



Bank of Marin Bancorp (BMRC)

Updated October 31st, 2024, by Patrick Neuwirth

Key Metrics

Current Price:	\$22.73	5 Year CAGR Estimate:	-1.2%	Market Cap:	\$364 M
Fair Value Price:	\$13.60	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	11/07/24
% Fair Value:	167%	5 Year Valuation Multiple Estimate:	-9.8%	Dividend Payment Date:	11/14/24
Dividend Yield:	4.4%	5 Year Price Target:	\$16	Years Of Dividend Growth:	17
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Sell

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 its roughly 30 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 \$3.8 billion, and total interest-earning assets of \$3.7 billion. The company was founded in 1889 and has 302 employees.

On October 28th, 2024, Bank of Marin Bancorp released its third quarter results for the period ending September 30th, 2024. The company reported net income of \$4.6 million, a significant improvement from the \$21.9 million net loss reported in the second quarter of 2024 and a recovery from the financial hit experienced earlier in the year. Reported diluted earnings per share was \$0.28 for the third quarter, compared to a loss of \$(1.36) in the prior quarter.

The substantial loss in the third quarter was primarily driven by a \$32.5 million pretax loss related to the sale of \$325 million in low-yielding investment securities as part of a strategic balance sheet restructuring aimed at enhancing future profitability. Excluding this loss, adjusted net income for the third quarter would have been \$1.0 million, with adjusted diluted earnings per share of \$0.06. For the third quarter, loans totaled \$2.090 billion, reflecting an increase from \$2.082 billion at the end of the second quarter, supported by new loan originations of \$28.2 million and the acquisition of a \$35.7 million residential real estate loan pool. Deposits stood at \$3.309 billion, an increase from \$3.214 billion in the prior quarter, driven by seasonal inflows and the addition of new deposit accounts. The tax-equivalent net interest margin (NIM) for the third quarter increased by 18 basis points to 2.70%, up from 2.52% in the second quarter. The company's capital ratios remained strong, with total risk-based capital ratios at 16.40% for Bancorp and 15.82% for the Bank, both well above the well-capitalized threshold.

Looking forward, Bank of Marin Bancorp is focused on leveraging the proceeds from the securities sale to continue investing in higher-yielding loans and securities, which have already begun to contribute positively to net interest margin and earnings. Specifically, the bank achieved an improvement in NIM and projects further benefits as it continues to manage expenses, maintain strong asset quality, and capitalize on positive trends in loan growth and core deposit gathering.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS¹	\$1.65	\$1.52	\$1.89	\$1.28	\$2.33	\$2.48	\$2.22	\$2.30	\$2.92	\$1.24	\$0.80	\$0.93
DPS	\$0.40	\$0.45	\$0.51	\$0.56	\$0.64	\$0.80	\$0.92	\$0.94	\$0.98	\$1.00	\$1.00	\$1.22
Shares²	12	12	12	14	14	14	14	16	16	16	16	16

The company has declining earnings of -3.1% per year since 2014 and -20.3% per year over the past five years. We expect earnings to increase by 3% per year for the next five years. The company has been able to increase its dividend

¹ Comparable diluted EPS

² In millions.

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for 17 consecutive years. Over the last five years, the average annual dividend growth rate is 9.3%. In August 2022, the company increased its quarterly dividend by 4.2% from \$0.24 to \$0.25 per share.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	14.1	16.6	13.8	26.0	16.8	17.3	15.4	15.8	10.7	12.0	28.4	17.0
Avg. Yld.	1.9%	1.8%	2.0%	1.7%	1.6%	1.9%	2.7%	2.6%	3.2%	5.6%	4.4%	7.7%

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 28.4. We are using 17 times earnings as a fair value baseline, implying the potential for a valuation headwind. The company's dividend yield is currently 4.4% which is well above the average yield over the past decade of 2.1%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	24%	30%	27%	44%	27%	32%	41%	41%	34%	81%	125%	131%

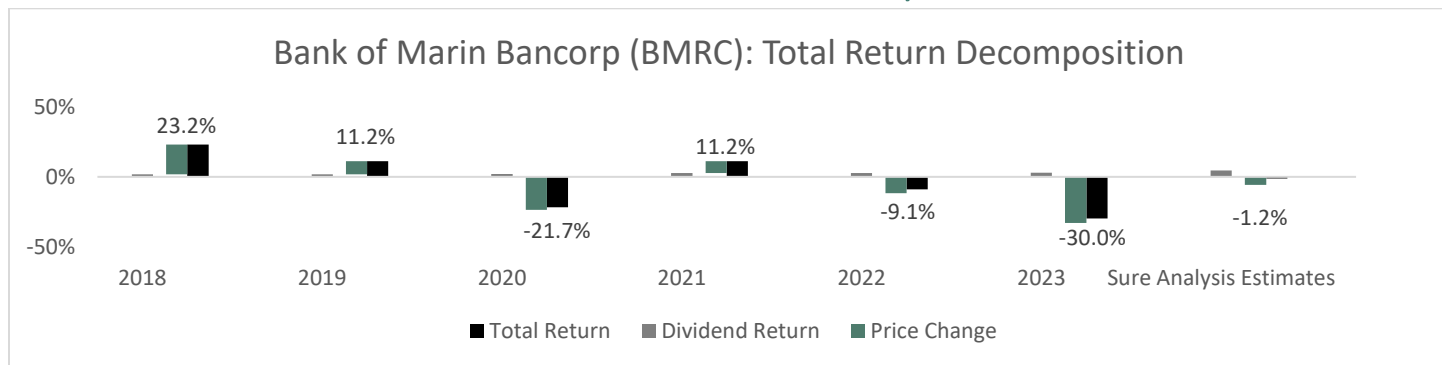
During the past five years, the company's dividend payout ratio has averaged around 46%. Bank of Marin Bancorp's dividend is currently covered by earnings, but something to watch, as the annual dividend payout is nearly equivalent to the estimated earnings for this year. Given the expected earnings growth, there is still some room for the dividend to continue to grow at least at the same pace.

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. Most 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 has total assets of \$3.8 billion and operates 30 retail branches and eight commercial banking offices located across 10 counties in California. 2023 was a challenging year for the bank in terms of profitability, with strategic decisions made to restructure the balance sheet significantly impacting earnings for both the quarter and the full year. However, these actions are anticipated to contribute to a stronger financial position in the future. We estimate total return potential of -1.2% per year for the next five years based on a 3% earnings-per-share growth, the dividend yield, and a valuation headwind. The coming year(s) could be a bumpy road for regional bank stocks. Shares earn a sell rating due to the projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	79	76	82	83	102	105	105	115	138	105
SG&A Exp.	31	32	33	38	41	41	41	51	51	48
D&A Exp.	2	3	2	2	3	3	3	3	---	3.5
Net Profit	20	18	23	16	33	34	30	33	47	20
Net Margin	24.9%	24.1%	28.1%	19.2%	32.1%	32.7%	28.7%	28.9%	33.7%	19.0%
Free Cash Flow	17	22	24	26	41	40	40	44	---	34
Income Tax	12	10	13	13	11	12	10	12	17	6

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,787	2,031	2,023	2,468	2,521	2,707	2,912	4,314	4,147	3,804
Cash & Equivalents	41	26	49	204	34	183	200	348	45	30.5
Acc. Receivable	60	62	69	73	76	76	36	51	80	---
Goodwill & Int.	10	10	9	37	36	35	34	79	78	77
Total Liabilities	1,587	1,817	1,793	2,171	2,204	2,370	2,554	3,864	3,735	3,365
Accounts Payable	15	16	15	17	20	18	20	29	23	---
Long-Term Debt	20	72	6	6	10	3	3	---	112	26
Total Equity	200	214	231	297	316	337	358	450	412	439
LTD/E Ratio	0.10	0.34	0.02	0.02	0.03	0.01	0.01	---	0.27	0.06

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.1%	1.0%	1.1%	0.7%	1.3%	1.3%	1.1%	0.9%	1.1%	0.5%
Return on Equity	10.4%	8.9%	10.4%	6.1%	10.6%	10.5%	8.7%	8.2%	10.8%	4.7%
ROIC	9.4%	7.3%	8.8%	5.9%	10.4%	10.3%	8.6%	8.2%	9.6%	4.0%
Shares Out.	12	12	12	14	14	14	14	16	16	16
Revenue/Share	6.62	6.30	6.73	6.63	7.25	7.59	7.73	7.98	8.67	6.55
FCF/Share	1.38	1.84	2.00	2.03	2.94	2.93	2.93	3.07	---	2.12

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

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