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Transcript of initial interview with Mr. Leonard D. Jaroszuk

President and CEO of Enterprise Oilfield Group Inc.

ENTERPRISE OILFIELD GROUP, INC.

Toronto Stock Exchange: E

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Leonard D. Jaroszuk - Chairman, Chief Executive Officer & President. Over the past 28 years Mr. Jaroszuk has been involved in, and managed, several public companies engaged in the Real Estate, Construction, Natural Resources and Exploration business. Mr. Jaroszuk took a lead role in developing Enterprise's growth in its first year of operations. His understanding of the industry has enabled Enterprise Oilfield Group to develop a strategic and tactical course to become a leader in the pipeline construction industry. Mr. Jaroszuk currently also serves as a director on several other Oil and Gas service and manufacturing companies.

Smallcaps.us: A warm welcome everyone to a new Smallcaps.us interview. Today we're speaking with Mr. Leonard Jaroszuk, the President and CEO of Enterprise Oilfield Group.

We've had our eye on this Company here at Smallcaps.us because Enterprise Oilfield is working on a very nice turnaround, but judging from its stock price, so far not many investors have noticed it. So this is a good opportunity for us to introduce the Company to you. Enterprise is listed on the Toronto Stock Exchange with ticker symbol E. Len, it's great to have you with us, welcome.

Leonard D. Jaroszuk: Thank you. I appreciate you taking the time for the update on our Company.

Sus: Okay. Enterprise Oilfield is engaged in a range of different activities, but I'm hoping you can give us an overview of the Company in a nutshell?

LDJ: Enterprise Oilfield Group started off in 2004 as what they call a Capital Pool Company here in Western Canada. We funded the Company, myself and a few investors, then we took it public. We raised $2 million and our goal was to get into the oil and gas business. We were looking at oil and gas opportunities, and could not find anything that made a proper investment.

So we started looking for the oilfield service industry and we came across a small pipeline contractor based out of Slave Lake, Alberta, two hours north of Edmonton, Alberta, and we were able to put together a very nice feel. It was an older gentleman looking to retire out of his business. He stayed on as management, and is currently still a director and a major shareholder of Enterprise.

So we took over his Company. He was doing approximately $7 million a year in business. And in our first year with his business, we ended up doing $22 million in revenues, making a $6 million profit. Basically, he was slowing down his business and the opportunity for us was to buy more equipment, hire more men, and do the work. That became a template for the future growth of the Enterprise. We became, basically, an acquiring Company of small ma-and-pa operations, where we go in, purchase the opportunity, and then exploit it with cash flow and access to equipment and manpower.

In 2006, we came across a second opportunity in the same industry in the southern part of Alberta, which allowed us to look at moving our manpower and equipment from the north, which was predominantly a winter busy time of the year to the south where it was busier in the summer time. And that opportunity presented itself and we acquired a Company called Trevor King Oilfield Services in 2006. We then drew the Company into the $35 million range and were profitable also.

In 2007, the oil industry was slowing down and we decided to diversify our Company. And we bought a small utilities installation company called T.C. Backhoe & Directional Drilling. Basically, they were no different than pipeline companies, only they would install underground utilities, for example, electrical cable for cable T.V., telephone lines, etc. A very, very nice Company. It's very compatible with the Enterprise growth plan and extremely profitable.

Sus: Great. Now, we'll touch upon the Company's various divisions later in the interview, but first I'd like to take a look at this turnaround we mentioned earlier. The Company was profitable in 2011, which was in contrast to its previous years. Would you take a moment to tell us about these numbers and what were the catalysts for the growth?

LDJ: Enterprise is a tremendous turnaround story. We suffered through two years of very difficult times, due to two things.

One was the price of oil sliding from the mid-$150 range down to $38 a barrel where all the oil Companies in Western Canada basically stopped drilling and the activity in the oil patch slowed down to a crawl. And if the oil Companies aren't drilling, then there are no wells for us to hook up as a pipeline construction Company.

Luckily, we did have the T.C. Backhoe which did remain steady. It did slow down but it did stay steady and was still very profitable during those two years. But basically, we were trading dollars. The oil patch was losing money and T.C. was making money and they created a loss for the Company.

The second problem that happened was the world recession. As oil prices started to recover, we had a world recession where access to capital dried up. So small junior oil and gas companies, weren't able to drill as they didn't have access to the capital. So again, the drilling was not robust enough for Enterprise to capitalize off the oil patch and it created more losses for Enterprise.

In the last 14 months, everything has turned to the positive for the oil patch and for Enterprise. Access to capital has become more available. Price of oil is consistently over $100 a barrel, and that's allowing Enterprise to bid on jobs that have a higher margin, which basically weren't available for the last couple of years as the market is very competitive and Enterprise's philosophy is to not work for nothing. We basically are in the business to make money for our shareholders and that's what we're waiting for.

At the same time, Western Canada has become very robust and we're seeing a lot of new development, a lot of new utility line installations going on, so our T.C. Backhoe division is also expanding at a very, very profitable rate for us.

Sus: I see. And since we're talking about financial results, can you give us an idea of how the first quarter for 2012, which just ended, looks like?

LDJ: The first quarter for 2012 is going to be very similar to our September quarter, where we ended up doing $1.4 million EBITDA with just over $800,000 net profit. We're feeling very comfortable with those numbers and the year going forward also looks extremely profitable for us.

As I mentioned earlier, we are a growth-by-acquisition Company and we're seeing opportunities again. With the positive results of our financial statements, we are getting access to capital. And as you mentioned earlier, we are an under priced stock and as we can get the value of our stock to a more comfortable level, it would be nice to use it as currency for a couple of nice small acquisitions. We've got a couple of targets. They're nice bite-size opportunities for us where we look for two to two and half times EBITDA as a purchase price, which is extremely good in these times right now.

Sus: Well, that's just terrific. 2011 was also a great year for your balance sheet. How did the Company manage to improve this over previous years?

LDJ: Well, with the two identical years we went through, the first thing we had to do is cut costs for our operation. So we spent a lot of time cutting down overhead in our various divisions and at the same time, we paid off some debt by selling off excess equipment.

We came across some opportunities to take advantage of some low interest financing that was available to us. And by putting that in place, we were able to save close to $30,000 a month in interest costs on one loan for one division.

Subsequent to that, we were able to get some conventional bank financing for the other division at comfortable rates to build up the assets and at the same time pay down debt at a very fast margin. Currently, we're paying down debt at just over $100,000 a month.

Sus: Now, you already touched upon the subject. Late February 2012, you announced fourth quarter results. In the press release in which you announced the quarterly results, you also mentioned that the Company had identified several potential acquisition targets. What more information can you share with us about these targets and their potential?

LDJ: The potential targets that we have will help build up a new division that Enterprise has created. Before 2011, Enterprise was waiting for margins to increase to create profitable opportunities in the oil patch.

As a result, some of our equipment wasn't being used and we started renting it out to bigger construction companies and development companies in the oil patch and in the construction business. We found that to be very profitable and so we decided to exploit that opportunity and form a new rental division, which is delivering very handsome profits of over 70% to 80% return on investment.

So the next opportunity that we really like, and potential take-over candidate, is a small rental company here in Northern Alberta, that is diversified from the oil patch and from heavy equipment. It's another situation where it's a husband and wife that are looking to retire and are looking for a financial partner to come in and buy their business to basically exploit the opportunity that they're holding back on doing.

I can't give the name just yet. We're at a LOI stage right now but the company is doing $4.5 million in gross sales and netting out $2.75 million. So it's a very profitable company for Enterprise and we'll add that to our rental division which is, as I mentioned, very profitable for us also.

What we have right now is three opportunities: we have a rental division, we have on oil field construction division, and we have an underground utilities division.

Sus: OK. I'd like to take a moment to look at the Company's various divisions. Let's focus on Enterprise Energy Services first. This division constructs pipelines and other facilities for the oil and gas industry. Can you describe this division's primary clients and tell us about a recently completed project?

LDJ: Yes. Enterprise Energy Services is a pipeline construction company. Its business is to hook up all the wells that an oil company would drill in an area. We would do all the small pipelines from the well head to the sales line. So from the well head would be a size of four to eight inch pipeline and it would go into up to a 12 to 16 inch pipeline, which would then take it to the big pipelines that you see going across the whole province. Our business is well head to sales line, so we do all the installation, we do all the welding, the pipefitting, all the ditching and the hooking up to the sales line.

Sus: And am I right that this division is dependent on the price of oil and gas?

LDJ: This division is extremely dependent on the price of oil and gas. And as you know now with natural gas in the low $2 range, it is 100% dependent on the price of oil, which is very good right now and creates a lot of opportunity for Enterprise to continue working with its clients. Some of our bigger clients are Murphy Oil, Canadian Natural Resources and also Encana.

Sus: Let's move on to T.C. Backhoe & Directional Drilling. Can you tell us a bit about the history of this division?

LDJ: T.C. Backhoe & Directional Drilling is a 27-year-old construction company that does all the underground utilities installation for companies like Fortis, which is our major electrical supplier here in Canada, Telus which is our main phone distributor, Bell, which is also a phone distributor, Shaw Cable, which does all the underground cables for internet and cable T.V., and Edco Natural Gas, which does major gas lines.

We have a four-year $25 million contract with Fortis that we are entering our third year with. It's the backbone of the Company. They've asked us to expand our reach with our T.C. Backhoe division, which will just add more profitability to us going forward.

Currently, that Company is doing approximately $14 million to $15 million of Enterprise's business, but it is kicking out over a 40% EBITDA to Enterprise Group's financial statements and balance sheet. It's a very good Company. It's got a tremendous track record and is well-known in the industry.

The people from whom we purchased it from, was one major shareholder and then two younger partners. The major shareholder is semi-retired, but he still acts as a manager for the company. The two younger partners are still day-to-day operators of the company. They've been with the company for five years and we've just extended new contracts for them for another three years to go forward, and we're very comfortable with the growth of that company.

We feel very confident that we can double the size of that company within the next two years.

Sus: Great. Now, what are the main drivers for this business?

LDJ: The drivers for this industry, is the economy. As the economy is growing, so do the opportunities to bring in new power for new subdivisions or upgrading existing utilities for existing subdivisions that are out there. So basically, it's two-fold, its new growth, and repairs and maintenance of existing growth.

Sus: And there's also the rental division, which is fairly new, having been launched in the third quarter of 2011. Already however, this division is doing very well. How was this early success possible and why did the Company move into this particular industry in the first place?

LDJ: Well, that is correct. This is a new opportunity for Enterprise which came to us because there was a void in the industry.

As I mentioned earlier, Enterprise's business model does not allow it to go to work to not make money. When oil industry was slow, we parked our equipment and basically started getting opportunities to rent our equipment to some of the major players like Ledcor, North American Construction and Flint Energy. Because most of our equipment is bought and paid for, when we rent it out, it's generating over 80% net profit to the Company.

So we saw the opportunity and we exploited it with putting our equipment out there. At the same time, we've ordered new equipment to fill some of the demand that is also out there.

The void was created by an existing rental company called River Valley Equipment Sales that was servicing most of Northern Alberta and North Eastern B.C. That company was bought out by Emeco, a billion dollar mining developer and rental company out of Australia, in 2005. Emeco purchased River Valley to move into Canada so that they could move into Fort McMurray and get involved in the oil sands, where major mining equipment is put to work.

As Emeco moved into the bigger and larger equipment however, they sold off their smaller equipment which created a void for Enterprise to pick up on. Right now, there are three players involved in filling that void, and Enterprise is one of the major players right now.

Sus: And who would you say are the main competitors for Enterprise Oilfield?

LDJ: We're one of three peer-operators out there. There's a company called Macro Industries out of Fort St. John B.C., that is 100% pipeline and facilities construction.

There's another company called Cordy Oilfield Services out of Calgary. It's more like Enterprise as it has three or four different divisions. It's also a pipeline contractor and it has a rental division that is currently moving into some of the bigger equipment.

We don't see heavy equipment as an opportunity for Enterprise because there are so many big players in that industry. We do want to move into Fort McMurray with smaller rental equipment that our potential take-over target can supply. It doesn't rent products to Fort McMurray yet, but its products would be in very high demand if it was available there.

So the opportunity for us in making that acquisition is two-fold, one is to buy it for the existing business, but also to create a capital expenditure program to buy more equipment and move it into Fort McMurray.

Sus: And who are the Company's major shareholders?

LDJ: Enterprise Oilfield Group is managed by investors that seek ma-and-pa opportunities. We buy those companies and subsequently invest in them to grow their businesses. So the major shareholders of the group are always the targets that we purchase.

I'm the largest shareholder with approximately 18% of the Company. Ron Ingram, the owner of the small pipeline contractor from Slave Lake that we purchased in 2005 is a major shareholder with over two and half million shares. The T.C. Backhoe people that we purchased, the older gentleman and two young fellows have close to six million shares of the Company.

And then we have 13 institutions out of New York and Toronto that are still substantial shareholders of the Company, even though we've gone through the highs, where the stock was at $2.75 a share, to the lows, where the stock traded as low as $0.09 per share.

So we have a good shareholder base where basically over 50% of the Company is available via phone call to talk about the opportunities in front of us and the potential to grow the business.

Sus: We've already mentioned that we see a serious turnaround in process at the moment, but what would you say are the most compelling reasons to invest in Enterprise Oilfield today?

LDJ: Well, as you mentioned at the beginning of our conversation, this is a turnaround story where the Company has gone from the highs, we survived the lows, and we are back on track to turning in profitable financial numbers quarter over quarter. We've had two in a row so far and the third one is coming out shortly. We also identified potential opportunities to get back on the growth-by-acquisition strategy that we started with.

We've done a very interesting analysis of our Company and we've broken down our assets minus our debt. And if we were to basically sell our assets and pay off our debt, we could return close to 30 cents a share to our shareholders today. That is before we potentially make any successful acquisition at a very compelling price of two and half times EBITDA.

At the same time, if we work off of our two trailing quarter's profitability and roll those over to two following quarters, we're looking at projecting close to $6.5 million net profits for 2012. With $54 million shares outstanding, that still turns into a very valuable stock with growth opportunities and future in front of it.

To give you an example, although we've come out of a tough time in our sector, Flint Energy, which is a $1.5 billion company and which has a division that we compete with, was just recently purchased at 10.6 times forward looking EBITDA, which is astounding.

A few private companies also have purchased some our mom-and-pop competitors at very high multiples, so we're feeling very comfortable with our Company being undervalued.

As the president and CEO, I continually buy stock. Anybody is welcome to look at the insider trading and they'll see that I've been a consistent buyer for the last 14 months. My belief is that, if we're worth 30 to 35 cents a share on the auction block, then we have to be a heck of a buy at current prices.

Sus: Okay. And as a final question, does the Company have a website where investors can get more information?

LDJ: Yes. Actually, our website is very informative. I welcome all investors to visit our website. It has a lot of information along with many pictures that show what we. What you want to look for is www.enterpriseoil.ca.

Sus: Fantastic. Len, it's been a pleasure talking with you and we certainly appreciate your time. We'll be keeping track of the Company's progress and look forward to having you back for an update.

LDJ: All right. I really appreciate you taking time to speak with us and thank you very much.

Interview Feedback

We welcome your questions and feedback regarding this interview at:
http://www.smallcaps.us/smallcaps-us-talks-with-enterprise-oilfield-ceo-leonard-jaroszuk-about-companys-spectacular-turnaround-and-acquisition-target

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Contact Smallcaps.us

Parc de l'Alliance
Boulevard de France 9a
1420 Brussels
Belgium
Tel. +32 (0)2 352 89 09
E-mail: contact page

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