



Bank of Marin Bancorp (BMRC)

Updated January 23rd, 2023, by Patrick Neuwirth

Key Metrics

Current Price:	\$31	5 Year CAGR Estimate:	14.9%	Market Cap:	\$500 M
Fair Value Price:	\$47	5 Year Growth Estimate:	4.0%	Ex-Dividend Date¹:	01/31/23
% Fair Value:	67%	5 Year Valuation Multiple Estimate:	8.3%	Dividend Payment Date¹:	02/10/23
Dividend Yield:	3.2%	5 Year Price Target	\$57	Years Of Dividend Growth:	17
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Buy

Overview & Current Events

Bank of Marin Bancorp (BMRC) operates as the holding company for Bank of Marin that provides a range of financial services primarily to small and medium-sized businesses, professionals, not-for-profit organizations, and individuals through 31 retail offices and eight commercial banking offices in California, the United States. It offers commercial and retail deposit and lending programs, personal and business checking and savings accounts, and wealth management and trust services. The majority of its revenue comes from interest income, with total assets of \$4.1 billion, and total interest-earning assets of \$4.0 billion. The company was founded in 1889 and has 302 employees.

On January 23rd, 2023, Bank of Marin Bancorp released its fourth quarter 2022 results for the period ending December 31st, 2022. For the quarter the company reported record earnings of \$12.9 million which represents a 5.7% increase compared to the \$12.2 million for the third quarter of 2022. Reported earnings per diluted share for the same periods were \$0.81 and \$0.76, an increase of 6.6% compared to the fourth quarter of 2022. Diluted earnings per share were \$2.92 for the full year, compared to \$2.30 per share for 2021. Certain periods of earnings were impacted by the costs associated with our acquisition of American River Bank ("ARB").

For the reporting period, the loans totaled \$2.093 billion which was a decrease of \$65 million, while deposits decreased by \$329.4 million to \$3.573 billion. The fourth quarter tax-equivalent net interest margin improved 10 basis points over the preceding quarter from 3.16% to 3.26%. Credit quality remains strong, with non-accrual loans representing 0.12% of total loans as of December 31, 2022, compared to 0.49% on September 30, 2022. Net interest income totaled \$33.4 million for the fourth quarter of 2022, compared to \$33.0 million for the prior quarter. Non-interest income, related to Wealth Management and Trust Services, totaled \$2.6 million for the fourth quarter, largely unchanged from the preceding quarter.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.29	\$1.65	\$1.52	\$1.89	\$1.28	\$2.33	\$2.48	\$2.22	\$2.30	\$2.92	\$3.10	\$3.77
DPS	\$0.37	\$0.40	\$0.45	\$0.51	\$0.56	\$0.64	\$0.80	\$0.92	\$0.94	\$0.98	\$1.00	\$1.40
Shares²	11	12	12	12	14	14	14	14	16	16	16	16

The company has grown earnings by 9.5% per year over the past nine years and 5.9% over the past five years. We expect earnings to increase by 4% per year for the next five years. The company has been able to increase its dividend for an impressive 17 consecutive years. Over the last five years, the average annual dividend growth rate is 12%. In August 2022, the company increased its quarterly dividend by 4.2% from \$0.24 to \$0.25 per share.

¹ Estimated date

² In millions.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	14.3	14.1	16.6	13.8	26.0	16.8	17.3	15.4	15.8	10.7	10.1	15.0
Avg. Yld.	1.9%	1.7%	1.8%	2.0%	1.7%	1.6%	1.9%	2.7%	2.6%	3.2%	3.2%	2.5%

During the past decade shares of Bank of Marin Bancorp have traded with an average price-to-earnings ratio of about 16 and today, it stands at 10.1. We are using 15 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The company's dividend yield is currently 3.2% which is above the average yield over the past decade of 2.1%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	29%	24%	30%	27%	44%	27%	32%	41%	41%	34%	32%	37%

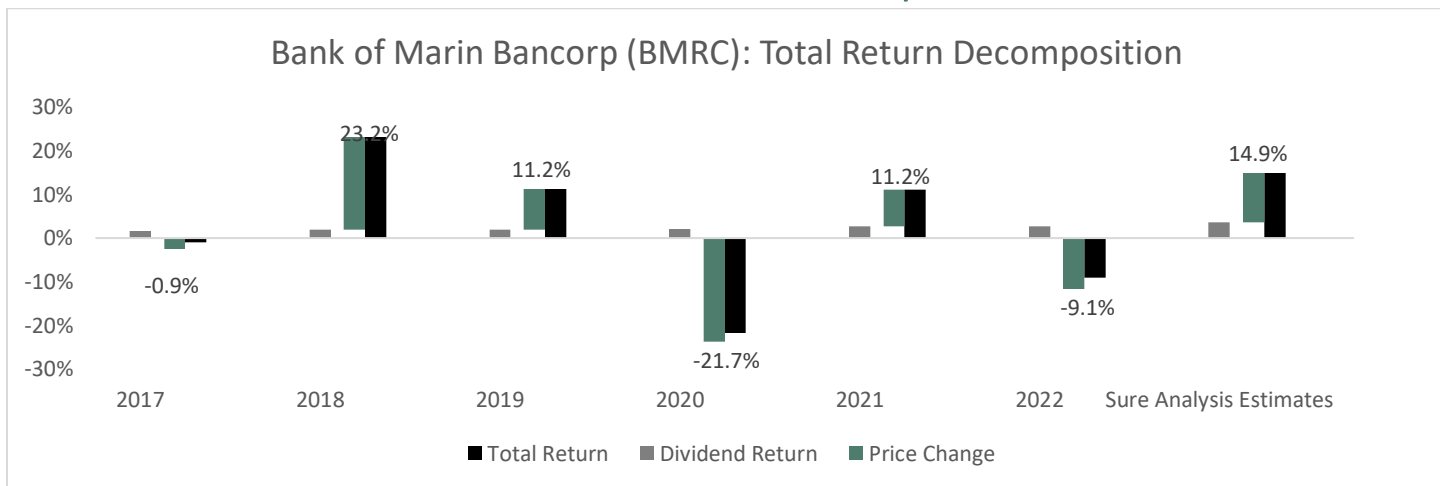
During the past five years, the company's dividend payout ratio has averaged around 35%. Bank of Marin Bancorp's dividend is at the moment comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around the same levels which is safe.

Bank of Marin Bancorp has demonstrated a solid financial performance combined with a sound asset quality track record and has a business model focused on business and community banking. The majority of its revenue comes from interest income. Solid loan originations, excellent credit quality, and efficient processes are key in this business and has management's attention. The bank has a strong base of core deposits that allows the company to grow efficiently while delivering consistent performance in all rate environments. The local presence and local market expertise help the company to keep funding costs low. As a result, the company has an impressive track record of 17 consecutive years of dividend increases. Bank of Marin Bancorp is included in the Russell 2000 Small-Cap Index and Nasdaq ABA Community Bank Index.

Final Thoughts & Recommendation

Bank of Marin Bancorp is a business and community bank in Northern California, with assets of \$4.1 billion, and has 31 retail branches and 8 commercial banking offices located across 10 counties. The local presence, local market expertise, a strong base of core deposits, and good credit quality should enable the bank to delivering consistent performance in all rate environments. We estimate total return potential of 14.9% per year for the next five years based on a 4% earnings-per-share growth, the starting yield of 3.2%, and a valuation tailwind. The shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	67	79	76	82	83	102	105	105	115	138
SG&A Exp.	29	31	32	33	38	41	41	41	51	51
D&A Exp.	1	2	3	2	2	3	3	3	3	---
Net Profit	14	20	18	23	16	33	34	30	33	47
Net Margin	21.3%	24.9%	24.1%	28.1%	19.2%	32.1%	32.7%	28.7%	28.9%	33.7%
Free Cash Flow	20	17	22	24	26	41	40	40	44	---
Income Tax	8	12	10	13	13	11	12	10	12	17

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,805	1,787	2,031	2,023	2,468	2,521	2,707	2,912	4,314	4,147
Cash & Equivalents	104	41	26	49	204	34	183	200	348	45
Acc. Receivable	60	60	62	69	73	76	76	36	51	80
Goodwill & Int.	11	10	10	9	37	36	35	34	79	78
Total Liabilities	1,624	1,587	1,817	1,793	2,171	2,204	2,370	2,554	3,864	3,735
Accounts Payable	17	15	16	15	17	20	18	20	29	23
Long-Term Debt	20	20	72	6	6	10	3	3	---	112
Total Equity	181	200	214	231	297	316	337	358	450	412
LTD/E Ratio	0.11	0.10	0.34	0.02	0.02	0.03	0.01	0.01	---	0.27

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.9%	1.1%	1.0%	1.1%	0.7%	1.3%	1.3%	1.1%	0.9%	1.1%
Return on Equity	8.6%	10.4%	8.9%	10.4%	6.1%	10.6%	10.5%	8.7%	8.2%	10.8%
ROIC	7.8%	9.4%	7.3%	8.8%	5.9%	10.4%	10.3%	8.6%	8.2%	9.6%
Shares Out.	11	12	12	12	14	14	14	14	16	16
Revenue/Share	6.01	6.62	6.30	6.73	6.63	7.25	7.59	7.73	7.98	8.67
FCF/Share	1.82	1.38	1.84	2.00	2.03	2.94	2.93	2.93	3.07	---

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

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