



Arrow Financial Corporation (AROW)

Updated June 4th, 2019 by Nick McCullum

Key Metrics

Current Price:	\$33	5 Year CAGR Estimate:	8.5%	Volatility Percentile:	43.6%
Fair Value Price:	\$32	5 Year Growth Estimate:	6.0%	Momentum Percentile:	34.4%
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-0.7%	Growth Percentile:	52.6%
Dividend Yield:	3.2%	5 Year Price Target	\$43	Valuation Percentile:	46.4%
Dividend Risk Score:	A	Retirement Suitability Score:	A	Total Return Percentile:	42.7%

Overview & Current Events

Arrow Financial Corporation is a multi-bank holding company based in Glen Falls, New York. The company operates through two main subsidiary banks: the Glens Falls National Bank and Trust Company, and the Saratoga National Bank and Trust Company. Arrow Financial Corporation is also the parent company of North Contry Investment Advisers and Update Agency, an insurance agency. The company is sized well into the small-cap spectrum with a market capitalization of just \$475 million. Arrow Financial has increased its dividend for 25 consecutive years and is a member of the Dividend Champions list.

In late April, Arrow Financial reported (4/23/19) financial results for the first quarter of fiscal 2019. The bank's performance was very strong. In the quarter, Arrow Financial Corporation saw total loan growth of 12.2%, with the end-of-quarter loan balance totaling \$2.2 billion. The consumer loan portfolio grew by \$120.2 million, or 19.2% year-on-year, driven primarily by strength in the indirect automobile lending program. Residential real estate loans increased by 10.0% while total commercial loans grew by 7.5%.

On the deposit side, Arrow Financial Corporation results were not quite as strong. Total deposits increased by 3.3%, while non-interest-bearing deposits represented 18.2% of total deposits at the end of the quarter.

On the income statement, net interest income increased by 3.5%, while net interest margin contracted considerably. More specifically, the bank saw net interest margin fall from 3.13% last year to 3.01% this year. The decrease in net interest margin was primarily due to increased rates on money market savings, time deposits and other borrowings as a result of significantly higher short-term interest rates.

On the bottom line, Arrow Financial Corporation's diluted earnings-per-share rose by a penny to \$0.60 from \$0.59 last year. This earnings-per-share growth reflects modest growth in company-wide net income, partially offset by a ballooning share count. Last year marked the 10th consecutive year in which Arrow Financial Corporation paid a 3% stock dividend, a practice which we view as absurd.

Earlier this year, Arrow Financial Corporation authorized (1/30/19) a new \$5 million share repurchase authorization, which represents about 1% of the company's current market capitalization. The stock buyback program is to be implemented at management's discretion and concludes on December 31st, 2019.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.45	\$1.59	\$1.73	\$1.59	\$1.56	\$1.66	\$1.75	\$1.86	\$2.04	\$2.50	\$2.65	\$3.55
DPS	\$0.76	\$0.80	\$0.83	\$0.85	\$0.87	\$0.88	\$0.90	\$0.92	\$0.95	\$1.00	\$1.03	\$1.50
BVPS	\$10.28	\$10.97	\$11.84	\$12.50	\$13.58	\$14.28	\$15.07	\$16.26	\$17.38	\$18.62	\$19.75	\$26.50
Shares	13.7	13.8	13.9	13.9	14.0	14.1	14.1	14.3	14.4	14.5	14.6	15.0

Arrow Financial Corporation has compounded its diluted earnings-per-share at a rate of 5.6% per year over the last decade. Its per-share book value has grown at a similar rate, expanding at 6.1% per year over the last decade. While we note that the company's per-share financial performance would have been significantly better if it were not for the annual stock dividend, it is important to recognize that management does not seem to have any plans to discontinue

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Arrow Financial Corporation (AROW)

Updated June 4th, 2019 by Nick McCullum

this dividend policy in the near future. Separately, the factors that have contributed to Arrow Financial’s historical growth record remain largely intact. With that in mind, we believe that the company is set to continue growing at a rate of around 6% per year for the foreseeable future.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	14.1	14.3	13.0	13.4	14.1	14.5	14.3	15.7	17.2	15.5	12.4	12.0
Avg. Yld.	3.4%	3.6%	4.0%	4.0%	3.9%	3.8%	3.7%	3.3%	2.9%	2.8%	3.2%	5.3%

Arrow Financial Corporation has traded at an average price-to-earnings ratio of approximately 14.6 over the last decade. We view this valuation as a bit rich relative to its peers in the financial sector. Instead, fair value for a small-cap regional bank like Arrow Financial likely lies somewhere around 12 times earnings. Using the company’s current stock price and our 2019 earnings-per-share estimate of \$2.65, Arrow Financial Corporation is trading at a current price-to-earnings ratio of 12.4. If the company’s earnings multiple contracts to 12 over the next 5 years, this will reduce the company’s total returns by 0.7% per year during this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

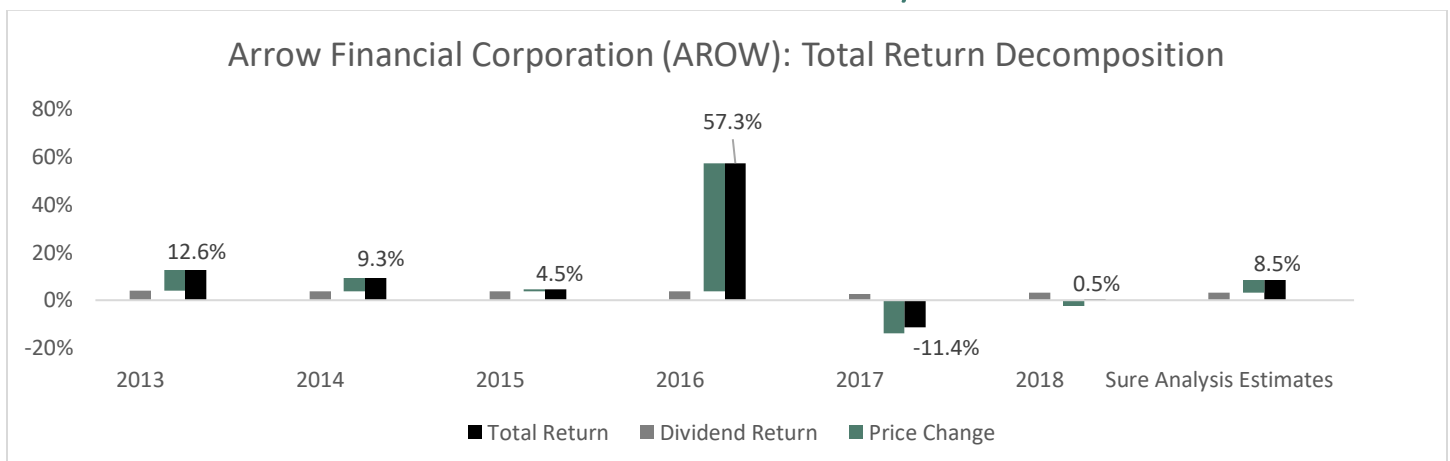
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	52.4%	50.3%	48.0%	53.5%	55.8%	53.0%	51.4%	49.5%	46.6%	40.0%	38.9%	42.3%

As a small-cap regional bank, Arrow Financial Corporation’s only potential competitive advantage is the willingness to pursue small markets where its larger peers (such as Wells Fargo or Bank of America) have no interest in operating. While this advantage may seem slim, something is clearly working – the company is one of few to have increased its dividend for 25 consecutive years. Arrow Financial is also very recession resistant. Its earnings-per-share declined by just 5% during the 2007-2009 financial crisis while many other financial institutions were going out of business.

Final Thoughts & Recommendation

Arrow Financial Corporation seems capable of delivering total returns in the high single-digits at current prices, comprised of its dividend yield (3.2%), earnings growth (6%), and modest valuation compression (around -1%). While this would be sufficient to earn a buy recommendation for certain companies, this company is small, illiquid, and its management team has a bad habit of paying an annual stock dividend. With these factors in mind, Arrow Financial Corporation earns a hold recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Arrow Financial Corporation (AROW)

Updated June 4th, 2019 by Nick McCullum

Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	77	80	84	85	84	89	94	99	105	113
SG&A Exp.	27	30	39	33	32	32	42	44	47	49
D&A Exp.	3	4	7	9	9	7	6	6	5	5
Net Profit	22	22	22	22	22	23	25	27	29	36
Net Margin	28.2%	27.2%	26.1%	26.2%	25.9%	26.1%	26.2%	26.7%	27.9%	32.1%
Free Cash Flow	16	9	31	24	34	29	27	33	35	37
Income Tax	10	10	10	10	9	10	11	11	11	9

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	1842	1908	1963	2023	2164	2217	2446	2605	2760	2988
Cash & Equivalents	67	31	44	49	50	46	51	57	73	84
Accounts Receivable	7	7	6							
Goodwill & Int. Ass.	17	17	34	26	26	26	25	25	24	24
Total Liabilities	1701	1756	1796	1847	1972	2016	2232	2372	2511	2719
Accounts Payable	2	2	1							
Long-Term Debt	162	152	128	92	105	90	157	198	180	299
Shareholder's Equity	141	152	166	176	192	201	214	233	250	270
D/E Ratio	1.15	1.00	0.77	0.52	0.55	0.45	0.73	0.85	0.72	1.11

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	1.2%	1.2%	1.1%	1.1%	1.0%	1.1%	1.1%	1.1%	1.1%	1.3%
Return on Equity	16.3%	14.9%	13.8%	13.0%	11.8%	11.9%	11.9%	11.9%	12.2%	14.0%
ROIC	7.2%	7.2%	7.3%	7.9%	7.7%	7.9%	7.4%	6.6%	6.8%	7.3%
Shares Out.	13.7	13.8	13.9	13.9	14.0	14.1	14.1	14.3	14.4	14.5
Revenue/Share	5.63	5.84	6.05	6.07	6.01	6.35	6.65	6.95	7.31	7.80
FCF/Share	1.20	0.66	2.21	1.75	2.46	2.07	1.93	2.33	2.45	2.55

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.