ARGUS®

EQUITY RESEARCH REPORT

November 20, 2024

ENERPAC TOOL GROUP CORP.
(NYSE: EPAC)

Founded in 1910, Menomonee Falls, Wisconsin-based Enerpac Tool Group Corp. is a premier industrial tools, services, technology and solutions company serving a broad and diverse set of customers and end markets for mission critical applications in more than 100 countries. Enerpac's businesses are global leaders of high pressure hydraulic tools, controlled force products and service solutions that help customers around the world safely, reliably and efficiently tackle some of the most challenging, complex, and often hazardous jobs.

COMPANY HIGHLIGHTS

* Diversified Global Business: Enerpac is a diversified provider of industrial products and services, with a broad vertical market focus and geographic operating footprint. The company engages in the design, manufacture and distribution of branded hydraulic and mechanical tools and leverages its expertise to provide high margin services to industries including refinery/petrochemical; industrial maintenance, repair and operations (MRO), infrastructure, power generation, machining & manufacturing and mining, among many others.

* Large Serviceable Market Opportunity: We see robust growth opportunities for its target vertical markets. In focusing on infrastructure, rail, wind and industrial MRO as its core target markets, as well as a geographic focus on the Asia Pacific region, we see Enerpac participating in markets that are expanding, in part, due to the need for global investment to upgrade aging infrastructure and in clean energy/climate control initiatives. Enerpac estimates a serviceable market opportunity between $2 billion and $3 billion for these target verticals, which currently comprise a modest portion of the current revenue mix, and compares favorably to its current annual revenue run rate over $600 million.

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PRICE CHART

KEY STATISTICS

Key Stock Statistics	
Recent price (11/19/24)	$47.11
Fair Value Estimate	$55.00
52 week high/low	$51.91/$27.06
Shares outstanding (M)	54.2
Market cap ($M)	2553.4
Dividend	$0.04
Yield	0.1%

Sector Overview	
Sector	Industrial
Sector % of S&P 500	8.5%

Financials ($M, as of 8/31/24)	
Cash & Mkt Securities	167.1
Debt	194.5
Working Capital	242.9
Current Ratio	2.9
Revenue (TTM)	589.5
Net Income (TTM)	85.7
Net Margin (TTM)	14.5%
Free Cash Flow Margin (%)	12.5%

Risk	
Beta	1.14
Inst. ownership	100%

Valuation	
P/E Forward EPS	26.0
Price/Revenue (TTM)	4.3
EV/EBITDA (TTM)	17.5
Price/BV	29.7

Top Holders

BlackRock Inc.
Vanguard Group Inc.
Capital Research and Management Company

Management	
President/CEO	Mr. Paul Sternlieb
Exec VP/CFO	Mr. Darren Kozik
Exec VP/Operations	Mr. Eric Chack
Company website	www.enerpactoolgroup.com

COMPANY SPONSORED REPORT. SEE LAST PAGE FOR DISCLOSURES.

* ASCEND Program Driving Sustained Operating Efficiency: In March 2022, Enerpac began implementing its ASCEND transformation program, which was designed to accelerate organic growth strategies, improve operational excellence and production efficiency, and drive efficiency and SG&A productivity throughout the organization. At its formal completion at the end of fiscal 2024, the company invested $75 million in the program, and exceeded its increased targeted annual operating profit improvement of $50-$60 million by the end of fiscal 2023, a full year ahead of plan.
* Improving Margins: In achieving this operating profit improvement, Enerpac's streamlining of its manufacturing operations, supply chain rationalization and low-cost country sourcing has improved gross margins, which expanded by nearly 180 basis points to 51.1% in fiscal 2024. The company also reported a 50 basis point improvement in adjusted SG&A expense in fiscal 2024, resulting in an adjusted EBITDA of margin of 25.0%, up nearly 1100 basis points since fiscal 2021. We anticipate more modest, but continuing margin expansion over the coming years.
* Fiscal 2025 Guidance: In October 2024, Enerpac announced guidance for fiscal 2025, including organic revenue growth of 0% to 2% at Enerpac. Net sales, including the full year contribution from DTA (acquired September 2024) is forecast at $610 million to $625 million, which would represent growth of 5% at the midpoint. Its fiscal 2025 adjusted EBITDA forecast of $150 million to $160 million, represents a margin of 25.1% at the midpoint, which includes a 50 basis point improvement in the base business over FY24, but is largely offset by dilutive, but still profitable DTA margins.
* Healthy Balance Sheet: As of August 31, 2024, Enerpac had $167.1 million in cash and net debt of $27 million, with a leverage rate of 0.2 times net debt to trailing adjusted EBITDA, well below its target range of 1.5-2.5 times (0.5-times on a pro forma basis including the DTA acquisition, which closed after fiscal year end). We see robust free cash flow ($85 million-$95 million guided for fiscal 2025), enabling continued capital investment in the business, strategic M&A and returning capital to shareholders.
* Fair Value: EPAC shares are currently trading at the higher end of their 52-week range, near $47 per share. Based on our enterprise value/EBITDA valuation analysis, we arrive at a fair value estimate of $55 per share.

COMPANY/INDUSTRY BACKGROUND

Founded in 1910, Wisconsin-based Enerpac Tool Group Corp. is a premier industrial tools, services, technology and solutions company serving a broad and diverse set of customers in more than 100 countries. Its products are available worldwide through a network of around 1000 distributor partners, including W.W. Grainger, MSC and Blackwoods, as well as direct sales to original equipment manufacturers (OEMs).

The company designs and manufactures more than 30,000 products and owned/leased 12 manufacturing facilities (10 for IT&S, 2 for Corporate/other) and 49 Distribution/Sales/Administrative locations (45, 4). All of its facilities practice Lean and 80/20 processes to foster continuous improvement, create efficiencies and produce cost effective products.

Its reportable segment, Industrial Tools & Services ("IT&S"), accounted for 97% of fiscal 2024 revenues (ended August 31, 2024). The segment supplies products and services to a broad array of global end markets, refinery/petrochemical, mining, alternative and renewable energy, and civil construction markets, among others. Primary products include branded tools, cylinders, pumps, hydraulic torque wrenches and highly engineered heavy lifting technology (HLT) solutions.

Enerpac products are designed to enhance safety as a key differentiator to competing products in a fragmented marketplace. The core Enerpac brand is the primary brand across geographies and spans standard product and heavy lifting technology (HLT) categories.

Other brands in the portfolio include Hydratight, which provides specialist on-site service solutions that help clients achieve and maintain asset integrity, reduce operating costs, and improve safety for its customers, and Simplex, a reliable brand of affordable and safe hydraulic cylinders and jacks, pumps and specialty tools, primarily for the American market.

In 2016, Enerpac acquired Larzep, a mid-tier brand primarily marketed in Europe that features hydraulic cylinders and jacks, pumps and specialty tools across multiple target markets, some of which had been competing with Enerpac. Enerpac has positioned the brand to offer an attractive alternative in emerging markets, including Asia Pacific, and has re-engineered some SKUs from Enerpac products to enable a more attractive price point.

The non-reportable "Other" segment consists of Cortland Biomedical, which creates high-performance, custom-built biomedical textiles for medical devices and implanted biomedical

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PEER COMPARISON

Company	Ticker	Recent Price ($)	52-Week High ($)	52-Week Low ($)	Mkt. Cap ($MIL)	1-yr Price Change (%)	1-yr Rev Growth (%)	1 YR EPS Growth (%)	P/E Ratio	Beta	Yield (%)
ENERPAC TOOL GROUP INC	**NYSE: EPAC**	**47.11**	**51.91**	**27.06**	**2553**	**67**	**-1**	**18**	**27.4**	**1.14**	**0.1**
IDEX CORPORATION	NYSE: IEX	223.59	246.36	189.51	17018	14	3	2	28.5	0.95	1.2
LINCOLN ELECTRIC HOLDINGS	Nasdaq: LECO	203.77	261.13	169.51	11498	4	11	17	21.7	1.15	1.5
COLUMBUS MCKINNON CORP	Nasdaq: CMCO	35.97	45.84	29.26	1044	2	8	NM	30.5	1.18	0.8

structures. We see Enerpac supporting this non-core business over the near-term, given its profitability and low capital expense requirements. In July 2023, Enerpac sold Cortland's mature Industrial business, which designs and manufactures high performance synthetic ropes, slings and tethers, to Tufropes for net proceeds of $20 million, and used the proceeds to pay down debt and support core growth initiatives.

In fiscal 2024, 46% of its IT&S sales came from the Americas, 41% from the EMEA region and 13% from Asia Pacific. Despite more cautious near-term sentiment among industrial distributors, we view positively Enerpac's investments in internal programs including the Enerpac Commercial Excellence (ECX), which was rolled out in North America during fiscal 2024 and is being implemented in Europe, with Asia Pacific to follow. The program centers around realigning its sales force to optimize coverage and better leverage its Customer Relationship Management (CRM) platform to manage, funnel and convert end-user pipeline opportunities to customer wins. Including training, process implementation and CRM optimization, we see these initiatives taking approximately one year to be fully implemented, and yielding results over a multi-year period.

In fiscal 2024, revenue in the Americas increased by low single digits, despite weaker demand and tightly managed distributor inventories. EMEA revenues increased by high single digits, and was driven by several large infrastructure projects, including the Fehmarnbelt tunnel project, which will connect Denmark to Germany, and represents the largest global infrastructure project and the longest immersed tunnel spanning 11 miles of subsea construction. Asia Pacific saw mid-single digit revenue declines in fiscal 2024, hampered by weaker mining activity in Australia, which we estimate accounts for approximately one-third of sales in the region.

Despite the APAC softness, Enerpac continues to invest in its growth, adding new sales partners and rolling out new products. It has begun to introduce Lazerp into this market, as part of a "second brand" strategy to complement the core Enerpac brand and to help better penetrate the Asian markets through its distributor network. We note that Enerpac identified Asia Pacific expansion among its primary growth drivers, and has estimated that the mid-tier segment, where the company had not previously participated, could represent an opportunity that matches the premium segment, on a dollar basis, driven by the second brand strategy.

In March 2022, the Company launched the ASCEND transformation program, which was designed to accelerate organic growth strategies, improve operational excellence and production efficiency by utilizing a Lean approach, and drive greater SG&A efficiency and productivity. Enerpac invested approximately $75 million in the program (inclusive of $19 million in restructuring charges) across fiscal 2023 and 2024, nearly 60% of which was incurred in fiscal 2023. These investments were completed by the end of fiscal 2024.

At the end of fiscal 2023, Enerpac announced it had exceeded its increased targeted annual operating profit improvement of $50-$60 million, a year ahead of its schedule. The Company nearly doubled its adjusted EBITDA between fiscal 2021 and fiscal 2024, from $75 million to $147 million, with margin expansion of approximately 1,100 basis points to 25.0%, from around 14%.

Upon the completion of ASCEND, Enerpac instituted a Powering Enerpac Performance (PEP) continuous improvement program, which utilizes a similar framework, in focusing on maximizing efficiency, reducing complexity and implementing best practices across the organization. The ASCEND program produced solid free cash flow growth for Enerpac in fiscal 2024 ($70 million, for a conversion rate of approximately 82% of net income). Enerpac has targeted conversion rates over 100% by fiscal 2026.

INVESTMENT THESIS

In our view, Enerpac is well positioned to capitalize on its established reputation as a trusted global brand and for the quality, durability and safety of its products. In addition, the company features strong design and engineering capabilities and technical and applications expertise for its customers that contribute to the development of innovative and customized products, as well as providing high margin services, including repairs and maintenance solutions.

We think that its focus on adhering to the "80/20" approach to managing its business, focusing on those variables that are most crucial to its performance, has helped it to optimize efficiency, rationalize SKU pricing and channel relationships, among other benefits. To that end, in conjunction with the ASCEND program, Enerpac has culled its SKU count over the past two years, from around 38,000 SKUs to below 30,000 presently. In doing so, the company has maintained the breadth and depth of its product portfolio, as well as its partner network, which we think limits customer concentration risk. We think this supports the company's supply chain efficiency goals.

These initiatives have contributed to expanding operating margins and strong cash flow generation, as evidenced by the adjusted EBITDA margin expansion from 14-15% prior to the COVID-19 pandemic to 25% in fiscal 2024. The company has implemented additional initiatives to enhance its manufacturing infrastructure that we think should support robust operating margins compared with industry peers. In particular, EPAC has introduced single piece flow processes in most of its plants, which reduces inventory levels, lowers re-work costs and shortens lead times to customers. In addition, its manufacturing consists primarily of light assembly of components sourced from a network of global suppliers, and its SG&A expenses have been optimized through consolidation and shared service implementation.

Enerpac has identified four vertical markets to serve as pillars for future growth, including infrastructure, wind (renewable energy), rail (infrastructure) and industrial maintenance, repair and operations (MRO). We are encouraged by the robust growth opportunities for these markets, as US Federal Government Jobs Act bills in recent years have estimated broad market categories including Infrastructure ($60 billion in 2028), rail ($66 billion in 2029) and wind energy ($100 billion in 2030) as growth markets, given robust investment to help overcome aging infrastructure, advance renewable energy and climate saving initiatives, and support the shift of many markets towards digitalization.

Importantly, its target verticals currently represent a small portion of its current revenue mix, which we estimate as representing approximately 20%-25% of the current mix. With a cited serviceable market opportunity (SAM) of $2.2-$3 billion for these markets, we see considerable room for growth. Including the rest of the business, we see a SAM near $4.5 billion, further underscoring the long-term growth opportunity.

In our view, Enerpac is also benefiting from the implementation of a digital transformation strategy, including direct e-commerce capabilities. In fiscal 2024, digital transformation contributed to 44% growth in e-commerce revenue, mostly in the Americas. By the end of fiscal 2024, EPAC had launched e-commerce sites in 18 countries in Europe, and had launched in Australia, marking its first APAC country.

Over the coming years, we expect Enerpac to leverage its SG&A to invest in marketing activities to drive traffic, and we are encouraged by early efforts that have generated millions of media impressions and new sales leads. We also see e-commerce activities as margin accretive, given the direct business to end-customers, rather than wholesale through distributors, as well as a data acquisition source for channel partner relationship expansion.

Enerpac has also focused on customer-driven innovation as a key growth pillar, through which the company has been able to reduce time to develop products by as much as 25%. We view positively Enerpac's feedback loop from customers that support the development of new products with certain specifications for their jobs that help address industry pain points, and Enerpac's investments in R&D towards these objectives. We view this as important to EPAC's ability to differentiate its products in increasingly commoditized markets, and doing so at accretive margin levels.

During fiscal 2024, Enerpac introduced a series of products, ranging from battery driven torque wrenches and power pumps, to hydraulic lock grip puller and pin pullers. Its torque wrench features calibration at 60 distinct points, beyond the standard seven points of many competing products, while offering enhanced ease of use, a hallmark of the Enerpac brand.

Enerpac also introduced a new tower flange alignment tool (TFA), designed to improve wind tower alignment and to solve design and manufacturing errors. We expect this product to gain acceptance and adoption among key turbine manufacturers and installers, as the wind energy market recovers from recent softness. We expect clean energy conversion initiatives to continue, and thousands of miles of wind power lines to be added to the U.S. energy grid over the coming years. Importantly, according to the Energy Information Administration, wind turbines saw several months in calendar 2024 where they generated more electricity than coal burning power plants, and analysts expect the percentage of electricity from wind to more than double to around 35% by 2050.

We expect Enerpac's new product innovation to be complemented by strategic M&A over the coming years. We expect expansion of its product portfolio and its geographic footprint, as Enerpac leverages its balance sheet strength and cash flow generation to create long-term value. In September 2024, Enerpac acquired Spain-based DTA for its automated, on-site horizontal movement product portfolio, which should complement its vertically focused HLT solutions, and provide new global market and cross selling opportunities, in Europe and globally, to capitalize on the industrial trends towards manufacturing automation, with applicability across its key rail, wind and infrastructure markets, among others. We also note that Enerpac acquired Track Tools in 2023, which supports its rail initiatives, and enables a fully integrated solution in that market, with its track maintenance products.

Lastly, we have a positive view of Enerpac's commitment to safety and to managing its business through the lens of environmental, social, and governance (ESG) matters, which should continue to attract various investor classes to the company. The company adheres to third-party frameworks including the Sustainability Accounting Standards Board (SASB), Industrial Machinery & Goods standard and the Task Force for Climate Related Financial Disclosure (TCFD). Enerpac also focuses on maintaining rigorous product quality, safety, and reliability in its Quality Management System, while all of its global manufacturing facilities are certified to ISO 9001 standards related to quality control, which span product and service quality, quality performance testing, and manufacturing monitoring procedures.

RECENT DEVELOPMENTS

Enerpac Group's common stock is listed on the NYSE under the ticker "EPAC". In 2023, the share price increased by 22% compared with a 30% increase for the S&P 600 Industrials Index and the broader S&P 500 Index, which has increased by 23%. Year-to-date in 2024, the shares have increased by 54% compared with a 23% rise for the S&P 600 Industrials and a 25% rise for the S&P 500.

In October 2024, Enerpac reported financial results for 4Q24 and fiscal 2024 (ended August 31, 2024). For the fiscal year, revenues were 1% lower than in fiscal 2023, but up 2% on an organic basis, excluding divestitures. Adjusted EBITDA of $147.5 million compared favorably to $136.3 million in fiscal 2023, and represented a margin of 25.0%. Adjusted EPS was $1.72, compared with $1.45 in the prior fiscal year, representing approximately 19% growth.

In October 2024, Enerpac issued initial guidance for fiscal 2025, which includes net sales of between $610 million-$625 million (5% growth at the mid-point), adjusted EBITDA of $150 million-$160 million, representing a margin of 25.1% at the mid-point, (includes a 50 basis point improvement in the base business over FY24, but is largely offset by dilutive, but still profitable DTA margins) and free cash flow between $85-$95 million.

In October 2024, Enerpac announced that Darren M. Kozik joined the Company as EVP/Chief Financial Officer. Mr. Kozik will provide leadership over all aspects of the Company's finance and IT functions globally, and is joining Enerpac from global workforce solutions company ManpowerGroup, with 25 years of finance experience.

In September 2024, Enerpac acquired Madrid, Spain-based DTA, a global leader in the industrial heavy loads transportation industry, designing and manufacturing mobile robotic solutions. The purchase price is €24 million plus potential for a three-year earn-out tied to the achievement of certain financial objectives, with a maximum total purchase price of €36 million. Enerpac funded the deal with cash on hand and borrowings from the Company's credit facility.

In August 2024, Enerpac's Board of Directors declared an annual cash dividend of $0.04 per share, which was paid in October 2024.

In July 2024, Enerpac announced that Eric Chack joined the Company as EVP – Operations. Mr. Chack will be responsible for all aspects of Enerpac's global operations including oversight for manufacturing, procurement, logistics, continuous improvement, quality, and reliability.

EARNINGS & GROWTH ANALYSIS

Despite a challenging industrial environment and increasingly cautious broad industrial distributor sentiment, we are encouraged by Enerpac's delivery of organic revenue growth in fiscal 2024, excluding the impact of the sale of Cortland Industrial, and inclusive of revenue declines at Cortland Biomedical, which returned to growth in the fourth quarter.

We see fiscal 2025 revenue growth being supported by the acquisition of DTA at the start of the fiscal year, which is expected to generate more than $20 million, accounting for much of the expected growth for the year. Over the next few years, we expect results to begin to reflect the impacts of the ECX program, geographic expansion of its operational footprint and e-commerce initiatives, among others.

For fiscal 2025, we forecast total revenue of $620 million, and $657 million in fiscal 2026, implying year-over-year growth of 5% and 6%, respectively. Enerpac typically experiences a stronger second half to its fiscal year. In fiscal 2024, the company generated 47% of its sales in the first half and 53% in the second half, consistent with recent year trends.

In recent years, Enerpac's gross margin has expanded as a result of operational improvement related to the ASCEND program, a more favorable sales mix and the divestiture of the Cortland Industrial business. In fiscal 2024, gross margin was 51.1%, up nearly 180 basis points over the prior year and more than 400 basis points over fiscal 2022. ASCEND has also had a favorable impact on SG&A efficiency, with adjusted SG&A expense (excluding ASCEND and other one-time charges) declining by approximately 60 basis points to 27.6% in fiscal 2024 from 28.1% in fiscal 2023. We expect Enerpac to continue to modestly add resources to its commercial model, but to leverage SG&A to grow revenues at a higher rate than expense growth, driven by its PEP continuous improvement program.

As a result of the above mentioned enhancements, adjusted EBITDA margin has expanded significantly over the past three years, reaching 25% in fiscal 2024, up nearly 1100 basis points from 14% in fiscal 2021. With the completion of the ASCEND program, we expect margin expansion to be more modest moving forward. In addition, we expect the gap between reported and adjusted results to narrow upon ASCEND's completion, with the primary difference stemming from one-time M&A related expenses. Thus, we project adjusted EBITDA of $157 million in fiscal 2025 and $172 million in fiscal 2026.

In fiscal 2023, GAAP earnings per share from continuing operations totaled $1.50, compared with $0.94 in fiscal 2023. On an adjusted basis, EPS increased 19% to $1.72 from $1.45. As mentioned earlier, we anticipate fewer adjustments to its earnings moving forward, upon the completion of ASCEND program investments. Thus, we project EPS of $1.81 ($1.83 on an adjusted basis) for fiscal 2025 and $2.02 in fiscal 2026, representing 21% growth (6% on an adjusted basis) in 2025 and 12% growth (10% on adjusted basis) in 2026. Our estimates assume approximately 54.2 million shares outstanding in both periods.

FINANCIAL STRENGTH AND DIVIDEND

Our financial strength rating on Enerpac Group is High. As of August 31, 2024, the company had $167.1 million in cash and $194.6 million in total debt, resulting in net debt of $27.4 million, and a leverage ratio of 0.2 times adjusted EBITDA, well below its target range of 1.5-2.5 times. On a pro-forma basis, including the DTA acquisition, which was completed shortly after the end of the fiscal year, this ratio was 0.5.

Total liquidity was approximately $565 million, which we think provides ample optionality in its credit facility to engage in additional M&A activity and support other internal investments. Enerpac utilizes primary working capital as a key metric of working capital management, which it defines as the sum of net accounts receivable and net inventory less accounts payable, divided by the past three months sales, annualized as a percentage of sales. At August 31, 2024, primary working capital was $134 million, or 21% of sales, compared with $122 million, or 19%, at the previous year-end period.

Enerpac's supply chain features a relatively short order-to-ship cycle, as most products are typically shipped to distributors, which carry the inventory. Some HLT products can take up to 3-6 months to ship and can be lumpier in the timing of orders and shipments. At the end of fiscal 2024, Enerpac had an order backlog, which it typically expects to be filled over the next 12 months, of $41 million, compared with $54 million and $72 million at the end of the last two fiscal years.

In our view, Enerpac's improved operations and margins have driven enhanced cash flow generation, which we expect to drive investments in its business and returning capital to its shareholders. In fiscal 2024, the company achieved free cash flow of $70 million, up from $69 million in the prior year. For fiscal 2025, Enerpac anticipates capital expenditures of $19-24 million, up from $11 million in fiscal 2024, primarily due to costs related to the relocation of its corporate headquarters to downtown Milwaukee, which it expects to be completed in spring of 2025.

In fiscal 2024, cash provided by operations was $81.3 million compared to $77.6 million in fiscal 2023, and $51.7 million in fiscal 2022. Cash used for investing activities in fiscal 2024 totaled $13.9 million, compared with cash generated of $11 million in fiscal 2023, which benefited from the $20 million in proceeds from the sale of Cortland Industrial. Cash used in financing activities in fiscal 2024 was $56.3 million, compared with $53.1 million in fiscal 2023.

In March 2022, the Company's Board of Directors approved a new share repurchase program authorizing the repurchase of a total of 10,000,000 shares of the Company's outstanding common stock. Through the end of fiscal 2024, Enerpac had repurchased approximately 7.2 million shares at a total cost of $176.3 million (an average cost of around $25 per share, more than 40% below the current stock price).

Enerpac Tool Group pays an annual dividend of $0.04 per share, which represents a modest yield of 0.1%. In our view, the establishment of a dividend policy expands the eligibility of some institutions to hold the shares, based on their requirements, but we expect the company to continue to invest in its growth, rather than expand the dividend over the near-term.

MANAGEMENT

Paul Sternlieb is Enerpac's president and chief executive officer since October 2021. Previously, Mr. Sternlieb served as executive vice president and president, Protein, at John Bean Technologies Corporation (JBT) since 2017. Prior to JBT, Mr. Sternlieb held management roles with companies including Illinois Tool Works, Danaher and Heinz Company, and also served as a consultant with McKinsey & Company.

Darren Kozik joined Enerpac as executive vice president and chief financial officer in October 2024, to provide leadership over all aspects of its global finance and IT functions. Most recently, Mr. Kozik served as SVP, Global Corporate Finance at global workforce solutions company, ManpowerGroup, where he led their global financial planning & analysis, mergers & acquisitions, treasury, procurement, and investor relations functions. Prior to this, Mr. Kozik was CFO of Mortara Instrument, where he led all aspects of the finance organization and subsequently was the VP & general manager responsible for the overall business, and in a variety of roles and responsibilities over 17 years with General Electric.

Eric Chack has served as executive vice president of Operations at Enerpac Tool Group Corp. since joining the company in July 2024. Mr. Chack is responsible for all aspects of Enerpac's global operations including oversight for manufacturing, procurement, logistics, continuous improvement, quality and reliability. Previously, Mr. Chack was SVP-Supply Chain at Mohawk Industries and before that, was SVP Global Operations & Supply Chain for Briggs & Stratton. Earlier in his career, Mr. Chack held global operations leadership roles at SPX Corporation and IDEX Corporation.

Enerpac's board has ten directors, including nine "Independent" directors, including a non-executive Chairman, which we view positively for corporate governance purposes.

RISKS

Risks to an investment in Enerpac Tool Group include its reliance on maintaining competitive product profiles that satisfy end-market customer demand; participation in competitive and fragmented marketplace; reliance on maintaining a supply chain to obtain timely deliveries of components and raw materials from its suppliers, some of which can be subject to commodity price fluctuations, inflation and tariffs; reliance on single or limited suppliers for certain components for its products, macro-economic conditions impacting industrial demand, ability to successfully execute acquisitions; goodwill and other intangible assets represent a substantial amount of its total assets (39% as of August 31, 2024).

VALUATION

Enerpac shares currently are trading at the upper end of their 52-week range between $52 and $27. In advancing more than 50% year-to-date, we see Enerpac's valuation benefiting from the successful implementation of its ASCEND program, that has resulted in more than $50 million in annual cost savings a year ahead of schedule, robust margin expansion and cash flow generation to support growth initiatives.

EPAC shares are currently trading above 16-times our 2025 adjusted EBITDA estimate of $157 million, which is above its five-year average multiple between 14-15 times. We also note that a peer group of industrial machinery and supplies companies carries a forward multiple around 14-times on an EV/EBITDA basis, within its long-term range of 13 to 16-times, and a narrower group of industrial tools businesses recently traded at a forward multiple closer to 18-times. We believe the shares warrant a premium valuation to these sub-groups, given the completion of the ASCEND program and the strengthening balance sheet over the past three years to continue to invest in growth focused initiatives and favorable margin profiles. In addition, we see Enerpac having modest exposure to volatile markets such as China, both for its sales as well as component sourcing, which could be subject to higher tariff activity over the coming years.

In comparing Enerpac to its peer group, we note that Enerpac outpaces the group average in gross margin (51% to 20%), EBITDA margin (25% vs 9%), and return on capital (over 20% vs sub-10%). In addition, its net debt/EBITDA of 0.2-times (0.5-times on a pro forma basis) is still well below its tool peer group average above 1x, which we think suggests an attractive opportunity to use leverage to capitalize on growth investments.

Given Enerpac's strong momentum and liquidity, we believe the company should trade at an enterprise value/EBITDA premium to the industrial tool peer average. Thus, to value the stock, we apply a multiple of 19-times our fiscal 2025 adjusted EBITDA estimate of $157 million and adjust for net debt of $25 million that we expect at the end of fiscal 20205, to arrive at a fair value estimate of $55 per share. That's represents more than 15% upside from current levels above $47.

Steve Silver,
Argus Research Analyst

INCOME STATEMENT

Growth Analysis ($MIL)	FY 2022	FY 2023	FY 2024	Q1 2025E	Q2 2025E	Q3 2025E	Q4 2025E	2025E	Q1 2026E	Q2 2026E	Q3 2026E	Q4 2026E	2026E
Revenue	571.2	598.2	589.5	147.3	146.2	158.8	167.7	620.0	157.0	154.8	167.4	177.8	657.0
Gross Profit	265.4	295.0	301.0					322.2					344.8
SG&A	216.9	205.1	168.6					176.1					183.9
Operating Income	30.7	83.9	121.6					142.9					157.8
EBITDA	49.5	97.6	82.2	33.8	36.4	41.4	44.2	155.8	39.8	38.4	44.7	48.9	171.8
Adjusted EBITDA	84.4	136.3	147.5	34.1	36.7	41.7	44.5	157.0	39.8	38.4	44.7	48.9	171.8
Financing Costs	4.4	12.4	13.5					13.6					14.0
Pretax Income	26.3	68.9	105.5					128.1					142.2
Tax Rate (%)	18	22	22					23					23
Net Income	15.7	60.8	85.7					98.3					109.5
EPS ($)	0.35	0.94	1.50	0.38	0.42	0.49	0.52	1.81	0.46	0.44	0.53	0.59	2.02
Adjusted EPS	0.83	1.45	1.72	0.39	0.43	0.49	0.52	1.83	0.46	0.44	0.53	0.59	2.02
Diluted Shares	59.5	57.0	54.9					54.2					54.2
Dividend Per Share ($)	0.04	0.04	0.04					NA					NA
Growth Rates (%)													
Revenue	8	5	-1					5					6
Operating Income	NM	173	45					18					10
Pre-Tax Income	NM	162	53					21					11
Net Income	NM	287	41					15					11
EPS	NM	169	60					21					12
Adjusted EPS	32	75	19					6					10
Valuation Analysis													
Price ($): High	25.18	28.97	42.13					NA					NA
Price ($): Low	16.25	16.09	24.58					NA					NA
PE: High	NA	34.9	29.1					NA					NA
PE: Low	NA	19.4	17.0					NA					NA
PS: High	NA	2.9	3.9					NA					NA
PS: Low	NA	1.6	2.3					NA					NA
Yield: High	NA	0.2%	0.2%					NA					NA
Yield: Low	NA	0.1%	0.1%					NA					NA
Financial & Risk Analysis ($MIL)													
Cash	120.7	154.4	167.1					NA					NA
Working Capital	189.2	207.5	242.9					NA					NA
Current Ratio	2.2	2.4	2.9					NA					NA
LTDebt/Equity (%)	73.3	73.4	54.8					NA					NA
Total Debt/Equity (%)	77.9	77.5	58.5					NA					NA
Ratio Analysis													
Gross Profit Margin	46.5%	49.3%	51.1%					52.0%					52.5%
Operating Margin	5%	14%	21%					23%					24%
Net Margin	3%	10%	15%					16%					17%
Return on Assets	4.3%	9.8%	11.1%					NA					NA
Return on Equity	5.4%	16.6%	22.9%					NA					NA
Op Inc/Int Exp	6.1	6.8	9.0					NM					NM

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