First Business Financial Services, Inc. (FBIZ)

Updated October 28th, 2024, by Kody Kester

Key Metrics

Current Price:	$45	**5 Year CAGR Estimate:**	12.3%	**Market Cap:**	$370M
Fair Value Price:	$52	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	11/07/24
% Fair Value:	85%	**5 Year Valuation Multiple Estimate:**	3.2%	**Dividend Payment Date:**	11/20/24
Dividend Yield:	2.2%	**5 Year Price Target**	$73	**Years Of Dividend Growth:**	12
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

Founded in 1909, First Business Financial Services, Inc. is the bank holding company that owns First Business Bank. This Madison, Wisconsin-based enterprise is a commercial bank with operations in Wisconsin, Kansas, and Missouri. More specifically, FBIZ operates in the following areas:

- South Central Wisconsin (e.g., Madison and surrounding counties)
- Southeast Wisconsin (i.e., the Milwaukee metro area)
- Northeast Wisconsin (Appleton, Green Bay, and Oshkosh)
- The Kansas City metro area (15 counties and 50 communities on both sides of the Missouri and Kansas state lines).

The company serves small and medium-sized businesses and business owners, with products and services, such as commercial and industrial lending, real estate lending, and treasury management solutions. As of September 30th, FBIZ's business banking business was entrusted by clients with $3.7 billion in total assets. Via its private wealth business, the company also serves high-net-worth individuals. FBIZ provides wealth management services to these clients, including financial planning, investment management, trust and estate administration, and creating and executing asset allocation strategies. As of September 30th, the company's private wealth business oversaw $3.4 billion in assets under management and administration.

On October 24th, FBIZ reported its financial results for the third quarter ended September 30th. The company's operating revenue increased by 2.8% over the year-ago period to $38.1 million in the quarter. Net interest income climbed by 8.4% year-over-year to $31 million during the quarter. Total loans grew 11.8% versus the year-ago period which offset a 12-basis point decline in FBIZ's net interest margin to 3.64% for the quarter. This topline growth was somewhat countered by a 16.2% year-over-year decrease in non-interest income to $7.1 million. A large gain on sales of Small Business Administration loans in the year-ago period resulted in a higher bar for FBIZ to clear during the quarter. A significant reduction in other fee income also contributed to this dip in non-interest income for the quarter. FBIZ's diluted EPS rose by 6% year-over-year to $1.24 in the quarter. That exceeded the analyst consensus by $0.05.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.84	$1.90	$1.71	$1.36	$1.77	$2.68	$1.97	$4.17	$4.75	$4.33	***$4.76***	***$6.68***
DPS	$0.42	$0.44	$0.48	$0.52	$0.56	$0.60	$0.66	$0.72	$0.79	$0.91	***$1.00***	***$1.40***
Shares[1]	8.7	8.7	8.7	8.8	8.8	8.6	8.6	8.5	8.4	8.3	***8.3***	***8.0***

Dating back to 2014, FBIZ has produced high-single-digit annual diluted EPS growth for shareholders. Over the medium term, we still think this level of growth can persist. That's because more incoming interest rate cuts from the Federal Reserve should help the company's net interest margin to remain strong.

[1] Share count is in millions.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	12.7	13.2	13.9	16.2	11.0	9.8	9.3	7.0	7.7	9.3	***9.4***	***11.0***
Avg. Yld.	1.8%	1.8%	2.0%	2.4%	2.9%	2.3%	3.6%	2.5%	2.2%	2.3%	***2.2%***	***1.9%***

FBIZ's current-year P/E ratio is 9.4, which is less than the 10-year average of 11.0. That includes periods in which the P/E was as low as the high-single-digits in peak years for earnings to as high as the mid-teens in trough years for earnings. The company's growth story remains stable, so a reversion in the valuation multiple to 11 seems to be a sensible expectation. This combination of historical undervaluation and intact fundamentals makes the valuation interesting right now.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	23%	23%	28%	38%	32%	22%	34%	17%	17%	21%	***21%***	***21%***

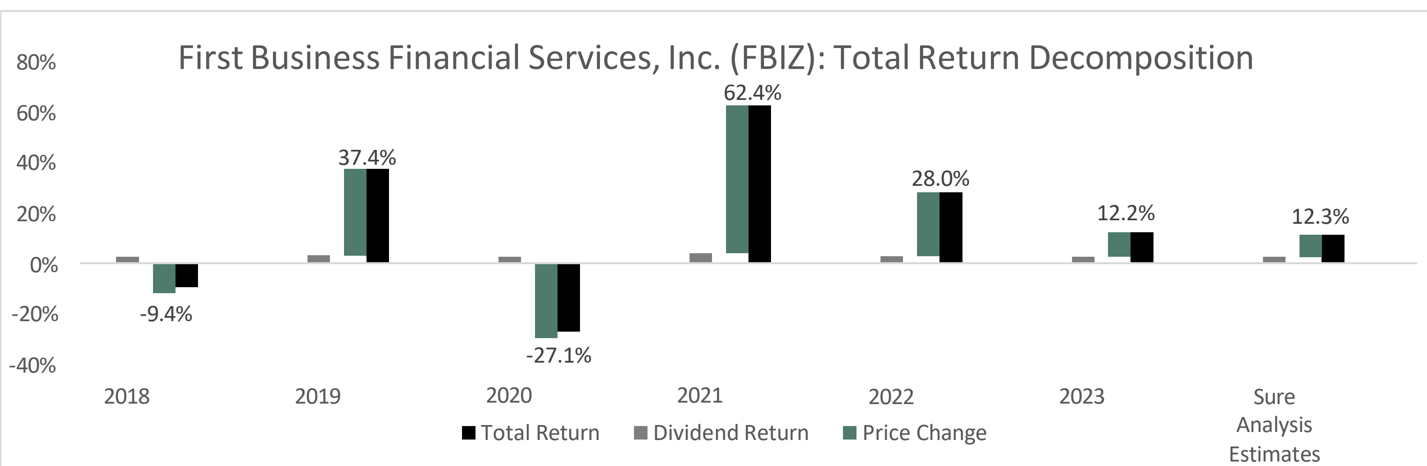
FBIZ's competitive advantage lies in a rich corporate history of doing right by its clients. Operating for more than a century has allowed the company to get to know the communities that it serves well and earn their trust. FBIZ further distinguishes itself by its niche business expertise within the commercial and industrial loan spaces. That is what has won over and retained customers for many years and we believe this should continue in the future.

FBIZ is heavily exposed to commercial real estate, with 60% of its loan balances as of September 30th linked to that loan category. Fortunately, the company counteracts this risk with a decent balance sheet. FBIZ had $1.9 billion in available liquidity against approximately $1.1 billion in total uninsured deposits. This is an estimated uninsured deposit coverage ratio of 176%. FBIZ's dividend is also quite manageable. The payout ratio is positioned to be in the low 20% range for 2024.

Final Thoughts & Recommendation

FBIZ's 2.2% dividend yield, 7% annual diluted EPS growth profile, and 3.2% annual valuation multiple expansion potential could produce 12.3% annual total returns in the coming five years. That is enough for us to reiterate our buy rating.

Total Return Breakdown by Year



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.

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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	56	76	78	74	83	89	102	113	128	144
SG&A Exp.	27	39	43	44	46	51	49	55	61	66
D&A Exp.	2	(0)	2	2	1	3	3	4	4	4
Net Profit	14	17	15	12	16	23	17	36	41	37
Net Margin	25.1%	21.8%	19.2%	16.0%	19.5%	26.2%	16.7%	31.7%	32.0%	25.7%
Free Cash Flow	9	22	26	21	24	29	26	36	35	49
Income Tax	7	8	2	2	1	1	1	11	11	10

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,629	1,782	1,781	1,794	1,966	2,097	2,568	2,653	2,977	3,508
Cash & Equivalents	103	114	78	53	87	67	57	57	103	140
Accounts Receivable	4	4	5	5	6	6	9	5	9	13
Goodwill & Int. Ass.	12	12	13	13	12	12	12	12	12	12
Total Liabilities	1,492	1,631	1,619	1,625	1,786	1,903	2,362	2,420	2,716	3,218
Long-Term Debt	44	45	70	218	309	329	429	414	457	331
Shareholder's Equity	138	151	162	169	181	194	206	232	249	278
LTD/E Ratio	0.32	0.30	0.43	1.29	1.71	1.70	2.08	1.78	1.75	1.14

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.0%	1.0%	0.8%	0.7%	0.9%	1.1%	0.7%	1.4%	1.5%	1.1%
Return on Equity	11.4%	11.4%	9.5%	7.2%	9.3%	12.4%	8.5%	16.3%	16.6%	13.5%
ROIC	9.0%	8.7%	7.0%	3.8%	3.7%	4.6%	2.9%	5.6%	6.0%	5.5%
Shares Out.	8.7	8.7	8.7	8.8	8.8	8.6	8.6	8.5	8.4	8.3
Revenue/Share	7.15	8.85	9.05	8.65	9.66	10.47	12.12	13.56	15.54	17.70
FCF/Share	1.10	2.62	2.98	2.46	2.81	3.38	3.15	4.28	4.31	6.08

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