given the age of the assets and long useful life (specifically at Evolution). The second thing to note is that our DCF estimate in absolute terms experiences a 2024-2029E CAGR of ~25%. That's slightly less than our Adj. EBITDA CAGR, largely driven by a gradual increase in cash taxes and maintenance capital, but still impressive. DCF/share only grows at an ~19% CAGR through the same period, impacted by the 4Q24 equity raise, although if Enterprise deployed all excess cash (on either buybacks or growth), absolute DCF and DCF/share would eventually converge. **In any event, an ~19% CAGR in DCF/share from 2024-2029E is still impressive in a conservative base case where cash balances grow.**

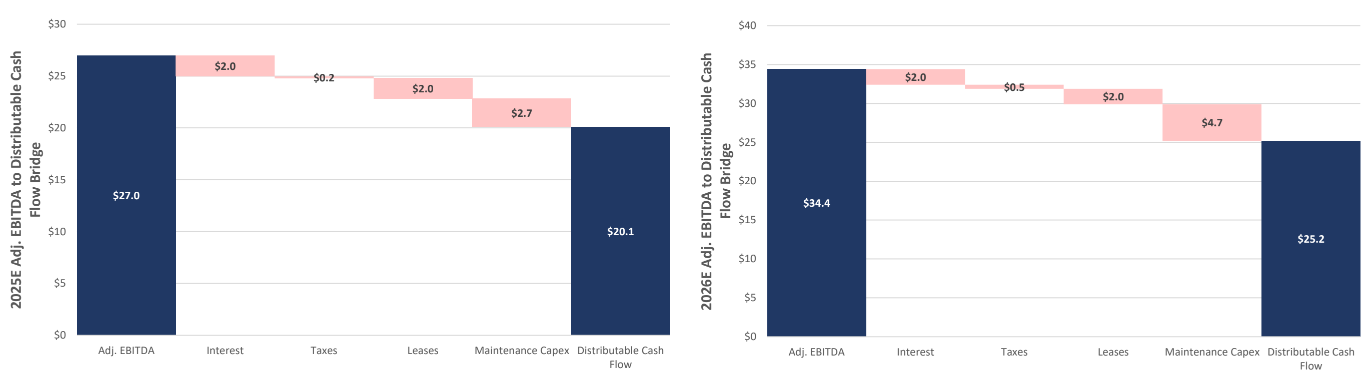
Exhibit 14: 2025E Adj. EBITDA to Distributable Cash Flow Bridge; Distributable Cash Flow and Distributable Cash Flow Per Share Forecast



Source: Enterprise Group, Inc., Raymond James Ltd.

Exhibit 15 shows our Adj. EBITDA to DCF bridge for both 2025E and 2026E. Using those 2025E and 2026E estimates, Enterprise is currently trading at an 11% and 14% DCF yield, respectively. That strikes us as extremely attractive in the context of high reinvestment rate potential, great incremental ROIC, and a strong balance sheet (net cash position), particularly considering what we view as a relatively constructive energy activity macro backdrop and healthy end markets.

Exhibit 15: 2025/2026E Adj. EBITDA to Distributable Free Cash Flow Bridge



Source: Enterprise Group, Inc., Raymond James Ltd.

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VALUATION AND RECOMMENDATION

We are initiating coverage on Enterprise Group, Inc. (E-TSX), with a $3.75/share target price, and Outperform rating. Our target is derived using a 5Y discounted cash flow model (DCF). A summary of our DCF assumptions can be found in Exhibit 16, and a more detailed breakdown in Appendix 1. We use a 10% cost of equity, 4% terminal growth rate, and a 12% terminal ROIC to calculate our terminal value, where the implied terminal EV/EBITDA multiple is 6.8x.

Exhibit 16: DCF Summary

Target Price and Expected Return	
Ticker	E
Current Price	**$2.40**
DCF (FCFE) - today	$3.37
DCF (FCFF) - today	$3.42
1-Year Target Price	**$3.75**
Return to Target	56.3%
5Y IRR	18.3%

Valuation Inputs	
Cost of Equity	10.0%
Cost of Debt	8.5%
5Y Avg. WACC	9.7%
Terminal Growth Rate (FCFF)	4.0%
Terminal ROIC	12.0%
Terminal Growth Rate (FCFE)	4.2%
Terminal ROE	12.7%
Implied Terminal EV/EBITDA Multiple	6.8x
Implied Terminal FCFE Yield	5.8%

Key DCF Financial Inputs

Year	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E	Mid-Cycle
Revenue	16	19	27	34	39	58	71	84	94	107	111
Y/Y Revenue Growth		*20.7%*	*43.6%*	*24.6%*	*17.8%*	*46.3%*	*23.1%*	*18.1%*	*12.1%*	*13.3%*	*4.0%*
Adj. EBITDA	4	3	8	13	17	27	34	42	48	55	57
Adj. EBITDA Margins	*23.9%*	*15.8%*	*30.3%*	*39.7%*	*42.7%*	*46.7%*	*48.4%*	*49.8%*	*50.6%*	*51.5%*	*51.5%*
Net Income	(4)	(2)	2	6	6	12	16	21	23	26	27
DD&A	6	6	5	5	7	9	11	12	14	16	16
Capex	(1)	(4)	(6)	(15)	(16)	(25)	(23)	(27)	(32)	(31)	(24)
Change in NWC	1	(1)	(2)	0	(1)	(1)	(0)	(1)	(1)	(1)	0
Change in Debt	(1)	2	1	7	(1)	0	0	3	20	0	0
Other*	(1)	0	(0)	(0)	(0)	2	3	3	2	(0)	(0)
Free Cash Flow to Equity (FCFE)	**0**	**1**	**(0)**	**3**	**(5)**	**(4)**	**6**	**11**	**25**	**11**	**20**
Free Cash Flow to Firm (FCFF)	**2**	**(0)**	**0**	**(2)**	**(2)**	**(2)**	**9**	**11**	**8**	**14**	**22**

PV of FCFE	240
Plus Cash + Option Proceeds**	43
Equity Value	**283**
Shares (f.d.; Beginning)**	84
Equity Value/Share	**$3.37**

PV of FCFF	266
Less Net Debt**	22
Equity Value	**287**
Shares (f.d.; Beginning)**	84
Equity Value/Share	**$3.42**

Source: Enterprise Group, Inc., Raymond James Ltd.

**Other includes deferred taxes, lease principal payments, impairments, dispositions, unrealized gains/losses etc.*

***Includes all potentially dilutive securities and associated proceeds at beginning of period*

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Scenario Analysis

Our base case is something we feel comfortable underwriting, but given the wide range of outcomes at Evolution combined with ample balance sheet capacity to self-fund additional growth, we thought it would be helpful to also run a bull case scenario. The section below details the major assumption changes between our base and bull case scenarios.

Base Case Scenario

- Evolution's fleet grows by ~15 units per year through 2029, ending our forecast period with 110 units; this suggests penetration of the Drilling + Ancillary Services total addressable market reaches ~30%, but Evolution has no success expanding into other end markets.
- Evolution revenue/unit remains largely unchanged at ~$740k/year/unit.
- Revenue grows at a 5-Yr CAGR of ~22%.
- Gross margin grows at a 5-Yr CAGR of ~25%.
- Adj. EBITDA grows at a 5-Yr CAGR of ~27%.
- Distributable cash flow grows at a 5-Yr CAGR ~25%.

Bull Case Scenario

- Evolution's fleet grows by ~25-30 units per year through 2029, ending our forecast period at 173 units; this suggests that either penetration of the Drilling + Ancillary Services total addressable market reaches ~50%, or Evolution achieves some success expanding into other end markets.
- Evolution revenue/unit grows at a 5-Yr CAGR of ~2% to ~$785k/year/unit, largely under the assumption that they add larger 2 MW units to the fleet to service new end markets.
- Revenue grows at a 5-Yr CAGR of ~32%.
- Gross margin grows at a 5-Yr CAGR of ~36%.
- Adj. EBITDA grows at a 5-Yr CAGR of ~39%.
- Distributable cash flow grows at a 5-Yr CAGR ~38%.

It's worth noting that Evolution can self fund our bull case growth trajectory if we assume they issue some debt but hold Net Debt/EBITDA <1.0x. In our view, our base case feels reasonable to underwrite today, but at the first signs that Evolution is having success in either new geographies or new end markets (like electric frac fleets), it will look like our base case is pulling punches.

Exhibit 17: Base Case vs. Bull Case Scenario

Base Case		2024E	2025E	2026E	2027E	2028E	2029E
Evolution Units	#	32	55	69	84	98	110
% Δ			*71.9%*	*25.5%*	*21.7%*	*16.7%*	*12.2%*
Evolution Capacity	MW	10	17	22	27	32	36
% Δ			*77.3%*	*27.1%*	*22.9%*	*17.4%*	*12.7%*
W.A. Revenue/Year/Unit	$000's	727	734	737	739	741	742
% Δ			*1.0%*	*0.5%*	*0.3%*	*0.2%*	*0.1%*
Revenue	$mln	39.5	57.7	71.1	84.0	94.1	106.6
% Δ			*46.3%*	*23.1%*	*18.1%*	*12.1%*	*13.3%*
Gross Margin	$mln	19.6	30.6	38.8	46.7	53.0	60.7
% Δ			*56.2%*	*26.9%*	*20.3%*	*13.4%*	*14.6%*
Gross Margin %	%	50%	53%	55%	56%	56%	57%
% Δ			*3.4%*	*1.6%*	*1.0%*	*0.7%*	*0.7%*
Adj. EBITDA	$mln	16.8	27.0	34.4	41.9	47.6	54.9
% Δ			*60.2%*	*27.5%*	*21.6%*	*13.8%*	*15.2%*
Adj. EBITDA %	%	43%	47%	48%	50%	51%	51%
% Δ			*4.1%*	*1.7%*	*1.5%*	*0.8%*	*0.8%*
Distributable Free Cash	$mln	10.6	20.1	25.2	29.2	30.2	32.2
% Δ			*90.2%*	*25.2%*	*16.1%*	*3.2%*	*6.8%*
Return on Invested Capital	%	10%	16%	19%	21%	21%	20%
% Δ			*6.6%*	*2.3%*	*1.9%*	*0.4%*	*-0.9%*
Net Debt/EBITDA		-0.5x	-0.2x	-0.3x	-0.5x	-0.5x	-0.6x
% Δ			*-68.1%*	*80.2%*	*43.2%*	*10.1%*	*24.9%*

Bull Case Scenario		2024E	2025E	2026E	2027E	2028E	2029E
Evolution Units	#	32	61	87	115	143	173
% Δ			*90.6%*	*42.6%*	*32.2%*	*24.3%*	*21.0%*
Evolution Capacity	MW	10	19	28	42	56	71
% Δ			*97.9%*	*45.1%*	*51.5%*	*34.0%*	*26.5%*
W.A. Revenue/Year/Unit	$000's	727	735	740	762	775	784
% Δ			*1.2%*	*0.6%*	*3.0%*	*1.8%*	*1.1%*
Revenue	$mln	39.5	59.0	82.2	106.1	130.4	157.5
% Δ			*49.6%*	*39.2%*	*29.1%*	*22.9%*	*20.8%*
Gross Margin	$mln	19.6	31.4	45.7	60.4	75.5	92.3
% Δ			*60.3%*	*45.4%*	*32.3%*	*24.9%*	*22.3%*
Gross Margin %	%	50%	53%	56%	57%	58%	59%
% Δ			*3.5%*	*2.4%*	*1.4%*	*0.9%*	*0.7%*
Adj. EBITDA	$mln	16.8	27.8	41.3	55.6	70.1	86.4
% Δ			*65.0%*	*48.5%*	*34.7%*	*26.2%*	*23.2%*
Adj. EBITDA %	%	43%	47%	50%	52%	54%	55%
% Δ			*4.4%*	*3.1%*	*2.2%*	*1.4%*	*1.1%*
Distributable Free Cash	$mln	10.6	20.8	30.7	39.5	46.1	53.4
% Δ			*96.8%*	*47.8%*	*28.5%*	*16.7%*	*15.9%*
Return on Invested Capital	%	10%	17%	19%	19%	18%	18%
% Δ			*7.1%*	*2.6%*	*-0.3%*	*-0.7%*	*-0.1%*
Net Debt/EBITDA		-0.5x	0.0x	0.2x	0.5x	0.5x	0.4x
% Δ			*58.9%*	*18.1%*	*26.5%*	*5.9%*	*-9.7%*

Source: Enterprise Group, Inc., Raymond James Ltd.

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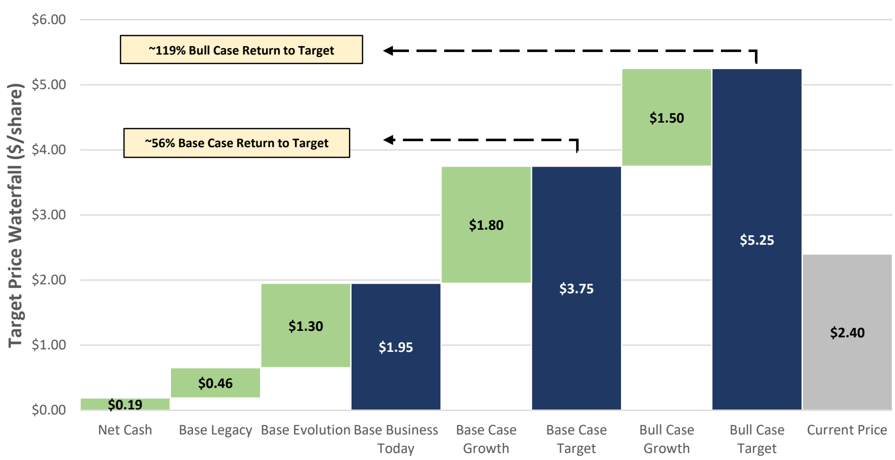
Exhibit 18 shows a target price waterfall analysis. The starting point is the current net cash in the business, ~$0.19/share. Our model suggests that the legacy business is worth an additional ~$0.46/share, while the existing Evolution business is worth another ~$1.30/share. Together, this suggests that the existing business, with no future growth, is worth ~$1.95/share today.

Our base case forecast suggests an additional ~$1.80/share upside, bringing us to our target price of $3.75/share. In our bull case scenario, we see a further ~$1.50/share upside, elevating the target price to ~$5.25/share.

Through this lens, it appears that the market is implicitly only paying for ~25% of our base case growth ([$2.40/share - $1.95/share] / $1.80/share). **Our analysis suggests that the market is only paying for the existing business, the 14 units already ordered (new/used) and expected to be delivered in 2025. This strikes us as too conservative, and it's these implied expectations that support our Outperform rating.**

Exhibit 18: Fair Value Waterfall; Base Business Today vs. Target Price vs. Current Price



Source: Enterprise Group, Inc., Raymond James Ltd.

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APPENDIX 1: DISCOUNTED CASH FLOW MODEL

Exhibit 19: DCF — Target Price and Key Financial Inputs

WACC		
Current quarter	4Q24	
Current year	2025	
Risk free rate	4.0%	
EQRP	6.0%	
Beta	1.00	
Cost of Equity	10.0%	
Cost of Prefs	7.0%	
10Y Treasury Rate	4.0%	
Credit Spread	4.5%	
Cost of Debt	8.5%	
Tax Rate	24.0%	
After-tax Cost of Debt	6.5%	
Shares Outstanding	84	
Current Price	2.40	
Equity Value	201	90.6%
Pref Value	0	0.0%
Debt Value	21	9.4%
Day 1 WACC	9.7%	
5Y Average WACC	9.7%	

Ticker Details	
Date	25-02-03
Exchange	**TSX**
Ticker	**E**
Current Price	**$2.40**
Equity Value (FCFE) - today	$3.37
Equity Value (FCFF) - today	$3.42
5Y IRR	18.3%
1-Year Target Price	**$3.75**

Terminal Value Assumptions - EV	ROIC	ROE
Risk free rate	4.0%	4.0%
Terminal Growth Spread	0.0%	0.2%
Terminal Growth	**4.0%**	**4.2%**
Reinvest. Rate	33.3%	33.3%
Cost of Capital	9.6%	10.0%
Excess ROIC/ROE	2.4%	2.7%
Terminal ROIC/ROE	**12.0%**	**12.7%**
Terminal D/Cap	11.3%	11.3%

Source: Raymond James Ltd.

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Exhibit 20: DCF — Free Cash Flow to Equity

Discounted Cash Flow (DCF - FCFE)											
Cost of Equity						10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Current period adjustment	0.09										
Half-year adjustment	0.50										
Period	**-4**	**-3**	**-2**	**-1**	**0**	**1**	**2**	**3**	**4**	**5**	**6**
Year	**2020A**	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**Mid-Cycle**
EPS (f.d.)	(0.09)	(0.05)	0.05	0.12	0.10	0.14	0.19	0.25	0.27	0.31	0.3
Y/Y EPS Growth		*-44.9%*	*-195.0%*	*158.9%*	*-16.6%*	*42.9%*	*35.8%*	*27.0%*	*10.4%*	*14.8%*	*4.2%*
Revenue	16	19	27	34	39	58	71	84	94	107	111
Y/Y Revenue Growth		*20.7%*	*43.6%*	*24.6%*	*17.8%*	*46.3%*	*23.1%*	*18.1%*	*12.1%*	*13.3%*	*4.0%*
Adj. EBITDA	4	3	8	13	17	27	34	42	48	55	57
Y/Y Adj. EBITDA Growth		*-20.0%*	*175.1%*	*63.0%*	*26.8%*	*60.2%*	*27.5%*	*21.6%*	*13.8%*	*15.2%*	*4.0%*
Adj. EBITDA Margins	*23.9%*	*15.8%*	*30.3%*	*39.7%*	*42.7%*	*46.7%*	*48.4%*	*49.8%*	*50.6%*	*51.5%*	*51.5%*
Net Income	(4)	(2)	2	6	6	12	16	21	23	26	27
DD&A	6	6	5	5	7	9	11	12	14	16	16
Deferred taxes	0	0	0	0	1	4	5	5	4	2	2
Change in NWC	1	(1)	(2)	0	(1)	(1)	(0)	(1)	(1)	(1)	0
Capex	(1)	(4)	(6)	(15)	(16)	(25)	(23)	(27)	(32)	(31)	(24)
Disposition of PP&E	1	1	1	1	1	0	0	0	0	0	0
M&A	(1)	0	0	0	0	0	0	0	0	0	0
Lease Principal Payments	(1)	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Other	0	(0)	(0)	0	(0)	0	0	0	0	0	0
Change in Debt	(1)	2	1	7	(1)	0	0	3	20	0	0
Free Cash Flow to Equity	**0**	**1**	**(0)**	**3**	**(5)**	**(4)**	**6**	**11**	**25**	**11**	**20**
FCFE ex. Growth Capital											**27**
FV FCFE						**(4)**	**6**	**11**	**25**	**11**	**344**
Discount Factor						1	1	1	1	2	2
PV FCFE						(4)	5	9	18	7	205
PV of FCFE	240										
Plus: Cash + Option Proceeds	43										
Equity Value	283									**Terminal Equity Value**	344
Shares Outstanding (f.d.)*	84									Shares Outstanding	84
Intrinsic value/share	**$3.37**									**Exit Share Price**	$4.11
										Implied Exit P/E (1Y Forward)	12.6x
										2030 EPS (1Y Forward)	0.33
										Terminal Growth Rate	**4.2%**

Source: Enterprise Group, Inc., Raymond James Ltd.

**Other includes impairments, unrealized gains/losses etc.*

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Exhibit 21: DCF — Free Cash Flow to Firm

Discounted Cash Flow (DCF - FCFF)											
WACC						9.8%	9.8%	9.8%	9.7%	9.6%	9.6%
Current period adjustment	0.09										
Half-year adjustment	0.50										
Period	**-4**	**-3**	**-2**	**-1**	**0**	**1**	**2**	**3**	**4**	**5**	**6**
Year	**2020A**	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**Mid-Cycle**
EPS	(0.09)	(0.05)	0.05	0.12	0.10	0.14	0.19	0.25	0.27	0.31	0.33
Y/Y EPS Growth		*-44.9%*	*-195.0%*	*158.9%*	*-16.6%*	*42.9%*	*35.8%*	*27.0%*	*10.4%*	*14.8%*	*4.2%*
Revenue	16	19	27	34	39	58	71	84	94	107	111
Y/Y Revenue Growth		*20.7%*	*43.6%*	*24.6%*	*17.8%*	*46.3%*	*23.1%*	*18.1%*	*12.1%*	*13.3%*	*4.0%*
Adj. EBITDA	4	3	8	13	17	27	34	42	48	55	57
Y/Y Adj. EBITDA Growth		*-20.0%*	*175.1%*	*63.0%*	*26.8%*	*60.2%*	*27.5%*	*21.6%*	*13.8%*	*15.2%*	*4.0%*
Adj. EBITDA Margins	*23.9%*	*15.8%*	*30.3%*	*39.7%*	*42.7%*	*46.7%*	*48.4%*	*49.8%*	*50.6%*	*51.5%*	*51.5%*
EBIT	(4)	(1)	4	8	10	18	23	29	33	38	40
Tax Rate	*6.0%*	*1.8%*	*-0.1%*	*0.0%*	*11.3%*	*24.1%*	*24.0%*	*24.0%*	*24.0%*	*24.0%*	*24.0%*
EBIT*(1-Tax Rate)	(4)	(1)	4	8	9	14	18	22	25	29	30
DD&A	6	6	5	5	7	9	11	12	14	16	16
Deferred taxes	0	0	0	0	1	5	6	6	5	2	2
Change in NWC	1	(1)	(2)	0	(1)	(1)	(0)	(1)	(1)	(1)	0
Capex	(1)	(4)	(6)	(15)	(16)	(25)	(23)	(27)	(32)	(31)	(24)
Disposition of PP&E	1	1	1	1	1	0	0	0	0	0	0
M&A	(1)	0	0	0	0	0	0	0	0	0	0
Lease Principal Payments	(1)	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Other	0	(0)	(0)	0	(0)	0	0	0	0	0	0
Free Cash Flow to Firm	**2**	**(0)**	**0**	**(2)**	**(2)**	**(2)**	**9**	**11**	**8**	**14**	**22**
FCFF ex. Growth Capital											**30**
FV FCFF						(2)	9	11	8	14	389
Discount Factor						1	1	1	1	2	2
PV FCFF						(2)	8	9	6	9	236

Enterprise Value	266	**Terminal Enterprise Value**	389
Less: Debt	(21)	Less: Debt	(44)
Less: Prefs	0	Less: Prefs	0
Less: Minority Interest	0	Less: Minority Interest	0
Plus: Cash + Option Proceeds	43	Plus: Net Cash	85
Equity Value	287	**Terminal Equity Value**	430
Shares Outstanding (f.d.)*	84	Shares Outstanding	84
Intrinsic value/share	**$3.42**		
		Terminal EV/EBITDA Multiple	6.8x
		2030 EPS (1Y Forward)	0.33
		Terminal Growth Rate	**4.0%**

Source: Enterprise Group, Inc., Raymond James Ltd.

**Other includes impairments, unrealized gains/losses etc.*

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APPENDIX 2: FINANCIAL STATEMENTS

Exhibit 22: Income Statement

$ millions, unless otherwise stated	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E
Revenue	16	19	27	34	39	58	71	84	94	107
Opex	(10)	(12)	(16)	(18)	(20)	(27)	(32)	(37)	(41)	(46)
Gross Profit	**5**	**7**	**11**	**16**	**20**	**31**	**39**	**47**	**53**	**61**
DD&A	(6)	(6)	(5)	(5)	(7)	(9)	(11)	(12)	(14)	(16)
SG&A	(1)	(2)	(3)	(2)	(3)	(4)	(4)	(5)	(5)	(6)
SBC	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Other	(1)	(0)	0	0	(0)	0	0	0	0	(0)
EBIT	**(4)**	**(1)**	**4**	**8**	**10**	**18**	**23**	**29**	**33**	**38**
Net Financing Expense	(1)	(1)	(1)	(2)	(3)	(2)	(2)	(2)	(3)	(4)
EBT	**(5)**	**(2)**	**2**	**6**	**7**	**16**	**21**	**27**	**30**	**34**
Current Income Taxes	0	0	0	0	(0)	(0)	(1)	(2)	(4)	(7)
Deferred Income Taxes	0	0	0	0	(1)	(4)	(5)	(5)	(4)	(2)
Net Income	**(4)**	**(2)**	**2**	**6**	**6**	**12**	**16**	**21**	**23**	**26**
Weighted Average Shares - Basic (mln)	50	49	49	50	59	76	76	76	76	76
EPS - Basic	($0.09)	($0.05)	$0.05	$0.12	$0.11	$0.16	$0.21	$0.27	$0.30	$0.35
Weighted Average Shares - Diluted (mln)	50	49	49	51	65	84	84	84	84	84
EPS - Diluted	**($0.09)**	**($0.05)**	**$0.05**	**$0.12**	**$0.10**	**$0.14**	**$0.19**	**$0.25**	**$0.27**	**$0.31**
Gross Profit	5	7	11	16	20	31	39	47	53	61
SG&A	(1)	(2)	(3)	(2)	(3)	(4)	(4)	(5)	(5)	(6)
Other	(0)	(2)	0	0	0	0	0	0	0	(0)
Adjusted EBITDA	**4**	**3**	**8**	**13**	**17**	**27**	**34**	**42**	**48**	**55**

Source: Enterprise Group, Inc., Raymond James Ltd.

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Exhibit 23: Cash Flow Statement

$ millions, unless otherwise stated	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E
Net Income	(4)	(2)	2	6	6	12	16	21	23	26
DD&A	6	6	5	5	7	9	11	12	14	16
Deferred Tax Expense	(0)	0	0	0	1	4	5	5	4	2
SBC	0	0	0	0	0	0	0	0	0	0
Finance Cost, Net	1	1	1	2	3	2	2	2	3	4
Provisions	0	0	0	0	0	0	0	0	0	0
Other	1	0	(0)	(0)	0	0	0	(0)	0	0
Funds From Operations	**3**	**5**	**8**	**13**	**17**	**27**	**34**	**40**	**44**	**48**
NWC	1	(1)	(2)	0	(1)	(1)	(0)	(1)	(1)	(1)
Operating Cash Flow	**4**	**4**	**6**	**14**	**16**	**25**	**34**	**39**	**43**	**47**
Acquisitions, Net of Cash Acquired	(1)	0	0	0	0	0	0	0	0	0
Capex	(1)	(4)	(6)	(15)	(16)	(25)	(23)	(27)	(32)	(31)
Dispositions	1	1	1	1	1	0	0	0	0	0
NWC	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	(0)	(0)
Investing Cash Flow	**(1)**	**(2)**	**(4)**	**(14)**	**(15)**	**(25)**	**(23)**	**(27)**	**(32)**	**(31)**
Change in Debt	(1)	2	1	7	(1)	0	0	3	20	0
Lease Principal Payments	(1)	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)
Issuance of Shares	0	0	1	0	38	0	0	0	0	0
Share Repurchases	(0)	(1)	(1)	(1)	0	(1)	(1)	(1)	(1)	(1)
Common Dividends	0	0	0	0	0	0	0	0	0	0
NWC	0	0	0	0	0	0	0	0	0	0
Other	(1)	(1)	(2)	(2)	(3)	(2)	(2)	(2)	(3)	(4)
Financing Cash Flow	**(3)**	**(1)**	**(1)**	**3**	**32**	**(4)**	**(4)**	**(2)**	**14**	**(6)**
FX	0	0	0	0	0	0	0	0	0	0
Change In Cash	**(0)**	**0**	**0**	**3**	**33**	**(4)**	**6**	**11**	**25**	**10**

Source: Enterprise Group, Inc., Raymond James Ltd.

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Exhibit 24: Balance Sheet

$ millions, unless otherwise stated	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E
Cash	1	1	1	4	37	32	39	49	74	85
Accounts Receivable	4	5	7	7	9	12	13	15	17	18
Inventory	0	0	0	0	1	1	1	1	1	1
Prepaid Expenses and Other	0	0	1	1	1	1	1	1	1	1
Other	0	1	1	1	1	1	1	1	1	1
Current Assets	**5**	**7**	**10**	**13**	**49**	**47**	**54**	**67**	**94**	**106**
PP&E	42	40	40	50	61	79	94	110	130	147
Right-of-use Assets	2	1	2	5	8	8	8	8	8	8
Intangible Assets	0	0	0	0	0	0	0	0	0	0
Deferred Income Taxes	2	2	3	4	6	6	6	6	6	6
Goodwill	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	(0)	0
Total Assets	**52**	**51**	**55**	**73**	**123**	**141**	**162**	**192**	**239**	**267**
Accounts Payable and Accrued Liabilities	1	2	2	2	4	6	7	8	9	9
Interest Payable	0	0	0	0	0	0	0	0	0	0
Short-Term Debt	1	1	1	1	0	0	0	0	0	0
Mortgages	0	0	0	0	0	0	0	0	0	0
Dividend Payable	0	0	0	0	0	0	0	0	0	0
Lease Liabilities	0	0	0	0	2	2	2	2	2	2
Other	0	0	0	0	0	0	0	0	0	0
Current Liabilities	**3**	**3**	**3**	**4**	**6**	**8**	**9**	**10**	**11**	**11**
Long-Term Debt	9	11	13	18	17	17	17	20	40	40
Lease Liabilities	1	0	1	3	5	5	5	5	5	5
Deferred Income Taxes	2	2	3	4	7	10	15	20	23	25
Other	3	2	2	4	4	4	4	4	4	4
Total Liabilities	**17**	**19**	**21**	**32**	**39**	**44**	**49**	**58**	**83**	**85**
Shareholders' Capital	71	68	67	65	73	73	73	73	73	73
Warrants	0	0	0	0	1	1	1	1	1	1
Contributed Surplus	15	17	19	20	21	21	21	21	21	21
Retained Earnings (Deficit)	(51)	(53)	(51)	(45)	(9)	3	19	39	62	88
Accumulated Other Comprehensive Income	0	0	0	0	0	0	0	0	0	0
Total Equity	**35**	**32**	**35**	**41**	**85**	**97**	**113**	**134**	**156**	**182**
Total Equity & Liabilities	**52**	**51**	**55**	**73**	**123**	**141**	**162**	**192**	**239**	**267**

Source: Enterprise Group, Inc., Raymond James Ltd.

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APPENDIX 3: RISKS

Key risks to Enterprise Group Inc. include, but are not limited to:

- **Commodity Price Volatility and Seasonality:** Commodity prices are determined by global supply and demand dynamics. Fluctuations in these prices could result in a material impact on the operations, and financial conditions of the business; that's especially true in the legacy oilfield service businesses, which is primarily exposed to drilling, completions, and absolute commodity prices. Seasonal variations in weather can also impact the company's ability to provide services.

- **Economic Dependence:** In 2023, the top ten customers accounted for ~66% of revenue. This concentration of revenue among a small amount of customers poses a risk, if any of these customers were to reduce their business with Enterprise.

- **Technological Disruption:** While Enterprise has made advancements into low emission technologies, there is a risk of being outpaced by new innovations or falling to adapt quickly enough to changes in market demand.

- **Increased Competition:** While Enterprise doesn't have true comparable competitor in the Evolution business segment, smaller competitors that provide diesel generation could transition into the natural gas turbine market, impacting the market share and addressable market available to Enterprise, which could negatively impact financial forecasts and share price.

- **Interest Rate Risks:** While Enterprise carries fixed-rate debt, changes in interest rates will impact funding costs as maturities roll over. In addition, levered IRRs on future projects are influence by prevailing borrowing costs, which could change incremental reinvestment rates/ returns. A rising interest rate environment could lead to a higher required return on projects, which could negatively impact share price.

- **Environmental, Regulatory and Policy Risks:** Changes in political and/or regulatory structures may have a material impact on the company's financial and operational performance. Political and regulatory risks include changes in regulatory structure, changes in financial reporting, changes in environmental liabilities, Aboriginal claims, and the fiscal regime. There is also regulatory risk with respect to drilling licenses and various operating procedures. Regulations imposed by governments can change and have an adverse impact on the operations and financial conditions of the business.

- **Management Risks:** Unforeseen developments with respect to the management, financial condition or accounting policies or practices could adversely impact our forecasts and valuation.

- **General Risk Factors:** Industry fundamentals with respect to end customer demand, product or service pricing could change and adversely impact our forecasts.

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APPENDIX 4: OWNERSHIP BREAKDOWN

Institution & Corporations	# Shares	% O/S
Andbank Wealth Management SGIIC SAU	101,156	0.1%
StoneCastle Investment Management, Inc.	56,730	0.1%
Top Institutions	157,886	0.2%

			Year-End 2023 Incentive Units				
Individuals & Insiders	# Shares	% O/S	PSU-RSUs	DSUs	Options	Shares + Units	% O/S
Jaroszuk Leonard D	15,242,189	19.9%	-	-	1,900,000	17,142,189	34.5%
Okell Desmond	2,442,499	3.2%	-	-	1,000,000	3,442,499	6.9%
Cabral Warren	2,032,833	2.7%	-	-	1,000,000	3,032,833	6.1%
Darling Neil	1,055,500	1.4%	-	-	150,000	1,205,500	2.4%
Pinsent John Harold Charles	375,634	0.5%	-	-	150,000	525,634	1.1%
Campbell Norman John	25,000	0.0%	-	-	150,000	175,000	0.4%
Top Individuals & Insiders	21,173,655	27.6%	-	-	4,350,000	25,523,655	51.4%

Source: Enterprise Group, Inc., Raymond James Ltd.

Note: Shares outstanding were pulled from FactSet as of February 3, 2025

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APPENDIX 5: MANAGEMENT AND BOARD OF DIRECTORS

Named Executive Officers

Leonard Jaroszuk — Chief Executive Officer

Mr. Jaroszuk, one of the founders of Enterprise Group, Inc., established in 2004, currently holds several key positions. He is the Chairman, President, and CEO of Enterprise Group, Inc., as well as the President, CEO, CFO, and Director of United Global, Inc. Additionally, he serves as the President and CEO of Bancshares Capital Corp., and the President and Director of Richfield Explorations, Inc. and West One Ltd. Mr. Jaroszuk has also held various former roles, including President, CEO, and Director of Greenbank Ventures, Inc., Samoth Oilfield, Inc., and Select Sands Corp., among others.

Warren Cabral — Chief Financial Officer

Mr. Cabral is the current Chief Financial Officer and serves as member of the Institute of Chartered Accountants of Alberta. Previously, he held various roles, including Independent Director at BioNeutra Global Corp., Chief Financial Officer at Quest PharmaTech, Inc. and Northern Sun Mining Corp., Principal at Ernst & Young LLP (Canada), CFO at Alberta Investment Management Corp. and its Private Equity division, and Principal at Alberta Securities Commission. Mr. Cabral earned an undergraduate degree from the University of Alberta.

Desmond O'Kell — President

Mr. O'Kell, one of the founders of Enterprise Group, Inc. established in 2004, currently serves as President and Director. Previously, he held the positions of Chief Financial Officer, Secretary, and Director at Greenbank Ventures, Inc. Additionally, Mr. O'Kell has served as an Independent Director at Samoth Oilfield, Inc., and held the roles of President at Rochester Resources Ltd. and Eland Jennings Investor Services, Inc.

Board of Directors

Leonard Jaroszuk — Non-Independent Director, Chair of the Board

See bio above.

Desmond O'Kell — Non-Independent Director

See bio above.

John Pinsent — Independent Director

Mr. Pinsent has been director since 2012. Mr. Pinsent, is the founder of St. Arnaud Pinsent & Associates. Currently, he holds multiple director roles, including at the Institute of Chartered Accountants of Alberta, Fastrainer LLP, IMBiotechnologies Ltd., JJDP Investments, Inc., Innovative Trauma Care, Inc., the Chartered Accountants Education Foundation of Alberta, Alberta Venture Channel, and SmileSonica, Inc. Starting in 2024, he became an Independent Director at New Horizon Aircraft Ltd. and is a Partner at Sprout VC. Previously, he served as Chairman of Hyduke Energy Services, Inc. and Special Olympics Alberta, and held various other director and senior management roles. Mr. Pinsent earned an undergrad degree from the University of Alberta.

Neil Darling — Independent Director

Mr. Darling has been director since 2015. Mr. Darling is the founder and serves as CEO at Ramdar Resource Management Ltd. Mr. Darling has +35 years of project management, design and operations experience. Previously, Mr. Darling, has taught at the Southern Alberta Institute of Technology (S.A.I.T.) and developed and presented curriculum for both domestic and international technical institutions. His international teaching experience spans China, Bangladesh, Libya, and the United States.

John Campbell — Independent Director

Mr. Campbell has been director since 2015. Mr. Campbell founded Camlin Asset Management, Inc. and has held various roles, including Chief Investment & Compliance Officer and President. He also founded TriView Capital Ltd. and Chairman since. Currently, Mr. Campbell serves as Lead Independent Director at Enterprise Group, Inc., Director at Certus Oil & Gas, Inc., Director and Chief Financial & Strategy Officer at BevCanna Enterprises, Inc., Member of the Chartered Professional Accountants of British Columbia, Chief Financial Officer at Sixty North Gold Mining Ltd., and President of Camlin Asset Management Ltd. Mr. Campbell earned his undergraduate degree from the University of British Columbia and a Master's in Business Administration from Simon Fraser University.

Source: Enterprise Group, Inc., Raymond James Ltd.

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APPENDIX 6: COMPANY HISTORY

The Journey

The company was formerly known as Enterprise Oilfield Group, and rebranded to Enterprise Group, Inc. in 2012 and has been around since 2004. The company's founders, Leonard Jaroszuk, Chief Executive Officer and Desmond O'Kell, President are still running the business today.

2015-2016 — Recovery, and expansion. At this time the company was primarily focused on underground construction, maintenance and specialty equipment rentals. During this time, Enterprise faced financial challenges given the weakness in commodity prices, and witnessed a big decline in revenue which came down 50% y/y in 2015, and a further declined by 27% y/y in 2016. This also led to weak profitability, Adj. EBITDA margins declined from ~25% at peak to ~13%. As a result, Enterprise focused on cost-cutting measure to stabilize operations and focused on expanding service offerings, and operational efficiency.

2017-2018 — Divestitures. Enterprise made a strategic decision to divest of substantially all the assets of TC Backhoe & Directional Drilling Ltd. for about ~$20mln, and divest of Calgary Tunneling & Horizontal Augering Ltd for ~$20mln. Proceeds from the sales were used to repay debt and restructure the business.

2019-2020 — Covid-19 road block. After restructuring, the business continued to struggle, and the Covid-19 headwind plagued any business momentum. The company had to implement further cost-cutting measure and suspended its buyback program. During this time total revenues declined to just $15.5mln.

2021-2022 — Strengthening market position. The company continued to right size its business, selling and purchasing new equipment with an emphasis on increasing their natural gas powered fleet, expanded its client base, secured new contracts with Tier 1 customers in Western Canada and launched a new subsidiary business called Evolution Power Projects. The new business enhanced their service portfolio and expanded their market presence.

2023-2024 — Continued growth and further expansion opportunities. The company has continued its growth trajectory, and saw a ~160% increase in revenues versus in 2019-2020 levels. The company also saw Adj. EBITDA margins expand to ~43% from ~15% witnessed in the same period. This growth was primary driven by better unit economics from their Evolution Power Projects business. The company also completed a ~$29mln bought deal offering, with proceeds expected to fund continued expansion in their Evolution Power business as they seek to capitalize on opportunities in the natural gas turbine market.

Enterprise journey over the past decade has been marked by their ability to adapt to market conditions and focus on new end markets and services, specifically the Evolution Power business which is expected to drive further growth.

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Today

Today, Enterprise operates four business units, Evolution Power Projects, Hart Oilfield Rentals, Westar Oilfield Rentals, and Artic Therm International. They specialize in providing equipment and services in the build out of infrastructure in the energy, pipeline and construction sectors.

Hart Oilfield Rentals

Enterprise acquired Hart Oilfield Rentals in 2014, and is an oilfield site services and equipment rental business for oil and gas customers. It provides oilfield infrastructure site services and rentals to its oil and gas customers operating within the Western Canadian Sedimentary Basin. Headquartered in Drayton Valley, with season yards in Drayton Valley, Whitecourt, and Grande Prairie. Hart's rental fleet includes patented and patent-pending modular designs that offer a competitive edge. Hart designs, manufactures, and assembles its modular and combo equipment, including fuel, generators, light stands, sewage treatment, medic security, and truck trailer combos. When necessary, Hart subcontracts manufacturing to local suppliers. Its extensive rental equipment fleet, consisting of +2,000 pieces, is designed to offer one-stop on-site infrastructure support for drilling and completion operations.

Artic Therm International

Enterprise acquired Artic Therm in 2012, and specializes in delivering flameless heat technology to the construction and oil and gas sectors in Western Canada. Headquartered in Morinville, Alberta, with a seasonal office in Fort McMurray, Alberta. Artic Therm boasts a fleet of +200 flameless heaters, with heat outputs ranging from 375,000 to 3,300,000 BTUs. Artic Therm offers two classes of flameless heaters. The rental class units, which are trailer-mounted and range from 375,000 to 1.2mln BTUs, are used in construction, oil and gas development, and plant shut-downs. The project class units, featuring patented technology, range from 1.2mln to 3.3mln BTUs and use blower technology capable of producing up to 15,000 cubic feet per minute. These units were designed for pipeline thermal expansion but are also suitable for various other applications, such as large vessel drying or dehumidifying, plant and facility shut-downs, storage tank shut-downs, curing of coatings, and large-scale emergency thawing.

Westar Oilfield Rentals

Enterprise acquired Westar Oilfield Rentals in 2014, and offers infrastructure site services and rentals. It is a full-service oilfield site infrastructure company that meets various equipment rental needs for numerous oil and gas customers. Westar services the Fort St. John area with +600 pieces of owned equipment. Additionally, Westar provides Enterprise with a strategic presence in the Fort St. John, a key area for the development of Western Canada's LNG industry.

Evolution Power Projects

Enterprise formed Evolution Power Projects in 2022. The main service that Evolution Power offers are its low emission natural gas powered turbine systems, and micro-grid transmission technology. Evolution Power deploys a fleet of mobile natural gas turbines to power typically off grid project sites for energy, resource, and industrial projects. Evolution Power also offers project management services from concept to completion, assisting customers to evaluate power needs and solutions.

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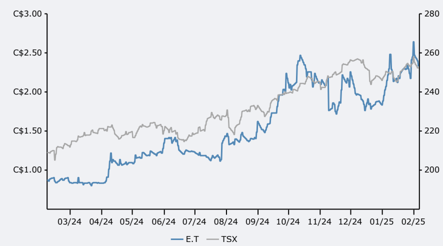
COMPANY DESCRIPTION

Enterprise operates four business units, Evolution Power Projects, Hart Oilfield Rentals, Westar Oilfield Rentals, and Artic Therm International. They specialize in providing equipment and services in the build out of infrastructure in the energy, pipeline and construction sectors.



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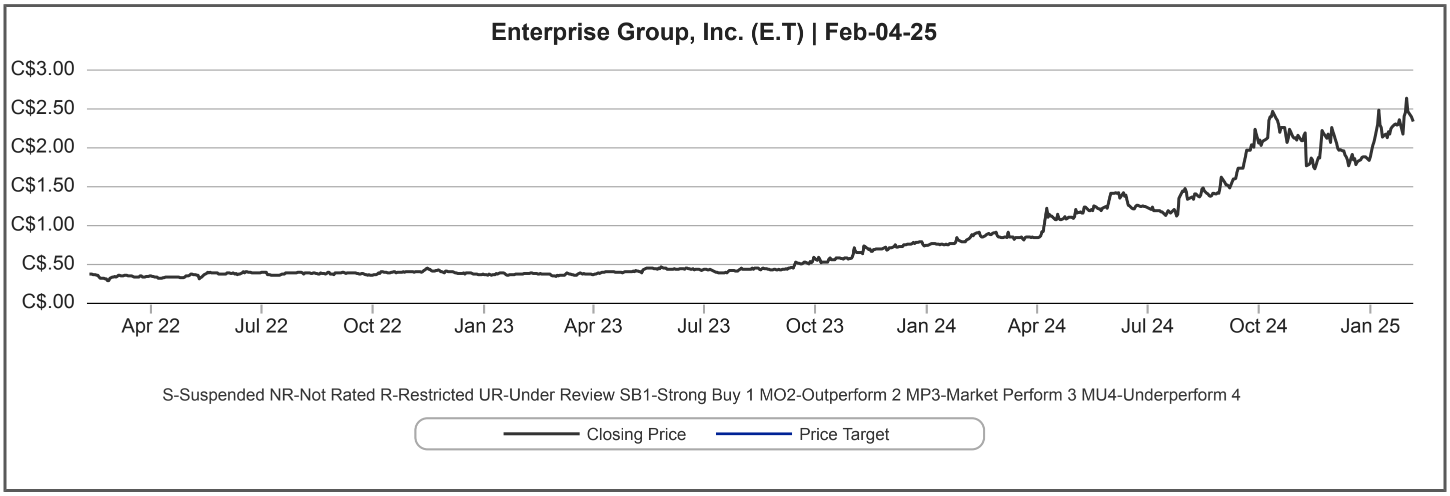

Valuation Methodology

Enterprise Group, Inc.
We derive our target price using a 5Y discounted cash flow (DCF) model.

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Company Specific Risk Factors

Enterprise Group, Inc.

- **Commodity Price Volatility and Seasonality:** Commodity prices are determined by global supply and demand dynamics. Fluctuations in these prices could result in a material impact on the operations, and financial conditions of the business; that's especially true in the legacy oilfield service businesses, which is primarily exposed to drilling, completions, and absolute commodity prices. Seasonal variations in weather can also impact the company's ability to provide services.
- **Economic Dependence:** In 2023, the top ten customers accounted for ~66% of revenue. This concentration of revenue among a small amount of customers poses a risk, if any of these customers were to reduce their business with Enterprise.
- **Technological Disruption:** While Enterprise has made advancements into low emission technologies, there is a risk of being outpaced by new innovations or falling to adapt quickly enough to changes in market demand.
- **Increased Competition:** While Enterprise doesn't have true comparable competitor in the Evolution business segment, smaller competitors that provide diesel generation could transition into the natural gas turbine market, impacting the market share and addressable market available to Enterprise, which could negatively impact financial forecasts and share price.
- **Interest Rate Risks:** While Enterprise carries fixed-rate debt, changes in interest rates will impact funding costs as maturities roll over. In addition, levered IRRs on future projects are influence by prevailing borrowing costs, which could change incremental reinvestment rates/ returns. A rising interest rate environment could lead to a higher required return on projects, which in turn could negatively impact share price.
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Underperform (Sell)	19	2%	1	0%	0	0%	0	0%
Total Number of Companies	942	100%	232	100%	123		49	

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