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Citizens Financial Services, Inc. (CZFS – OTC Pink)

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April 30, 2021

Price:	$61.25	**Diluted EPS**	**2019A:**	$ 5.47	**P/E**	**2019A:**	11.2x
52 Wk. Range:	$43.00 - $62.00	(FY: DEC)	**2020A:**	$6.59		**2020A:**	9.3x
Div/Div Yld: *	$1.84/3.0%		**2021E:**	$7.05		**2021E:**	8.7x
Shrs/Mkt Cap:	3.9 mm / $240 mm	**Book Value: ****		$50.81	**Price/Book Value: ****		1.21x

* Cash dividend is most recent regular quarterly dividend (annualized), does not include special dividends.
** Tangible book value is $42.36.

SYMBOL: CZFS

TOTAL ASSETS: $2.0 BB

HQ: MANSFIELD, PA

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Background

Citizens Financial Services, Inc. (“the Company”) of Mansfield, Pennsylvania, is a financial holding company for First Citizens Community Bank, a full-service community bank. First Citizens Community Bank (the “Bank”) was founded in 1872, and as of March 31, 2021, the Company had total assets of approximately $2.0 billion. The Company has completed various acquisitions, such as the acquisition of The First National Bank of Fredericksburg (“FNB”) in 2015, the S&T Bank branch located in State College, PA in December of 2017 and MidCoast Community Bancorp, Inc. (“Midcoast”) in April 2020. The Company currently has offices in Tioga, Bradford, Potter, Clinton, Union, Lebanon, Berks, Schuylkill, Lancaster, Chester and Centre counties in Pennsylvania and one location in Wellsville (Allegany County), New York. It also has offices in Wilmington and Dover, DE. The region has a diverse economic base, and has benefited from the Marcellus Shale, an area throughout much of Appalachia that contains significant untapped natural gas reserves. Citizens Financial Services, through its subsidiaries, focuses on highly personalized service and offers a variety of products and services to individuals and small- to medium-sized businesses. According to the American Bankers Association, it is the number three agricultural lender in Pennsylvania, and it is a key element of serving the ag-rich regions of Lebanon and Lancaster. Through its Investment and Trust Services division, a variety of brokerage services are offered, such as professional asset management, estate planning, mutual funds and annuities, as well as life insurance, mineral management services, financial planning and trust administration.

1ST QUARTER HIGHLIGHTS:

EPS SIGNIFICANTLY OUTPERFORMED ESTIMATES

NET INCOME WAS UP 87%; EPS GREW 70%

EPS: $2.16 VS. $1.27

PRETAX INCOME BEFORE THE PROVISION AND NONRECURRING FACTORS INCREASED 41%

Earnings Were Better than Projected, Net Income Increased 87%

For the first quarter of 2021, Citizens Financial Services reported results that outperformed our projections, with particularly strong growth in earnings. While some of that earnings strength came from nonrecurring sources such as life insurance proceeds (the Bank also recognized roughly $900,000 in net deferred fees on PPP loans), it was also due to solid core bank operations. Total revenues were up 36% relative to the year-ago quarter, the balance sheet continued to expand and asset quality improved, with nonperforming assets declining over the past year. Profitability ratios reflected the strong earnings performance, with annualized return on average assets and average equity increasing significantly.

Net income was $8,463,000, or $2.16 per diluted share, for the first quarter of 2021, up from $4,531,000, or $1.27 per diluted share, in the year-ago quarter. There was a bit of “noise” in the quarter, with several factors affecting the earnings comparisons, the larger ones being: 1) life insurance proceeds in 2021’s first quarter of $1,155,000; 2) an increase in the provision for loan losses to $650,000 in the first quarter of 2021 from $400,000 in the year-ago quarter; 3) merger expenses of $376,000 in 2020’s first quarter and 4) security gains/derivative income totaling $463,000 in 2021’s first quarter, versus security losses of $254,000 in the year-ago quarter. Pretax income before these items was $9,111,000, up 41% from $6,450,000 in the year-ago quarter. Average earning assets were up 31% compared to the first quarter of 2020, which entirely offset a contraction in the net interest margin (the net interest margin dropped to 3.73% from 3.84%). The net effect was that net interest income grew 28% to $16,441,000 in 2021's first quarter from $12,890,000 in the year-ago quarter. (About $896,000 of this increase represented the amortization of net deferred fees on PPP loans.) Noninterest income likewise was up sharply, and while part of this increase was due to the life insurance proceeds, noninterest income excluding nonrecurring items was still up 24% in 2021's first quarter to $2,617,000 from $2,105,000 in the year-ago quarter, with much of that strength coming from solid mortgage operations. Finally, excluding merger-related expenses, noninterest expense totaled $9,947,000 in 2021's first quarter, up 16% from $8,545,000 in the year-ago quarter. Profitability ratios were also quite impressive, with ROAA at 1.77% and ROAE at 17.25% in 2021's first quarter.

AVERAGE EARNING ASSET GROWTH OFFSET LOWER MARGINS; NET INTEREST INCOME GREW 28%

NONINTEREST INCOME EXCLUDING SECURITY GAINS/LOSSES AND DERIVATIVE INCOME INCREASED 24%

ROAA AND ROAE WERE IMPRESSIVE

Balance Sheet Growth Remained Strong; Private Placement Completed

Balance sheet growth was strong over the past year. Total assets grew 36%, while deposits were up 40% and net loans grew 29% from March 31, 2020 to March 31, 2021. While some of this growth came from the inclusion of MidCoast (which was acquired April 2020), organic growth in most key balance sheet areas was still quite solid in the double digits, and the outlook for momentum remains favorable. The Bank has continued to actively originate PPP loans, and issued 227 PPP loans with an aggregate balance of $18.5 million in 2021's first quarter. At March 31, 2021, 99 of the loans issued in 2020 were still outstanding with a balance of $9.8 million. The Bank's capital position remains strong and was bolstered (after quarter end) by a $10 million private placement of subordinated notes that are callable in 2026 and due in 2031. Shareholders' equity was $199 million, or 9.96% of total assets, at March 31, 2021, which was up 24% from $160 million (10.92% of total assets) at the year-ago date.

FROM 3/31/20 TO 3/31/21: DEPOSITS GREW 40%, TOTAL ASSETS WERE UP 36% AND NET LOANS INCREASED 29%

THE CAPITAL POSITION BENEFITTED FROM THE RECENT CLOSING OF $10 MILLION OF SUBORDINATED NOTES

EQUITY/ASSETS: 9.96%

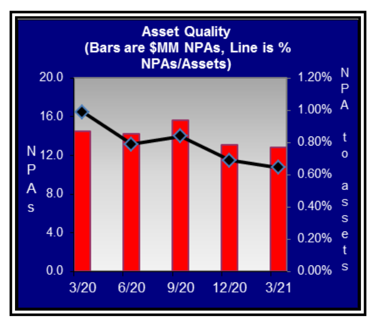
A Comment About Consolidation

Many bank investors attempt to maximize returns by trying to anticipate which banks will be acquired. While that strategy does pay off occasionally, a more rewarding strategy (at least in our view) is to focus on the banks that are successful *acquirors*. In the long-run, the banks that have demonstrated an ability to grow earnings through an external growth strategy often achieve above average long-term returns for its shareholders. Much of Citizens Financial's success in this regard has come from its cost containment discipline. In the most recent quarter, the Company's efficiency ratio was quite impressive at 47%, versus a peer group average of 64% (lower is better.)

CITIZENS FINANCIAL STANDS TO BENEFIT FROM FUTURE ACQUISITION OPPORTUNITIES

NPAs Were Down Compared to the Year-Ago Date

Asset quality remains good. Nonperforming assets were $12.9 million, or 0.65% of total assets, at March 31, 2021, down from $13.1 million (0.69% of total assets), at December 31, 2020, and $14.5 million (0.99% of total assets), at the year-ago date. The reserve position also improved, with the allowance for loan losses increasing to $16.7 million, or 1.18% of total loans, at March 31, 2021, from $14.2 million, or 1.30% of total loans, at the year-ago date. At March 31, 2021 there were only four loans totaling $13.9 million with modified terms under the Company's COVID loan modification program.



ASSET QUALITY IMPROVED

NPAS/ASSETS: 0.65% VS. 0.99% AT 3/31/20

THE ALLOWANCE WAS UP 16%

RESERVES/LOANS: 1.18%

Projections Increased

Projections remain challenging to estimate accurately, though we are increasing our projections due to the strength of the most recent results. Specifically, we are projecting earnings for the year 2021 of $27.6 million, or $7.05 per diluted share, compared to $26.2 million, or $6.70 per diluted share, previously estimated. Earnings could also vary substantially from these projections given the uncertainties of the COVID-19 crisis.

EPS:
2019A: $5.47
2020A: $6.59
2021E: $7.05

ADDITIONAL INFORMATION UPON REQUEST