Farmers & Merchants Bancorp, Inc. (FMAO)

Updated February 27th, 2025, by Yiannis Zourmpanos

Key Metrics

Current Price:	$26	**5 Year CAGR Estimate:**	6.4%	**Market Cap:**	$373 M
Fair Value Price:	$20.40	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	03/27/2024[1]
% Fair Value:	128%	**5 Year Valuation Multiple Estimate:**	-4.8%	**Dividend Payment Date:**	04/21/2025[2]
Dividend Yield:	3.4%	**5 Year Price Target**	$30	**Years Of Dividend Growth:**	17
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Farmers & Merchants Bancorp, Inc. (FMAO) or F&M is a bank holding company headquartered in Archbold, Ohio, USA. It was founded in 1897 and currently operates in Ohio, Indiana, and Michigan. FMAO caters to a diverse set of customers, including individuals, businesses, and farmers, and offers a range of financial services, including deposit accounts, loans, credit cards, and online banking. FMAO faces significant competition from other regional and national banks, but its strong customer relationships and commitment to personalized service help it maintain a competitive position in the market. The company has a competitive position in the community banking market and holds a market share of 10%. FMAO's revenue segments are retail banking, commercial banking, and agricultural lending.

On February 12th, 2025, the company announced results for the fourth quarter of 2024. F&M reported Q4 GAAP EPS of $0.61, beating estimates by $0.13. Additionally, the company reported revenues of $26.83 million for the quarter, up 12.4% year-over-year.

The bank's net interest margin expanded 27 basis points to 2.84%, while the efficiency ratio improved to 59.82% from 69.23% a year ago. Nonperforming loans significantly declined to $3.1 million from $22.4 million in 2023, reflecting FMAO’s disciplined risk management. For the full year, net income totaled $25.9 million, up from $22.8 million, with total assets increasing 2.5% to $3.36 billion. Deposits reached a record $2.69 billion, supporting a healthy loan-to-deposit ratio of 94.4%. CEO Lars Eller emphasized the success of FMAO’s strategic initiatives, highlighting expanded customer relationships and strengthened financial performance.

Looking ahead, FMAO expects modest loan growth in 2025, weighted toward the second half of the year, with 31.4% of loans set to reprice within 12 months, potentially boosting net interest income. The company maintains strong liquidity, with over $690 million in contingent funding sources and a 5.3% cash-to-assets ratio. Stockholders’ equity rose 5.9% to $335.2 million, reinforcing balance sheet strength. FMAO also increased its annual dividend by 3.8%, marking its 30th consecutive year of dividend growth. With disciplined capital allocation and a well-positioned balance sheet, the bank remains focused on sustainable profitability and long-term shareholder value.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$1.12	$1.26	$1.38	$1.61	$1.66	$1.80	$2.01	$2.46	$1.67	$1.90	***$1.85***	***$2.72***
DPS	$0.44	$0.46	$0.50	$0.56	$0.61	$0.66	$0.71	$0.80	$0.85	$0.85	***$0.89***	***$1.25***
Shares[3]	9.2	9.1	9.2	9.2	11.0	11.1	11.6	13.1	13.6	13.7	***14.3***	***18.1***

We have revised upwards our EPS forecast to match analysts’ estimate of $1.85 for 2025. The forecasts suggest lower interest rates in the coming years despite the high interest rate environment. Further, EPS can grow due to margin expansion. With a projected annual EPS growth of 8.0%, we believe that FMAO’s EPS can reach $2.72 by 2030. F&M’s DPS had a 10-year and 5-year CAGR of 7.6% and 18.0%, respectively.

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[1] Estimated ex-dividend date.

[2] Estimated dividend payment date.

[3] 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	Now	2030
Avg. P/E	11.8	11.9	21.6	25.8	17.3	12.9	12.1	13.0	13.3	13.3	***14.1***	***11.0***
Avg. Yld.	3.3%	3.1%	1.7%	1.3%	2.1%	2.9%	2.9%	2.5%	3.8%	3.4%	***3.4%***	***4.2%***

F&M is trading at a forward P/E of 14.1, lower than its 10-year and five-year average P/E of 15.3 and 12.9, respectively. Considering the bank's resiliency, we have assumed a P/E of 11.0 to value the stock, slightly lower than its historical averages, as this accounts for the uncertainty attached to the sector. This suggests a target price of $30.

Safety, Quality, Competitive Advantage, & Recession Resiliency

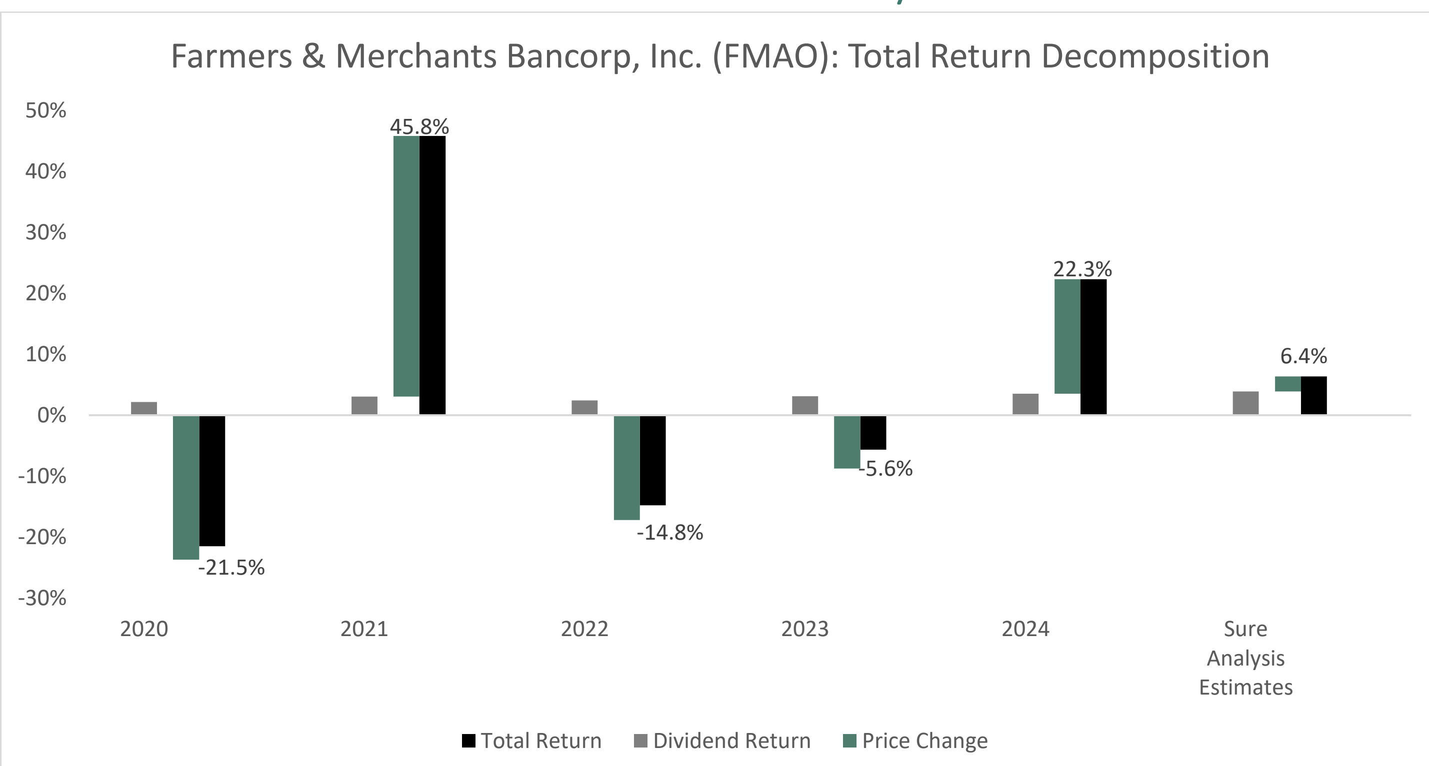
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	39%	37%	36%	35%	37%	37%	35%	33%	51%	45%	***48%***	***46%***

The company's competitive advantage lies in its longstanding reputation for providing quality financial services to its customers, along with its strong presence in the communities it serves. During the recession of 2008, F&M, performed well due to its conservative lending practices and strong capital position. In general, F&M has a stable dividend payout ratio, and we expect it to hover in the 50% range, which is above its historical average of 38%.

Final Thoughts & Recommendation

The loan pipeline and the margins are performing better; thus, we anticipate relatively stable earnings-per-share in 2025, especially given that interest rates are expected to support profit growth. Following the banking crisis, the sector outlook remains somewhat uncertain. Thus, we upgrade FMAO to hold, premised upon the 6.4% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 8.0%, the 3.4% dividend yield, and a valuation headwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	40	41	44	46	49	64	75	85	100	95
SG&A Exp.	20	21	20	21	23	30	32	38	42	50
D&A Exp.	2	2	2	2	2	4	4	5	4	6
Net Profit	10	10	12	13	15	18	20	23	33	23
Net Margin	24.3%	25.3%	26.8%	27.9%	30.3%	28.9%	26.8%	27.7%	32.4%	24.2%
Free Cash Flow	16	13	10	16	8	20	24	33	38	11
Income Tax	4	4	5	5	3	4	5	6	8	6

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	941	989	1,056	1,107	1,116	1,607	1,910	2,638	3,015	3,283
Cash & Equivalents	22	21	29	37	42	54	103	146	88	144
Goodwill & Int.	6	6	6	6	6	50	51	84	90	92
Total Liabilities	827	869	930	973	973	1,377	1,660	2,341	2,717	2,967
Long-Term Debt	-	10	10	5	-	25	18	99	172	300
Total Equity	114	120	126	134	143	230	249	297	298	317
LTD/E Ratio	-	0.08	0.08	0.04	-	0.11	0.07	0.33	0.58	0.95

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.0%	1.1%	1.1%	1.2%	1.3%	1.4%	1.1%	1.0%	1.2%	0.7%
Return on Equity	8.6%	8.8%	9.5%	9.8%	10.8%	9.9%	8.4%	8.6%	10.9%	7.4%
ROIC	8.5%	8.5%	8.8%	9.3%	10.6%	9.2%	7.7%	7.1%	7.5%	4.2%
Shares Out.	9.2	9.2	9.1	9.2	9.2	11.0	11.1	11.6	13.1	13.5
Revenue/Share	4.33	4.45	4.77	4.98	5.37	5.72	6.72	7.27	7.60	7.02
FCF/Share	1.77	1.43	1.10	1.72	0.88	1.84	2.17	2.81	2.88	0.83

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