



Arrow Financial Corporation (AROW)

Updated February 7th, 2023, by Josh Arnold

Key Metrics

Current Price:	\$32	5 Year CAGR Estimate:	9.3%	Market Cap:	\$523 M
Fair Value Price:	\$35	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	02/28/23 ¹
% Fair Value:	92%	5 Year Valuation Multiple Estimate:	1.6%	Dividend Payment Date:	03/15/23
Dividend Yield:	3.4%	5 Year Price Target	\$44	Years Of Dividend Growth:	27
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Hold

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 Country Investment Advisers and Update Agency, an insurance agency. The company is a small cap with a market capitalization of just \$523 million, and it produces just over \$150 million in annual revenue. Arrow Financial has increased its dividend for 27 consecutive years and is a member of the Dividend Champions list, as it is too small to be considered a Dividend Aristocrat.

Arrow reported fourth quarter and full-year earnings on January 30th, 2023, and results were quite weak, missing estimates on both the top and bottom lines. Earnings-per-share came to 73 cents, but that missed estimates by seven cents. Revenue was \$37.7 million, up 8.5% year-over-year, but missing expectations by \$1.3 million.

Net income for the year was \$48.8 million, a decline of \$1.1 million, or just over 2%, compared to 2021. Earnings-per-share rose in Q4 from 62 cents to 73 cents year-over-year.

Net interest margin for the year was 3.03%. Total assets were nearly \$4 billion at the end of 2022. Total loans were \$2.98 billion, and total deposits were \$3.5 billion. That puts the bank's loan-to-deposit ratio among the highest in our coverage universe, as that leaves Arrow with little room for loan growth.

Book value ended the year at \$21.36 per share, down about 5% year-over-year, which was the result of unrealized losses in the bank's available-for-sale portfolio, which in turn was driven by higher interest rates.

We start 2023 with an estimate of \$3.15 in earnings-per-share.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.19	\$1.31	\$1.44	\$1.58	\$1.80	\$2.28	\$2.35	\$2.56	\$3.10	\$2.95	\$3.15	\$4.02
DPS	\$0.66	\$0.70	\$0.74	\$0.78	\$0.84	\$0.91	\$0.97	\$0.99	\$1.01	\$1.08	\$1.08	\$1.19
Shares²	14.0	14.1	14.1	14.3	14.4	14.5	15.0	15.5	16.0	16.6	17.0	19.0

Arrow Financial Corporation has compounded its diluted earnings-per-share at a rate of ~10% per year over the last decade. Its per-share book value has grown at a similar rate, expanding at ~8% per year over the last decade. While we note that the company's per-share financial performance could have been significantly better if it were not for the 3% annual stock dividend, it is important to recognize that management does not seem to have any plans to discontinue this policy. Given this, we forecast 5% annual earnings growth for the foreseeable future. Already high loan-to-deposit leverage will make it more challenging to grow the loan book and thus, we think Arrow has an uphill battle in front of it for earnings-per-share growth. We note that this ratio declined in 2020 on strong deposit growth, and while Arrow is well-managed, growing from projected 2023 earnings will likely prove somewhat difficult.

¹ Estimated date

² Share count in millions

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 February 7th, 2023, by Josh Arnold

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	14.1	14.5	14.3	15.7	17.2	15.5	13.3	11.5	11.3	11.5	10.2	11.0
Avg. Yld.	3.9%	3.8%	3.7%	3.3%	2.9%	2.8%	3.1%	3.4%	2.9%	3.2%	3.4%	2.7%

Arrow Financial Corporation has traded at an average price-to-earnings ratio of more than 13 over the last decade. We view this valuation as a bit rich relative to its peers in the financial sector. Instead, we peg fair value for a small-cap regional bank like Arrow Financial around 11 times earnings. Using the company's current stock price and our 2023 earnings-per-share estimate of \$3.15, Arrow Financial Corporation is trading at a current price-to-earnings ratio of 10.2. If the company's earnings multiple declines to 11 over the next 5 years, this will reduce total returns slightly.

Safety, Quality, Competitive Advantage, & Recession Resiliency

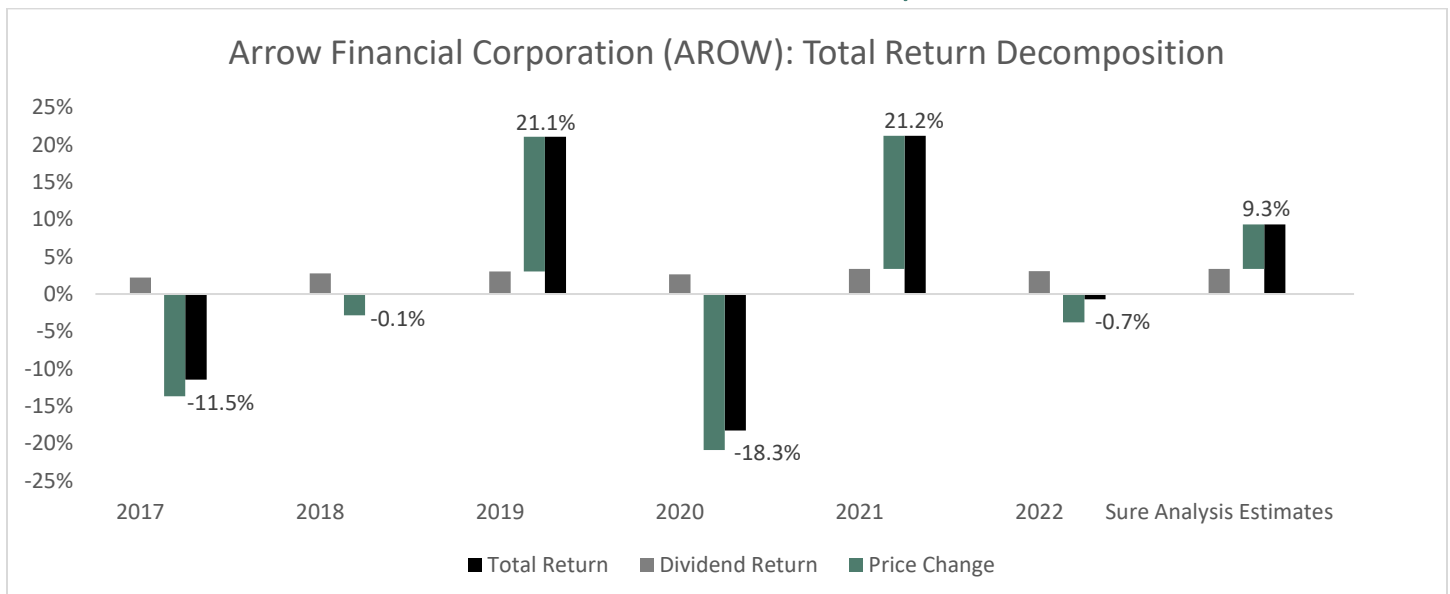
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	56%	53%	51%	50%	47%	40%	41%	39%	33%	37%	34%	30%

As a small-cap regional bank, Arrow Financial Corporation's only potential competitive advantage is the willingness to pursue small markets where its larger competitors (such as Wells Fargo or Bank of America) have no interest in operating. While this advantage may seem slim, it is clearly working – the company is one of few banks to have increased its dividend for 27 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 could deliver 9.3% total returns to shareholders over the next five years. The 3.4% dividend yield, 5% earnings growth, and a 1.6% valuation headwind combine to create respectable prospective total returns for potential shareholders. This company is small, illiquid, and offers investors mid-single digit annual total return potential. The total return outlook is up somewhat from our last update, and we retain our hold rating. We note the dividend should rise for many years to come.

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 February 7th, 2023, by Josh Arnold

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	84	89	94	99	105	113	117	132	147	149
SG&A Exp.	32	32	42	44	41	43	42	46	49	48
D&A Exp.	9	7	6	6	5	5	6	7	8	---
Net Profit	22	23	25	27	29	36	37	41	50	49
Net Margin	25.9%	26.1%	26.2%	26.7%	27.9%	32.1%	32.1%	31.0%	34.0%	32.9%
Free Cash Flow	34	29	27	33	35	37	36	37	61	---
Income Tax	9	10	11	11	11	9	10	11	15	14

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	2164	2217	2446	2605	2760	2988	3184	3689	4028	3970
Cash & Equivalents	50	46	51	57	73	84	70	381	458	65
Goodwill & Int. Ass.	26	26	25	25	24	24	24	24	24	23
Total Liabilities	1972	2016	2232	2372	2511	2719	2883	3354	3657	3616
Long-Term Debt	105	90	157	198	180	299	180	65	65	75
Shareholder's Equity	192	201	214	233	250	270	302	334	371	354
LTD/E Ratio	0.55	0.45	0.73	0.85	0.72	1.11	0.60	0.19	0.18	0.21

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.0%	1.1%	1.1%	1.1%	1.1%	1.3%	1.2%	1.2%	1.3%	1.2%
Return on Equity	11.8%	11.9%	11.9%	11.9%	12.2%	14.0%	13.1%	12.8%	14.1%	13.5%
ROIC	7.7%	7.9%	7.4%	6.6%	6.8%	7.3%	7.1%	9.3%	11.9%	11.3%
Shares Out.	14.0	14.1	14.1	14.3	14.4	14.5	15.0	15.5	16.1	16.6
Revenue/Share	5.67	5.99	6.27	6.55	6.89	7.35	7.56	8.52	8.88	9.01
FCF/Share	2.32	1.95	1.82	2.19	2.30	2.40	2.34	2.40	3.8	---

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.