

# *Financial Services Alert*

Volume 4 - 2

## **The Elite Five in Massachusetts Finance: Performance of the Largest Massachusetts Financial Services Firms in Recent Years**

**Part 2  
Enterprise Bancorp, Inc.  
Wainwright Bank**



**Foreword by Arindam Bandopadhyaya  
Director, Financial Services Forum  
College of Management, UMASS-Boston**

**Shamita Behl and Jimit Kanani contributed towards the preparation of this report. Shamita and Jimit are currently candidates in the UMASS-Boston MBA program and are Financial Services Forum Research Assistants. Shamita also works for the Environmental Protection Agency as a financial analyst.**

**SECTION I: Foreword**  
**Arindam Bandopadhyaya**  
**Director, Financial Services Forum**  
**College of Management, UMass Boston**

In a continuation of a three part series, this report presents an in-depth analysis of Enterprise Corporation and Wainwright Bank, two of the five largest financial firms in the Massachusetts Bloomberg Index. Beginning with a general overview, we provide an examination of the financial ratios and equity price, an analysis of the Strengths, Weakness, Opportunities and Strengths and a scrutiny of the Economic Value Added of each firm.

State Street Corporation was the focus of the first report in this series. In the third and the final report, we analyze Boston Private Financial Holding and Independent Bank Corporation.

## EXECUTIVE SUMMARY

### **Enterprise Bancorp, Inc**

- Banking Holding Company for Enterprise Bank and Trust, established in 1989
- Services Offered includes loans, deposit products, trust and insurance services

### **SWOT:**

#### **Strengths:**

- Strong market player
- Strong customer relationships

#### **Weaknesses:**

- High dependence on Information systems
- High susceptibility towards interest risk and lending risk

#### **Opportunities:**

- Expansion in parts other than New England
- Opportunities in Investment Banking

#### **Threats:**

- High rate of defaulters
- Slower growth because of adverse affect of new products

### **Financial Ratios as compared to Industry:**

- Constant increase (approximately 10%) in net income in the last five years
- Low Debt to Capital ratios in the last five years except for 2005
- Higher receivable turnover ratio which means higher cash collection ability as compared to the industry
- Higher Profitability ratios means highly efficient as compared to competitors
- Higher Return on equity for the last five years and higher Return on Assets for most of the period
- Earnings per share (EPS) is far below the industry standards but is increasing each year becoming 1.0 last year
- Lower P/E ratio, showing no growth in the last five years

### **Shareholder Return:**

- Company stock listed on NASDAQ in 2005.
- For the last two years, good returns as compared to the market

**EVA:**

- Data available only for the last two years
- Positive EVA for the last two years, \$3.0 million and \$7.5 million in 2005 and 2006 respectively
- Positive and growing EVA spread which shows that company is in a good condition and the Return on Capital is greater than the Cost of Capital.

## **Wainwright Bank**

- Provide commercial banking services, loans and accept deposits
- Established in 1987
- Two reportable segments – Traditional banking business and Heritage, and investment management firm

### **Financial Ratio analysis as compared to Industry:**

- Very High Debt to Capital Ratio as compared to industry
- Lower Receivable turnover ratio means lower liquidity as compared to industry
- Asset turnover ratio is lower and decreasing even more for the last 3 years
- Gross Profitability ratio is higher than industry means company is performing well and is profitable
- ROE and ROA are lower than industry but have shown improvement in the last two years
- EPS and P/E are lower but than industry but have shown increased growth in the last 3 years

### **Shareholders return:**

- Listed on NASDAQ
- Higher share holder return as compared to the market and other banks in New England

### **EVA Analysis**

- Positive EVA for the last five years (approximately \$6.0 million)
- Positive EVA spread for the last five years, which shows that company is in a good position

**Enterprise Bancorp, Inc**

*Enterprise Bancorp, Inc (MA) (NASDAQ: EBTC)*  
222 Merrimack St.  
Lowell, MA 01852 United States  
Region: New England  
Phone: 978 459-9000

**Key Information:**

<b>SIC Code</b>	6022
<b>NAICS Code</b>	522110 – Commercial Banking 551111 – Offices of Bank Holding Companies
<b>Doing Business As</b>	EBTC
<b>Company Type</b>	NASDAQ:EBTC
<b>Year Of Founding or Change In Control</b>	Feb 1989
<b>State of Incorporation</b>	MA

**COMPANY OVERVIEW**

Enterprise Bancorp is a banking holding company for Enterprise Bank and Trust Company ("the Bank"). Co. offers a range of commercial and consumer loans and deposit products, and investment management, trust and insurance services. The bank, a Massachusetts trust company, has three wholly owned subsidiaries, Enterprise Insurance Services, LLC, Enterprise Investment Services, LLC, and Enterprise Security Corporation, organized for the purposes of engaging in insurance sales activities, offering

non-deposit investment products and services and investing in equity securities on its own behalf and not as a broker, respectively.

The company specializes in lending to growing businesses, corporations, partnerships, non-profits, professionals and individuals. Loans made by company to businesses include commercial mortgage loans, construction loans, revolving lines of credit, working capital loans, equipment financing, asset-based lending and standby letters of credit. The company also originates equipment lease financing for businesses. Loans made by the company to individuals include residential mortgage loans, home equity loans, residential construction loans, unsecured and secured personal loans and lines of credit and mortgage loans on investment and vacation properties.

Enterprise Bank was founded by George Duncan and some local investors in 1989 and is headquartered in Lowell, Massachusetts. The company primarily operates in Merrimack Valley and north Central region of Massachusetts, and south central New Hampshire. As of December 31, 2006, the bank operated 14 banking offices in Massachusetts cities and towns of Andover, Billerica, Chelmsford, Dracut, Fitchburg, Leominster, Lowell, Tewksbury, and Westford; and in Salem, New Hampshire and employs 282 people as full time employees.

The company's functions can be broadly classified into two major business segments: Commercial/Personal Banking and Investment services.

- 1) Commercial Banking provides services to successful business owners and entrepreneurs who build market share and create jobs that generate economic prosperity. The Company provides various financing solutions to these people. Commercial Real Estate solution provides loans for land acquisition, construction loans, retail, office, and industrial investment loans. Lines of Credit provide the financing required to cover short-term cash flow shortages to get the business running smoothly. Financing for Growing Businesses provides loans and leasing

solutions to start a new business, acquire an existing one, or growing an old to the next level.

Personal Banking provides services like personal loans, savings, educational planning and retirement plans. Electronic Merchant Systems has teamed up with Enterprise Bank to offer an extensive line of payment solutions including e-Commerce for entrepreneurs and business owners.

- 2) Investment Servicing provides services for the business owners, individuals and non profit organizations. The services include 401(K) Plans, Investment Management, IRA Rollovers, Financial Planning, Retirement planning, estate planning and endowment fund Management. Company also provides Insurance Services which includes services other than investing and money management. Through Enterprise Bank Insurance Services and HUB International New England LLC, the company provides the resources and expertise needed to develop innovative business insurance solutions. The program includes Employee benefit programs like Group health, Vision care, Group travel accident and Employee Assistance Program and Property and Casualty coverage.

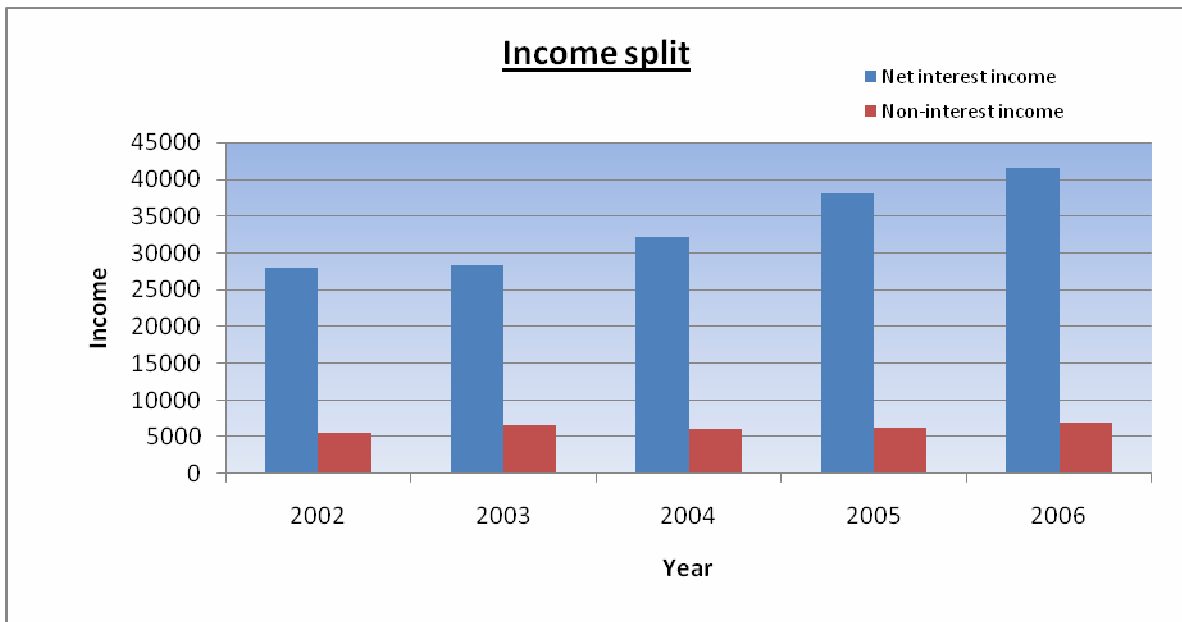
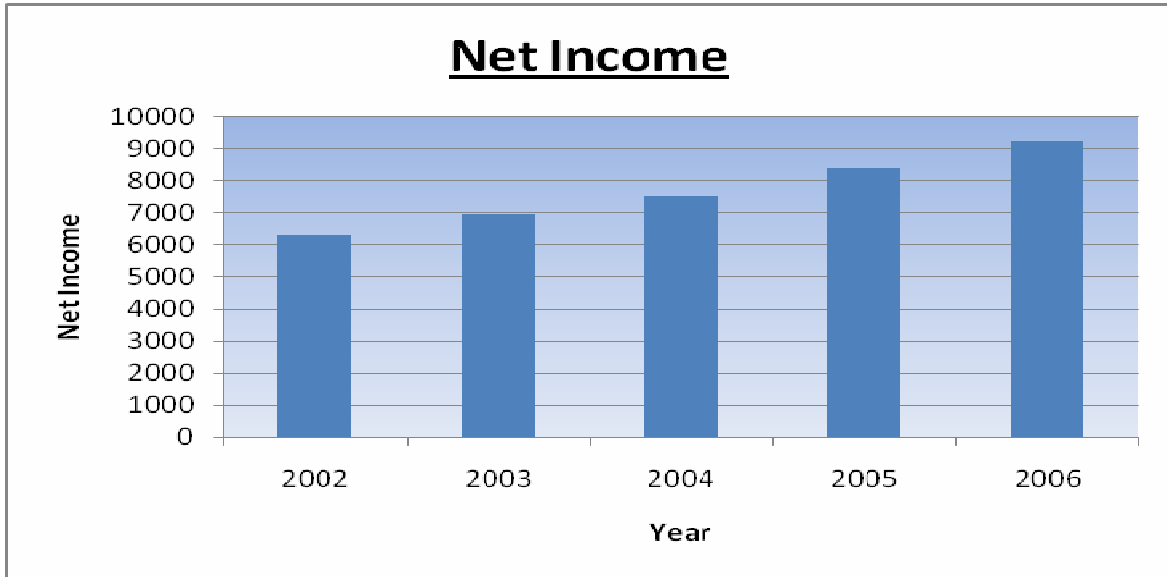
## **NET INCOME ANALYSIS**

The company had net income in 2006 of \$9.2 million compared to \$8.4 million for 2005, an increase of 10%. Earnings per share for 2006 were \$1.21 and \$1.18 on a basic and diluted basis, compared to \$1.13 and \$1.09 in the prior year, increases of 7% and 8%, respectively. The Net Income graph below shows that the net income has increased in a constant fashion for the last five years.

The company's earnings are largely dependent on its net interest income, which is the difference between interest income on loans and investments and interest expense on deposits and borrowings. Net interest income for the year ended December 31, 2006 amounted to \$41.6 million compared to \$38.1 million for the same period in 2005, an increase of 9%. Non-interest expense amounted to \$32.5 million for the year ended



December 31, 2006 compared to \$30.2 million for the same period in 2005, an increase of 8%, and reflected the strategic and operational costs necessary to support the company's continued growth.



## SWOT ANALYSIS

### Strengths:

- ***Strong Market Player:*** In the recent years Enterprise Bank has emerged as the largest independent commercial bank in the region. Enterprise is the major source of capital for business growth, job creation, entrepreneurial research and development, and non-profit expansion throughout the Merrimack Valley, North Central Massachusetts, and Southern New Hampshire.

The company is also recognized for providing good work environment for its employees. In 2006 it was awarded as the “#1 Best Places to Work” in Massachusetts (mid-sized company category) by the Boston Business Journal.

- ***Strong Customer Relationships:*** The Company has built a strong reputation with its customers by offering quality products and services. Also in order to best serve the growing customer base, the Enterprise Bankers opened many branch locations throughout the Merrimack Valley, North Central Region and Southern New Hampshire.

### Weaknesses:

- ***High dependency on Information systems:*** The Company relies heavily on communications and information systems to conduct its business and to provide internet banking services to its customers. The occurrence of any failures, interruptions or security breaches of the company’s information systems could damage the company’s reputation, result in a loss of customer business, expose customer’s personal information to unauthorized parties, subject the company to additional regulatory scrutiny, and expose the company to civil litigation and possible financial liability, any of which could have a material adverse effect on the company’s financial condition and results of operations.

- ***High Susceptibility to Interest rate risk and lending risk:*** The Company's earnings and cash flows are largely dependent upon its net interest income, meaning the difference between interest income earned on interest-earning assets and interest expense paid on interest-bearing liabilities. Interest rates are highly sensitive to many factors that are beyond the company's control. There are other inherent risks associated with the company's lending activities which are beyond control.

### **Opportunities:**

- ***Growing opportunities for expansion:*** There is a certain opportunity for the company to expand market share in existing markets and to pursue strategic growth through expansion into neighboring markets. The company's business model, strong service culture, skilled management team and brand name create opportunities for the company to be the leading provider of commercial banking and investment management services in its growing market area. The company differentiates itself from competitors by providing highly competitive commercial banking, investment, and insurance products delivered through prompt, responsive and personal service based on management's familiarity and understanding of the banking and other financial service needs of its customers.
- ***Growing opportunities in Investment Banking:*** The global investment banking industry is benefiting from the increasing consolidations, mergers, acquisitions, corporate reforms and restructuring initiatives. The number of corporate deals has been rising strongly in US and Asia Pacific region. Corporations across geographies have been considering mergers and acquisition strategies to realize cost synergies against mounting oil prices; increased competition, pricing pressures, gap in product mix and asset concentration.

The increased demand for investment banking products may ensure continued growth of the group's investment servicing division which would boost its total revenues.

**Threats:**

- ***High rate of defaulters:*** The Company's main business is lending and it is susceptible to many risks. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions in the market areas in which the company operates. Increases in interest rates and/or weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans.
- ***Adverse Affect of new products slower growth:*** The Company has placed a strategic emphasis on expanding its branch network and product and service offerings. Executing this strategy carries risks of slower than anticipated growth both in new branches and new products and services. New branches and new products and services require a significant investment of both financial and personnel resources. Lower than expected loan and deposit growth in new branches and/or lower than expected fee or other income from new products and services could decrease anticipated revenues and net income generated by such investments. Opening new branches and introducing new products and services could also divert resources from current core operations and thereby further adversely affect the company's growth and profitability.

**FINANCIAL RATIO ANALYSIS**

In this section we have performed the conventional financial statement analysis of Enterprise Bancorp Inc. We have used data from the five years to achieve a fuller, more accurate understanding of the company's performance. In general an examination of a company's financial ratios over a longer period will paint a more accurate picture of its

health because it balances out large divestitures, stock repurchases, changes in accounting systems and economic fluctuations that tend to skew the numbers.

The Exhibits in Appendix A gives the financial ratios of Enterprise Bancorp Inc as compared to the industry values for the five years. So as to simplify and facilitate the industry average calculations, we have used the Standard and Poor's "Compustat - financial application" wherein the NAICS codes were used for the industry reference.

There are a total of five hundred and thirty nine companies including Enterprise Bancorp Inc under the respective NAICS code. We did come across some difficulties wherein the data for a couple of companies wasn't available. So as to accomplish the most accurate results the correction/adjustments were made in our calculations. Also note that despite the existence of outliers every value is included in the calculation of the average.

For convenience sake, the ratios to be examined are divided into five categories. These categories are related to the aspect of the company's performance to which they relate and also to their input values; these five ratios are Short Term Solvency Ratios, Long Term Solvency Ratios, Asset Management or Turnover Ratios, Profitability Ratios and Market Value Ratios.

#### ***1) Short Term Solvency Measures***

This includes the Current and Quick Ratio. These ratios, as their name depicts relate to the ability of the firm to generate cash in the short term, the liquidity of a company's assets. These ratios have little or no significance in the context of Financial Institutes / Companies. So in the absence of any significant financial data availability for these two ratios, we are unable to provide any insight on the company's short term solvency position.

## 2) *Long Term Solvency Measures*

The second set of ratios examines a firm's ability to meet its long term obligations. The long-term debt to capital ratio relates total long-term debt to total capital giving an investor a greater insight at the firm's long term solvency situation.

As can be seen in Exhibit 2 that the Long term debt to capital ratio for Enterprise Bancorp was higher than the industry average for the year 2005, though for the other time periods it was quite low as compared to the Industry. On the other hand the Total Debt to Capital ratio valuation indicates the lower values for all year over the period of same five years. This ratio was also higher in 2005 as compared to other years. This statistics leads us to the exploration of very fine observation that the company was in high long term and short term debt in the year 2005. But all total the company seems to have very low debt as compared to the capital it has, which is a good sign for investors.

## 3. *Asset Management Ratio*

The first of these ratios is the receivables turnover ratio, which is used to quantify a firm's effectiveness in extending credit as well as collecting debts. It is calculated by dividing Net sales with Receivable ( $\text{Net Sales} / \text{Receivables}$ ). The greater the number of times receivables turn over during the year, the shorter the time between sales and cash collection. The value of the ratio for the company is stable to approximately 0.95 which is comparable to the industry average of 0.12, which is a favorable factor that reflects organization's ability to collect cash from its sales and thus sustain liquidity position.

The other ratio of this set is the total asset turnover ratio, which relates value of sale and total assets. It is calculated by dividing Net Sales with the average of the current and prior year's total assets. The results obtained here for both the company and the industry are pretty close to each other. The trend shows that the company is trying to reach the industry average, with gradually growing in the last five years.

#### **4. Profitability Ratio**

These ratios demonstrate how well a firm is utilizing their assets or equity to create income and wealth and how efficiently selling is done. One of these ratios i.e. Gross Profit Margin represents the percentage of each sales dollar remaining after a firm has paid for its cost of producing goods/services. It is calculated by dividing gross income (profits) by net sales. The gross profit tells an investor the percentage of revenue / sales left after subtracting the cost of goods sold/services. A company that boasts a higher gross profit margin than its competitors and industry is more efficient. Clearly Enterprise Bancorp Inc completely outperforms the industry average over the whole time period covered in our analysis. The industry average has always stood below the reported value for Enterprise Bancorp in all the respective years of our analysis time period.

Return on equity, ROE, measures a firm's ability to leverage its equity for profitability. Enterprise Bancorp posted an encouraging ROE numbers and greatly outperformed the industry. The company reported a highly positive and favorable ROE figures during the last five years i.e. of 2002-2006, touching a maximum value of 12.69. The company's ROE has been quite stable for all these years and has been always above the industry average. Return on assets for the company is closely aligned to the industry value. The ROA values for the company has been stable for the last five years and is comparable to the industry with outperforming for three times in five years.

#### **5. Market Value Ratios**

Finally, we have Market Value Ratios, which include earnings per share, EPS, and price to earnings, P/E. The measures relate net income and outstanding shares, and price per share with EPS respectively. They give information regarding the valuation of the company's stock, and thus the company itself, by the market, analysts, and investors in particular. Earnings per share represent basic earnings per share before extraordinary items and discontinued operations. Here the company has underperformed the industry EPS value. The company's EPS has average around 1.0 over the five years. Though the industry average has observed a steep growth especially from 2003 – 2005, but the

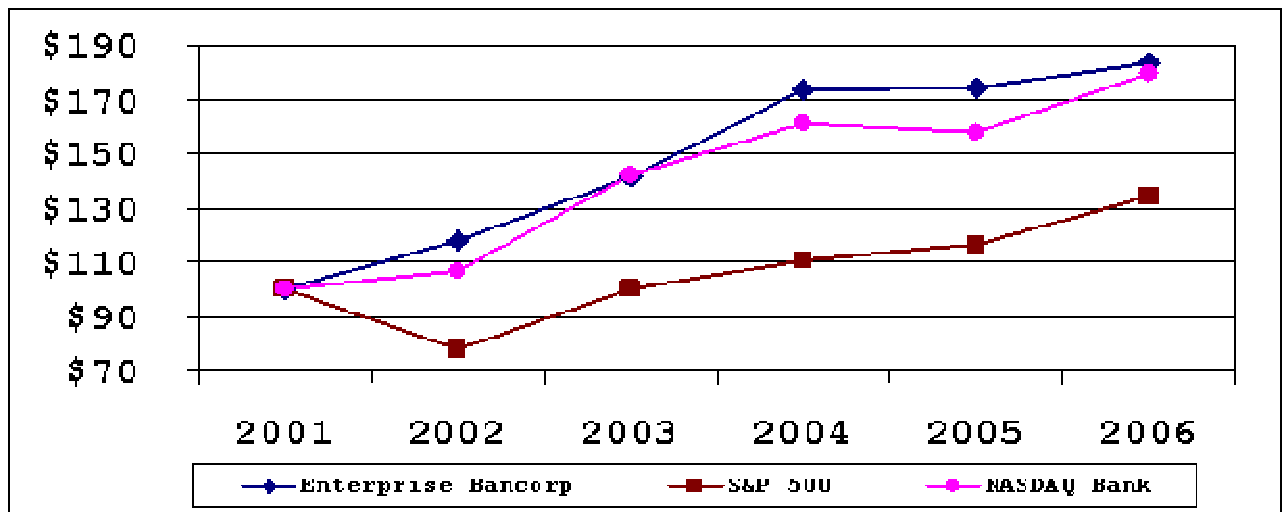
industry average fell to 2.08 in 2006 thus the company's EPS becoming comparable to the industry in 2006.

On the P/E front in order to have a better and clear picture we computed the same on the monthly basis by dividing the month end close price with the appropriate 12-months moving earnings per share. If the most recent earnings per share figure were not available then the close price was divided by the sum of the previous quarter's value of 12-month moving earnings per share. Both the industry and company's P/E value has been highly volatile, and since the beginning of year 2003 we can see that the difference between the two for the last five years have been almost constant, which is not a very good news for the investors.

### SHAREHOLDER RETURN PERFORMANCE PRESENTATION

The following graph compares the cumulative total return (which assumes the reinvestment of all dividends) on the company's common stock with the cumulative total return reflected by a broad based equity market index and an appropriate published industry index.

#### Comparison of Five-Year Cumulative Total Shareholder Return





This graph shows the changes over the five-year period ended on December 31, 2006 in the value of \$100 invested in (i) the company's common stock, (ii) the Standard & Poor's 500 Index and (iii) the NASDAQ Bank Index. As of February 14, 2005, the company's shares began trading on the NASDAQ National Market (now the Nasdaq Global Market) under the trading symbol "EBTC". Prior to February 14, 2005, there was no active trading market for the company's common stock, although shares were traded periodically on a privately negotiated basis. For each year prior to 2005 shown on the graph, the increase in the value of the company's common stock is based on the actual prices known to the company at which shares of the common stock were traded as of the most recent date prior to December 31 of each of these earlier periods. For purposes of the graph, the reinvestment of dividends paid prior to 2005 is based upon the annual valuation analysis of the company's common stock that was formerly undertaken in the years prior to the company's listing on the NASDAQ National Market pursuant to the company's administration of its dividend reinvestment plan. (Enterprise Bancorp Inc Annual Report 2006).

## **EVA ANALYSIS**

Economic Value-Added Analysis measures the amount of value a company has created for its shareholders. It determines how much profit a company has produced after it has covered the cost of its capital. Whereas conventional accounting methods deduct interest payments on debt, Economic Value-Added Analysis also deducts the cost of equity—what shareholders would have earned in price appreciation and dividends by investing in a portfolio of companies with similar risk profiles. Economic Value-Added Analysis thus offers a truer picture of the return a company delivers to its shareholders and provides a framework to assess options for increasing it. By making the cost of capital visible, Economic Value-Added Analysis helps companies identify whether they need to operate more efficiently, to focus investment on projects that are in the best interests of shareholders and to work to dispose of or reduce investment in activities that generates low returns.

The basic formula is:

$$EVA = (ROC - COC) * C = NOPAT - COC * C$$

Where  $ROC = \frac{NOPAT}{C}$ ; called the return on capital employed.

C

ROC: Return on capital.

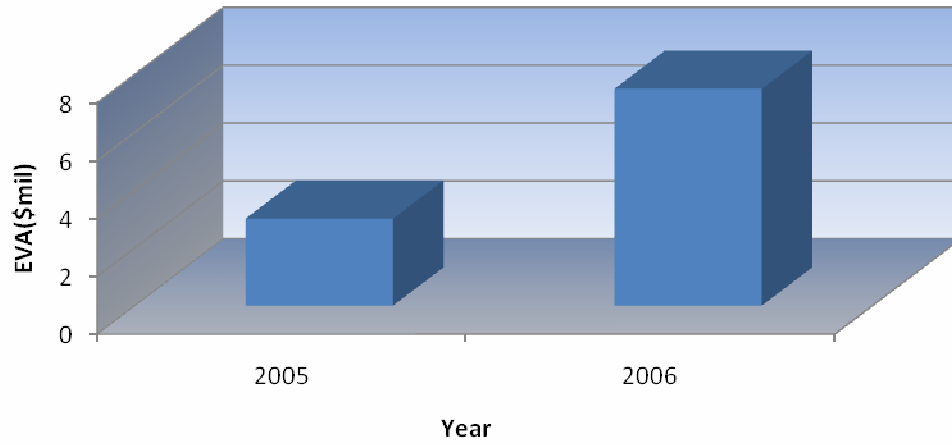
COC: Weighted average cost of capital.

NOPAT: Net Operating Profit after Tax

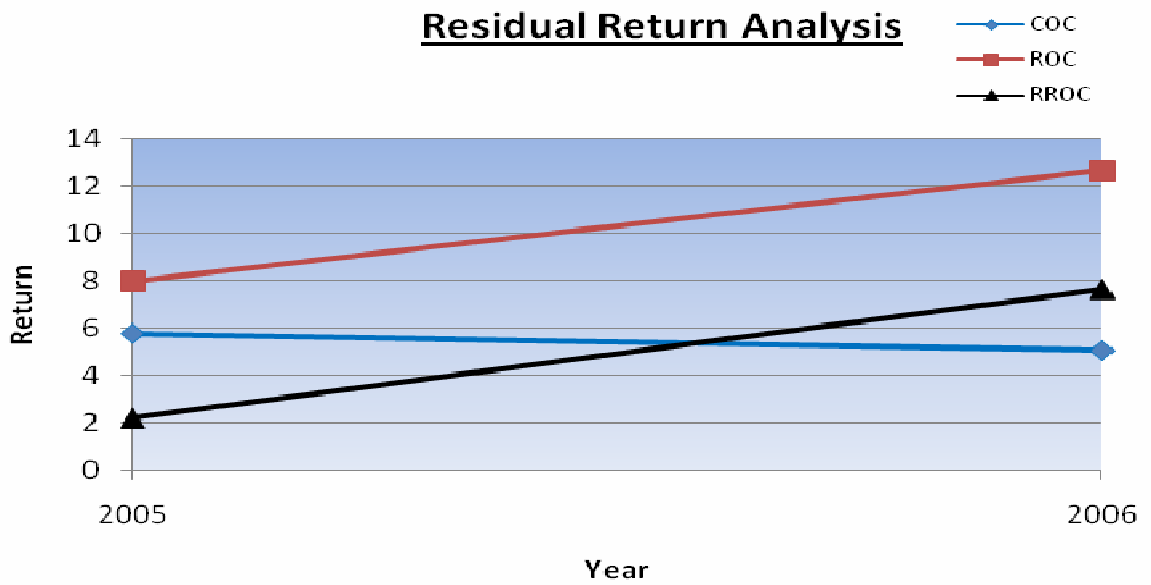
C: Capital employed

The result of the EVA analysis for Enterprise Bancorp has been summarized in the below charts titled “Basic EVA Analysis”. The results depicts that the company reported an EVA of \$3.0 million in 2005 and the EVA rose to \$7.5 million in 2006. The positive and growing EVA of the company adds to its intrinsic value. The same is further clarified in the graph titled “Residual Return Analysis”, showing that the return on capital for the year 2006 was way above than the year 2005 due to which the residual return also increases for the year 2006. The growth rate of EVA in one year is about 150% which is quite promising for the Market and share holders.

### Basic EVA Analysis



### Residual Return Analysis



## REFERENCES

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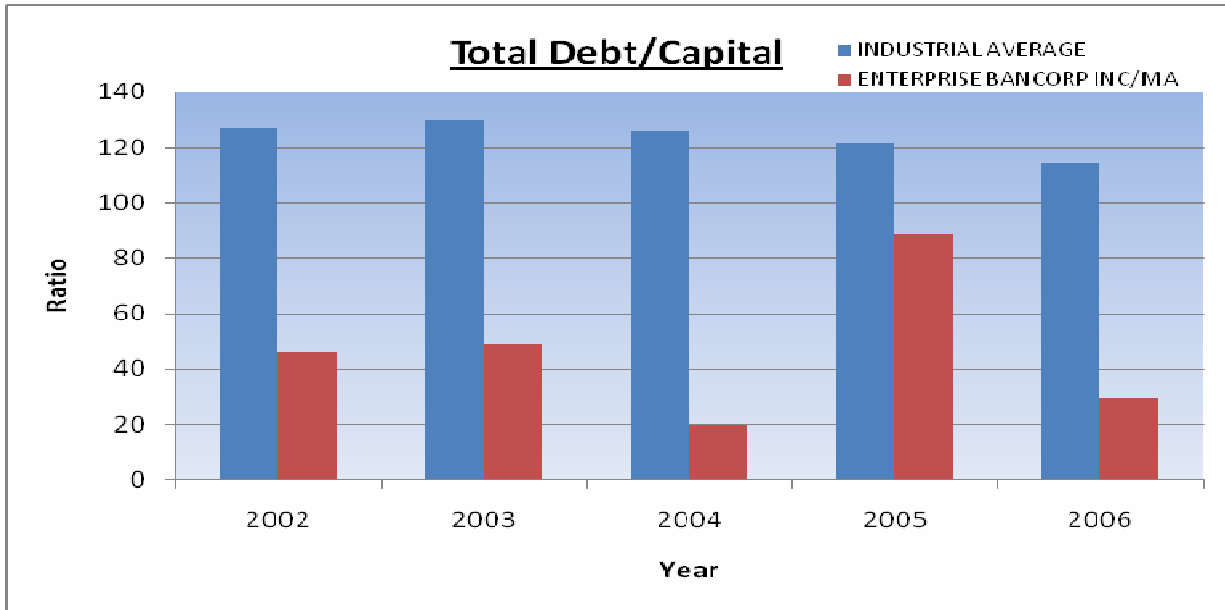
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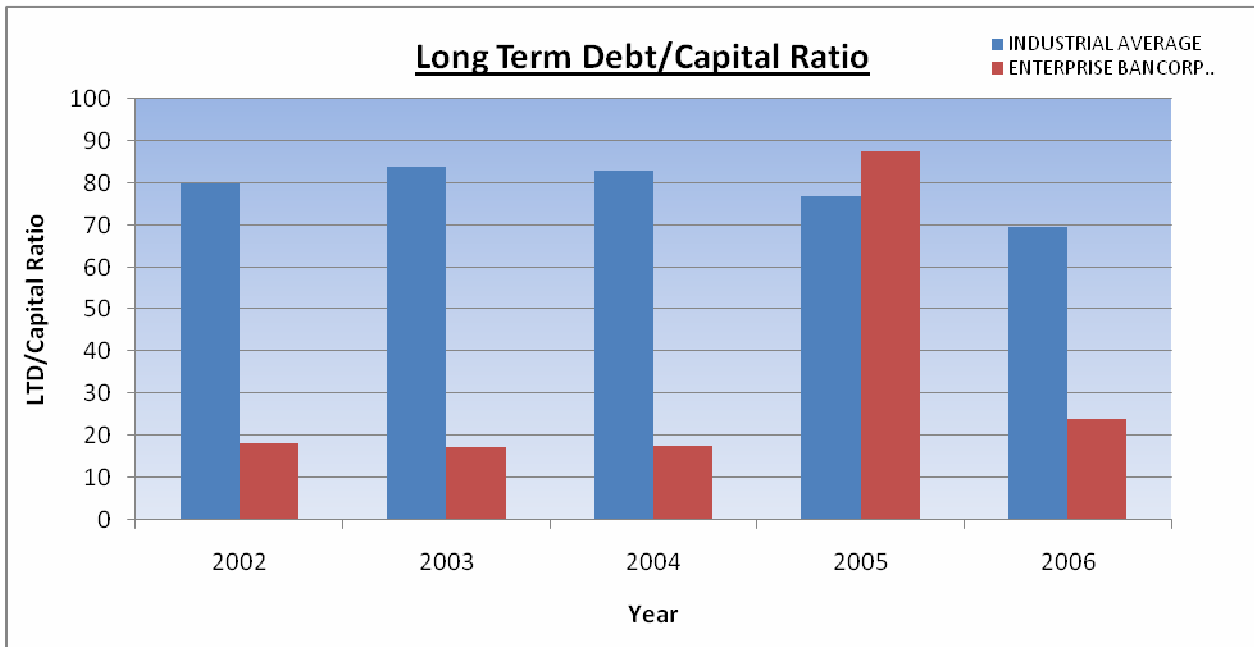
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RESEARCH INSIGHT.2006. Retrieved on November 27, 2006 from S&P's Compustat at:  
<http://www.lib.umb.edu/compustat/>

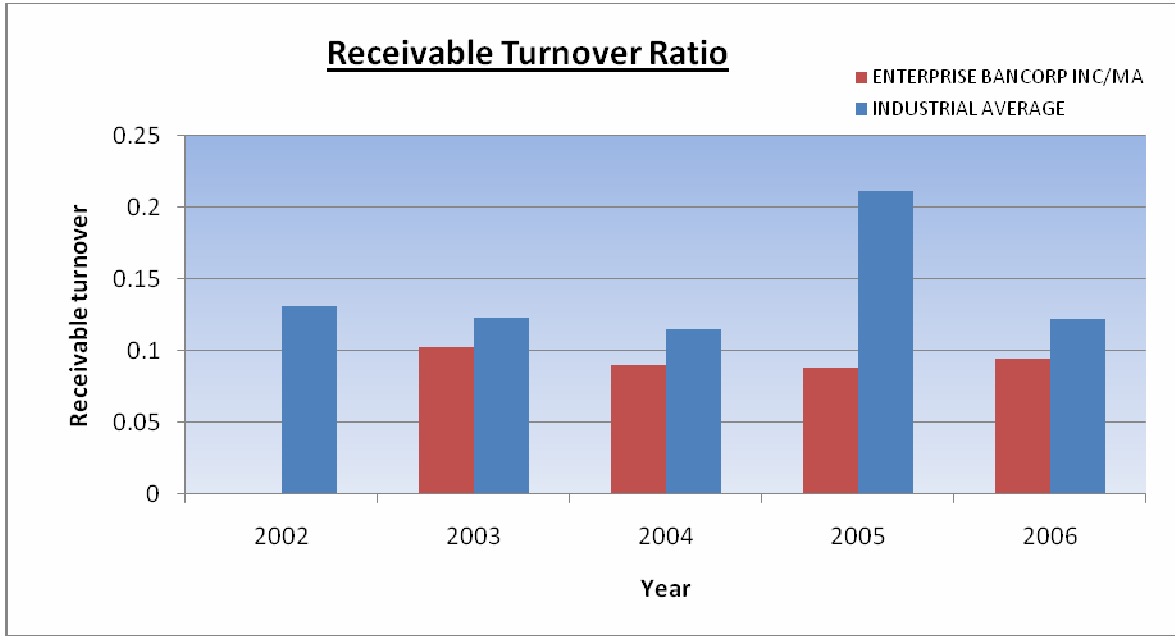
## Appendix-A



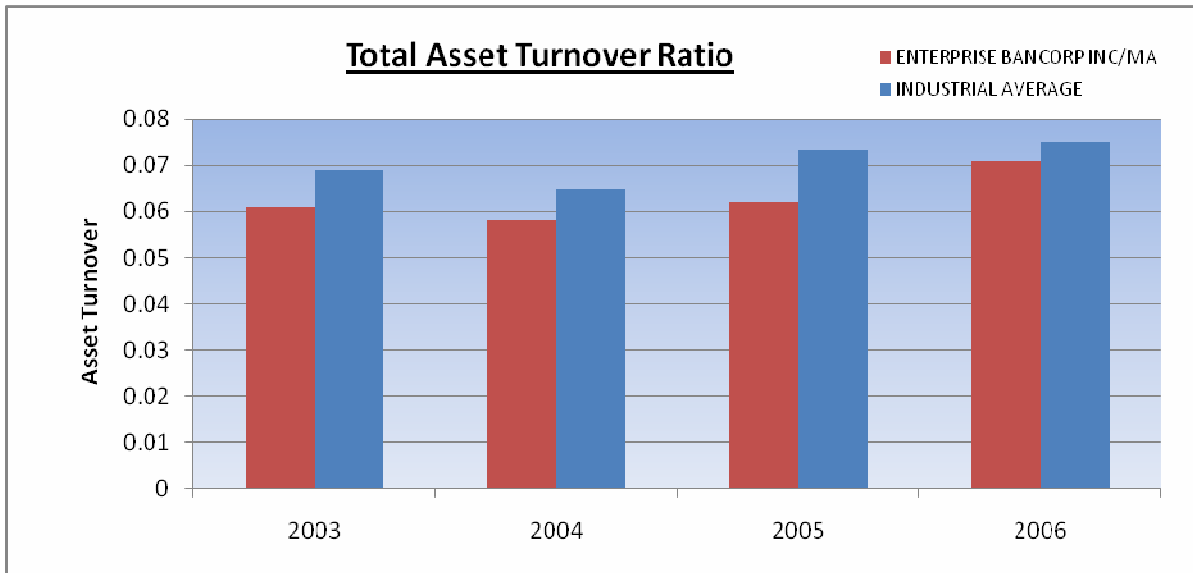
**Exhibit-1**



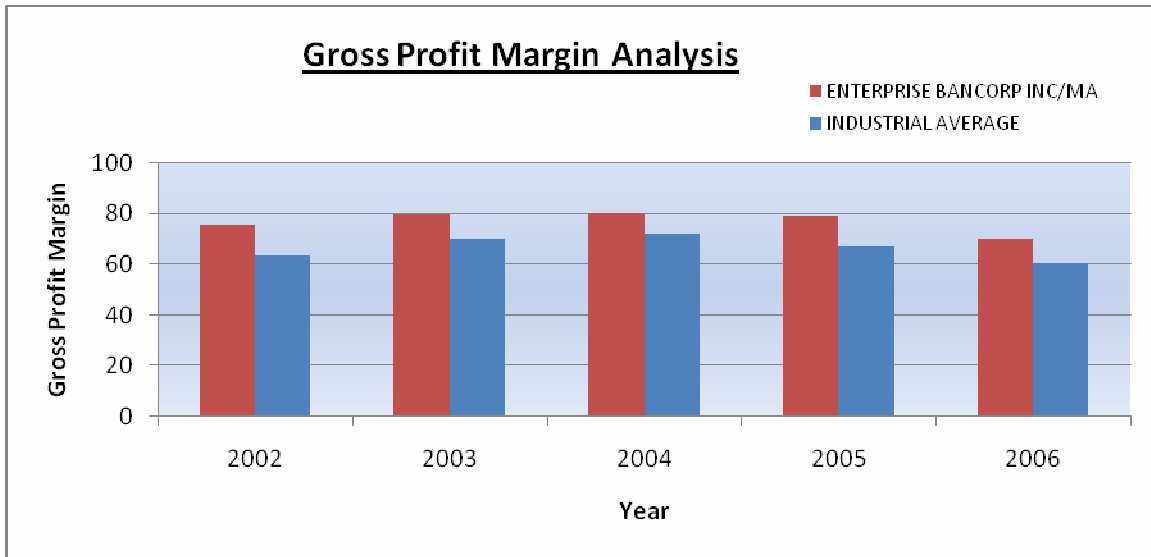
**Exhibit-2**



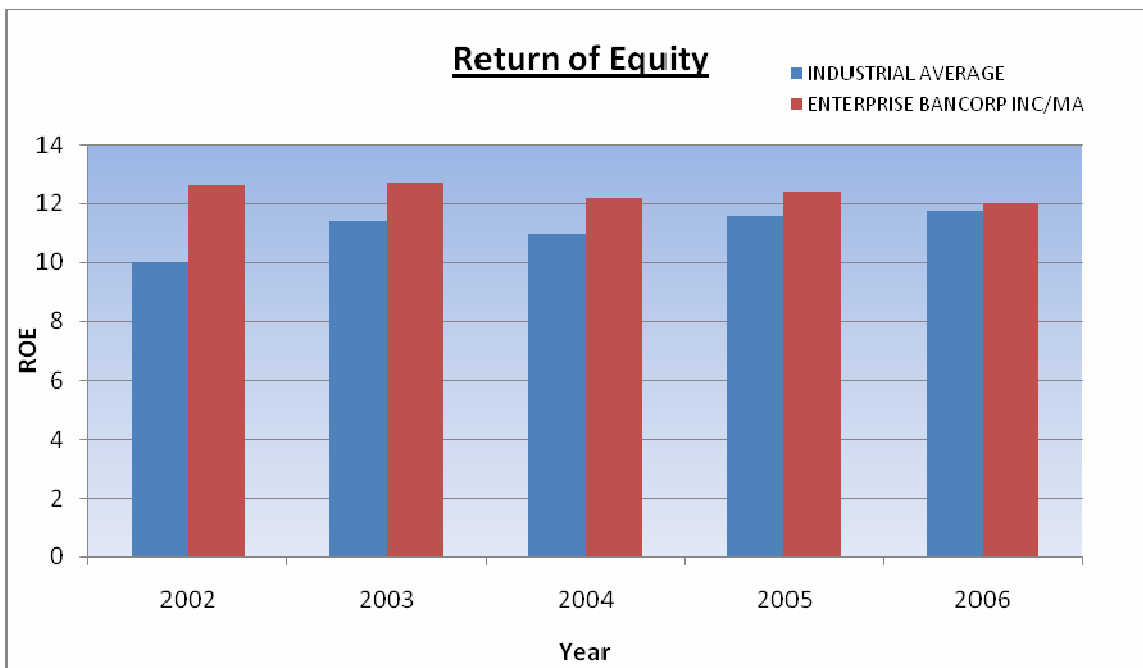
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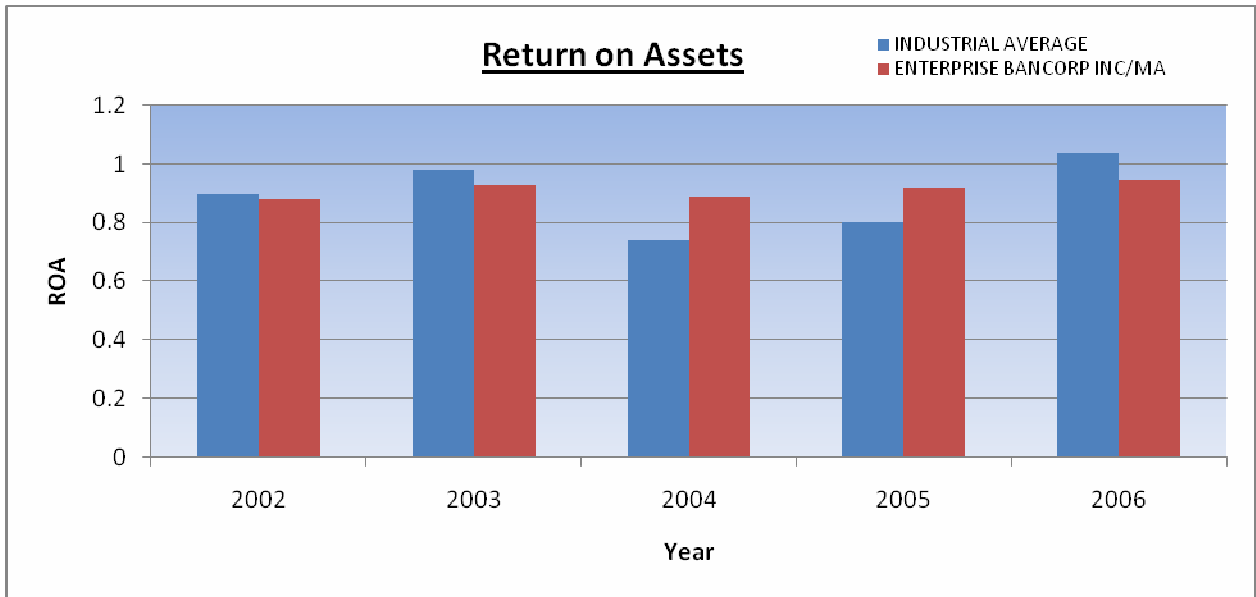
**Exhibit-4**



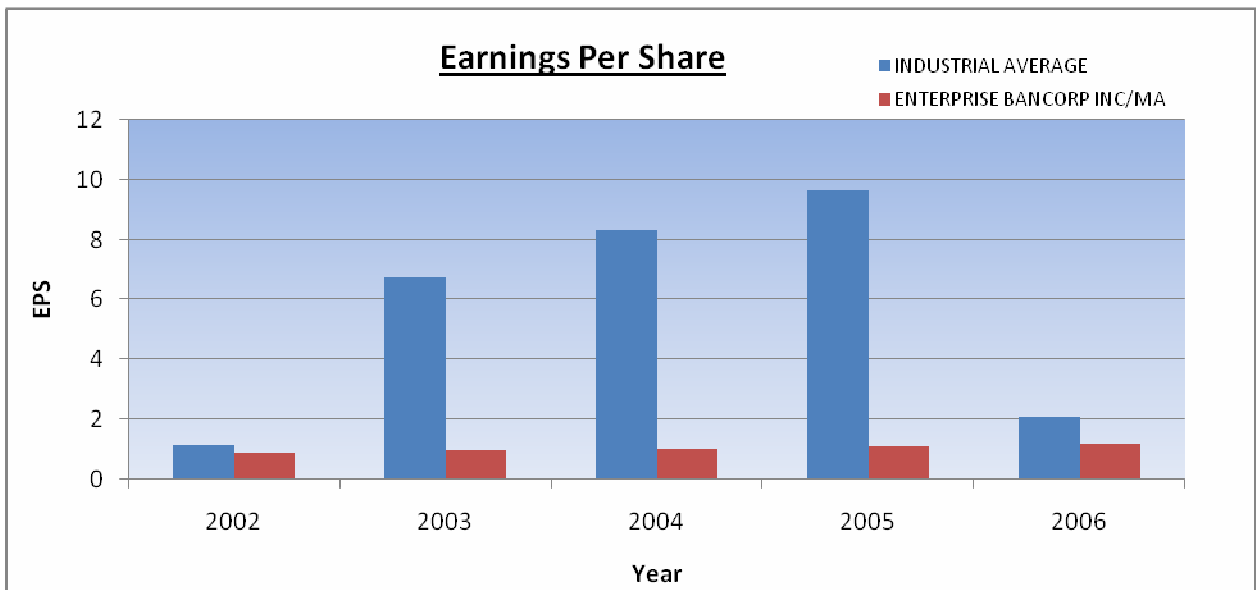
**Exhibit-5**



**Exhibit-6**



**Exhibit-7**



**Exhibit-8**





**Exhibit-9**

## Wainwright Bank

### **Wainwright Bank & Trust Co. (Boston, MA) (NASDAQ: WAIN)**

63 Franklin Street  
Boston, MA 02110-1301 United States  
Region: New England  
Phone: 617 478-4000  
Fax: 617 439-4548

#### **Key Information:**

<b>SIC Code</b>	6022
<b>NAICS Code</b>	522110 - Commercial Banking
<b>Doing Business As</b>	Wainwright Bank and Trust
<b>Company Type</b>	Nasdaq:WAIN
<b>Year Of Founding or Change In Control</b>	April 1987
<b>State of Incorporation</b>	MA

#### **COMPANY OVERVIEW**

Wainwright Bank & Trust Company provides commercial banking services in Massachusetts. It engages in accepting deposits and originating loans from general public and private customers. The company's deposit products include NOW and demand deposit accounts, money market and savings accounts, checking accounts, and certificates of deposits. Its loan portfolio includes real estate loans, including residential mortgages, equity credit lines, mortgages on developed commercial properties, and construction and development loans; and commercial loans to businesses. The company also provides telephone banking, online banking, safe deposit box, VISA credit and debit cards, currency and coin ordering, domestic and international wire transfer, and investment portfolio management services.

As of May 22, 2007, it operated 11 branches serving neighborhoods throughout the Greater Boston area. The company was founded in 1987 and is headquartered in Boston, Massachusetts. The civil rights movement of the 1960's has certainly influenced the creation of Wainwright's progressive social agenda.

The company's functions can be broadly classified into three major business segments: Lending and Asset Quality, Private Banking and Investment Management.

**Loan and Asset Quality** constitutes of several loan products to fulfill various business and personal needs. Loan products include: *Commercial loans* including short term and medium term loans, lines of credit, letters of credit, construction and permanent real estate loans and equipment financing. *Residential Mortgage Loans* including Jumbo Adjustable Rate Mortgages with no points and a special 10-year interest-only option. *Consumer Loans* includes personal loans and home equity line of credit.

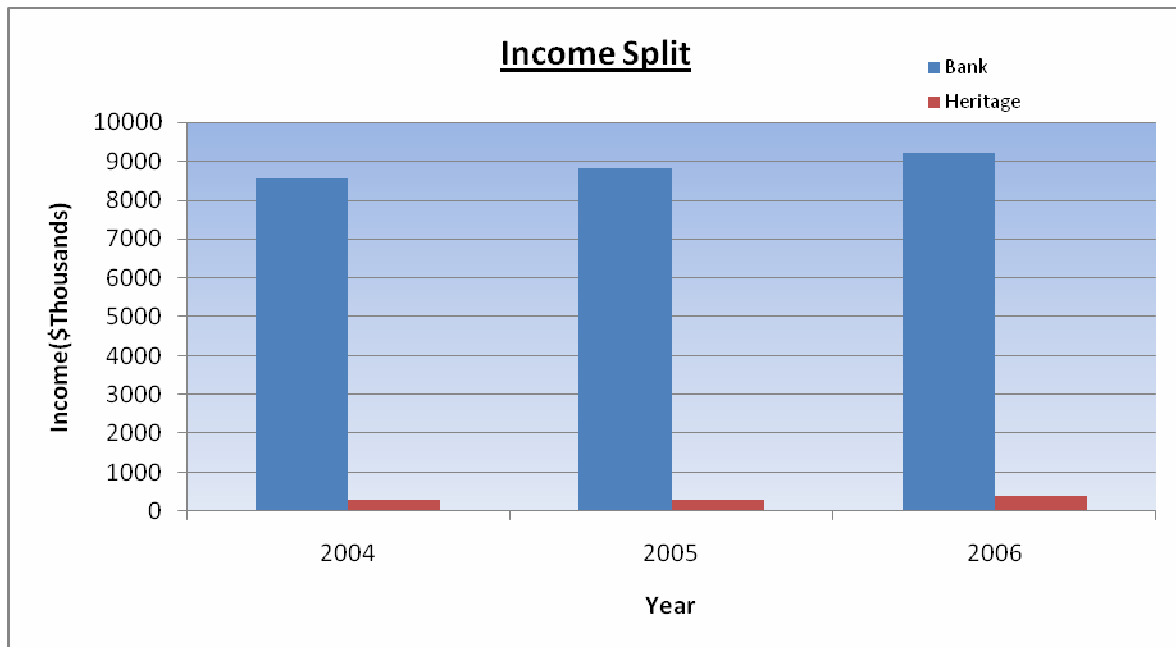
**Private Banking** is the primary source of deposits for the Wainwright Bank. *NOW Checking Account* is the primary transaction account for individuals and nonprofit institutions. *Business Checking Account* primarily deals with corporations and small businesses. The bank also has various *Investment Accounts* like Money Market Fiduciary Account, Term Certificates of Deposit and Jumbo Certificates of Deposit. Foundations, pension funds, other non-profit entities and high net worth individuals are among those who use these cash management and customized private banking services.

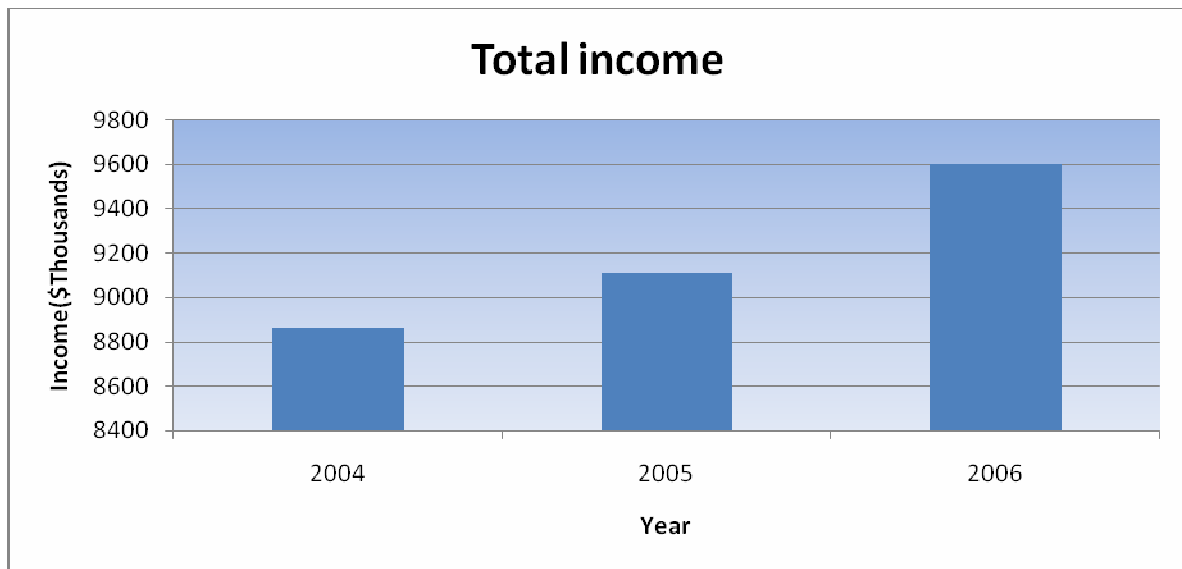
**Investment Management** provides services like Portfolio Management and Financial Planning. This business has been conducted by the Bank's wholly-owned subsidiary, Heritage Capital Management, Inc, specializing in the management of equity, fixed income and balanced portfolios for individuals, families, trusts, corporations, endowments and retirement plans. Heritage serves approximately 165 clients and had approximately \$244 million of assets under management as of December 2006.

Wainwright Bank & Trust Company holds a 32% equity interest in Trillium (formerly Franklin Research & Development Corporation). Trillium managed over \$1 billion of assets for institutions and individuals at December 2006.

## PRODUCTS AND SERVICES ANALYSIS

The Bank has two reportable segments: the traditional banking business which includes commercial lending, residential mortgage lending, investment portfolio management, and deposit account services; and Heritage, which is an investment management firm. The segments are managed separately because each business has different customers, employees, systems, risks, and marketing strategies. Each segment records all assets, liabilities, revenues, and expenses individually and management reviews separate financial statements. The Bank's business is conducted solely in the U.S. The graph of Income Split below shows that the Income from the Banking segment is far higher than the Investment management firm –Heritage. The Total Income graph shows that the total income of Wainwright bank has increased in the past three years.





## FINANCIAL RATIO ANALYSIS

In this section we have performed the conventional financial statement analysis of Wainwright Bank and Trust Company. We have used data from the ten years to achieve a fuller, more accurate understanding of the company's performance. In general an examination of a company's financial ratios over a longer period will paint a more accurate picture of its health because it balances out large divestitures, stock repurchases, changes in accounting systems and economic fluctuations that tend to skew the numbers. The Exhibit's in Appendix A gives the financial ratios of Wainwright Bank and Trust Company as compared to the industry values for the five years. So as to simplify and facilitate the industry average calculations, we have used the Standard and Poor's "Compustat - financial application" wherein the NAICS codes were used for the industry reference.

There are a total of five hundred and thirty nine companies including Wainwright Bank and Trust under the respective NAICS code. We did come across some difficulties wherein the data for a couple of companies wasn't available. So as to accomplish the most accurate results the correction/adjustments were made in our calculations. Also note

that despite the existence of outliers every value is included in the calculation of the average.

For convenience sake, the ratios to be examined are divided into five categories. These categories are related to the aspect of the company's performance to which they relate and also to their input values; these five ratios are Short Term Solvency Ratios, Long Term Solvency Ratios, Asset Management or Turnover Ratios, Profitability Ratios and Market Value Ratios.

**1) *Short Term Solvency Measures***

This includes the Current and Quick Ratio. These ratios, as their name depicts relate to the ability of the firm to generate cash in the short term, the liquidity of a company's assets. These ratios have little or no significance in the context of Financial Institutes / Companies. So in the absence of any significant financial data availability for these two ratios, we are unable to provide any insight on the company's short term solvency position.

**2) *Long Term Solvency Measures***

The second set of ratios examines a firm's ability to meet its long term obligations. The long-term debt to capital ratio relates total long-term debt to total capital giving an investor a greater insight at the firm's long term solvency situation.

As can be seen in Exhibit 2 the Long term debt to capital ratio for Wainwright bank has been far higher than the industry average for all the years in the last decade. Even the Total Debt to Capital ratio valuation indicates that Wainwright Bank and Trust had very high Total debt to Capital ratio as compared to the industry with the figures reaching more than \$264 million for the years 2003 and 2004. This statistics leads us to conclude that the company had high long term and short term debt for all these years. One reason for this could be that the company is relying on debts for its expansion.

### 3. *Asset Management Ratio*

The first of these ratios is the receivables turnover ratio, which is used to quantify a firm's effectiveness in extending credit as well as collecting debts. It is calculated by dividing Net sales with Receivable (Net Sales / Receivables). The greater the number of times receivables turn over during the year, the shorter the time between sales and cash collection. The value of the ratio for the company has been quite lower than the industry standards for the last decade. The trend shows that the ratio is decreasing for the last three years, which shows lower liquidity.

The other ratio of this set is the total asset turnover ratio, which relates value of sale and total assets. It is calculated by dividing Net Sales with the average of the current and prior year's total assets. The results obtained here for both the company and the industry are pretty close to each other. The trend shows that the company is trying to reach the industry average, with gradually growing in the last ten years.

### 4. *Profitability Ratio*

These ratios demonstrate how well a firm is utilizing their assets or equity to create income and wealth and how efficiently selling is done. One of these ratios i.e. Gross Profit Margin represents the percentage of each sales dollar remaining after a firm has paid for its cost of producing goods/services. It is calculated by dividing gross income (profits) by net sales. The gross profit tells an investor the percentage of revenue / sales left after subtracting the cost of goods sold/services. A company that boasts a higher gross profit margin than its competitors and industry is more efficient. Clearly Wainwright completely outperforms the industry average over the last five years. Return on equity, ROE, measures a firm's ability to leverage its equity for profitability. Wainwright Bank posted an encouraging ROE numbers, though its lower than the industry average, but the figures shows its increasing in each subsequent years for the last five years. Return on assets for the company has shown quite improvement in the last five years starting 2002-2005 and the figures went higher than the industry for 2004 and 2005.

## 5. *Market Value Ratios*

Finally, we have Market Value Ratios, which include earnings per share, EPS, and price to earnings, P/E. The measures relate net income and outstanding shares, and price per share with EPS respectively. They give information regarding the valuation of the company's stock, and thus the company itself, by the market, analysts, and investors in particular. Earnings per share represent basic earnings per share before extraordinary items and discontinued operations. Here the company has underperformed the industry EPS value. The company's EPS has average around 0.5 over the last ten years. Though the Company's EPS is increasing every subsequent year it is far lower than the industry standards.

On the P/E front in order to have a better and clear picture we computed the same on the monthly basis by dividing the month end close price with the appropriate 12-months moving earnings per share. If the most recent earnings per share figure were not available then the close price was divided by the sum of the previous quarter's value of 12-month moving earnings per share. Both the industry and company's P/E value has been highly volatile, and since the beginning of year 2001 we can see that the difference between the two for the last five years is narrowing on a slow pace.

### **SHAREHOLDER RETURN PERFORMANCE PRESENTATION**

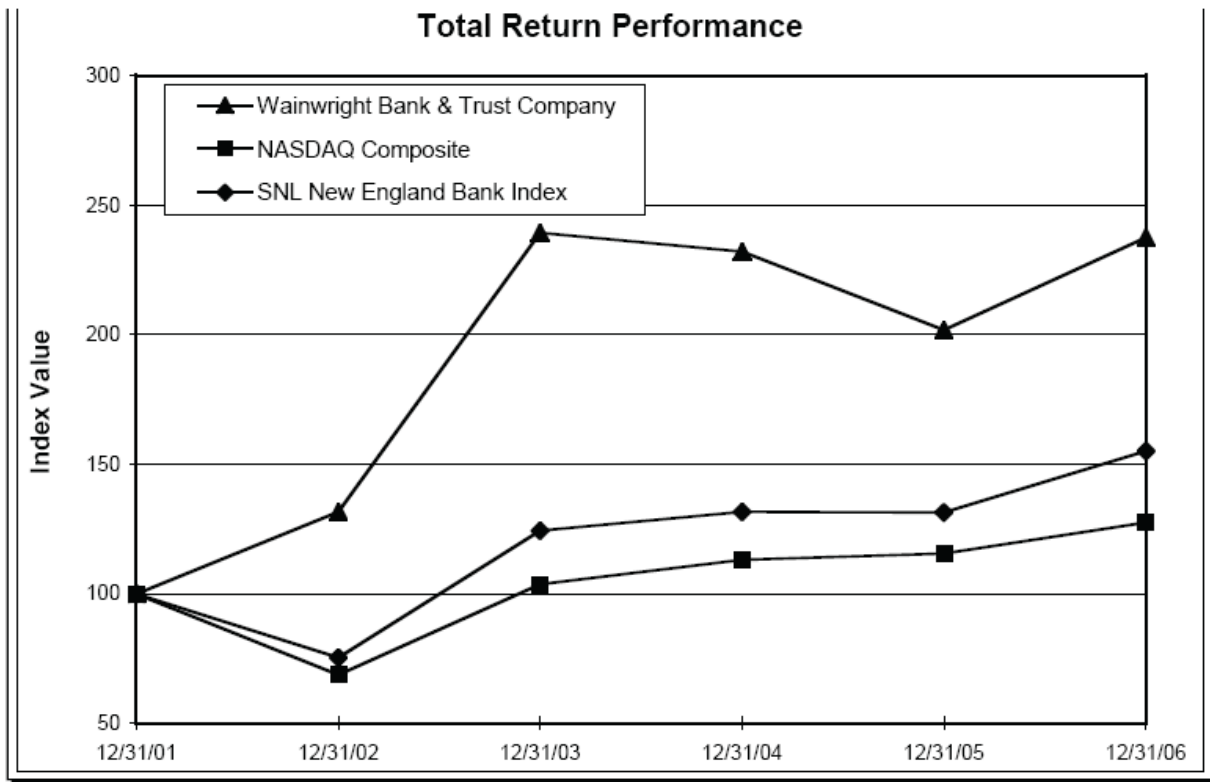
The chart below sets forth the percentage change, on an annual basis, in the cumulative total return on the Bank's Common Stock since December 31, 2001 through December 29, 2006 (the last trading day of fiscal 2006). For comparative purposes, changes in the cumulative total return on two indices of publicly traded stocks (the "Indices") are also set forth on the chart.

The NASDAQ Composite Index reflects the total return of a group of stocks in a cross section of industries. Many of these stocks have substantially larger market capitalizations than the Bank's. The second index, the SNL New England Bank Index, consists of all banks headquartered in Connecticut, Maine, Massachusetts, New



Hampshire, Rhode Island and Vermont that trade on the New York, American and NASDAQ exchanges. The Chart begins with an equal base value of \$100 for the Bank's stock and for each of the indices on December 31, 2001 and reflects year-end closing prices and dividends paid thereafter by the Bank and by the companies which comprise the Indices. The chart assumes full reinvestment of such dividends.

(Wainwright Bank and Trust company Annual Report 2006)



## EVA ANALYSIS

Economic Value-Added Analysis measures the amount of value a company has created for its shareholders. It determines how much profit a company has produced after it has covered the cost of its capital. Whereas conventional accounting methods deduct interest payments on debt, Economic Value-Added Analysis also deducts the cost of equity—what shareholders would have earned in price appreciation and dividends by investing in a portfolio of companies with similar risk profiles. Economic Value-Added

Analysis thus offers a truer picture of the return a company delivers to its shareholders and provides a framework to assess options for increasing it. By making the cost of capital visible, Economic Value-Added Analysis helps companies identify whether they need to operate more efficiently, to focus investment on projects that are in the best interests of shareholders and to work to dispose of or reduce investment in activities that generates low returns.

The basic formula is:

$$EVA = (ROC - COC) * C = NOPAT - COC * C$$

Where

$$ROC = \frac{NOPAT}{C}; \text{ called the return on capital employed.}$$

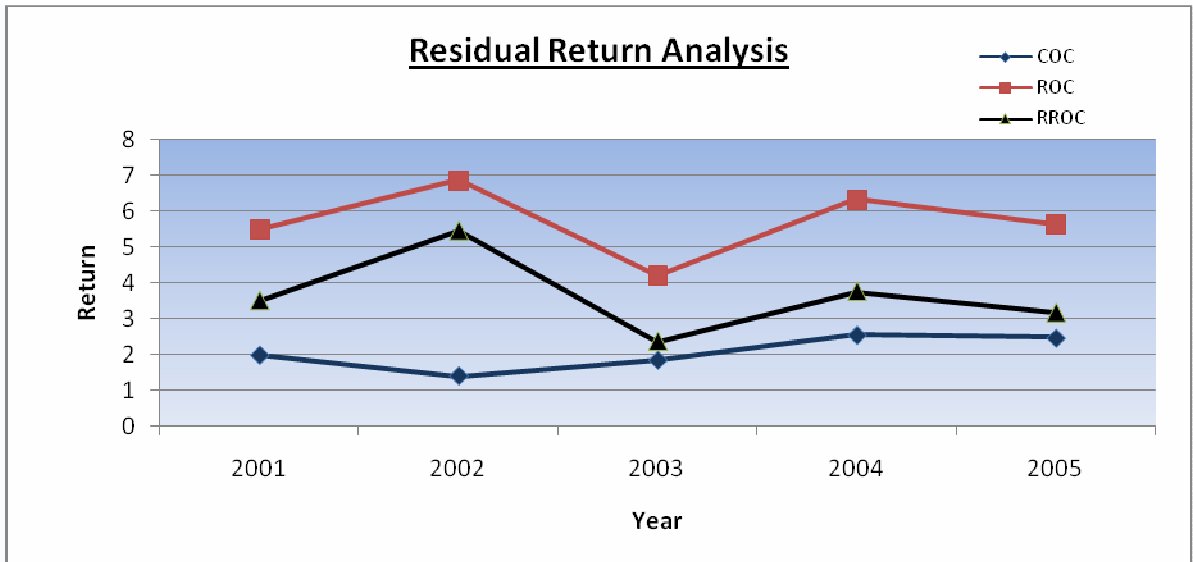
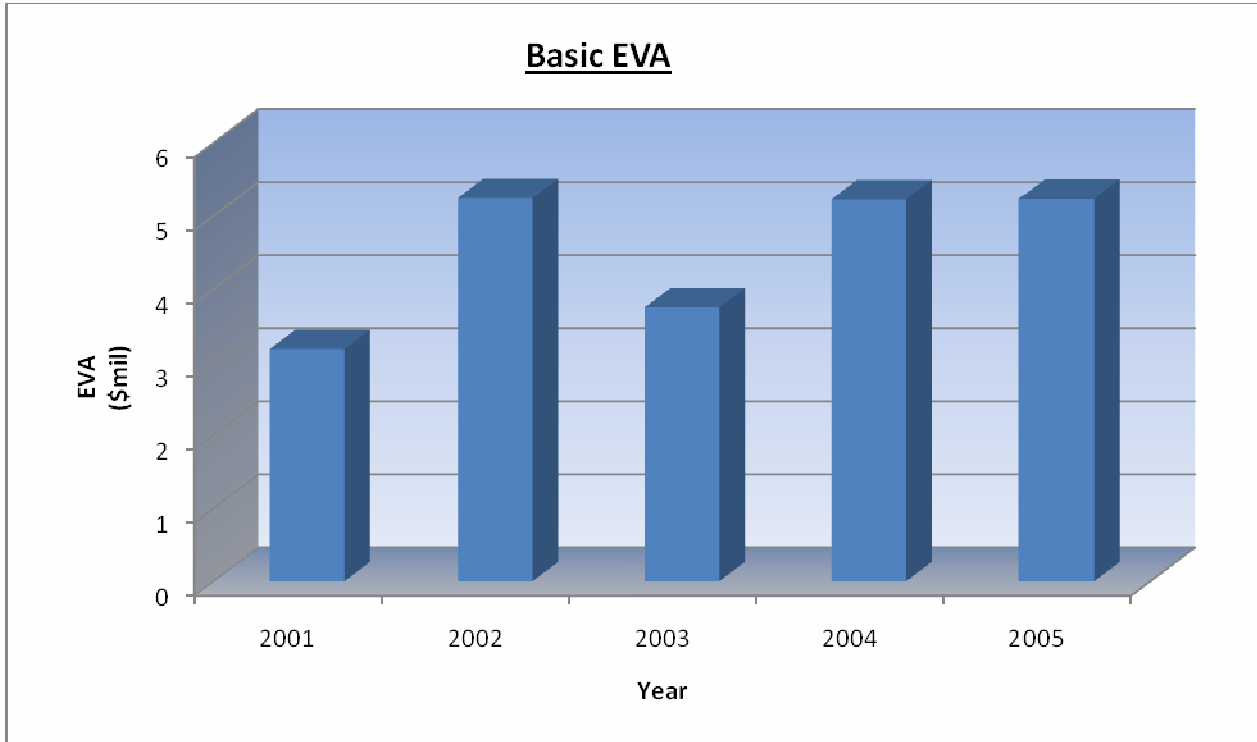
ROC: Return on capital.

COC: Weighted average cost of capital.

NOPAT: Net Operating Profit after Tax

C: Capital employed

The result of the EVA analysis for Wainwright Bank has been summarized in the below charts titled “Basic EVA Analysis”, highest EVA was reported in the year 2002 but the good news is that the company’s EVA has been almost comparable to this figure for the years 2004 and 2005. The positive and growing EVA of the company adds to its intrinsic value. The graph for the “Residual Return Analysis” also shows that the EVA spread was high for the year 2002 and never been negative for the last five years. The Return on Capital lowered in 2005 but is still far higher than the Cost of Capital figure, thus showing good signs to the investors.



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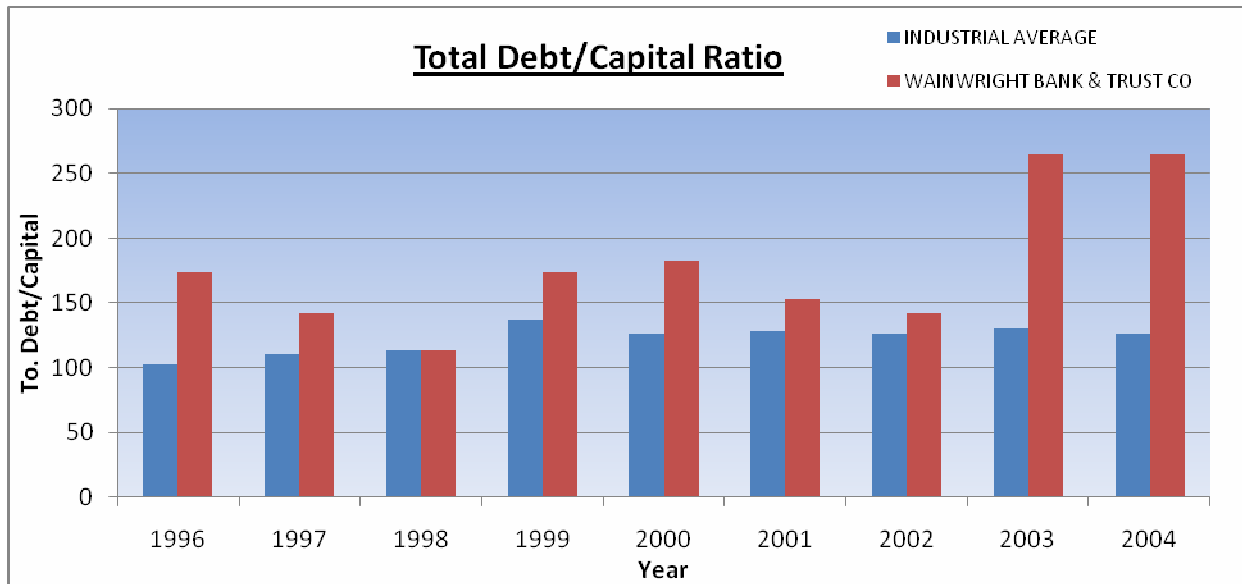
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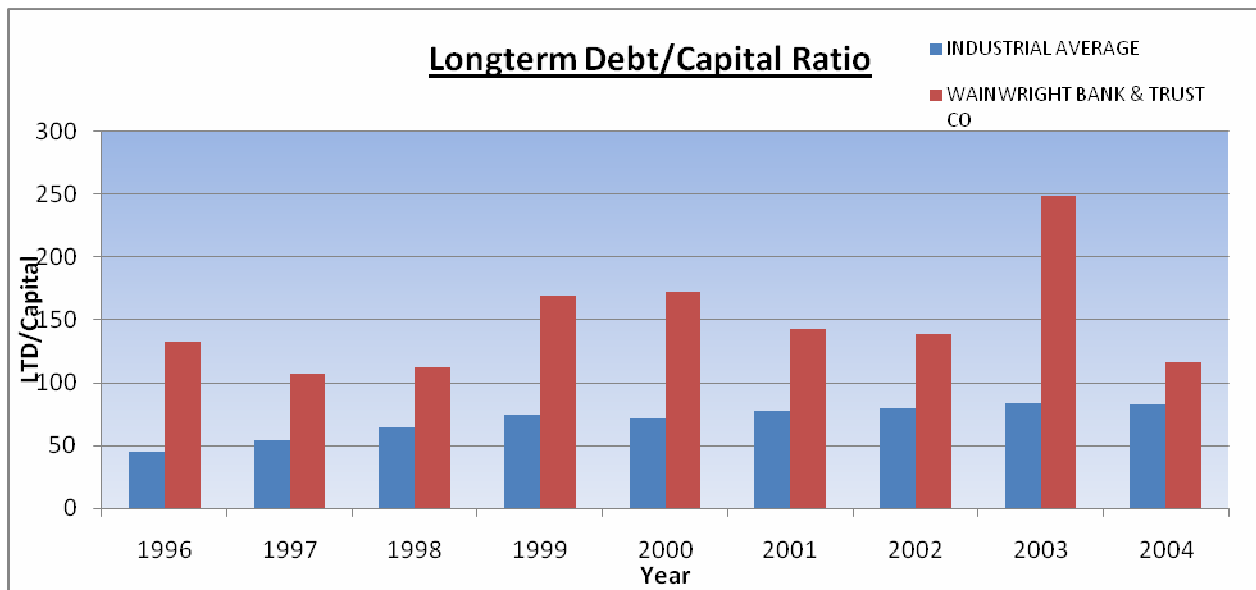
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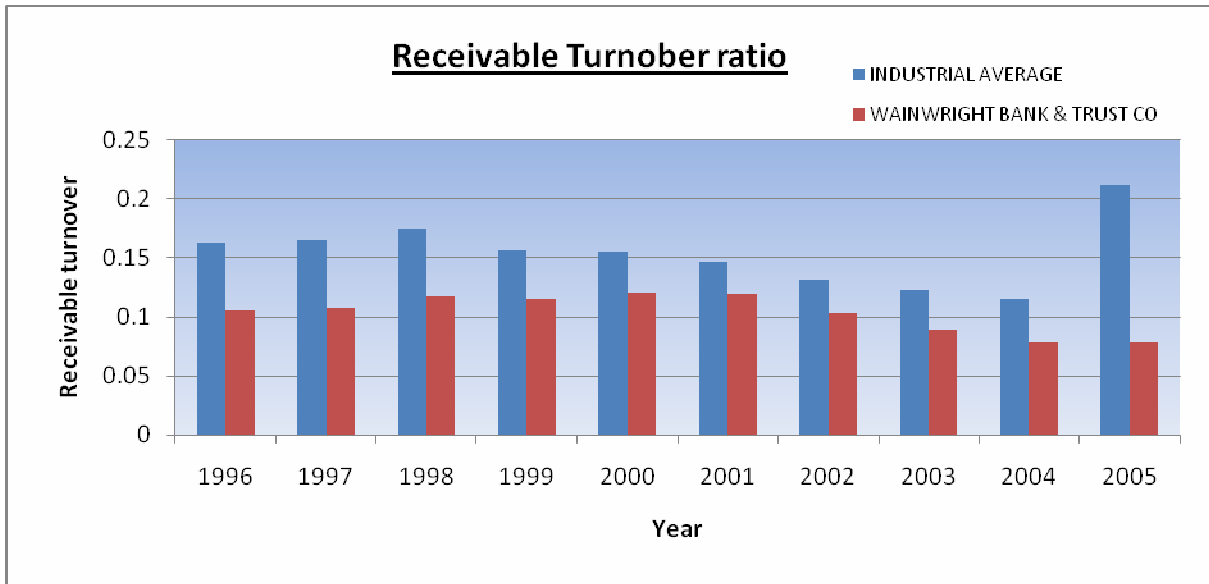
## Appendix-A



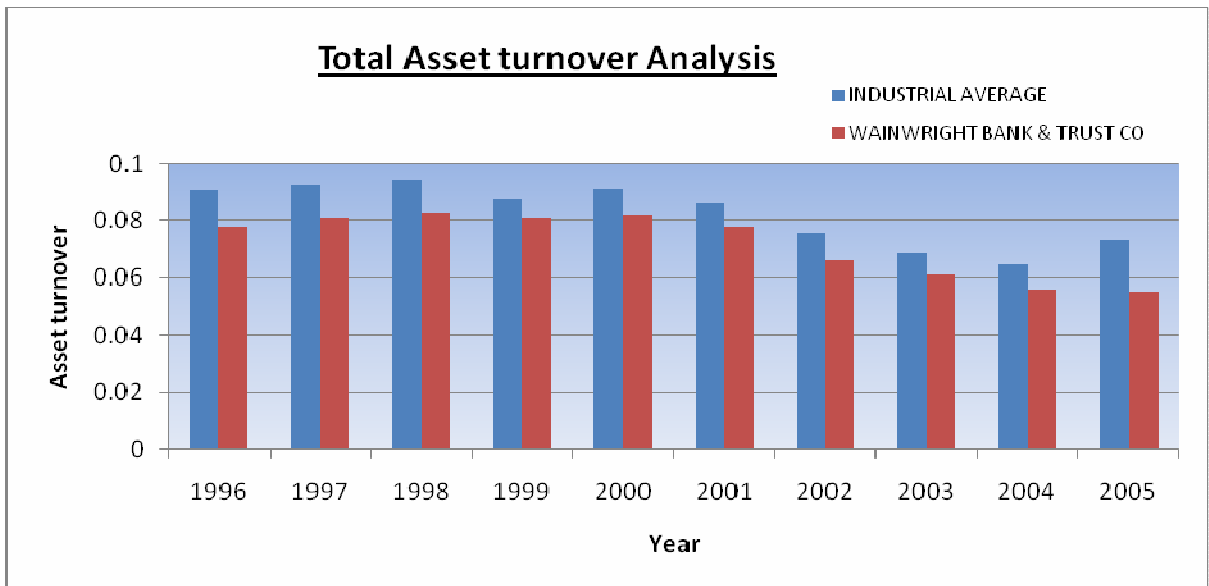
**Exhibit-1**



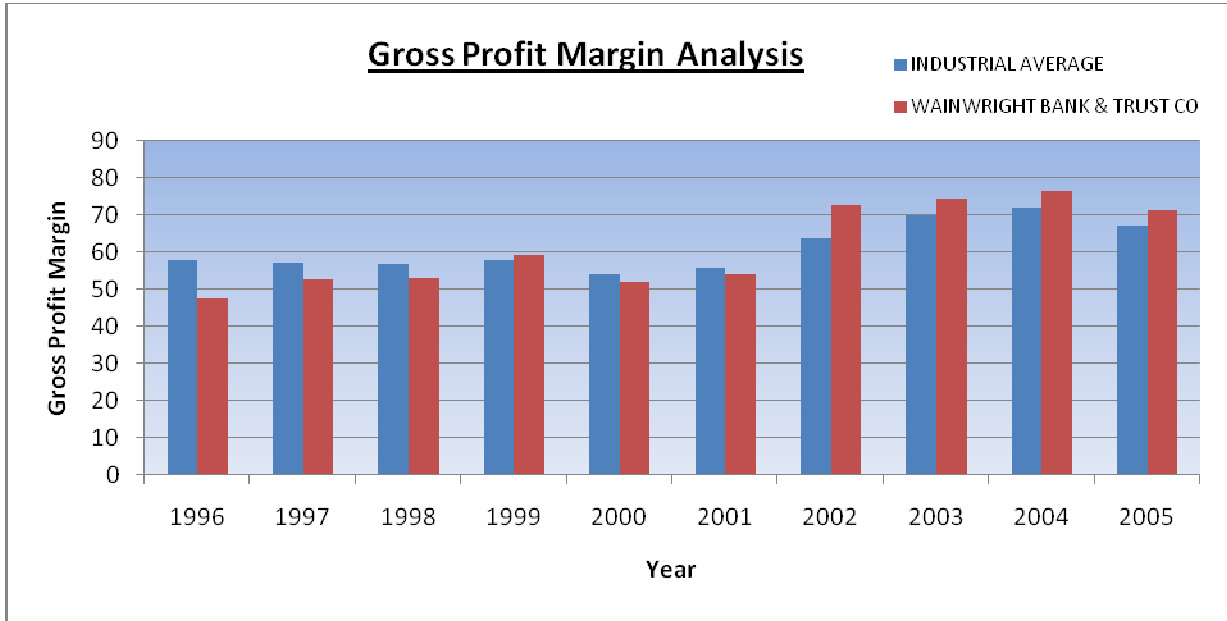
**Exhibit-2**



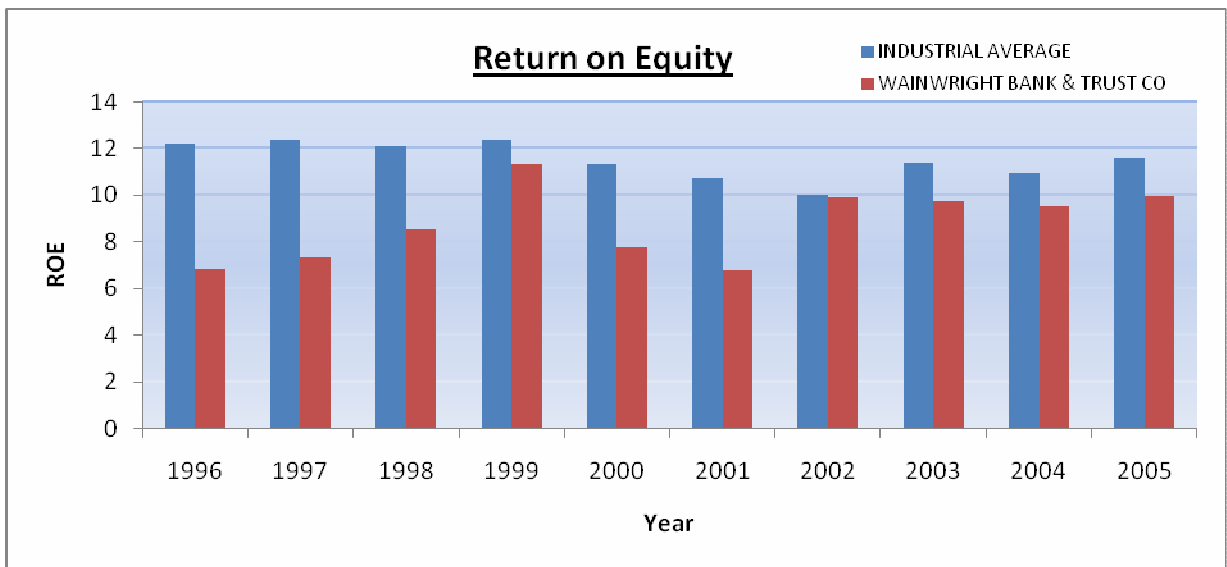
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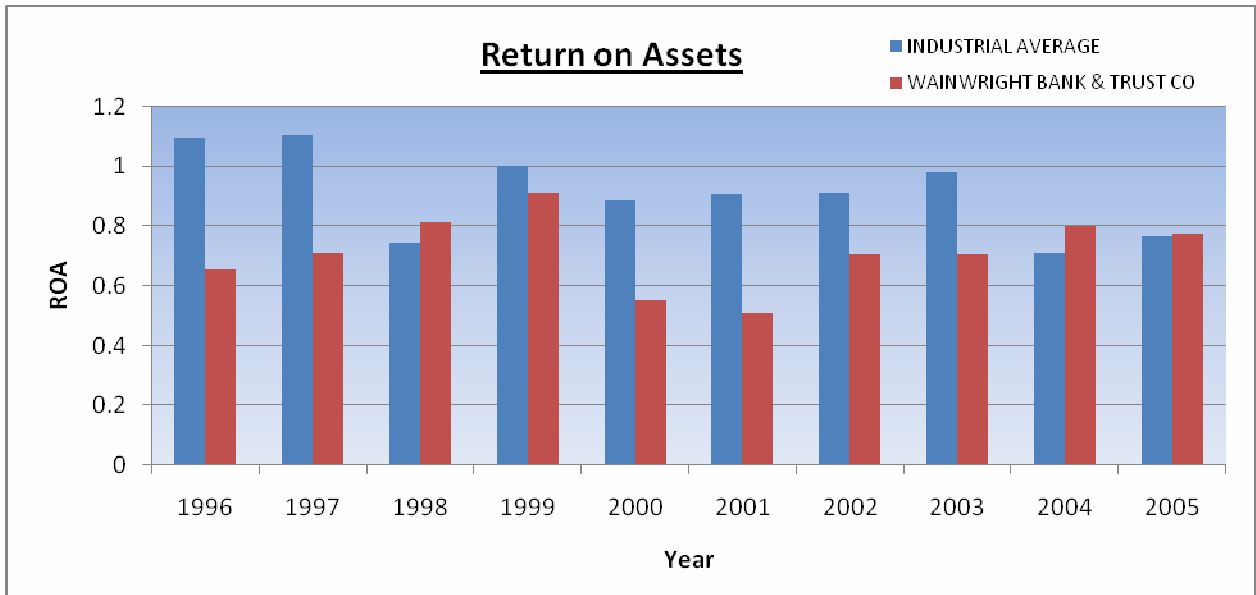
**Exhibit-4**



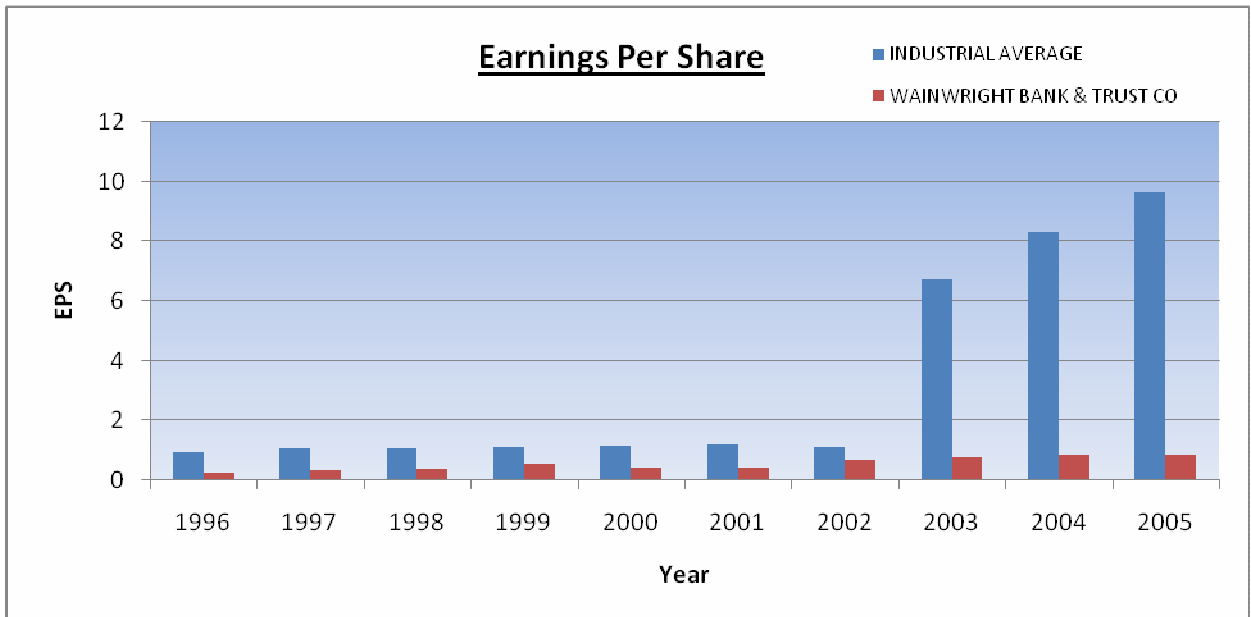
**Exhibit-5**



**Exhibit-6**

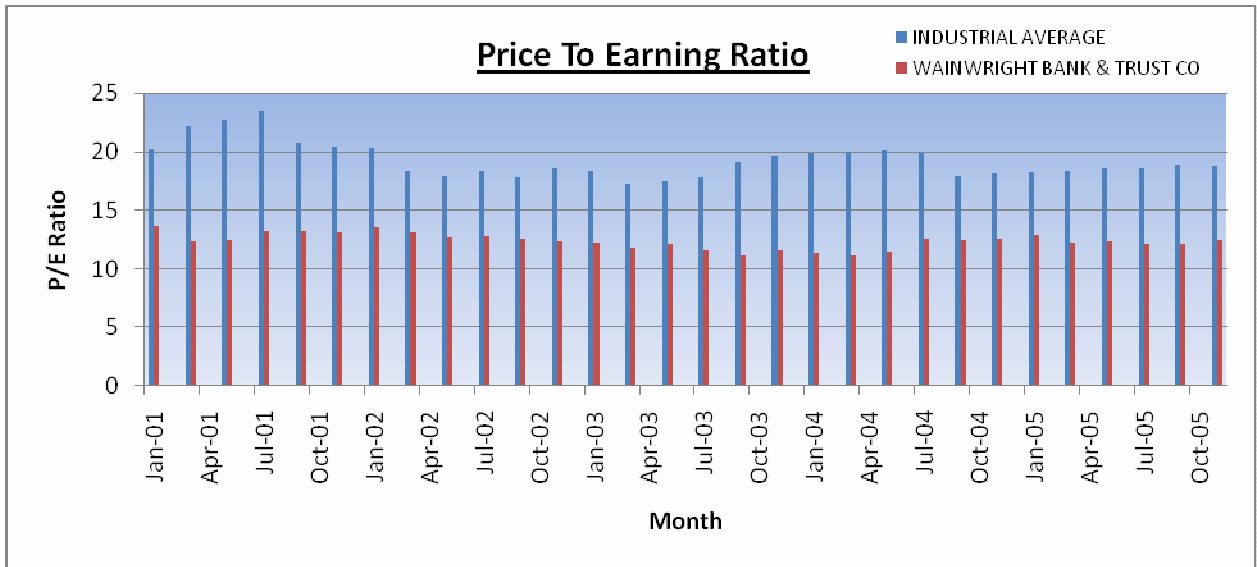


**Exhibit-7**



**Exhibit-8**





**Exhibit-9**