BABSON COLLEGE FUND

RECOMMENDATION

September 20, 2025
Coverage Initiation Report

Napat Kornsri, BCF Tech Analyst
Zach Breitbard, BCF Tech Analyst
Sloane Zhu, BCF Tech Analyst

The Information Technology team is initiating coverage on ePlus Inc. (NASDAQ: PLUS) with a **BUY** recommendation based on our fundamental outlook and a price target of **$97** derived using both a discounted cash flow (DCF) analysis and a relative valuation analysis.

Investment Summary Highlights

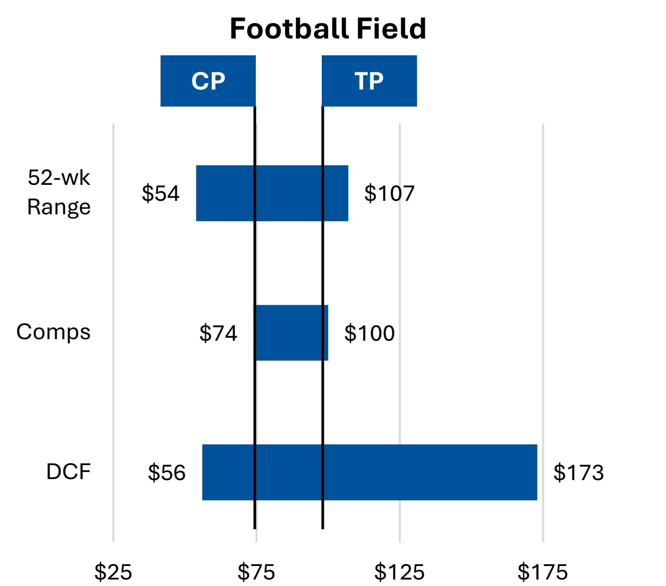
Thesis 1: Margin Expansion from Shift to High-Margin Services Segment Driving Earnings Growth
ePlus is undergoing a clear business mix transformation, reducing reliance on low-margin product sales while expanding high-margin professional and managed services. These services are increasingly subscription-based, with ~92% customer retention, creating more predictable recurring cash flows and reducing earnings volatility. This structural shift positions ePlus for sustained margin expansion and stronger long-term profitability compared to traditional product-heavy peers.

Thesis 2: ePlus's strategic positioning allows them to increase their market share in the IT market through the AI and Data Center tailwind
Management has extended beyond its traditional VAR role to become an AI implementation leader through strategic partnerships and certifications. Its AI Ignite Program and AI Experience Center (with Digital Reality Labs, VA) and exclusive partnerships with NVIDIA make ePlus the only North American partner with both DGX-Ready SuperPOD and DGX-Ready Managed Service Provider specializations. This unique combination of client network, technical infrastructure, and first-mover credibility allows ePlus to capture unmet demand for long-term revenue growth.

Thesis 3: Shareholder Value Creation Through Strategic Capital Deployment
ePlus maintains a debt-free balance sheet and strong working capital discipline. Strategic acquisitions like Bailiwick and Realwave have broadened both product and service offerings. ROIC is projected to rise from 15.8% post-divestiture to 33.6% in 2027, stabilizing near 40%, consistently exceeding the estimated WACC. This margin expansion and service-led growth accelerate EPS from a 0.42% historical CAGR to an 8.29% forward CAGR, underscoring durable shareholder value creation.

VALUATION SUMMARY

	Price	% Weight
DCF	$106	50.0%
Relative Valuation	$87	50.0%
Base Target Price		**$97**
Current Share Price		$74.08
Upside		31%
Consensus Price Target		$92
Different from Consensus		5.1%
Fiscal Year End		3/31/2026
Currency		$
Denomination		Millions
Diluted Shares Outstanding (mn)		27
Total Debt (mn)		$129
Preferred Stock (mn)		$0
Minority Interest (mn)		$0
Cash & Cash Equivalents (mn)		$389
Market Capitalization (mn)		$1,972
Enterprise Value (mn)		$1,583



BABSON COLLEGE FUND

BUSINESS OVERVIEW

Overview

ePlus Inc. is a leading technology solutions provider, founded in Virginia in 1990, specializing in consultative IT services across security, cloud, networking, artificial intelligence, and emerging technologies. In 2025, ePlus sold its domestic financing segment, becoming a pure-play technology services company.

Product Segment

Product sales are rebounding, driven by large enterprise projects and demand for data center modernization and AI-related infrastructure. ePlus is shifting its product mix towards security hardware and software, which now makes up a larger share of gross billings due to rising cybersecurity needs. Although margins are lower than services, this segment provides a critical foundation for the company's integrated solutions.

Professional Services Segment

This segment delivers tailored design, implementation, and project management services central to enterprise IT transformations. Acquisitions of Bailiwick and Realwaves have expanded ePlus's capabilities and market reach, particularly in edge-to-core solutions. Strong growth here reflects increasing customer trust and supports higher-margin revenue streams.

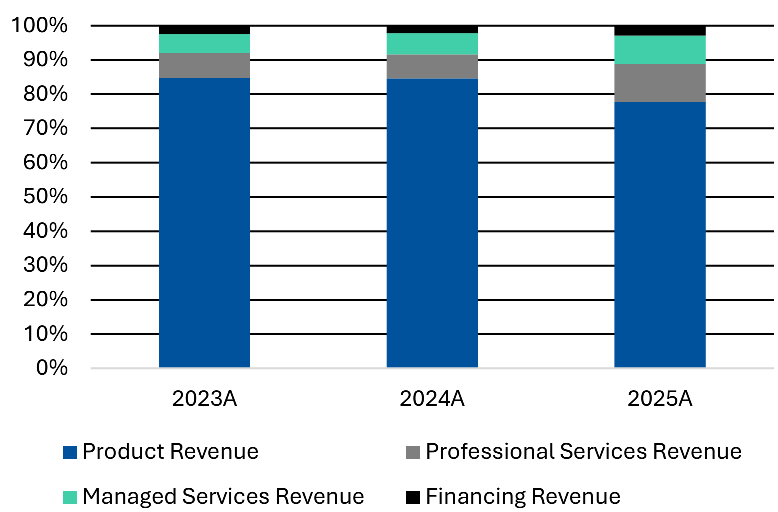
Managed Services Segment

Managed services provide ongoing infrastructure, security, and cloud operations support with growing adoption of subscription models. This recurring revenue stream enhances cash flow stability, predictability, and reduces business cyclicality. The segment's growth is a key driver of ePlus's long-term profitability and shareholder value.

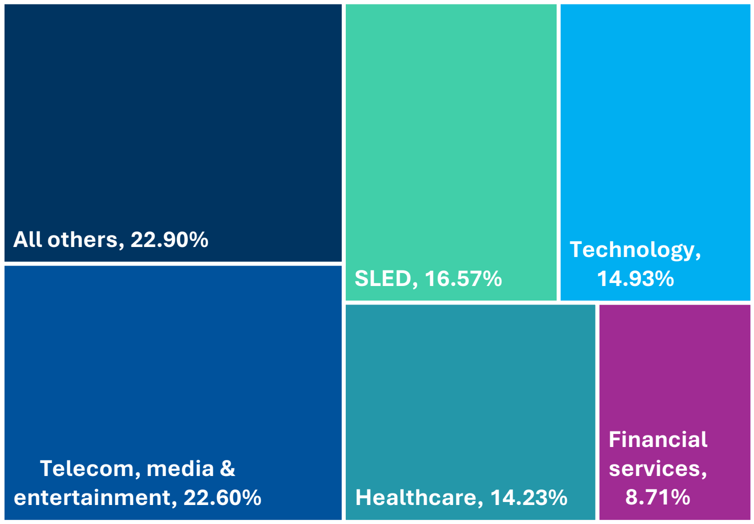
Financial Performance And Strategic Outlook

ePlus delivered a strong Q1 FY2026 with revenue up 19% to $637.3 million and non-GAAP EPS of $1.26, beating estimates by nearly 25%. Growth was driven by increased product sales, particularly in cloud and security, alongside a 49% surge in services revenue, notably boosted by the acquisition of Bailiwick. The company completed the sale of its financing business, strengthening its balance sheet with $480 million in cash, while launching its first quarterly dividend and a share repurchase program. Management raised full-year guidance, expecting upper single-digit net sales and gross profit growth, with adjusted EBITDA growing in the mid-teens.

Business Unit % Revenue



Customer Type % Revenue Contribution



INDUSTRY OVERVIEW

Distributors

ePlus partners with leading global distributors Ingram Micro, Arrow Electronics, and TD Synnex, leveraging their extensive product portfolios and logistics networks to efficiently deliver IT solutions. These partnerships support ePlus's ability to scale cloud, security, and data center services while providing supply chain resilience and technical expertise that enhance its multi-vendor consulting and managed services.

Competitors

The competitive landscape for ePlus includes several key IT solutions providers. CDW Corporation leads as the largest North American IT hardware and solutions distributor with dominant market share. Insight Enterprises, valued at around $4 billion, holds a strong mid-tier global presence specializing in cloud, cybersecurity, and digital innovation. Private firms like SHI International and Worldwide Technology are major integrators offering broad managed services and enterprise IT solutions, while Trace3 focuses on cloud and security with a growing market footprint.

Vendors

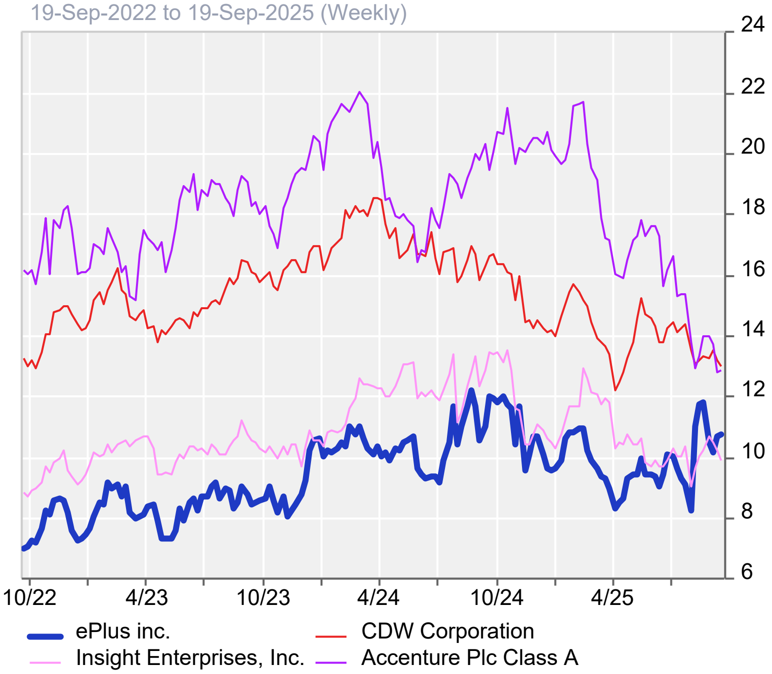
ePlus's vendor mix reflects strong alignment with leading IT providers, notably Cisco, Dell EMC, HP/HPE, and Arista Networks, which anchor its sales in networking, servers, and enterprise infrastructure. Partnerships with Juniper Networks and NetApp further diversify offerings across storage and security. By spanning multiple top-tier vendors, ePlus reduces reliance on any single supplier and enhances its ability to deliver multi-vendor, integrated solutions. Exposure to Arista and Dell positions it well in high-growth areas like AI servers and cloud networking. Overall, the mix balances stability with access to innovation, reinforcing ePlus's role as a trusted enterprise technology solutions partner.

End Markets

ePlus's end-market exposure is well diversified, with the largest share in Telecom, Media & Entertainment, reflecting strong demand for networking and cloud infrastructure. SLED provides stable revenue tied to government and education budgets, while Technology aligns with high-growth areas like AI, cloud, and SaaS.
Healthcare contributes steady demand driven by compliance and data security, and Financial Services adds resilience with needs for secure, low-latency IT infrastructure. The remaining ~23% is spread across other industries, giving ePlus a balanced mix of growth-oriented and defensive sectors that support long-term revenue stability and expansion.

Enterprise Value to EBIT - NTM

19-Sep-2022 to 19-Sep-2025 (Weekly)



Source: FactSet Fundamentals

THESIS 1

Margin Expansion from Shift to High-Margin Services Driving Earnings Growth

Distributors	VARs	IT Solutions	Services
7 – 13% GM	18 – 22% GM	24 – 26% GM	30 – 33% GM
Arrow, TD SYNNEX, scansource, AVNET	Insight, CDW, Connection we solve IT	e+	accenture

Distribution Focused ⟷ Service Oriented

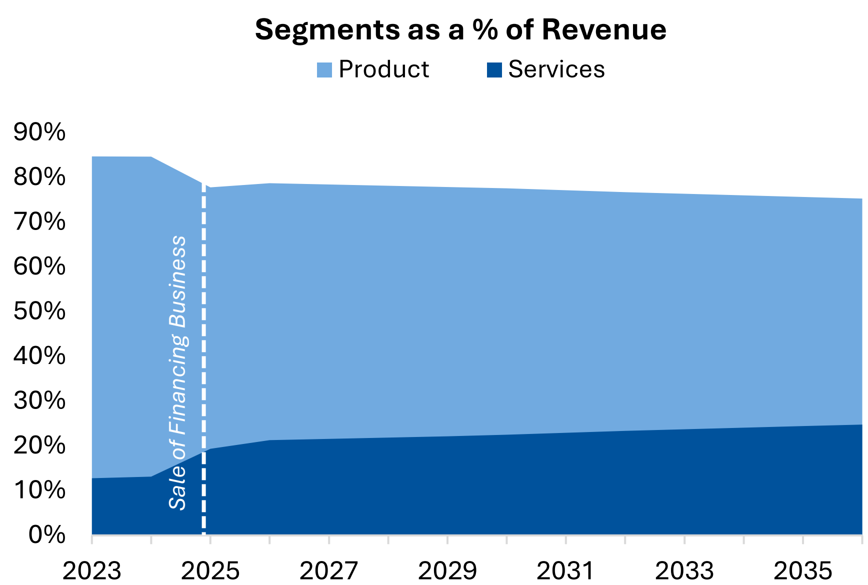
Over the past two years, ePlus' product revenue share has declined from 85% to 76%, before recently bouncing back to 81% as the company transitions its professional and managed services to subscription-based contracts. We expect the decline in product contribution to resume as the company continues to focus on shifting more into service-based revenue segments with gross margins historically averaging 35% versus product gross margins of 20%, enabling ePlus to capture margin expansion. Our team's forecast shows that by 2036, services revenue makeup will be 25% (up from 13% in 2023), contributing to a total consistent increase in gross margin of roughly 200bps.

Additionally, the divestiture of its financing arm makes the business a pure-play technology company, which will further streamline operations, improve efficiency, and lead to margin expansion. This combined with acquisitions will contribute to SG&A improvements over the next ten years, leads to our EPS CAGR projection of an 10% through 5 years, and 8% through 10 years.

Narrative To Numbers

With annual revenue higher than ePlus's current market capitalization, we believe the company remains undervalued with the position it is in to increase margins.

> *"Over time, services is really where we want to be… if you lead with services, the product side will come with it." – Mark Marron, CEO*

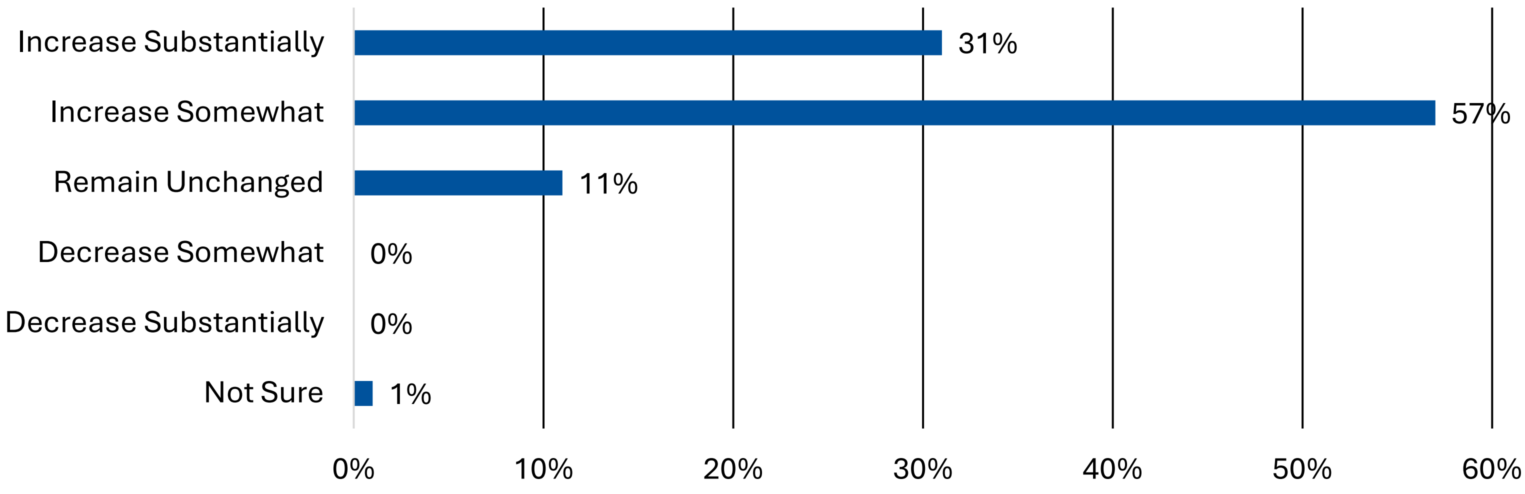


THESIS 2

ePlus' Strategic Positioning Allows them to Increase their Market Share in the IT Market Through the AI and Data Center Tailwind

Artificial Intelligence (AI) becomes more accessible the businesses have looked to integrate it within systems, ePlus looks to capture the AI market by positioning themselves as IT solutions leaders and service providers. Over the past few quarters, ePlus have positioned themselves to ride the rising tide of AI, firstly, selling off their financing business to become a pure play technology company, shifting away from the Value-added Reseller (VaR) business model to become a pure play technology solutions provider. Secondly, getting certified to become industry leaders in data center implementation and management. ePlus has done this by partnering with NVIDIA to become the only vendor with NVIDIA Ready-DGX Super POD and the Ready-DGX Managed Service Provider specialization in North America. Finally providing a tangible experience for clients to see how they can implement AI into their businesses via their AI experience center in VA and their AI Ignite program. This internal restructuring and shift toward a more services-oriented model combined with its established hardware verticals, position the company to capture AI investment from clients starting at ideation and continuing through implementation and ongoing management. With this expansion of service offerings ePlus differentiates themselves from competitors such as CDW, Insight and Connection in the VaR segment to allow them to take market share from the VaR segment and gain market share from their competitors in the IT solutions space.

RSM Survey: How Respondents Expect their AI budgets to Change



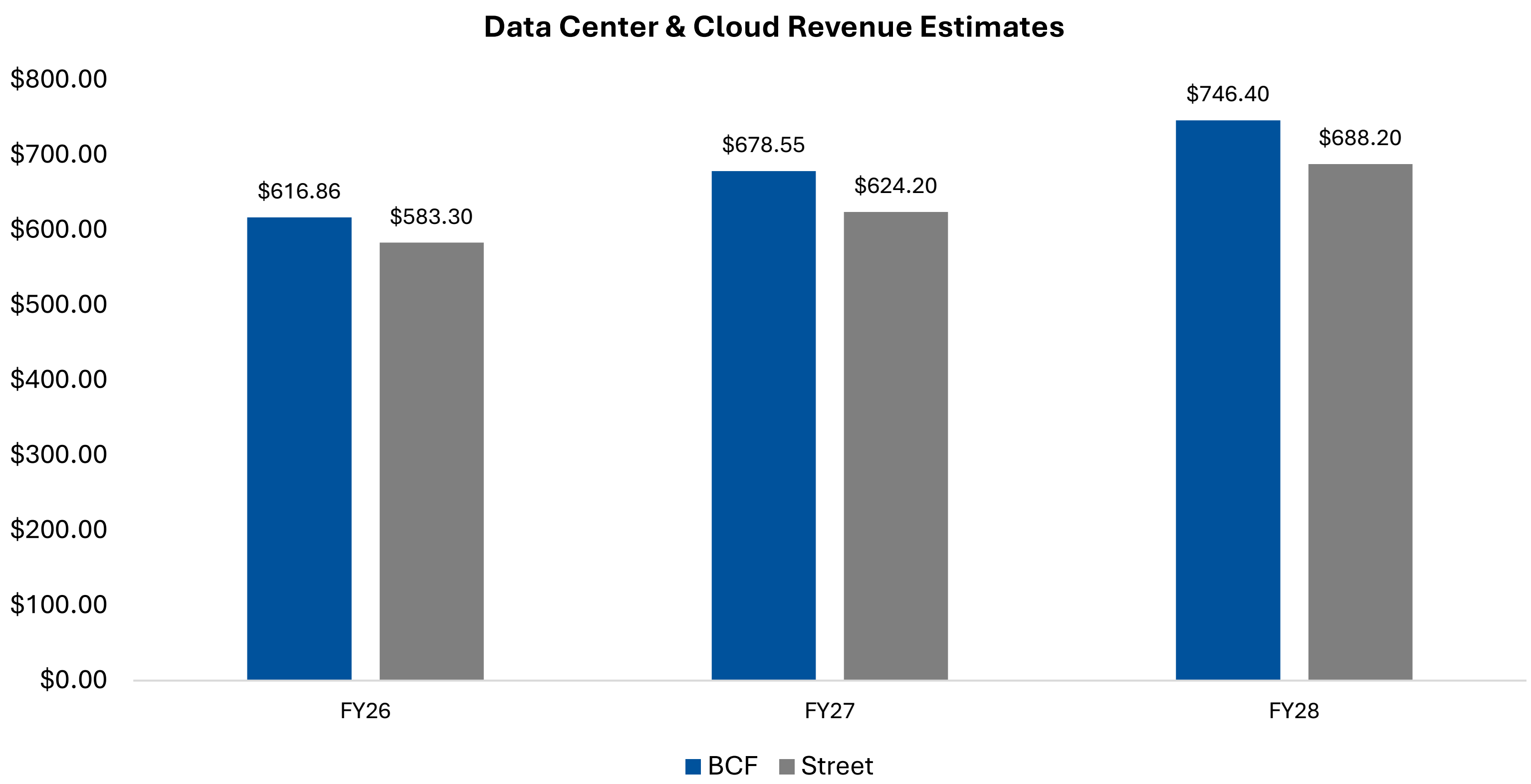
When researching the demand for AI in mid-market businesses, an RSM report (~970 respondents across US and CA) found that adoption of AI has surged to 91%, up from 77% last year with 88% of AI budgets expected to increase. but only 53% of businesses surveyed reported that they were only "somewhat prepared to adopt and implement generative AI". The top reasons for unpreparedness were attributed to lack of-in-house expertise (~39%) and an absence of a clear AI strategy (~34%), problems that ePlus have solutions to. As a result, we believe that more businesses will have to look for experts for help verifying the strategic shift that ePlus made and providing them with more clients for their services segment.

THESIS 2 (CONT.)

ePlus' Strategic Positioning Allows them to Increase their Market Share in the IT Market Through the AI and Data Center Tailwind

Primary Research

From our conversation with CEO Mark Marron, he reiterated the AI tailwind presents a "crazy opportunity" for growth at ePlus and he sees that taking shape in the enterprise adoption of AI at the mid-market level. Mr. Marron spoke about how hyperscalers are the ones spending big on AI now, but mid-market companies are starting to get into the "curious phase" about what AI can do for their businesses. When further asked about why he believed that there was traction for mid-market companies to implement AI, Mr. Marron explained how implementation takes years of planning and although there may be no applicable use for AI in their businesses now, management teams are starting to lay the groundwork for their businesses by investing in AI infrastructure (data centers, servers, etc.) as well as explore potential use cases with experts that provide offerings like the AI experience center.



Narrative To Numbers

We have higher revenue projections for the Data Center & Cloud segments in comparison to the street. For services to grow hand in hand steadily at ~8% over the next few years after an high growth in FY25 and FY26. Our view is driven by our conversation with CEO of ePlus as well as secondary research on demand for AI implementation in mid-market companies.

THESIS 3

Shareholder Value Creation Through Strategic Capital Deployment

Balance Sheet Strength
With no debt and the highest cash balance, ePlus has a competitive edge peers with higher leverage cannot easily match. The company initiated its first-ever dividend, signaling confidence in long-term cash generation.

Divestiture On Financial Services Segment
ePlus's divestiture eliminates a high-margin earnings stream (60% GM) and financing-driven cross-sell advantages, the trade-off improves strategic clarity. The move reduces credit risk, balance sheet leverage, and capital intensity, positioning ePlus as a pure-play IT services provider.. Importantly, ePlus completed the transaction with no debt, giving it a clean balance sheet and greater flexibility for future growth.

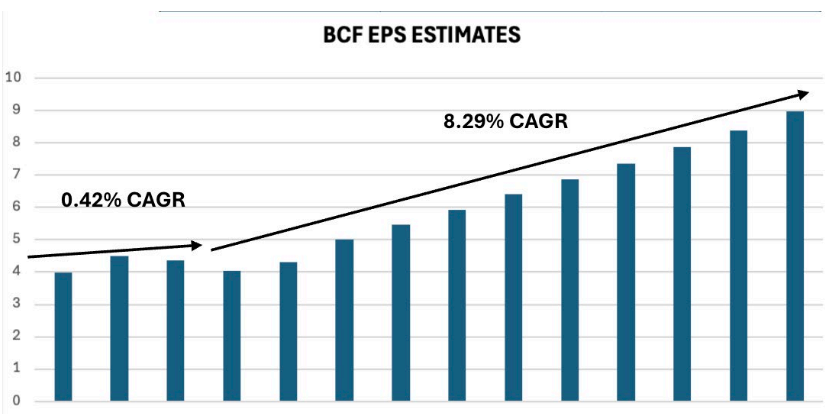
Cash / Total Assets Ratio	**20.7%**	**DSO**	**-12 days**
Current Ratio	**2.08**	**DPO**	**+41 days**

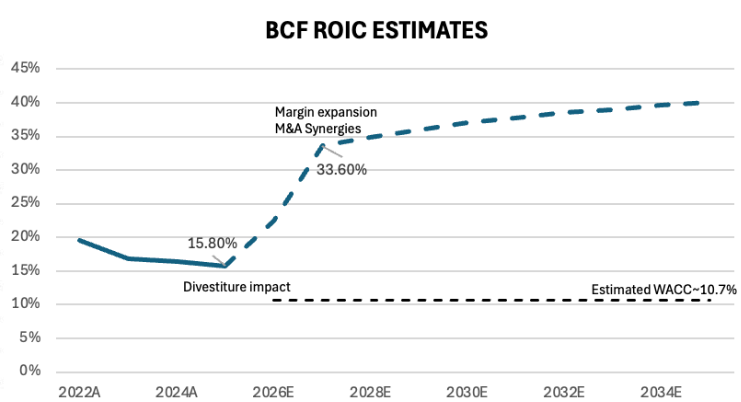
Acquisition of Bailiwick (August 19th, 2024)

Bailiwick, founded in 1995, strengthens ePlus by broadening its product portfolio with physical security, AV/digital signage, kiosks, and edge computing. It also expands service capabilities through nationwide field deployment, project management, and 24/7 help desk support, giving ePlus greater access to mid-market clients across retail, hospitality, financial services, and restaurants.

Acquisition of Realwave (September 10th,2025)

Realwave, founded in 2008, provides an AI-driven platform that integrates video, IoT, POS, and digital systems to deliver real-time analytics, event detection, and process automation. It enhances ePlus's managed services with intelligent automation and expands customer reach into retail, healthcare, transportation, campus, and emerging smart environments.





"We'll keep building capabilities internally and selectively pursuing inorganic growth — there are still plenty of white spaces in the market and specialized expertise we can add to strengthen our position." *— Mark Marron, CEO*

Narrative To Numbers
High ROIC, strong EPS growth, and balance sheet strength make ePlus a compelling stock.

VALUATION SUMMARY

ePlus' current share price of $74 is undervalued based on our intrinsic value estimate. Our team relied on an equally weighted split of our DCF valuation and relative valuation, yielding a price target of $97 Given our fundamental analysis, we forecast revenue growth of 6.8% CAGR over the next 5 years, EBITDA margins of 8.3%, and used a discount rate of 10.7% to derive a DCF target price of $106, backed only by the Perpetual Growth Method. We decided not to use an EV/EBITDA exit multiple as we find it easier to evaluate the business off forecasting growth relative to the story, rather than pinpointing an evaluation ten-years out.

Our relative valuation was conducted using an NTM P/E of ~17x and an NTM EV/EBITDA of ~9x on our comps. We found that the P/E multiple is in line with peers, while the EV/EBITDA multiple is below peers. This affirms our belief that future value in the near to mid term will be driven by earnings growth, not by multiple expansion. The relative valuation yielded a price target of $87, complementing our DCF valuation and reinforcing our BUY recommendation for ePlus.

Ticker	Company	NTM EV/EBITDA	NTM EV/Revenue	NTM P/E	NTM EV/FCF	Industry
PLUS	**ePlus inc.**	**9.1x**	**0.7x**	**18.1x**	**17.2x**	IT Solutions
CDW	CDW Corporation	12.9x	1.2x	16.5x	23.5x	VAR
DXC	DXC Technology Co.	3.2x	0.5x	4.5x	9.4x	Services integrator
SNX	TD SYNNEX Corporation	8.8x	0.3x	12.3x	14.3x	Distributor
ACN	Accenture Plc Class A	12.4x	2.4x	18.6x	17.5x	Services integrator
CNXN	PC Connection, Inc.	10.0x	0.4x	17.9x	13.3x	VAR
NSIT	Insight Enterprises, Inc.	9.5x	0.6x	12.2x	26.7x	VAR
BYIT-GB	Bytes Technology Group Plc	12.2x	3.8x	17.6x	14.9x	IT Solutions
Median		9.7x	0.6x	17.1x	16.0x	

Perpetual Growth Rate	3.0%
EV/EBITDA Exit Multiple	10.0x
WACC	10.7%
Latest Closing Price	$74.1
Latest Closing Price Date	9/20/2025
Current Fiscal Ending Date	3/31/2026
Stub Period	0.53

Final DCF Price Target

	Weight	Price
Perpetual Growth Method	100.0%	$106
Exit Multiple Method	0.0%	$109
DCF Target Price		**$106**
Current Price		$74
Upside		43.6%

Perpetual Growth Method

PV of Forecast Period	$1,241
Terminal Year FCFF	$260
Terminal Value	$3,481
PV of Terminal Value	$1,322
Implied EV	$2,563
Less: Debt	($129)
Less: Preferred Stock	$0
Less: Minority Interest	$0
Plus: Cash & Cash Equivalents	$389
Implied Equity Value	$2,823
Diluted Shares Outstanding	26.5
Implied Share Price	**$106**
Current Share Price	$74
Upside	**43.6%**
Implied Exit EBITDA Multiple	9.4x
IRR	18.3%

Base Case Multiples

Multiple	EV/EBITDA	NTM P/E
Multiple Weight	50%	50%
Percentile Applied	70th Percentile	70th Percentile
Industry Multiple	12.0x	17.1x
Company Metric	$186	$109
Enterprise Value	$2,231	$1,864
Cash	$389	$389
Debt and Minority Int.	$129	$129
Equity Value	$2,491	$2,124
Shares Outstanding	26.5	26.5
Implied Stock Price	**$94**	**$80**
Current Stock Price	$74	$74
Upside	26.8%	8.1%

Percentile Applied	70th Percentile	50th Percentile
Fair Value	**$87**	
Upside	17.4%	

CATALYSTS

IT Spending Growth
Industry IT spending is projected to at 7.9% annually, driven by digital transformation, AI adoption, and modernization of infrastructure. Investment into specifically AI infrastructure have opened the wallets of many businesses as they race to implement AI into their workflow and products. ePlus is well positioned to capture this increased appetite due to their wide portfolio of product and service offerings.

M&A Activity and Geographic Expansion
Recent tuck-in acquisitions like Bailiwick and Realwave enhance ePlus's scale and capabilities, while geographic expansion strengthens nationwide deployment capacity and opens new markets. These moves accelerate entry into underserved horizontals and reinforce end-to-end offerings.

Cyber Security & Cloud Services Growth
Demand for cybersecurity and cloud solutions continues to outpace overall IT growth, with enterprises prioritizing resilience and compliance. ePlus's strong vendor partnerships and growing managed services pipeline provide leverage to expand in these higher-margin categories.

FY26 Q2 Earnings Call
Management is expected to highlight continued service revenue growth, margin expansion from a higher recurring mix, and progress integrating recent acquisitions. Other notable items to look for are the gross billings and product revenue. The call will likely reinforce ePlus's strategy of focusing on asset-light, high-growth solutions while maintaining balance sheet flexibility with no debt.

RISKS

Customer IT Budget Cyclicality
ePlus's performance will remain sensitive to enterprise and public sector IT budgets, which can fluctuate with macroeconomic cycles and delay large-scale projects or refresh cycles.

Transition Risk
Transitioning to service-focused model when the business's core source of revenue is still within the product segment may deem more challenging than anticipated to shift focus to.

Competitive Pressure
The IT solutions market is highly competitive, with larger peers like CDW and Insight exerting pricing pressure and offering broader financing options, potentially limiting ePlus's ability to win or expand accounts. On the other side, competition from legacy IT services company like Accenture can pose a threat to expanding ePlus' business to this new segment.

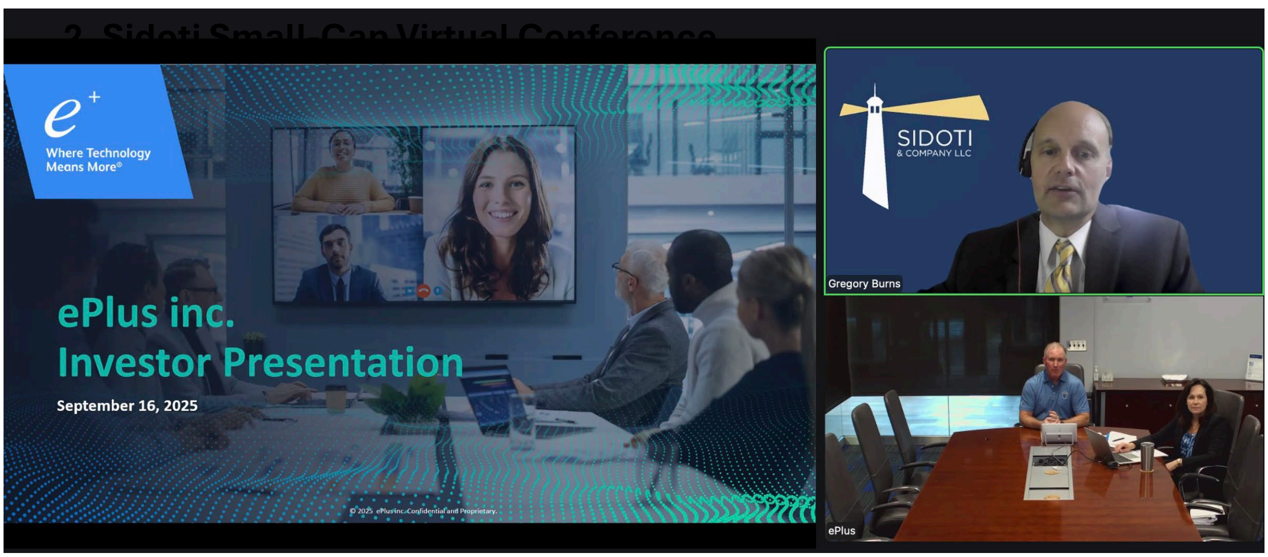
M&A Execution Risk
Successful integration of acquisitions like Bailiwick and Realwave are critical; missteps in blending systems, talent, or culture could erode expected synergies and slow the shift toward higher-margin, end-to-end offerings.

PRIMARY RESEARCH

1. Call with Mark Marron: Director, President, CEO of ePlus Inc.

Mark Marron has served as President and CEO of ePlus Inc. since August 2016 and was appointed to the company's Board of Directors on November 14, 2018. Under his leadership, ePlus has sharpened its focus on technology solutions and services.

2. Sidoti Small-Cap Virtual Conference



3. Call with Ellie Dyke, William Blair Equity Research Associate

Ellie sits as an associate on the IT Equity Research team at William Blair, which is one of two sell-side firms that cover ePlus.

THANK YOU

Appendix

BCF Information Technology Team

DISCLOSURES

Babson College Fund

The Babson College Fund (BCF) is an academic program in which selected students manage a portion of the Babson College endowment. The program seeks to provide a rich educational experience through the development of investment research skills and the acquisition of equity analysis and portfolio management experience.

Definition of Ratings

BUY: Expected to outperform the S&P 500 producing above average returns.
HOLD: Expected to perform in line with the S&P 500 producing average returns.
SELL: Expected to underperform the S&P 500 producing below average returns.

Analyst Contact Information

Napat Kornsri
nkornsri1@babson.edu
Zach Breitbard
zbreitbard1@babson.edu
Sloane Zhu
wzhu4@babson.edu

Sources

ePlus Inc. Investor Relations
SEC Filings
FactSet
Capital IQ
Bloomberg
Gartner
AlphaSense
ePlus CEO Mark Marron
William Blair
Sidoti Investor Conference
RSM Middle Market AI Survey 2025: U.S. and Canada

MANAGEMENT

Mark Marrion: Director, President, CEO of ePlus Inc.

Mark Marron has served as President and CEO of ePlus Inc. since August 2016 and was appointed to the company's Board of Directors on November 14, 2018. Under his leadership, ePlus has sharpened its focus on technology solutions and services. Previously, he joined ePlus in 2005 and held various senior leadership roles. Prior to ePlus, he served as Senior Vice President of Worldwide Sales and Services at NetIQ and as General Manager of Worldwide Channel Sales for Computer Associates International. He holds a Bachelor of Science degree in Computer Science from Montclair State University.

Elaine Marion: Chief Financial Officer

Elaine Marion has served as Chief Financial Officer of ePlus Inc. since September 1, 2008, and also holds the roles of Principal Accounting Officer, Vice President of Accounting, and Controller of ePlus Technology, Inc. She began her career at ePlus in 1998 as a subsidiary-level Controller, later becoming Vice President of Accounting before assuming her current role. Elaine earned a Bachelor of Science in Accounting from George Mason University

Darren Raiguel: COO and President of ePlus Technologies Inc.

Darren Raiguel has served as Chief Operating Officer of ePlus Inc. and President of ePlus Technology, Inc. since May 2018, following more than 20 years with the company. In this capacity, he oversees operations and technology services. Darren began his career at ePlus in 1997 as an account executive and progressed through various leadership and management roles, particularly in the public sector business. He holds a Bachelor's degree in Marketing and Finance from Temple University.

Doug King: Chief Financial Officer

Doug King joined ePlus Inc. in July 2018 as Chief Information Officer, where he is responsible for delivering reliable, agile, and optimized IT systems and infrastructure. He previously served as Senior Vice President of Administration and Chief Information Officer at Landauer, Inc., among other senior-level roles in technology leadership. Doug holds an undergraduate degree from Northwestern University and an MBA from the Kellogg School of Management at Northwestern University.