

# ENERGY

AN INFORMATION FEATURE IN PARTNERSHIP WITH ENTERPRISE GROUP



Photos: Enterprise Group Inc.

Enterprise Group Inc. conducts a thermal expansion of 24-inch pipeline.

## Succeeding through diversity

South of the border, major energy service providers such as Halliburton, Key Energy Services, Unit Corp., Newpark Resources and Nabors Industries have had a rough start to the year.

Reports of overselling of stock, coupled with demand issues, have made a ripple into a wave in the U.S. sector.

However on the Canadian side of the border, things are a little rosier, especially for energy service companies diversified beyond solely serving the oil and gas sector.

For one Canadian company in particular, the beginning of 2013 shattered company profitability records, and opened up new doors among not only the energy sector, but in infrastructure and in utilities, as well.

When the publicly traded and multifaceted service provider Enterprise Group received a \$6-million thumbs-up from Bay Street legend Mike Wekerle's Difference Capital in March, it was a catalyst for what was to become an astounding first quarter in 2013.

Now, coming off of the recent announcement of the first quarter's results, it's clear Enterprise has found a winning formula. Enterprise's first quarter for 2013 was not only a company-record in profitability for a quarter, but also the entirety of any of its previous years in operation.

Prior to 2008's economic meltdown, Enterprise had some strong years in 2005, 2006, and 2007. However, it was solely focused on one sector.

A refocusing effort undertaken in 2011 changed the trajectory of the company back to profitability. The retooling resulted in a run of seven straight quarters of profitability, culminating in 2013's record-breaking first quarter. In all, Enterprise now derives revenue from three different streams: energy services, utilities and infrastructure.

"Back in 2005, we were primarily an oilfield construction business and the refocus has made us a little more bulletproof," says Enterprise vice-president and director Desmond O'Kell.

"If any one of those segments has a significant downturn, we're not completely reliant on any one."

Today, the company services not only major players in the oilpatch, but also major utility providers such as Fortis, Shaw Cable and Telus.

Coupling the demand from its energy and utility clients, Enterprise is also looking toward Alberta's expansion of infrastructure projects already in the works. Some of these include the twinning of Highway 63 between Edmonton and Fort McMurray, and the expansions planned for the airports in both those cities as well as in Calgary and Grande Prairie. In finding its new balance, Enterprise seems to have something for everyone.

"I guess the analogy we like to use is to view the current marketplace as if there's a gold rush going on," says O'Kell.

"So do you invest in the guys out there trying to produce it, or do you invest in the guy who sells everyone the pick axes and pans?"

Instead of pick axes and pans, the Enterprise Group has invested in all types of equipment for its fleets and



1200 Model Units in front of Arctic Therm's headquarters in Morinville.

rental outlets.

The company's consistently growing asset base is currently worth approximately \$20 million, and includes a fleet of more than 300 trucks, heavy equipment and proprietary specialized heating units.

The buildup of this asset base has been easy for management to justify by using previous examples — for instance, the purchase of specialized heavy-equipment trucks for \$500,000 to \$600,000, which are charged out at a rate of \$15,000 per day. Payback for each new truck is relatively quick and painless.

While much of the credit for the company's success will be attributed to Enterprise's equipment base, more should be given to the makeup of its current management team. President and CEO Leonard Jaroszuk is a director on several oil and gas service and manufacturing companies in the province, and brings more than 25 years of experience building and managing public companies.

Joining Jaroszuk is O'Kell, who has been with the company since its inception in 2004, and also brings more than 25 years of experience to the table.

Bringing another 25 years plus of experience is COO Doug Bachman, who comes with a corporate finance and management background with a tier-one Canadian chartered bank.

The most recent addition to the team is CFO Warren Cabral, who was most recently the CFO for Alberta's AIMCo.

The team's ability to make a strong run of profitable quarters, and prove its experience and pedigree was enough to appease the investment tastes of Michael Wekerle's Difference Capital into helping the company grow.

Now, the new-look conglomerate consists of three business units (plus a pending acquisition set for June/July backed by Wekerle's group).

The Enterprise Group is cur-



From left, Enterprise Group founders Desmond O'Kell, vice-president and director; and Leonard Jaroszuk, president, CEO and chairman.

rently riding the success of its two lead subsidiaries: TC Backhoe (and Directional Drilling) and the current flagship Arctic Therm. The former currently brings in the highest amount of revenue for the company, while the latter represents the highest growth potential.

"Arctic Therm has proved to be just a phenomenal opportunity for us and probably our largest growth opportunity," says O'Kell.

"All of our business units have really great growth opportunities in front of them, but none better than Arctic Therm."

Acquired last September, the Arctic Therm division provides the unique service of flameless heating, which greatly helps in the construction phase of new pipelines.

Developed over a decade ago, the technology still carries with it an exclusivity provision that will last Enterprise another seven years. During that period, Enterprise will have plenty of time to continue marketing it at the pace it already has.

Prior to the acquisition, the large-scale heating units were one of the oilpatch's best-kept secrets. Under its previous management as a private

company, Arctic Therm was servicing only a close-knit client list. Enterprise seems to have taken the ball and run with it.

"Before us, Arctic Therm had some significant repeat customers," says O'Kell. "For the last 10 years, Encana and Shell consistently returned to use their large units."

"Since we acquired the company, we've brought on new clients including Enbridge, Suncor, Husky, Imperial Oil and more. Some of these companies have used the units for two to three occasions on different projects this season alone."

Typically, the biggest feat for new technology purveyors is to convince major companies in the marketplace to trust their wares. The process can take years before a big fish will bite.

In the case of Arctic Therm, Enterprise has convinced its clients to give their process a green light within weeks.

For decision-makers, flameless heating is an easy solution to wrap their head around. When they ask for proof of success, the company is quick to provide examples of documents and case studies on several projects.

The implementation of Arctic Therm appears to be sweeping the province. Backed by its current success, a yearning global market awaits.

"With Arctic Therm, we have tremendous global expansion possibilities," says O'Kell. "There is nothing like it in the world that can deliver this kind of dry, breathable, high BTU output heat."

"We're now currently out there applying a full court press on education and marketing of this solution to the broader base engineering firms and oil and gas companies. So far, it's been an easy conversion once we show the performance and results."

As Arctic Therm expands not only its client's pipes, but Enterprise's profitability, it does not solely represent all the company has to offer.

Important lessons learned from 2008 have not been lost, and the company maintains a necessary balance.

Also in the company's arsenal is TC Backhoe and Directional Drilling (a utility build-out operation), which brings the largest amount of revenue. Last year, TC brought in \$15.5 million, and this year should bring on another \$21 to \$22 million. The projection for 2013 is nearly double that, which includes its newest acquisition, a specialized underground infrastructure construction company for \$12 million.

"We're projecting to do about \$42 million this year with the new acquisition starting in June," says O'Kell.

The addition further helps mitigate the seasonality of the company's other divisions. It was through this acquisition that the connection with Wekerle and his team came in.

To help finance the acquisition, Difference Capital saw the potential and offered up \$6 million convertible debenture over a two-year term at only six per cent interest. Wherever Wekerle's money goes, so does the reputation, so for Enterprise this represented a major vote of confidence.

Since the reworking of the company's entire strategy, it appears Enterprise has not only righted the ship, but taken its first steps into another stratosphere. With major pipeline projects such as Enbridge's Northern Gateway, TransCanada's KeystoneXL, and a plethora of approximately 30 more lesser-publicized pipeline projects around the corner, it appears Enterprise will still have a lot to derive from its first love in the oil and gas sector.

"The outlook for the next three to five years for large-diameter pipelines look fantastic," says O'Kell. "There are plenty of opportunities for service providers to get involved and make sure that each task is carried out safely, effectively and profitably."