First Business Financial Services, Inc. (FBIZ)

Updated February 3rd, 2025, by Kody Kester

Key Metrics

Current Price:	$53	**5 Year CAGR Estimate:**	11.7%	**Market Cap:**	$436M
Fair Value Price:	$60	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	02/14/25
% Fair Value:	87%	**5 Year Valuation Multiple Estimate:**	2.8%	**Dividend Payment Date:**	02/28/25
Dividend Yield:	2.2%	**5 Year Price Target**	$84	**Years Of Dividend Growth:**	13
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 December 31st, FBIZ's business banking business managed $3.9 billion in total client 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 December 31st, the company's private wealth business oversaw $3.4 billion in assets under management and administration.

On January 30th, FBIZ shared its financial results for the fourth quarter ended December 31st. The company's operating revenue surged 12.3% year-over-year to a record of $41.2 million during the quarter. Net interest income climbed 12.2% higher over the year-ago period to $33.1 million in the quarter. That was made possible by loan growth and an eight-basis point expansion in the net interest margin to 3.77% for the quarter. Non-interest income also grew by 13.3% year-over-year to $8 million during the quarter. This was fueled by a large gain in sales of Small Business Administration loans and higher commercial loan swap fee income. FBIZ's diluted EPS soared 48.7% over the year-ago period to $1.71 in the quarter. That topped the analyst consensus for the quarter by $0.45.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$1.90	$1.71	$1.36	$1.77	$2.68	$1.97	$4.17	$4.75	$4.33	$5.20	***$5.47***	***$7.67***
DPS	$0.44	$0.48	$0.52	$0.56	$0.60	$0.66	$0.72	$0.79	$0.91	$1.00	***$1.16***	***$1.63***
Shares[1]	8.7	8.7	8.8	8.8	8.6	8.6	8.5	8.4	8.3	8.3	***8.3***	***8.0***

Dating back to 2015, FBIZ has produced double-digit annual diluted EPS growth for shareholders. Over the medium term, we think it's reasonable to expect high-single-digit annual diluted EPS growth from the anticipated 2025 base of $5.47. That's because the interest rate cuts that are working their way through the economy should help FBIZ to further improve its net interest margin. On February 3rd, the bank raised its dividend from 25 cents to 29 cents a share per quarter which amounts to a 16% increase.

[1] Share count is 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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Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Avg. P/E	13.2	13.9	16.2	11.0	9.8	9.3	7.0	7.7	9.3	9.7	***9.6***	***11.0***
Avg. Yld.	1.8%	2.0%	2.4%	2.9%	2.3%	3.6%	2.5%	2.2%	2.3%	2.2%	***2.2%***	***1.9%***

FBIZ's current-year P/E ratio is 9.6, which is less than the 10-year average of right around 11. 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 intact, so a reversion in the valuation multiple to just above the 10-year average continues to arguably be a sensible expectation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	23%	28%	38%	32%	22%	34%	17%	17%	21%	19%	***21%***	***21%***

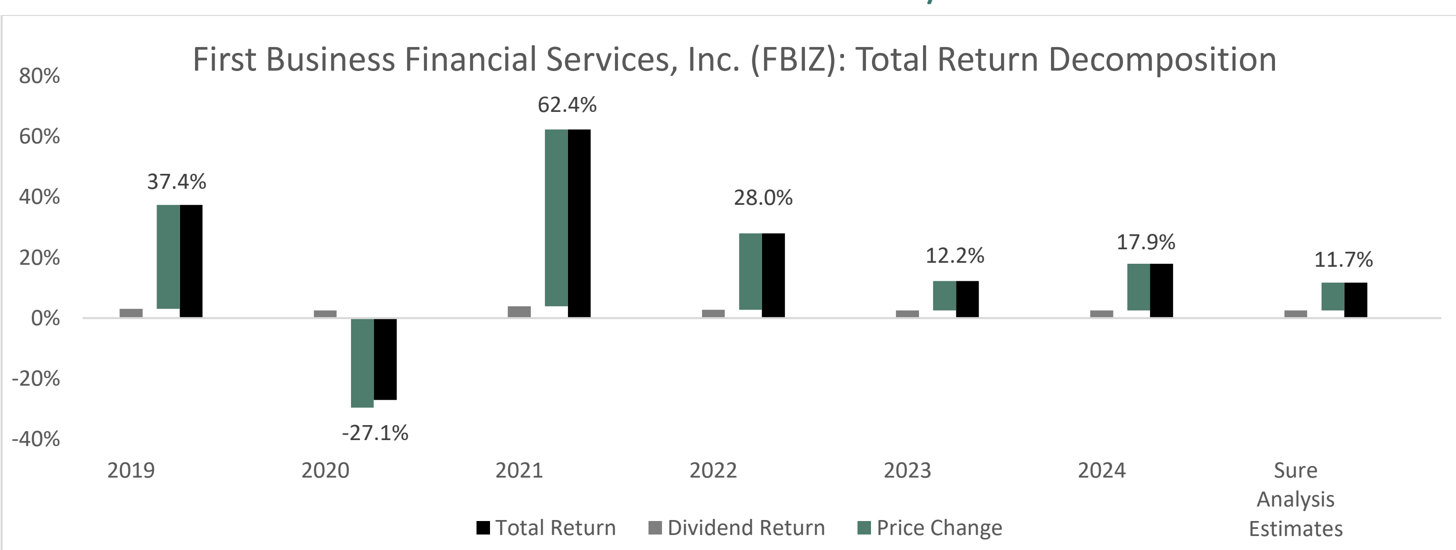
FBIZ's competitive advantage lies in a rich corporate history of doing right by its clients. Operating for more than a century has allowed the company to get to know the communities that it serves well and earn their trust. FBIZ further distinguishes itself by its niche business expertise within the 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 just over 60% of its loan balances as of December 31st 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 just under $1 billion in total uninsured deposits. This is an estimated uninsured deposit coverage ratio of 196%. FBIZ's dividend is also quite manageable. The payout ratio is positioned to be in the low 20% range for 2025.

Final Thoughts & Recommendation

FBIZ's 2.2% dividend yield, 7.0% annual diluted EPS growth prospects, and 2.8% annual valuation multiple upside could generate 11.7% annual total returns through 2030. Even after a roughly 15% runup in the share price in recent months, that's sufficient for us to stand by our buy rating.

Total Return Breakdown by Year



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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.