



Arrow Financial Corporation (AROW)

Updated February 5th, 2025, by Josh Arnold

Key Metrics

Current Price:	\$27	5 Year CAGR Estimate:	11.8%	Market Cap:	\$451 M
Fair Value Price:	\$28	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	04/05/25 ¹
% Fair Value:	96%	5 Year Valuation Multiple Estimate:	0.8%	Dividend Payment Date:	04/29/25
Dividend Yield:	4.1%	5 Year Price Target	\$41	Years Of Dividend Growth:	28
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	Buy

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 \$451 million, and it produces about \$163 million in annual revenue. Arrow Financial has increased its dividend for 28 consecutive years and is a member of the Dividend Champions list, as it is too small to be considered a Dividend Aristocrat.

Arrow posted fourth quarter and full-year earnings on January 30th, 2025, with earnings-per-share coming to 27 cents, and revenue at just over \$31 million. The company's adjusted net income was \$7.8 million, or 47 cents per share after removing non-recurring items. These were related to charges and expenses related to the repositioning of the securities portfolio, primarily.

Net interest margin came to 2.83%, which was up from 2.78% in the prior quarter. That's still quite low based upon our universe of banks. Loan growth was 7% on an annualized basis, or \$59 million, from Q3. Loan balances ended the year at \$3.4 billion, which is a record for Arrow.

Provisions for credit losses were \$2.9 million as loan portfolio composition, as well as loan growth, weighed on this metric. Banks must take provisions for credit losses as the loan book grows, so this does not necessarily mean loan quality is deteriorating. Indeed, net charge-offs were just 0.06% of total loans for the quarter, implying credit quality remains outstanding.

The year ended with tangible book value per share of \$22.40, up from \$21.06 from the prior year. We start 2025 with an estimate of \$2.55 in adjusted earnings-per-share as Arrow has good momentum. Credit quality remains very strong while the loan book is growing. Margins are the big wildcard for now but Arrow looks like it's in a good position heading into 2025.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$1.44	\$1.58	\$1.80	\$2.28	\$2.35	\$2.56	\$3.10	\$2.95	\$1.77	\$2.05	\$2.55	\$3.75
DPS	\$0.74	\$0.78	\$0.84	\$0.91	\$0.97	\$0.99	\$1.01	\$1.03	\$1.06	\$1.09	\$1.12	\$1.24
Shares²	14.1	14.3	14.4	14.5	15.0	15.5	16.0	16.6	16.9	16.7	17	19

Arrow Financial Corporation has compounded its diluted earnings-per-share at a rate of ~5% 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. We have boosted our estimate of growth to 8% annually as we start 2025. Credit quality is outstanding with negligible charge-offs, margins are improving slightly, and the loan book is growing. Unless we see material changes with any of those, we expect to see earnings grow strongly in the coming years.

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.



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The dividend should also continue to rise, and we see it moving from the current \$1.12 per share to \$1.24 by 2030 as management continues to boost the payout despite the ever-rising share count. Investors still get the stock dividend each year as well.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	14.3	15.7	17.2	15.5	13.3	11.5	11.3	11.5	15.6	14.0	10.6	11.0
Avg. Yld.	3.7%	3.3%	2.9%	2.8%	3.1%	3.4%	2.9%	3.2%	3.8%	3.8%	4.1%	3.0%

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 2025 earnings-per-share estimate of \$2.55, Arrow Financial Corporation is trading at a current price-to-earnings ratio of 10.6. We therefore see a modestly positive impact from the valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

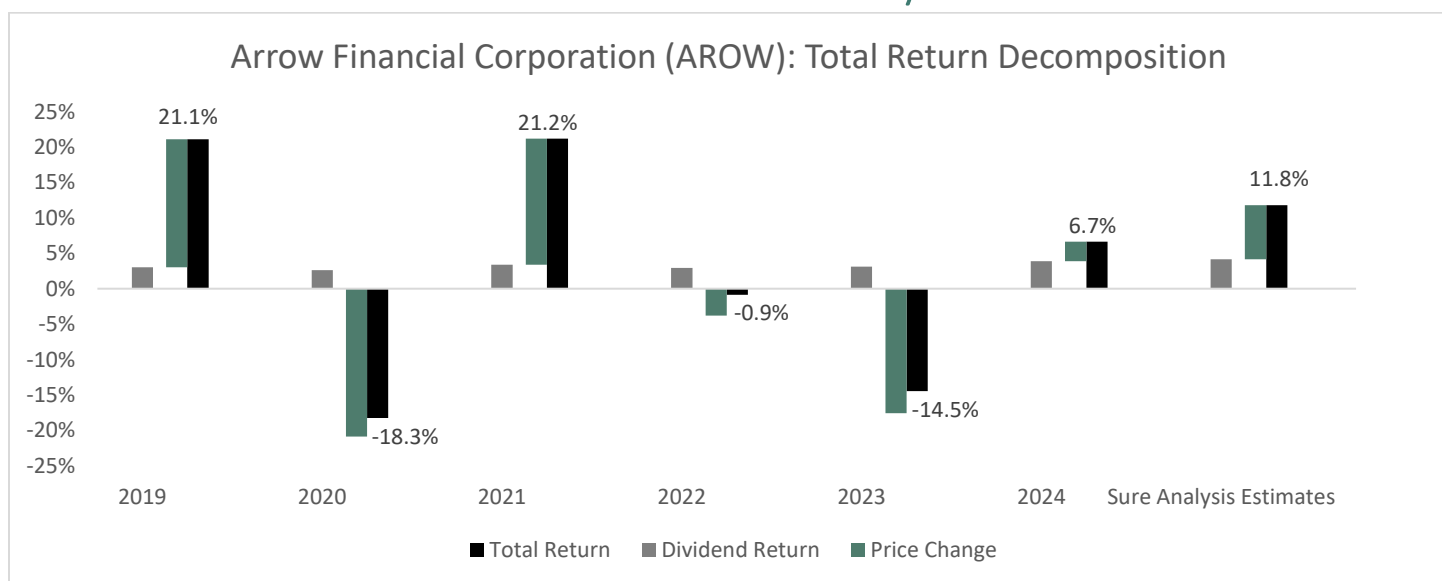
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	51%	50%	47%	40%	41%	39%	33%	37%	60%	53%	44%	33%

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 28 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 11.8% total returns to shareholders over the next five years. The 4.1% dividend yield, 8% earnings growth, and a 0.8% valuation tailwind combine to create strong prospective total returns for potential shareholders. This company is small and illiquid, but offers investors good annual total return potential. With total prospective returns much higher from our last update, we're boosting the stock from hold to buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	94	99	105	113	117	132	147	149	134	140
SG&A Exp.	42	44	41	43	42	46	49	48	50	55
D&A Exp.	6	6	5	5	6	7	8	8	7	---
Net Profit	25	27	29	36	37	41	50	49	30	30
Net Margin	26.2%	26.7%	27.9%	32.1%	32.1%	31.0%	34.0%	32.9%	22.4%	21.3%
Free Cash Flow	27	33	35	37	36	37	61	45	13	---
Income Tax	11	11	11	9	10	11	15	14	7	8

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	2446	2605	2760	2988	3184	3689	4028	3970	4170	4306
Cash & Equivalents	51	57	73	84	70	381	458	65	143	155
Goodwill & Int. Ass.	25	25	24	24	24	24	24	23	23	26
Total Liabilities	2232	2372	2511	2719	2883	3354	3657	3616	3790	3905
Long-Term Debt	157	198	180	299	180	65	65	75	47	29
Shareholder's Equity	214	233	250	270	302	334	371	354	380	401
LTD/E Ratio	0.73	0.85	0.72	1.11	0.60	0.19	0.18	0.21	0.12	0.07

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	1.1%	1.1%	1.1%	1.3%	1.2%	1.2%	1.3%	1.2%	0.7%	0.7%
Return on Equity	11.9%	11.9%	12.2%	14.0%	13.1%	12.8%	14.1%	13.5%	8.2%	7.6%
ROIC	7.4%	6.6%	6.8%	7.3%	7.1%	9.3%	11.9%	11.3%	7.0%	6.9%
Shares Out.	14.1	14.3	14.4	14.5	15.0	15.5	16.1	16.6	17.0	16.75
Revenue/Share	6.27	6.55	6.89	7.35	7.56	8.52	8.88	9.01	7.86	8.35
FCF/Share	1.82	2.19	2.30	2.40	2.34	2.40	3.8	2.67	0.79	---

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

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