

Bank Watch

Banks Interested in Asset Managers and Trust Companies

In a low interest rate environment coupled with rising capital requirements, many banks are turning their attention to asset managers and trust companies to improve ROE and diversify revenue. Although deal terms are rarely disclosed, the table below depicts some recent examples of this trend with pricing metrics where available.

Announced	Acquirer	Target	AUM (\$M)	Deal Value /		
				AUM / AUA (%)	Rev.	EBITDA
2/21/2011	IBERIABANK Corp.	Bank of Florida Trust Co.	415	0.30	0.78	NA
2/03/2012	Bryn Mawr Bank Corp.	Davidson Trust Company	1,000	1.05	NA	NA
10/31/2012	Atlas Banc Holdings Corporation	Halen Capital Management, Inc.	NA	NA	NA	13.23
12/06/2012	Toronto-Dominion Bank	Epoch Holding Corp.	24,534	2.77	6.54	NA
4/28/2011	Bank of NY Mellon Corporation	Talon Asset Management (Wealth Mgt. Dept.)	800	2.00	NA	NA
4/11/2013	Canadian Imperial Bank	Atlantic Trust Group, Inc.	NA	1.03	NA	NA
2/15/2013	NH Thrift Bancshares	Charter Holding Corp.	NA	0.83	NA	NA
10/01/2011	Wells Fargo & Co.	Golden Capital Mgt.	2,918	NA	NA	NA
4/05/2010	Legacy Bancorp, Inc.	Renaissance Investment Group	195	NA	NA	NA
8/29/2011	U.S. Bancorp	Institutional Trust Business (Union Bank)	NA	NA	NA	NA
10/09/2012	Orange County Bancorp	Hudson Valley Investment Advisors	272	NA	NA	NA
1/07/2014	Tri-State Capital Holdings	Chartwell Investment Partners, LP	7,500	0.80	2.00	6.96
Median Multiples Paid				1.03%	2.00x	10.10x

Source: SNL Financial

While multiples for activity metrics (AUM and revenue) can be erratic and tend to vary with profitability, EBITDA multiples are often observed in the 10x-15x range for public RIAs with their private counterparts typically priced at a modest discount depending on risk considerations, such as customer concentrations and personnel dependencies.

Powered by a fairly steady market tailwind over the last few years, many asset managers and trust companies have more than doubled in value since the financial crisis and may finally be posturing towards some kind of exit opportunity to take advantage of this growth. Despite the richer valuations, banks and other financial institutions are starting to take notice for a multitude of reasons:

- » Exposure to fee income that is uncorrelated to interest rates
- » Minimal capital requirements to grow AUM and AUA
- » Higher margins and ROEs relative to traditional banking activities
- » Greater degree of operating leverage – gains in profitability with management fees
- » Largely recurring revenue with monthly or quarterly billing cycles
- » Potential for cross-selling opportunities with bank's existing trust customers

Still, there are often several overlooked deal considerations that banks and other interested parties should be apprised of prior to purchasing an asset manager or trust company. We've outlined our top three considerations when looking to purchase these kinds of businesses in today's environment:

1. **Price.** With most of the domestic equity markets at peak levels, asset manager valuations have never been higher, and purchasing an RIA or trust company prior to a market downturn or correction often leads to disappointing returns on investment. There may be some temptation to pay a higher earnings multiple based on rule-of-thumb activity metrics (% of AUM or revenue), but we would typically advise against paying above normal multiples of ongoing EBITDA for a closely held asset manager, absent significant synergies or growth prospects for the target company.
2. **Structure.** Since many asset managers and trust companies are heavily dependent upon a few staff members for investing acumen or key client relationships, many deals are structured as earn-outs to ensure business continuity following the transaction. These deals tend to take place over three to seven years with a third to half of the total consideration paid out in the form of an earn-out based on future performance.
3. **Degree of operational autonomy.** Asset managers (and their clients) value independence. Institutional investors typically have to consent to any significant

change in ownership to retain their business following a transaction and may not be willing to do so if they feel that their asset manager's independence is compromised. Senior managers at the target firm will likely need to be assured that the new owner will exert minimal interference on operations and strategic initiatives if key personnel are to be retained after the merger.

Perhaps because of these considerations, it is estimated that less than 1% of the 11,000 RIAs and independent trust companies transact in a given year. Still, with an aging ownership demographic and uniquely attractive business model to many prospective buyers, it is reasonable to assume that more asset managers and trust companies will transact in the coming years.

Mercer Capital provides asset management, trust companies, and investment consultants with corporate valuation, financial reporting valuation, transaction advisory, portfolio valuation, and related services. For more information, please contact us.



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What We're Reading

J.V. Rizzi had an interesting article on *AmericanBanker.com* about small bank M&A and key questions to consider in a transaction in an article entitled "Dithering on M&A Could Be Deadly for Small Banks."

<http://mer.cr/R5Ve4f>

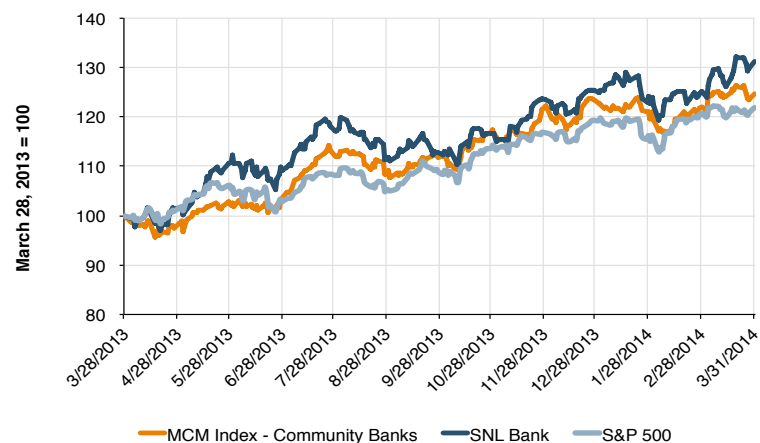
Great read from Harvard Winters on "What Warren Buffett Can Teach Banks About Shareholder Value" at *AmericanBanker.com*.

<http://mer.cr/1i4ZQky>

BankDirector has an interesting piece where they asked a panel of bank attorneys "What has been the impact so far of the CFPB?"

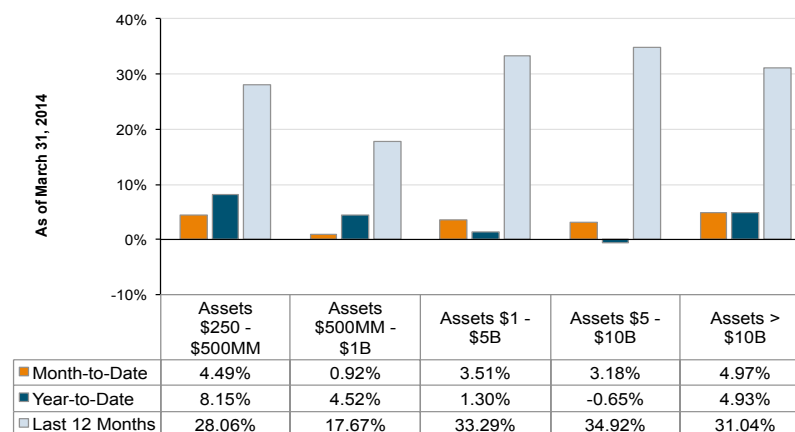
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Mercer Capital's Bank Group Index Overview



Return Stratification of U.S. Banks

by Asset Size

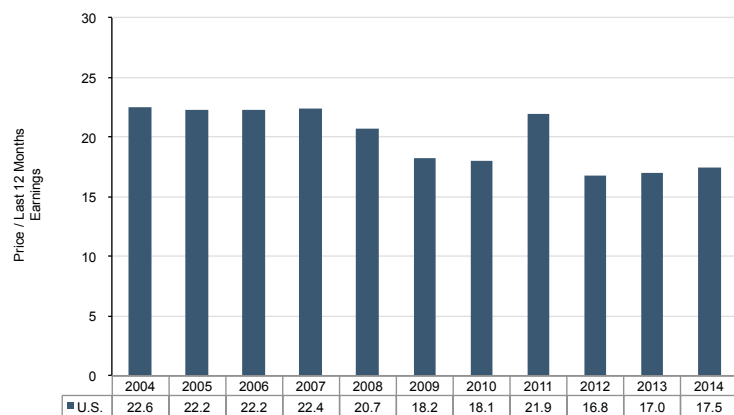


Median Valuation Multiples

Indices	Median Total Return			Median Valuation Multiples as of March 31, 2014					
	Month-to-Date	Year-to-Date	Last 12 Months	Price / LTM EPS	Price / 2014 (E) EPS	Price / 2015 (E) EPS	Price / Book Value	Price / Tangible Book Value	Dividend Yield
Atlantic Coast Index	1.71%	2.36%	18.22%	14.66	16.41	13.34	111.5%	120.8%	2.0%
Midwest Index	1.92%	5.02%	34.97%	13.97	14.33	12.66	117.5%	129.3%	1.9%
Northeast Index	3.01%	0.81%	22.59%	14.50	14.35	12.79	128.5%	136.4%	3.3%
Southeast Index	3.39%	0.39%	20.80%	14.58	14.01	13.61	126.2%	131.1%	1.9%
West Index	2.01%	3.48%	28.75%	17.45	16.93	14.58	135.6%	140.5%	1.8%
Community Bank Index	2.30%	1.79%	24.73%	14.58	15.36	13.50	119.6%	130.5%	2.1%
SNL Bank Index	4.83%	4.59%	31.18%	na	na	na	na	na	na

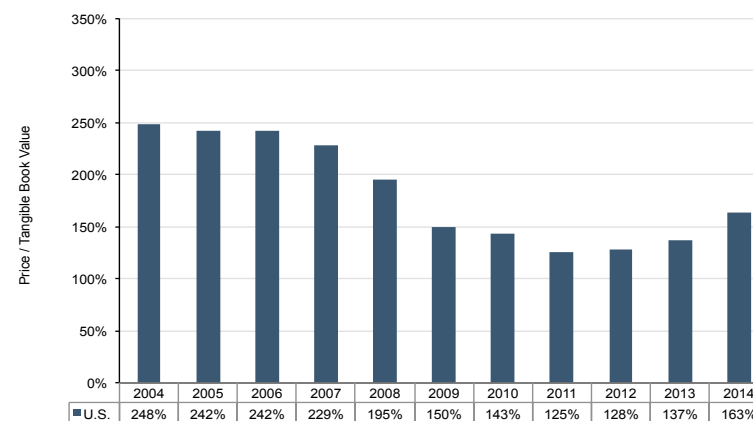
Median Price/Earnings Multiples

Target Banks Assets <\$5B and LTM ROE >5%



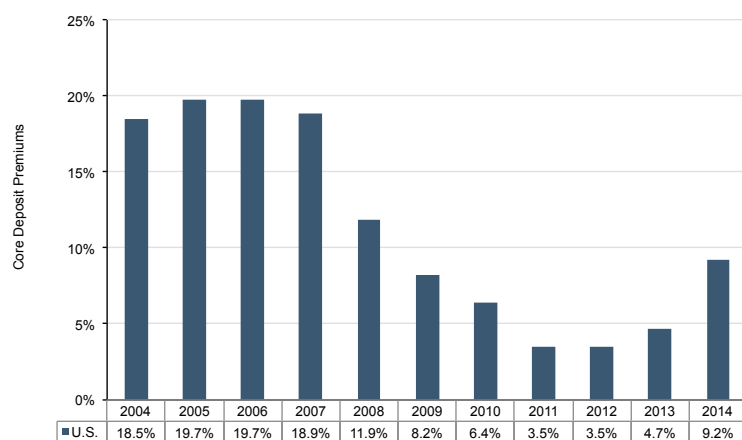
Median Price/Tangible Book Value Multiples

Target Banks Assets <\$5B and LTM ROE >5%



Median Core Deposit Multiples

Target Banks Assets <\$5B and LTM ROE >5%



Median Valuation Multiples for M&A Deals

Target Banks Assets <\$5B and LTM ROE >5%, through March, 2014

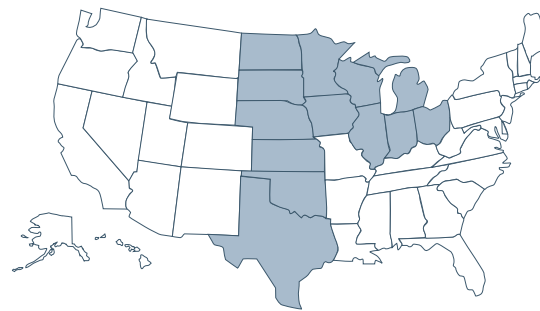
Regions	Price / LTM Earnings	Price / Tang. BV	Price / Core Dep Premium	No. of Deals	Median Deal Value	Target's Median Assets	Target's Median LTM ROE (%)
Atlantic Coast	nm	nm	nm	0	nm	nm	nm
Midwest	29.57	1.98	11.8%	13	113.43	117,155	7.03%
Northeast	17.90	1.79	11.3%	3	131.86	907,683	8.96%
Southeast	15.78	1.63	10.8%	5	112.00	664,161	10.52%
West	25.69	1.33	4.7%	6	37.50	157,077	7.42%
Nat'l Community Banks	17.50	1.63	9.2%	27	69.59	221,343	8.51%

Mercer Capital's Regional Public Bank Peer Reports

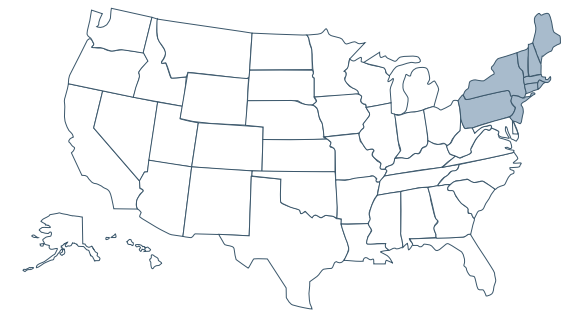
Updated weekly, Mercer Capital's Regional Public Bank Peer Reports offer a closer look at the market pricing and performance of publicly traded banks in the states of five U.S. regions. Click on the map to view the reports from the representative region.



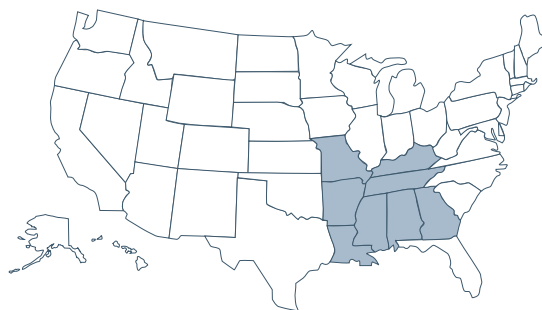
Atlantic Coast



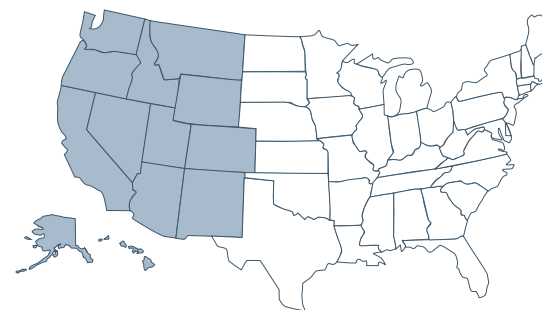
Midwest



Northeast



Southeast



West

Mercer Capital

Financial Institutions Services

Mercer Capital assists banks, thrifts, and credit unions with significant corporate valuation requirements, transactional advisory services, and other strategic decisions.

Mercer Capital pairs analytical rigor with industry knowledge to deliver unique insight into issues facing banks. These insights underpin the valuation analyses that are at the heart of Mercer Capital's services to depository institutions.

Mercer Capital is a thought-leader among valuation firms in the banking industry. In addition to scores of articles and books, *The ESOP Handbook for Banks* (2011), *Acquiring a Failed Bank* (2010), *The Bank Director's Valuation Handbook* (2009), and *Valuing Financial Institutions* (1992), Mercer Capital professionals speak at industry and educational conferences.

The Financial Institutions Group of Mercer Capital publishes *Bank Watch*, a monthly e-mail newsletter covering five U.S. regions. In addition, Jeff Davis, Managing Director, is a regular contributor to SNL Financial.

For more information about Mercer Capital, visit www.mercercapital.com.

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