Assessing the Buyer's Shares

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What's the Stock Worth?

ABA Outline

1. Framing the Questions
2. Valuation Framework
3. Concept of Earning Power
4. Reconciling P/TBV and P/E
5. How Institutional Investors View Value
6. Great Stock vs Great Company

Stock Swap

Liquidity—can I sell?

Ownership % vs contribution %

Profitability trends

Loan portfolio history, risks

Pro forma impact on EPS, TBVPS, DPS, capital, ROE ….

Historical valuation and pro forma valuation (realistic?)

Has the buyer created value for its shareholders and what's the outlook to do so post-close?

Are sellers getting a better piece of paper than what they have?

Current vs Historical Valuation

Median Price / Earnings (Trailing 4 Quarters)

	7/30/19	12/31/17	11/8/16	3 Yr	5 Yr	10 Yr	20 Yr
SNL Micro Cap U.S. Bank	13.8x	18.8x	15.0x	17.3x	15.3x	15.0x	15.3x
SNL Small Cap U.S. Bank	14.2x	19.9x	16.9x	19.9x	18.0x	16.9x	16.6x
SNL Mid Cap U.S. Bank	12.9x	19.3x	17.4x	19.3x	18.2x	17.7x	16.7x
SNL Large Cap U.S. Bank	11.0x	16.3x	12.7x	14.9x	15.0x	14.1x	14.8x

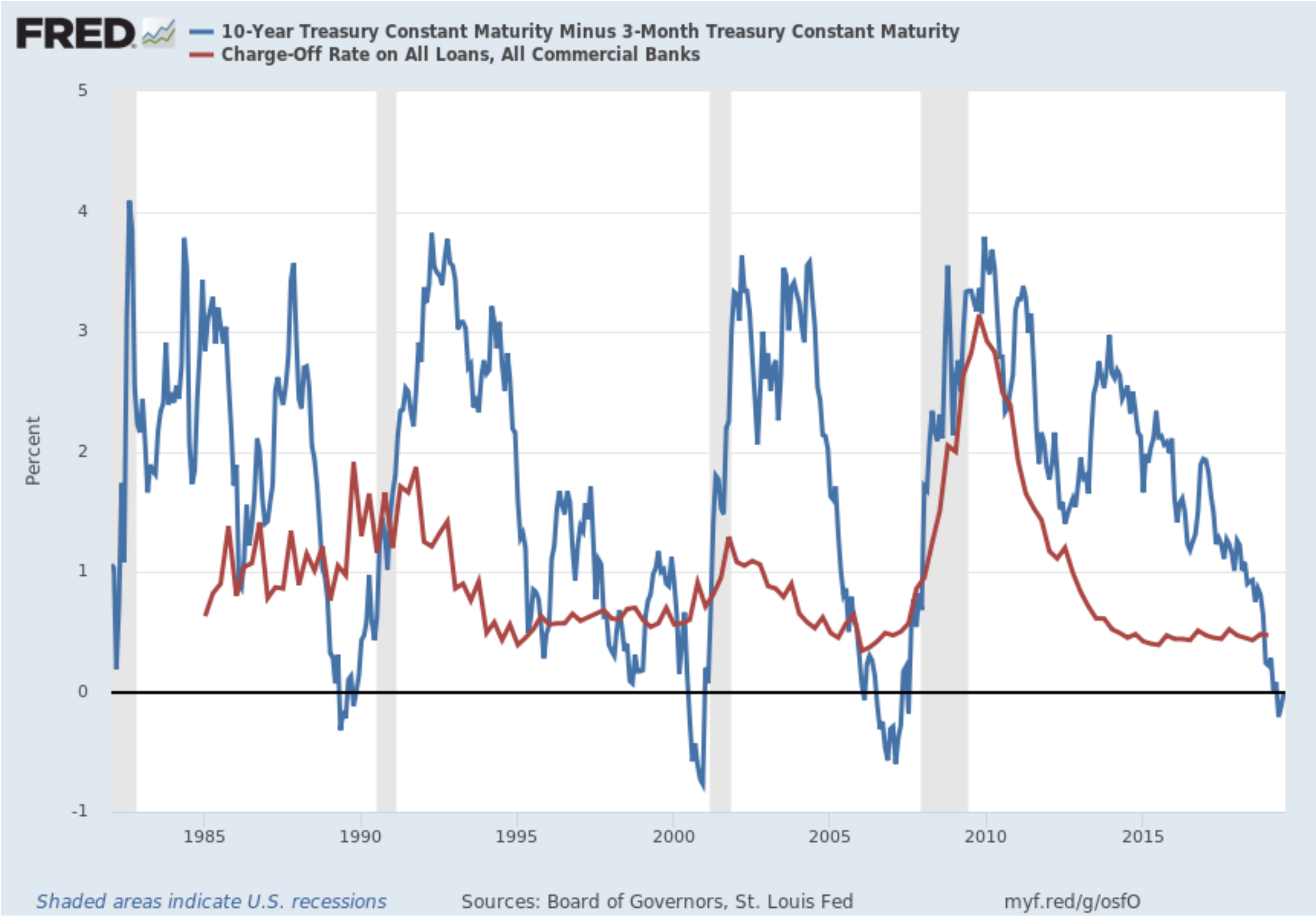
Median Price / Tangible Book Value

	7/30/19	12/31/17	11/8/16	3 Yr	5 Yr	10 Yr	20 Yr
SNL Micro Cap U.S. Bank	133%	148%	120%	143%	134%	122%	144%
SNL Small Cap U.S. Bank	155%	195%	166%	195%	168%	162%	197%
SNL Mid Cap U.S. Bank	185%	225%	195%	223%	200%	191%	225%
SNL Large Cap U.S. Bank	169%	198%	148%	181%	173%	167%	207%

Median Dividend Yield

	7/30/19	12/31/17	11/8/16	3 Yr	5 Yr	10 Yr	20 Yr
SNL Micro Cap U.S. Bank	1.7%	1.4%	1.8%	1.5%	1.7%	1.8%	1.8%
SNL Small Cap U.S. Bank	2.0%	1.5%	1.9%	1.6%	1.8%	1.9%	2.1%
SNL Mid Cap U.S. Bank	2.7%	1.9%	2.1%	2.0%	2.1%	2.0%	2.3%
SNL Large Cap U.S. Bank	2.9%	2.0%	2.4%	2.2%	2.1%	1.9%	2.4%

Multiples Contract when the Curve Inverts



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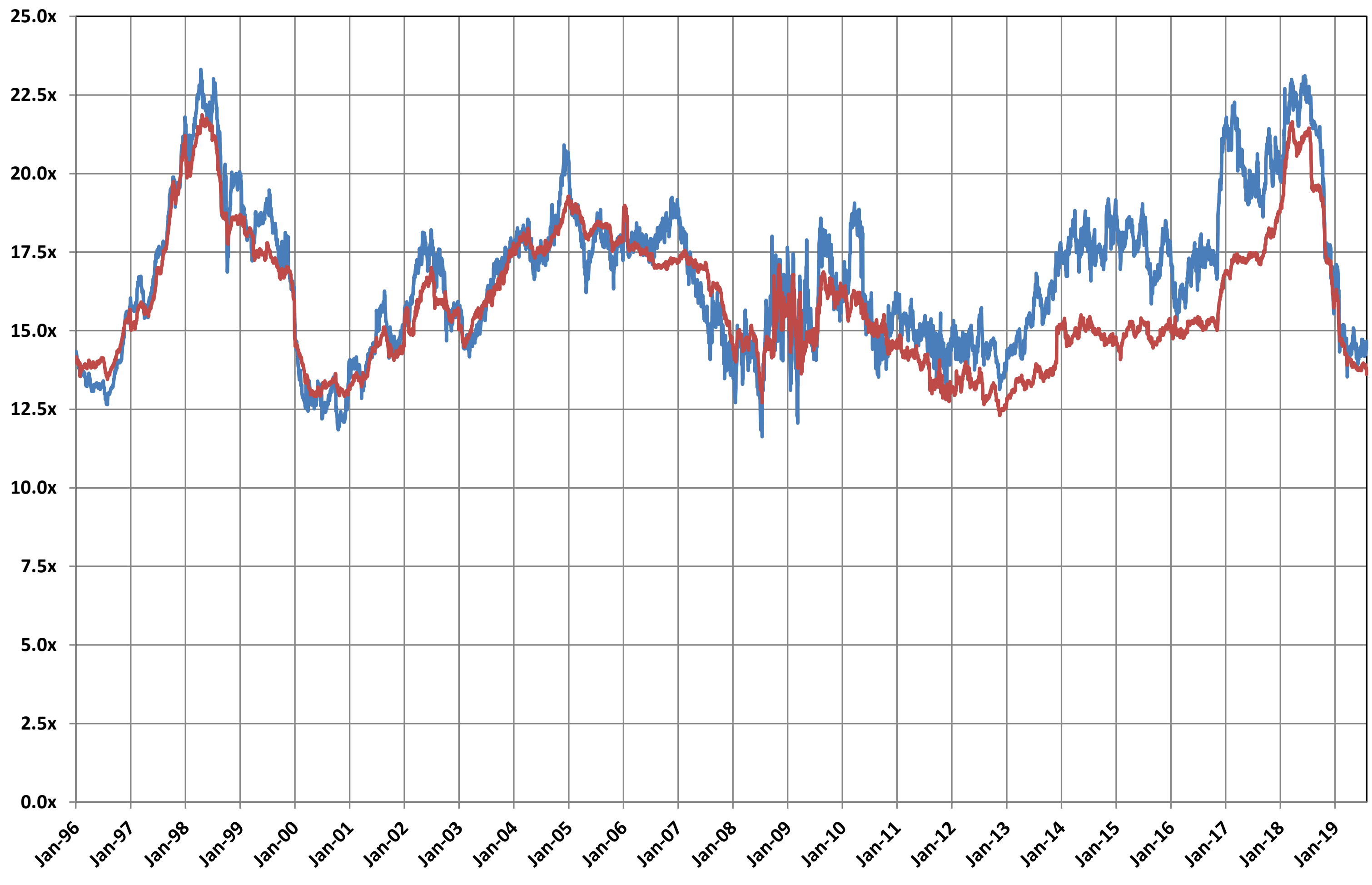
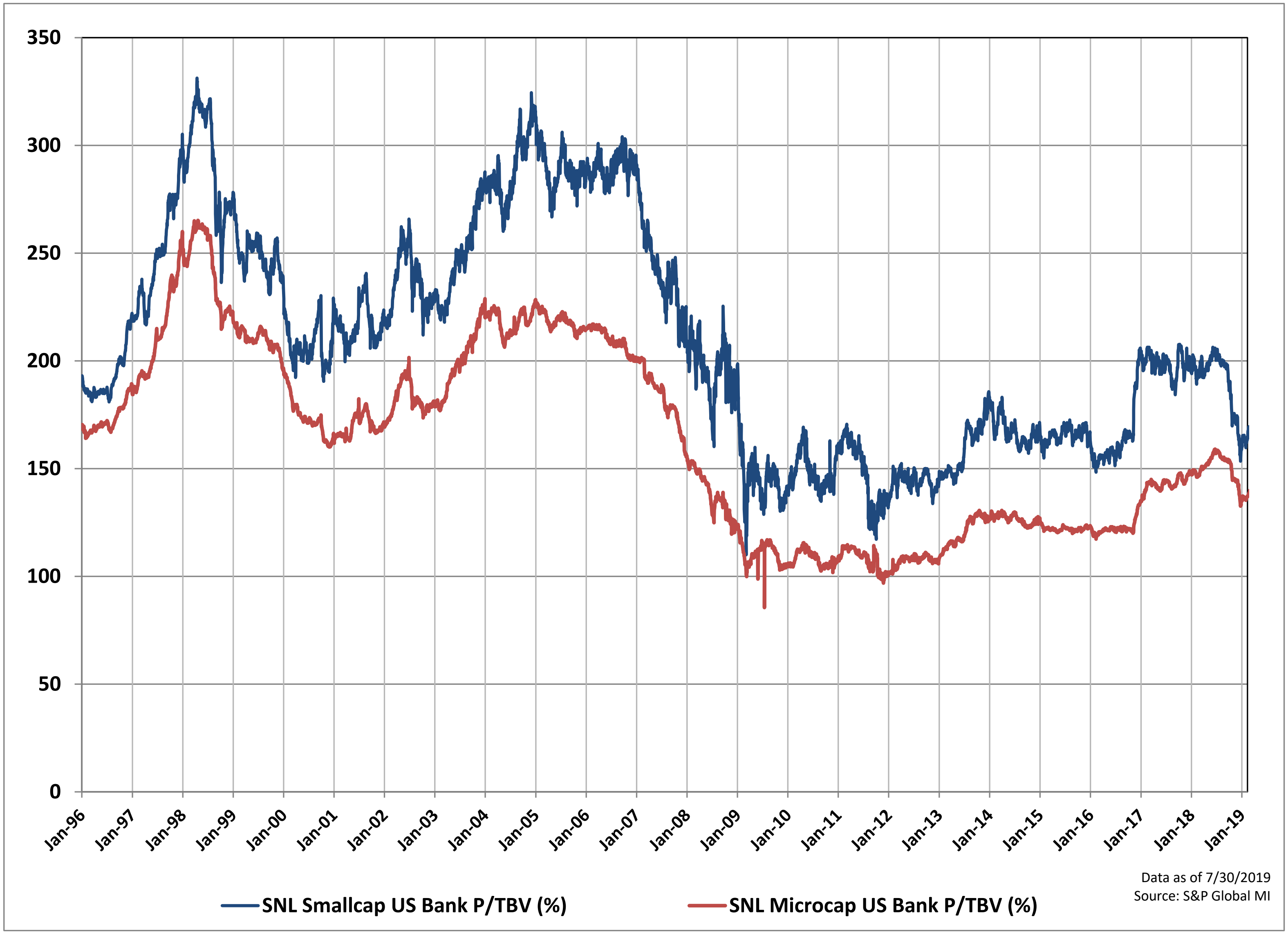
Current vs Historical Public Market P/E



Data as of 7/30/2019
Source: S&P Global MI, Mercer Capital

Current vs Historical Public Market P/TBV



M&A Themes

Pricing driven by seller earnings and expense savings (*but value quoted as a multiple of tangible book value!*)

Expense savings always a key in the analysis but who gets credit?

Recent theme of intense need to acquire deposits

Post-crisis M&A largely among small banks but evolving with BBT-STI

Emergence of more super community banks and small regional banks with publicly-traded stock to acquire (but how liquid?)

Era of positive reactions to deals over; most buyers see neutral-to-pressure on their shares upon announcement

Street prefers premium acquisitions to MOEs (though BBT-STI well received as a moderate risk transaction and help from slightly better pre-announce valuation multiples for BBT vs STI) – and do not let the Street's MOE reluctance holdback community bank MOEs or quasi MOEs that make sense

M&A Pricing Governors

Pricing: 8-12x pro forma earnings with 100% after-tax expense saves

Expense Saves: 20-30% for out-of-market deals, 30-45% in-market

Revenue Synergies: Good luck!

TBVPS Dilution Earn-Back: 3-5 years via the "cross-over" method

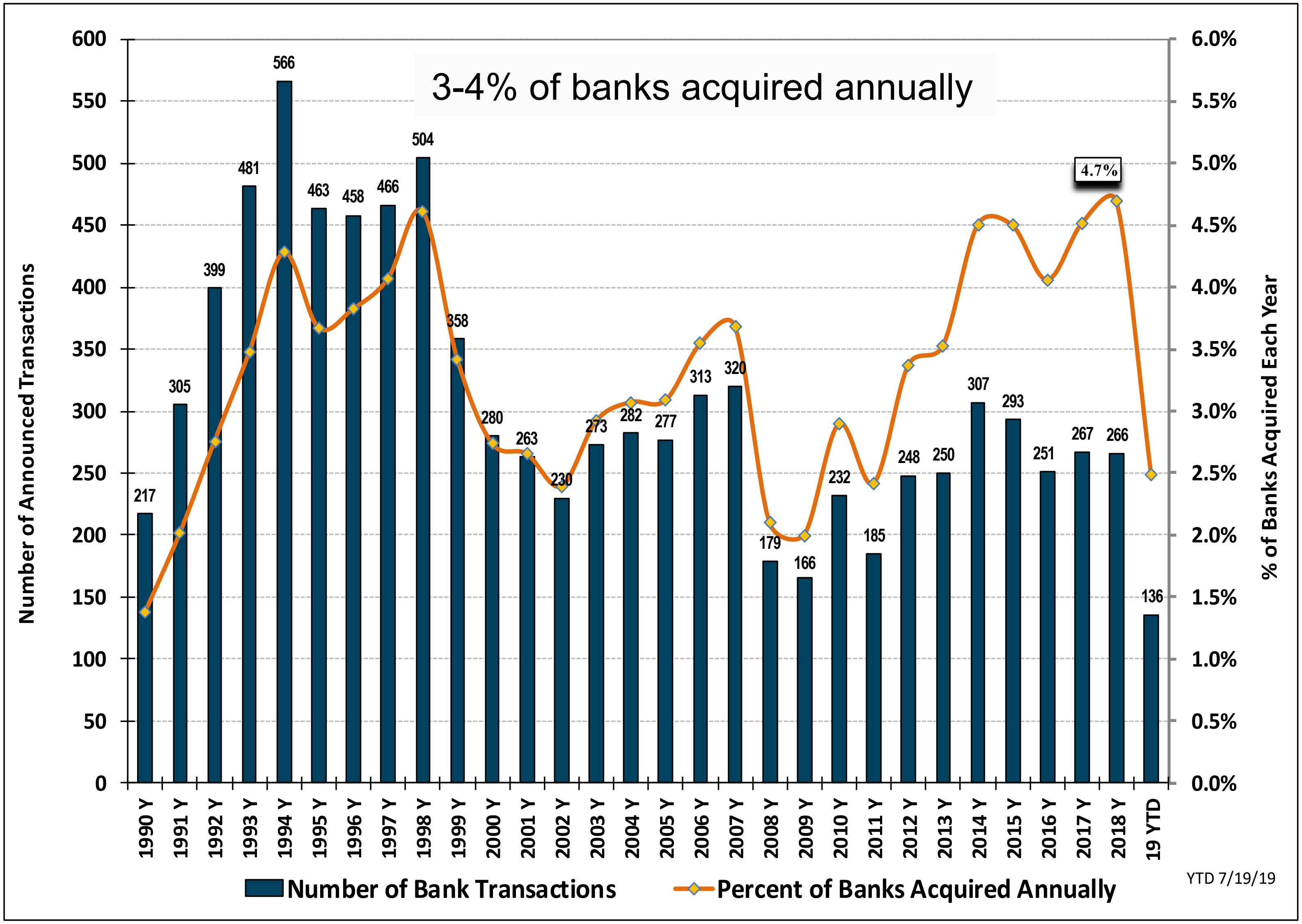
EPS Accretion: Threshold varies, but ~5% *minimum* accretion

Internal Rate of Return: Comfortably above the buyer's cost of capital

Bank Capital: Varies but day one leverage ratio 8-9% (*investors in public acquirers are focused on consolidated capital, not bank-level*)

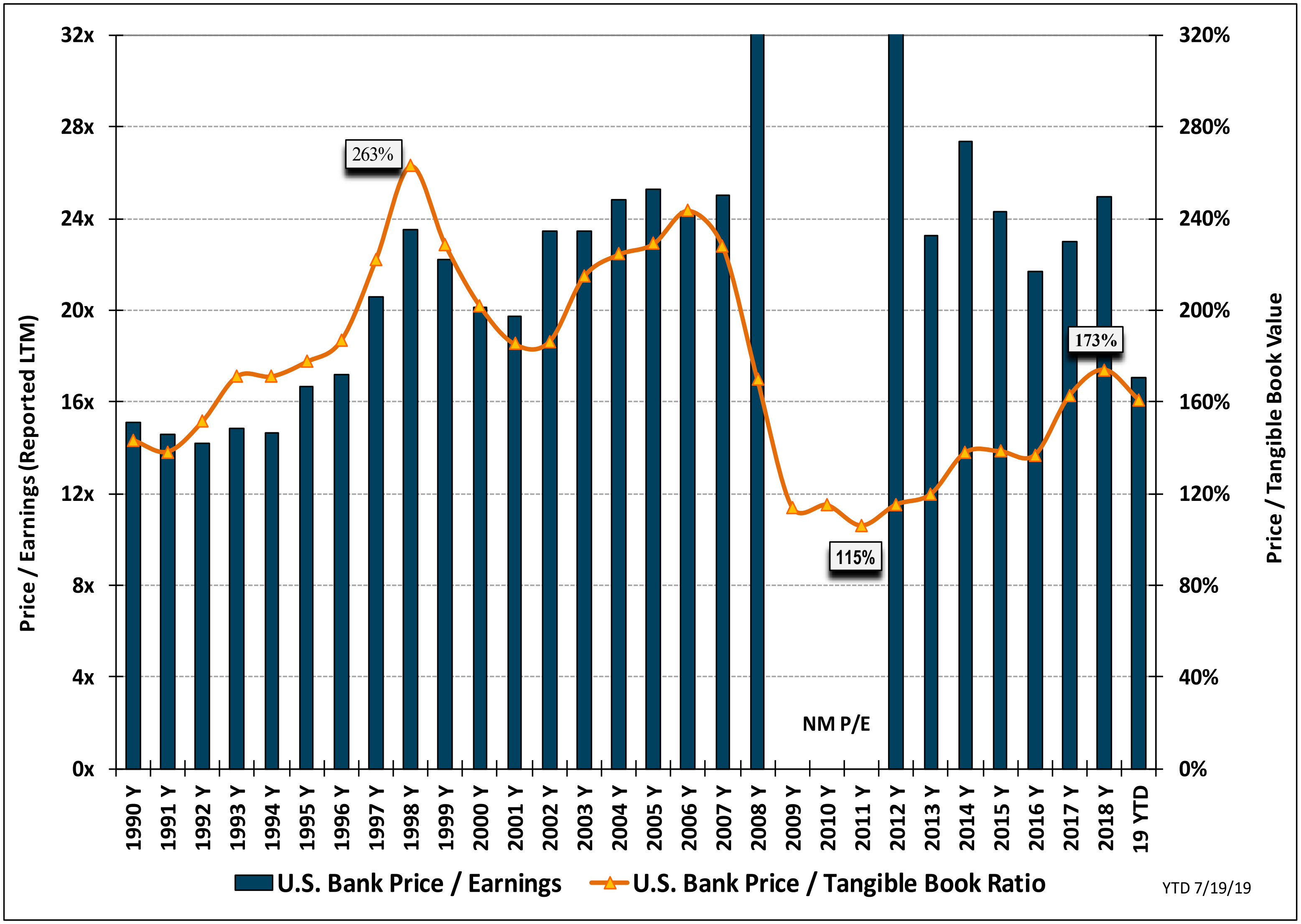
Parent Capital Structure: Significant flexibility for small BHCs (*though most boards probably not comfortable with Fed allowed max*)

US Bank M&A Activity



Source: S&P Global MI

Median Bank M&A Multiples



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Evaluating a Buyer's Shares

Fictional Scenario

Market Data	
NYSE:AX	
Last (Delayed)	**$30.32**
VWAP (Delayed)	$29.46
Open	$28.25
Previous Close	$27.72
52 wk High	**$43.17**
52 wk Low	**$23.87**
Beta 3Y	1.15
Market Cap. ($M)	**$1,833**
Total Capitalization ($M)	$2,466
Volume	499,840
Avg 3M Daily Volume	**339,318**
Shares Outstanding	61,128,817
Shares Out as of	6/30/2019
Float (%)	**87.2%**
Inst. Ownership (%)	**75.7%**
Shares Sold Short	6,277,704
Short Int/ShOut (%)	**10.3%**

Current Snapshot is Only a Starting Point

Fictional Scenario

Total Return 1-Yr (%)	Total Return 3-Yr (%)	Public Company Comps vs Buyer	ST	Assets ($M)	Price 7/30/19 ($)	Market Cap ($M)	P/E 2019E (x)	P/E 2020E (x)	P/BV MRQ (%)	P/TBV MRQ (%)	Div'd Yield (%)	LTM ROA (%)	LTM ROE (%)	LTM ROTE (%)	LTM Effic (%)
(17)	24	Ameris Bancorp	GA	11,889	39.97	2,770	10.5	9.1	123	192	1.0	1.24	10.3	17.0	54.1
(7)	33	BancorpSouth Bk	MS	18,937	29.90	3,009	12.9	12.1	129	197	2.5	1.28	10.6	15.3	65.8
(22)	(9)	Bk OZK	AR	22,961	30.70	3,959	9.2	9.6	99	120	3.1	1.90	11.6	14.7	35.6
(36)	(11)	Cadence Bncp	TX	17,504	17.20	2,215	8.9	8.3	91	121	4.1	1.45	12.1	15.9	48.6
(12)	1	Home BcShrs Inc	AR	15,288	19.93	3,338	11.6	11.2	138	235	2.6	2.06	13.2	23.7	37.6
(14)	39	Indepdnt Bk Grp	TX	14,709	57.20	2,457	11.2	10.6	109	215	1.7	1.35	8.6	17.8	49.5
(7)	47	Old National Bncp	IN	20,145	17.64	3,038	12.8	12.5	108	179	2.9	1.07	8.4	14.8	61.5
(1)	19	Pinnacle Financial	TN	26,540	61.14	4,676	11.7	11.3	113	202	1.0	1.53	9.4	18.6	46.2
2	45	Prosperity Bcshs	TX	22,375	69.54	4,816	14.6	13.3	117	219	2.4	1.42	8.2	16.2	42.6
(18)	19	Renasant Corp	MS	12,893	36.01	2,099	11.9	11.6	99	183	2.4	1.32	8.6	16.3	58.9
(8)	14	South State Corp	SC	15,683	78.83	2,731	14.5	14.0	115	208	2.0	1.23	7.6	14.9	56.6
(13)	**20**	**Average**				**3,192**	**11.8**	**11.2**	**113**	**188**	**2.4**	**1.44**	**9.9**	**16.8**	**50.6**
(12)	**19**	**Median**				**3,009**	**11.7**	**11.3**	**113**	**197**	**2.4**	**1.35**	**9.4**	**16.2**	**49.5**
(28)	**65**	**Axos Finl**	**CA**	**11,220**	**27.72**	**1,694**	**10.9**	**8.9**	**159**	**182**	**NA**	**1.68**	**17.2**	**17.2**	**39.1**

Source: S&P Global MI

Evaluating a Buyer's Shares

Although cash consideration is used much more widely since "pooling accounting" was phased-out in 2000, the issuance of common equity to sellers continues to be the predominant means to finance bank acquisitions.

Accepting the buyer's stock raises a number of questions, most which fall into the genre of: *what are the investment merits of the buyer's shares?* The answer may not be as obvious as it seems, even when the buyer's shares are actively traded.

Our experience is that most boards weighing an acquisition proposal do not have the background to thoroughly evaluate the buyer's shares. And even when financial advisors are involved there still may not be a thorough vetting of the buyer's shares.

Questions to Ask About the Buyer's Shares

The list does not encompass every question that should be asked, but it does illustrate that a liquid market for a buyer's shares does not necessarily answer questions about value, growth potential and risk profile.

- **Liquidity of the Shares.** What is the capacity to sell the shares issued in the merger? SEC registration and even NASADQ and NYSE listings do not guarantee that large blocks can be liquidated efficiently. Generally, the higher the institutional ownership, the better the liquidity. Also, liquidity should improve with consummation of the acquisition because the number of shares outstanding and shareholders increase.

- **Capital**. Is the pro-forma capital level acceptable given the buyer's asset quality history and growth aspirations? Because of enhanced regulatory oversight of the pro forma capital position as part of the merger application process, there may be more margin of safety in the capital calculus post-transaction than prior to the financial crisis. Nevertheless, sellers and their advisors should address the issue.

Questions to Ask About the Buyer's Shares

- **Parent Company Capital Structure**. A second capital-related question that gets asked much less frequently is: what does the parent company capital structure look like and how much of the bank's earnings are required to be passed upstream via a dividend for debt service and preferred stock dividends? If the answer is relatively high, then the margin of safety for the common dividend may not be as high as presumed.

- **Ability to Raise Cash to Close**. What is the source of funds for the buyer to fund the cash consideration? If the buyer has to go to market to issue debt, what is the contingency plan if unfavorable market conditions preclude floating an issue? Is there a back-up lender? Is a large dividend required from the Bank and will regulators approve it?

- **Asset Quality**. Asset quality is an obvious issue to address. Historical results are always an important consideration, but "what-if" questions are important to consider, too. In the lead-up to the financial crisis many buyers and sellers failed to grasp the implication of rapid growth in residential mortgage, C&D and income-CRE portfolios. Even large sophisticated buyers were not immune. Wachovia Corporation and Wachovia's investment bankers, Merrill Lynch and Wells Fargo Securities, badly misjudged Golden West Financial Corporation's large option-ARM portfolio, which had performed well for 20+ years.

Questions to Ask About the Buyer’s Shares

- **Profitability**. A full assessment of profitability should be conducted, ranging from loan yields to cost structures to loss rates through a full credit cycle. The underlying question should be whether current profitability is sustainable. As an example, profitability of a buyer may be structurally lower than it appears if mortgage banking was an important source of earnings during the past few years. Also, above average loan yields represent a source of risk if the low rate environment persists for several more years.

- **Consensus Analyst Estimates**. If the buyer is publicly traded and has analyst coverage, consideration should be given to Street expectations of achievable earnings over the next one or two years vs. what the diligence process determines. If Street expectations are too high, then the shares may be vulnerable once investors reassess their earnings and growth expectations.

- **Growth History and Prospects**. Sellers should consider the buyer’s historical growth and prospects for continued growth. Over time, investors tend to bestow higher valuations on banks that can consistently grow than those that cannot or those that primarily rely upon acquisitions to do so.

Questions to Ask About the Buyer’s Shares

- **Funding Risks**. While most commercial banks predominantly rely upon core deposits for funding, the seller should have a full understanding of the buyer’s funding strategies and under what circumstances pressure might develop.
- **Dividend History and Prospects for Future Increases.** In a yield starved world, dividend paying stocks have greater attraction than in past years. Sellers should not be overly swayed by the pick-up in dividends from swapping into the buyer’s shares; however, multiple studies have demonstrated that a sizable portion of an investor’s return comes from dividends over long periods of time. If the dividend yield is notably above the peer average, the seller should ask why? Is it payout related, or are the shares depressed? Worse would be if the market expected a dividend cut. These same questions should also be asked in the context of the prospects for further increases.
- **Valuation.** Like profitability, the valuation of the buyer’s shares should be judged relative to the buyer’s historical valuation—i.e. are the shares rich, cheap or in-line with history? Why? Likewise, valuation should be compared to a peer group and the peer group through time—i.e., has the buyer typically traded at a discount, a premium or in-line with peer multiples. If so, why?

Questions to Ask About the Buyer's Shares

- **Share Performance**. Sellers should understand the source of the buyer's shares performance over several multi-year holding periods. For example, if the shares have significantly outperformed an index over a given holding period, is it because earnings growth accelerated? Or is it because the shares were depressed at the beginning of the measurement period for some reason and since then the valuation has reverted to a normalized level? Likewise, underperformance may signal bad management, or it may reflect a starting point valuation that was unusually high.

- **Strategic Position**. During the 1990s, investors in small banks were focused on the potential for a "double-dip" or even a "triple-dip" whereby the buyer later agreed to be sold. That mentality is not as prevalent today, but directors of the selling board should consider the strategic position of the buyer, asking such questions about the attractiveness of the franchise to other acquirers?

- **Contingent Liabilities**. Contingent liabilities are a standard part of due diligence punch list for a buyer, but sellers should evaluate contingent liabilities too. The debacle in mortgage banking is a stark example. The vast bulk of fines JPM paid in the aftermath of the GFC were related to contingent liabilities that were assumed with the shotgun stock of BSC that was structured as a stock purchase (merger) rather than an asset purchase.

The Ideal Investment

Valuation

Absolute

History

Peer

Growth

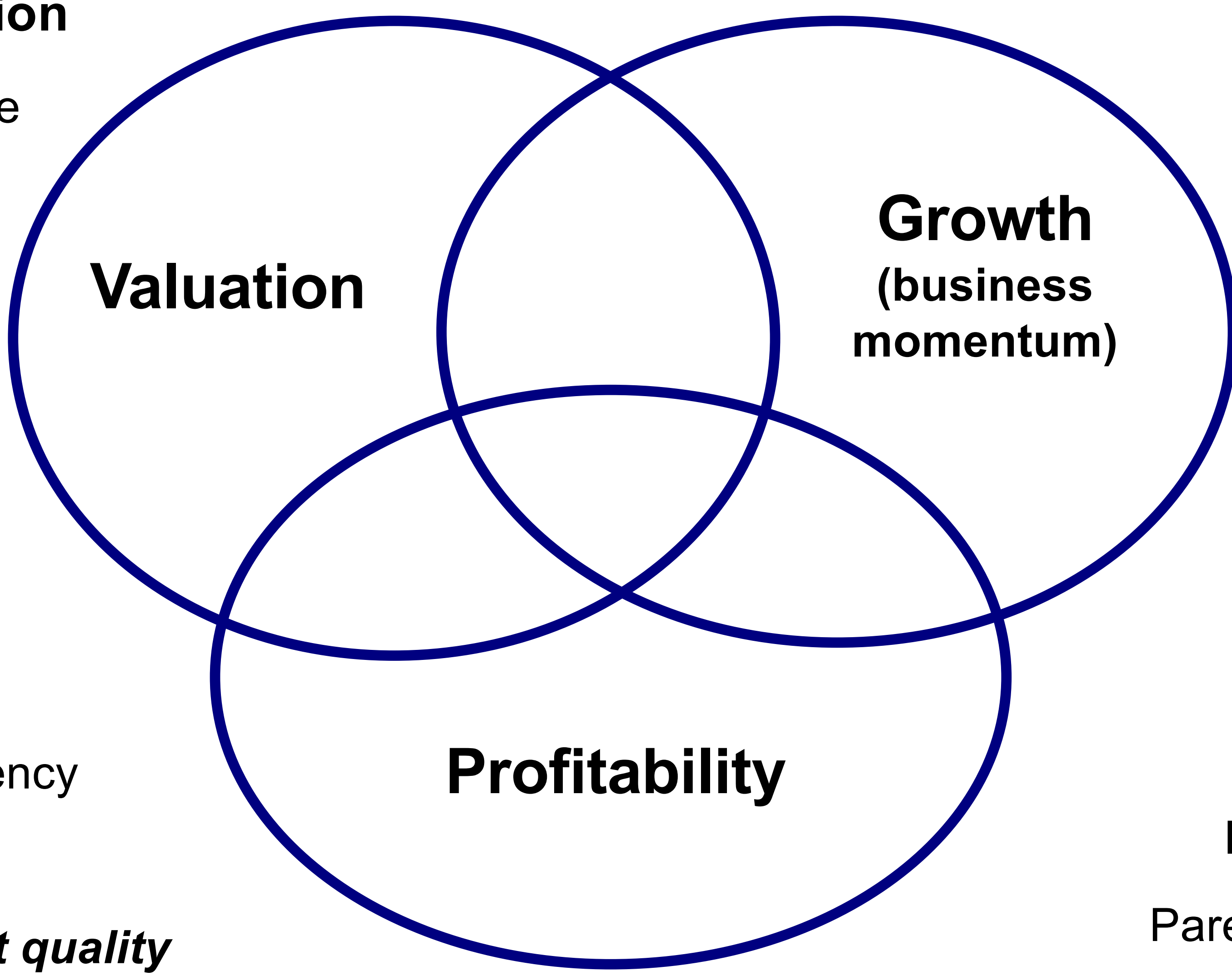
Organic

M&A

vs Peer

Potential

Consensus EPS Trend



ROA

NIM

Efficiency

Fees

Asset quality

ROE

Leverage

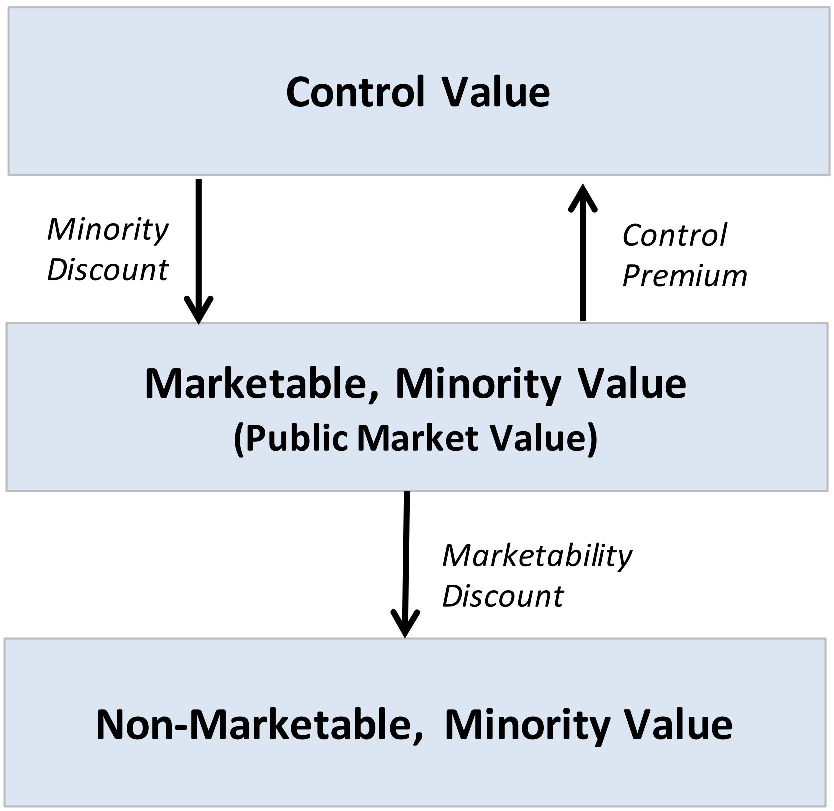
Bank capital

Parent leverage

Section 2

Valuation Framework

Valuation Perspective

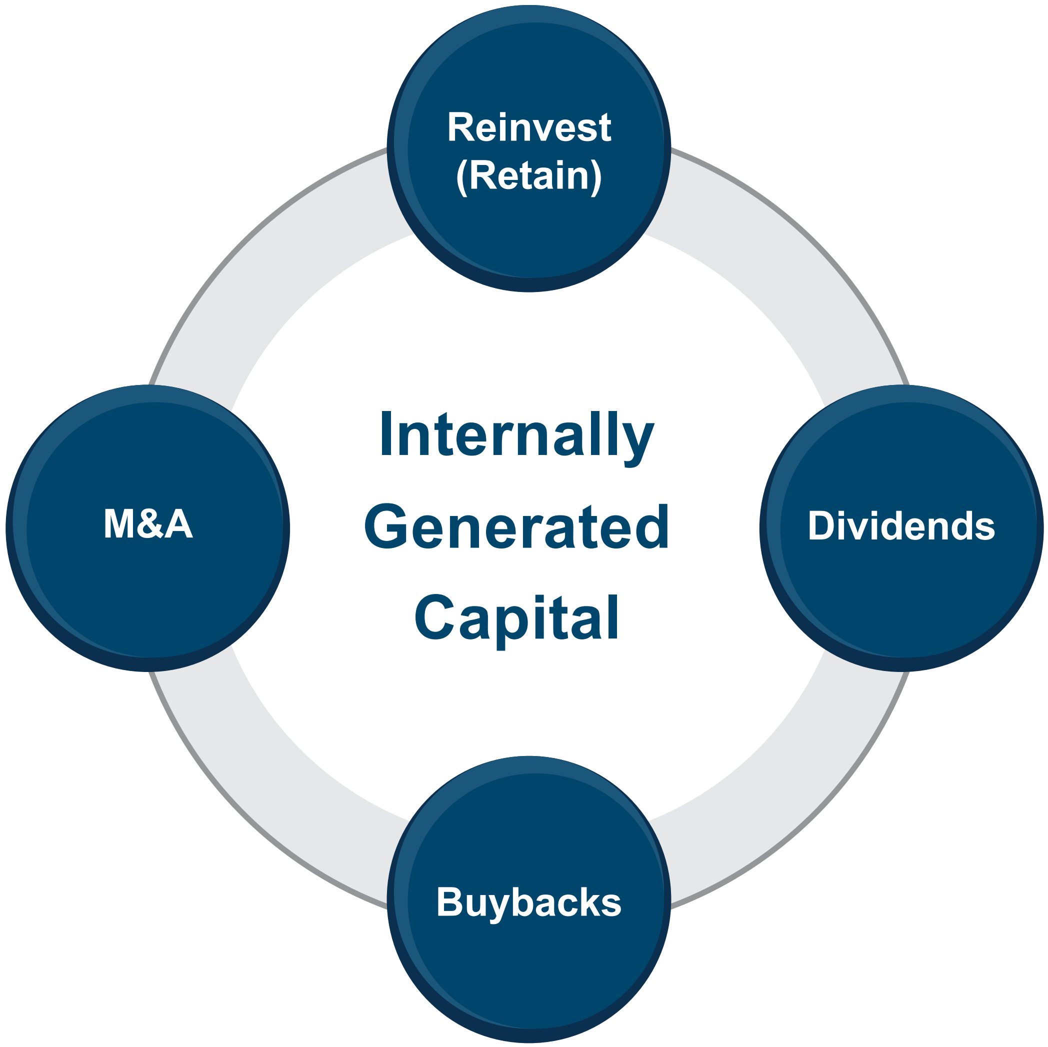


Control premiums (or minority interest discounts from the control price) tend to be heavily influenced by buyer synergies or buyer financing structures (e.g., stock swap using a high multiple stock, or the amount of debt financing available)

Marketability discounts tend to be inversely related to (a) # of shareholders; (b) IPO potential; (c) M&A potential; (d) absence of shareholder agreements; (e) dividends and buyback activity

Capital Allocation

Returns on investments (including M&A) should exceed the bank's cost of capital



Value = PV of Future Cash Flows

$$\text{Value = PV of Sum of Cash Flows} = \frac{CF1}{R^n} + \frac{CF2}{R^n} + \frac{CF3}{R^n} + \frac{CF4}{R^n} + \ldots$$

CF = Cash Flow (year 1) ….

R = Equity Discount Rate

n = Number of years cash flows are discounted to the present value

$$\text{Shortcut to PV (if growth is constant)} = \frac{\text{Cash Flow (next year)}}{R - G}$$

G = Growth rate of cash flows

R - G = Capitalization Rate

1 / Cap Rate = Capitalization Factor (Earnings or CF Multiple)

$$\text{Same Concept as Valuing CRE} = \frac{\text{Net Operating Income}}{\text{Cap Rate}}$$

Wall Street ….

Growth!

Accelerating Growth!!

Measuring Risk

There is no return without risk

Risk is harder to measure than historical or even prospective growth

There are many permutations that investors will consider to calibrate a reasonable valuation (or range)

- Amount of capital and capital structure
- Type of credits
- Hold positions
- Liquidity / source of funding
- M&A execution
- Key man/woman dependency
- Data integrity
- Customer concentration (not typical for banks)

Why Risk and Growth Matter

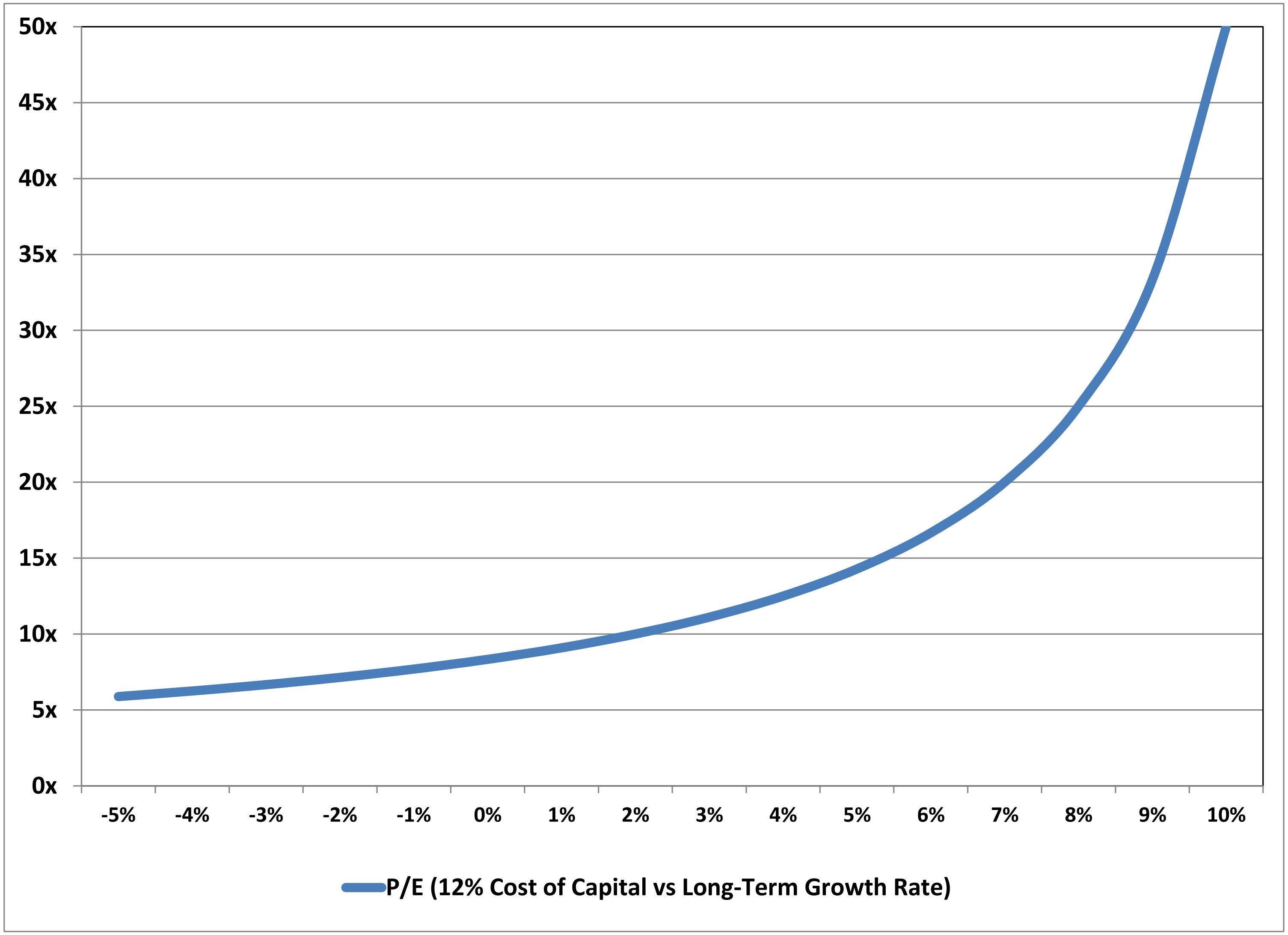
+ Yield to Maturity on 10 Yr UST		2.00%
+ Equity Premium	5.50%	
x Company Beta	1.20	
=Beta Adj Equity Premium		6.60%
+ Small-Mid Cap Equity Premium		2.15%
+ Company Specific Risks		***1.25%***
= Discount Rate (Equity Cost of Capital)		**12.00%**
- Long-Term Growth Rate (G)		***-5.00%***
= Capitalization Rate		7.00%
= Multiple (1 / Cap Rate)		**14.3x**
Ongoing Earning Power Estimate		$100,000
x Price/Earnings Ratio		14.3x
= Capitalized Earnings Value		$1,430,000

Multiples are negatively correlated with risk … higher risk = P/E

Multiples are positively correlated with growth … higher G = P/E

Growth matters a lot to value, but so does risk

P/E Increases with Growth



Valuation Methods

Value as an independent company

- Discounted Cash Flow (DCF) of projected future cash flow and terminal value discounted at a risk appropriate rate (12-15%)
- Public market comps
- Transactions in the subject's stock and (sometimes) net asset value

Acquisition value

- DCF with expense savings (and deal costs)
- M&A comp transactions
- Contribution analysis

Buyer dynamics

- Internal rate of return projected vs. hurdle rate
- EPS accretion vs. TBVPS dilution and earn-back period
- Strength of the buyer's currency (how richly valued?)
- Excess capital and/or access to the capital markets to fund cash portion

Section 3

Reconciling P/TBV and P/E

Rule of Thumb

Every industry has a rule-of-thumb for valuation and a preferred valuation metric; most only indirectly speak to economics

Banking's metric is tangible (common) equity and the most widely quoted metric is P/TBV

Business model entails leveraging capital ~ 9-10x with deposits and other borrowings to fund loans, the bond portfolio, etc. and thereby produce an earnings stream (ROE)

But, equity per se is not the point; it is the base of the business model – what matters is the a) <u>earnings stream</u>; b) the <u>risk profile</u> of the business to produce the earnings; and c) <u>expected growth</u> over time

Management should focus on ROE before EPS growth via organic means (vs buybacks) but many focus on growth first

High Level Math

P/TBV = ROE (ROTE) x P/E

ROE = ROA x **Leverage** … or

ROE = (Income / Assets) x (Assets / Equity)

P/E = **Risk Profile** and **Growth Expectations**

Bank investors toggle between what is top of mind depending in part where we are in the economic/credit cycle

P/E and P/TBV Perspective

P/E

Consider P/E both in context of current earnings and earning power

P/Es vary within the industry

Low P/Es reflect riskier biz models, limited growth or lower quality earnings

Above average P/E usually reflects better than average growth

Investors especially value three things: EPS growth, accelerating growth and organic revenue growth when assigning a P/E

P/TBV

Persistently “low” P/TBV multiples usually signal depressed profitability with limited prospect for improvement or credit issues

P/TBV is a secondary proxy for earning power

- ROA / TCE % = ROTCE
- P/E x ROTCE = P/TBV

High ROTCE yields high P/TBV

High P/E and ROTCE = very high P/TBV

Section 4

Earning Power

Concept of Earning Power

Earning power reflects an estimate of *ongoing earnings* through a full business/credit cycle

Earning power is derived from an analysis of core earnings over the past 3-5 years combined with an earnings forecast over the next 1-2 years

The most significant variables for a bank will be a) the expected range of credit losses; b) NIM; and c) volume of loans and core deposits

The challenge of estimating a bank's earning power is that credit losses tend to be episodic (i.e., very low for years then very big) and the current rate environment that devalues low cost deposits

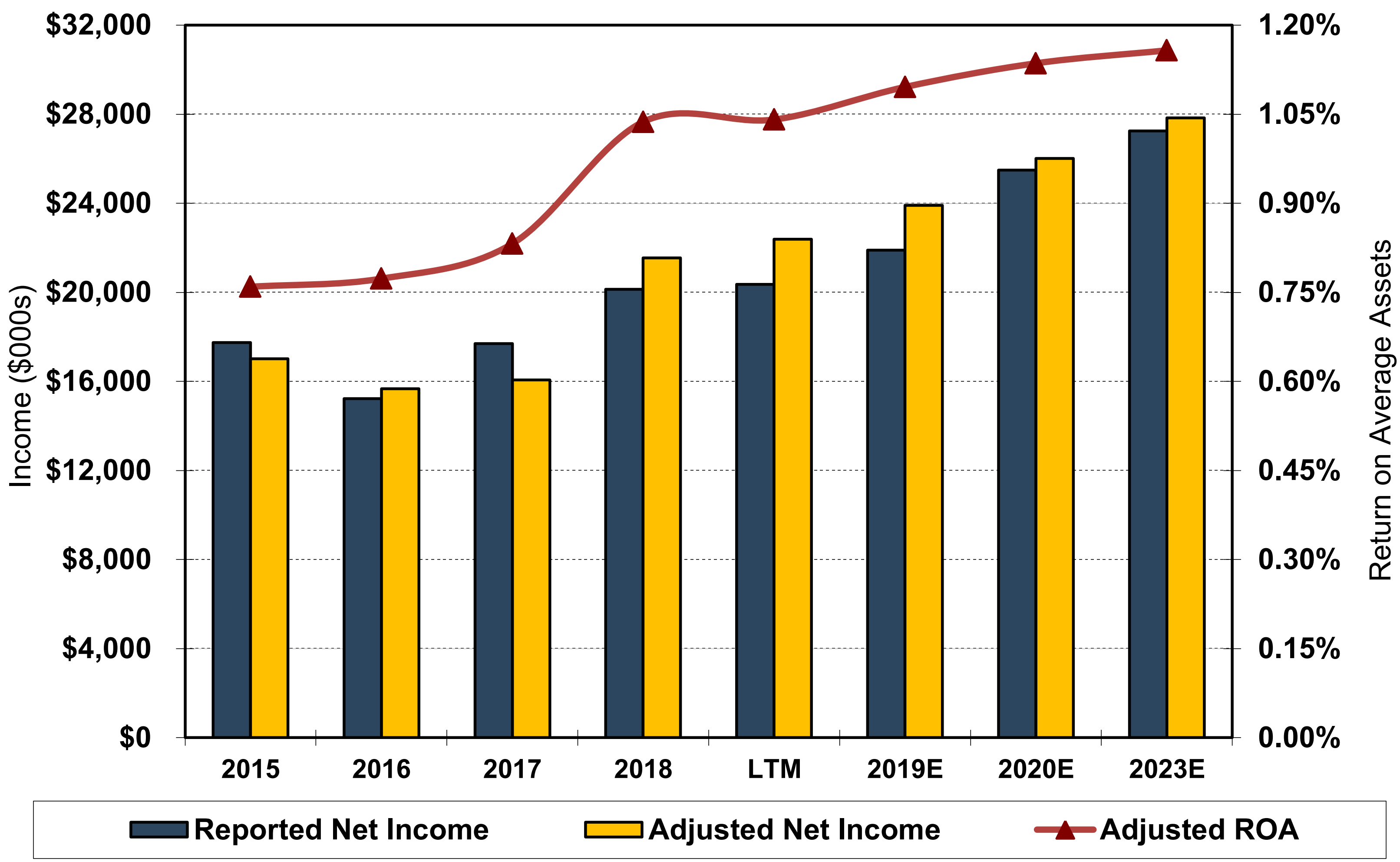
The earning power and multiple assumption provide perspective on whether shares are "cheap" or "expensive" and a 1-2 year price target

Core Earnings Analysis

Adjusted Income Statement		Fiscal Years Ended December 31					LTM	Cowboy Forecast		
		2014	2015	2016	2017	2018	3/31/19	2019E	2020E	2023E
Average Assets		$2,694,168	$2,241,515	$2,027,543	$1,931,352	$2,077,206	$2,150,000	$2,181,066	$2,290,120	$2,404,626
Average Equity		378,184	289,242	252,526	269,048	277,598	285,000	292,928	302,850	312,003
Average Loans		2,201,622	1,559,443	1,310,252	1,333,309	1,518,964	1,572,195	1,594,912	1,674,658	1,758,391
Net Interest Margin		3.40%	3.45%	3.35%	3.45%	3.58%	3.54%	3.45%	3.40%	3.40%
Efficiency Ratio		67.0%	69.5%	68.7%	68.6%	67.2%	67.5%	68.0%	67.7%	66.9%
Loan Loss Prov & ORE Exp / Avg Loans		7.14%	0.18%	-0.85%	-0.51%	-0.24%	0.29%	0.34%	0.24%	0.24%
Pre-Tax, Pre-Provision & ORE Op Income		**$32,153**	**$26,320**	**$23,550**	**$23,750**	**$26,875**	**$27,775**	**$30,100**	**$32,750**	**$36,500**
Reported Net Income to Common		**($71,818)**	**$17,750**	**$15,225**	**$17,695**	**$20,137**	**$20,367**	**$21,900**	**$25,500**	**$27,250**
Adjustments:										
(1) (Gains) / Losses on Sale of Securities		0	(837)	0	(1,884)	(162)	(294)	0	0	0
(2) Add Loan Loss Provision		115,000	3,107	7,209	6,624	3,566	5,532	5,385	4,000	4,240
Less: Normalized Provision	0.20%	(4,403)	(3,119)	(2,621)	(2,667)	(3,038)	(3,144)	(3,190)	(3,352)	(3,499)
(3) (Gain) / Loss on ORE Sales		25,083	(271)	(3,897)	(200)	(123)	(294)	0	0	0
(4) (Gain) on Sale of Branches		0	0	0	(4,378)	0	0	0	0	0
(5) Restructuring & Transaction Costs		0	0	0	0	1,538	750	339	0	0
(6) Tax Adjustment to 1-5 @		(47,488)	392	(242)	877	(374)	(535)	(532)	(136)	(156)
ADJUSTED NET INCOME		**$16,374**	**$17,022**	**$15,674**	**$16,067**	**$21,544**	**$22,381**	**$23,902**	**$26,012**	**$27,836**
Analysis of Adjusted Returns										
Pre-Tax, Pre-Prov Op Inc / Avg Assets		**1.19%**	**1.17%**	**1.16%**	**1.23%**	**1.29%**	**1.29%**	**1.38%**	**1.43%**	**1.52%**
Peer Group PPOI / Avg Assets		1.36%	1.39%	1.36%	1.44%	1.52%	1.51%			
Adjusted Return on Average Assets		**0.61%**	**0.76%**	**0.77%**	**0.83%**	**1.04%**	**1.04%**	**1.10%**	**1.14%**	**1.16%**
Peer Group ROA		0.77%	0.83%	0.64%	0.80%	1.04%	1.24%			
Adjusted Return on Average Equity		**4.3%**	**5.9%**	**6.2%**	**6.0%**	**7.8%**	**7.9%**	**8.2%**	**8.6%**	**8.9%**
Peer Group ROE		6.3%	6.7%	7.7%	8.5%	9.9%	10.1%			

Core Earnings Analysis

The trend is your friend – if it is real



Earning Power

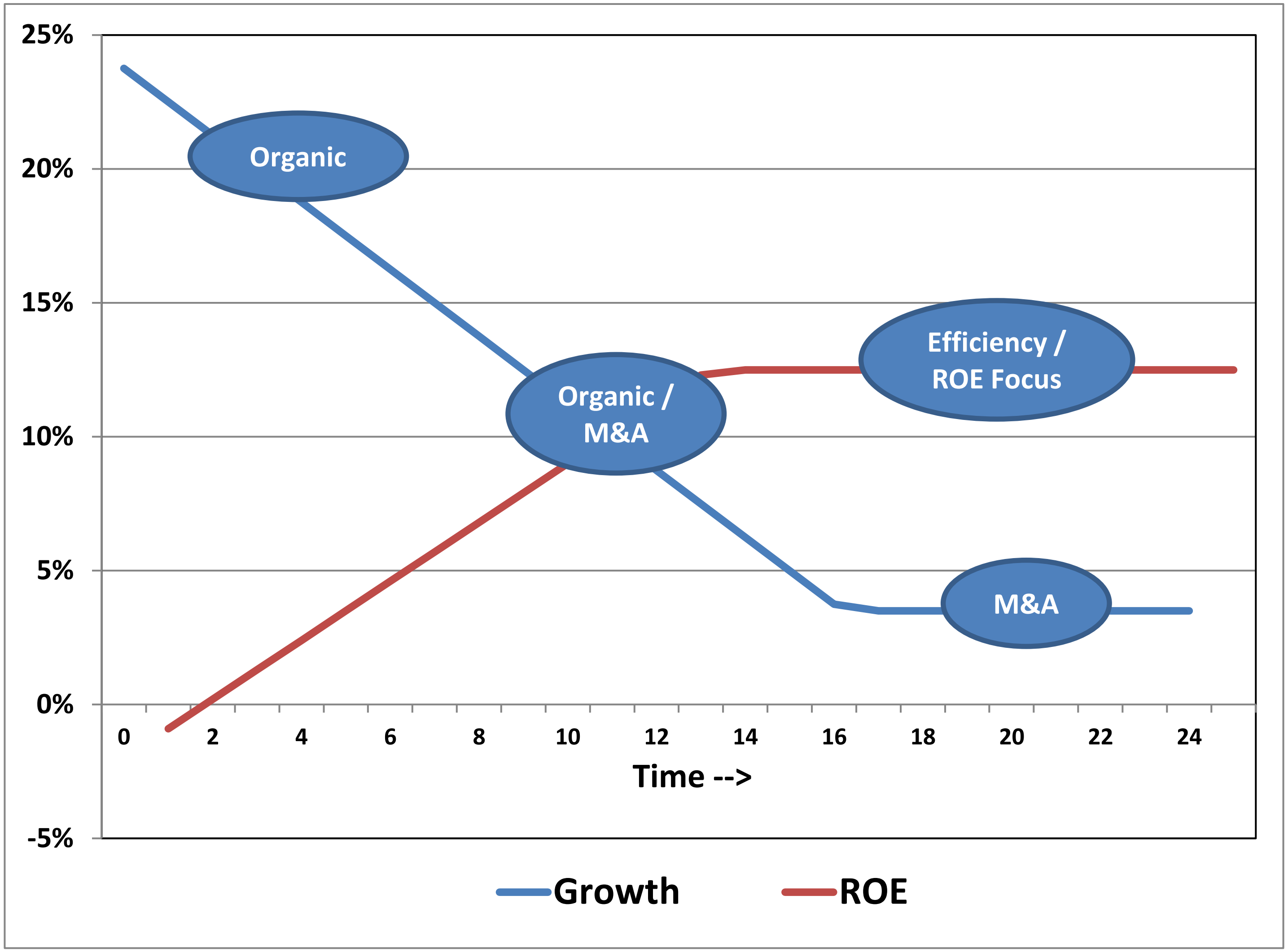
	2018A	2019E	2020E	% Change 18-19E	19-20E	NIM < by -0.30%	NIM > by 0.10%	LL Prov = 0.25%	LL Prov = 0.75%	Earning Power - 1	Earning Power - 2	Earning Power - 3
Avg Earning Assets	$3,982	$4,459	$4,692	12%	5%	$4,692	$4,692	$4,692	$4,692	$4,700	$4,700	$4,700
NIM	3.96%	3.85%	3.70%	(11 bp)	(15 bp)	3.40%	3.80%	3.70%	3.70%	3.40%	3.60%	3.80%
Net Int Income	$157.6	$171.7	$173.6	9%	1%	$159.5	$178.3	$173.6	$173.6	$159.8	$169.2	$178.6
Fee Income	50.0	51.5	53.7	3%	4%	53.7	53.7	53.7	53.7	53.7	53.7	53.7
Revenues	**$207.6**	**$223.2**	**$227.3**	**8%**	**2%**	**$213.2**	**$232.0**	**$227.3**	**$227.3**	**$213.5**	**$222.9**	**$232.3**
Expenses	140.0	148.0	152.0	6%	3%	152.0	152.0	152.0	152.0	152.0	152.0	152.0
Efficiency Ratio	67%	66%	67%			71%	66%	67%	67%	71%	68%	65%
Op Income (PPOI)	**$67.6**	**$75.2**	**$75.3**	**11%**	**0%**	**$61.2**	**$80.0**	**$75.3**	**$75.3**	**$61.5**	**$70.9**	**$80.3**
ORE Expense	4.2	4.3	4.0	3%	-8%	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Provision	6.0	7.5	10.0	25%	33%	10.0	10.0	8.0	23.9	23.8	10.0	8.0
Net Charge-Offs	*4.5*	*6.0*	*8.5*	33%	42%	*9.0*	*9.0*	*7.2*	*21.5*	*21.4*	*9.0*	*7.2*
Amortization Exp	0.6	0.5	0.4			0.4	0.4	0.4	0.4	0.4	0.4	0.4
Net Non-Recurring	-1.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax	**$55.8**	**$62.8**	**$60.9**	**13%**	**-3%**	**$46.8**	**$65.6**	**$62.9**	**$47.0**	**$33.3**	**$56.5**	**$67.9**
Taxes	12.8	14.5	14.0			10.8	15.1	14.5	10.8	7.7	13.0	15.6
Effective Tax Rate	23%	23%	23%	0 bp	0 bp	23%	23%	23%	23%	23%	23%	23%
Net Inc-Common	**$43.0**	**$48.4**	**$46.9**	13%	-3%	**$36.0**	**$50.5**	**$48.5**	**$36.2**	**$25.6**	**$43.5**	**$52.3**
Avg Shares O/S	*16.6*	*16.6*	*16.6*	0%	0%	*16.6*	*16.6*	*16.6*	*16.6*	***16.6***	***16.6***	***16.6***
EPS	**$2.59**	**$2.92**	**$2.83**	**13%**	**-3%**	**$2.17**	**$3.05**	**$2.92**	**$2.18**	**$1.54**	**$2.62**	**$3.15**
P/E Multiple		**9.8x**	**10.1x**	**$28.50**		**13.1x**	**9.4x**	**9.7x**	**13.0x**	**18.5x**	**10.9x**	**9.0x**

Section 5

Institutional Investors View

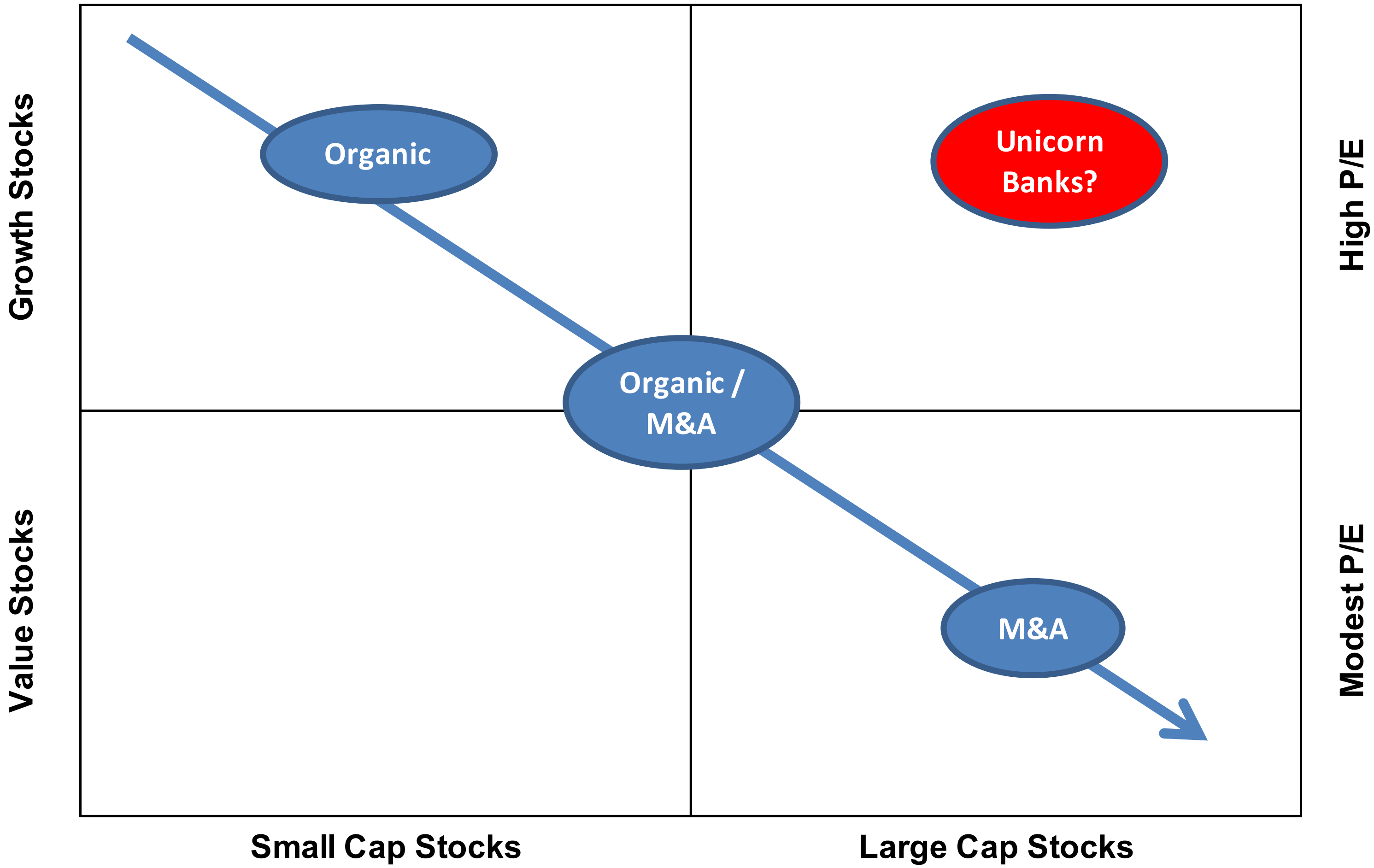
Life Cycle Matters

Investor view of a typical bank that is not acquired



Wall Street View

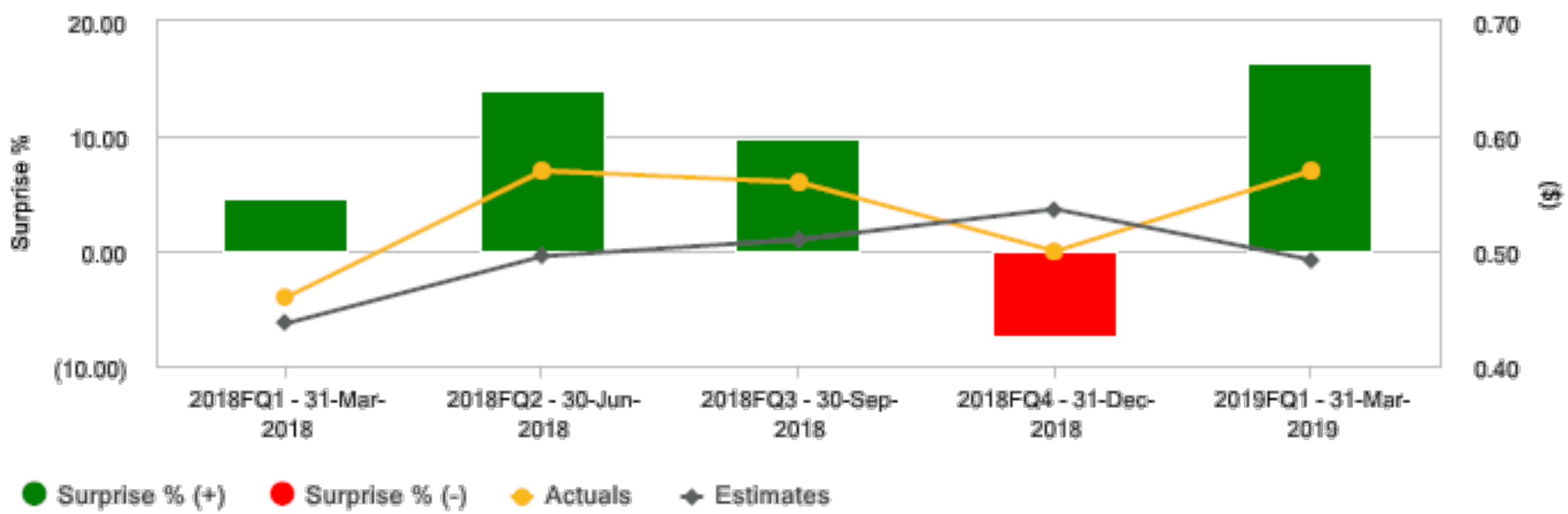
Migration from small cap growth to large cap value over time



Street Focus – Quarter vs Consensus and Trend in Consensus EPS

Stocks follow earnings

CADE EPS Normalized ($)	*FQ1 - Mar*	*FQ2 - Jun*	*FQ3 - Sep*	*FQ4 - Dec*	*FY/NTM*	*Consensus 90-Days Ago*	*FY Number of Analysts[1]*
2018A	0.46 A	0.57 A	0.56 A	0.50 A	2.07 A	NA	NA
2019E	**0.57 A** *7/23/19 2Q19 release*	**0.58 E** ***0.37 A***	**0.50 E**	**0.50 E**	**1.98 E**	2.19 E	8/9
2020E					**2.11 E**	2.38 E	9/9
2021E					**2.45 E**	NA	2/2



Section 6

Great Company vs Great Stock

MERCER CAPITAL

Hubris = Bad Stock

Coca-Cola (KO)

Robert Goizueta (CEO) **1995 Annual Report**

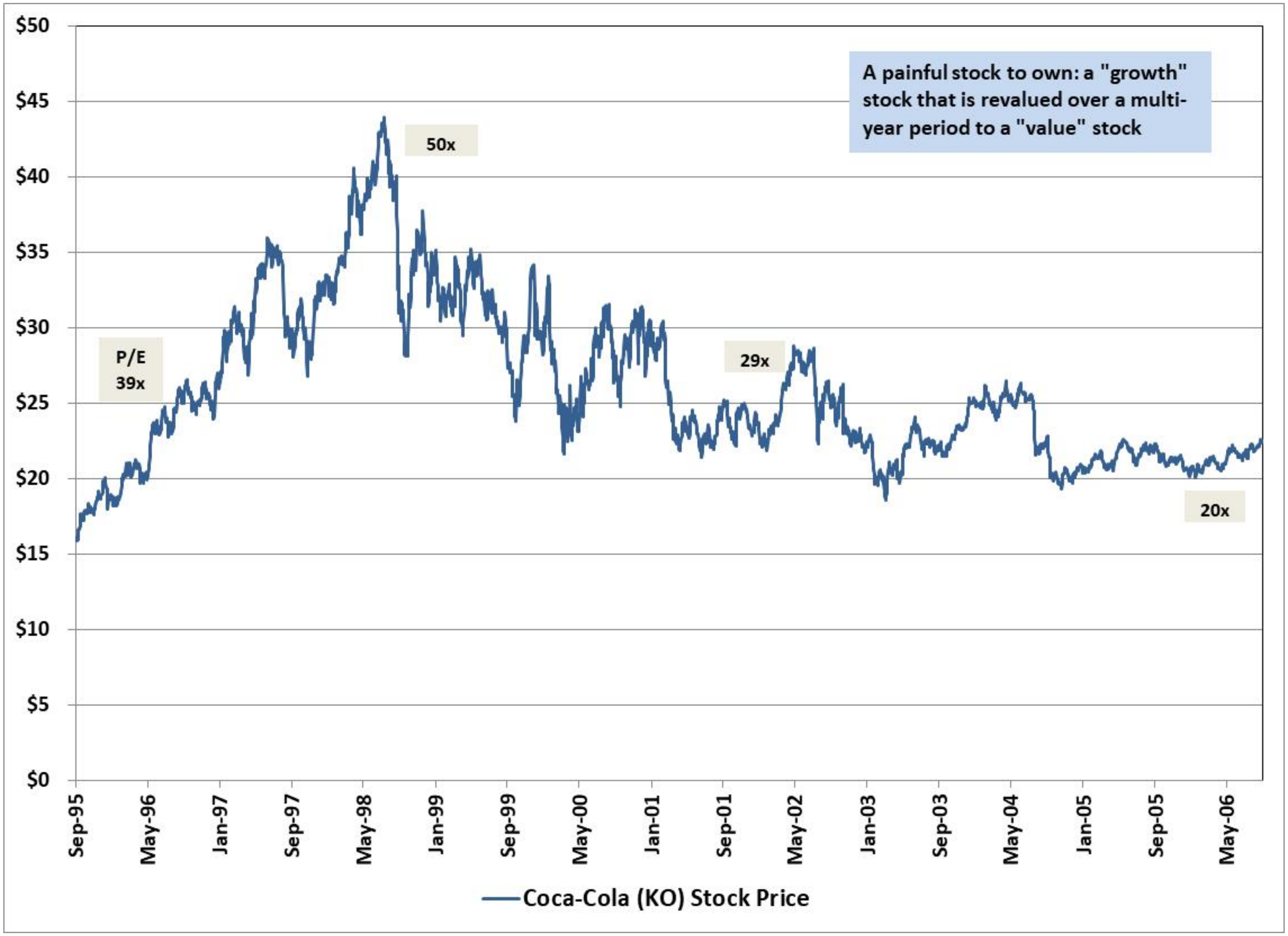
“Our virtual *infinite* opportunity for growth”

On using the infinity sign as an “unregistered trademark of our growth potential”

On when KO would not repurchase shares “whenever securities laws say we can’t. Otherwise we’ve yet to encounter a time when we felt our stock wasn’t a long-term investment bargain for us.”

Source: KO 1995 annual report and Grant’s Interest Rate Observer (10/11/96)

KO Pain from Rerating



Fifth Third (FITB)

George Schaffer (CEO) from
1998 Annual Report

> "***How can we continue***? *Focus on basics … hard work, aggressive selling, teamwork, disciplined expense control, strong credit quality … out-hustle the competition*

FITB's Stunning Metrics in the Late 1990s

25th consecutive year of net income growth

25 year EPS 18.7%

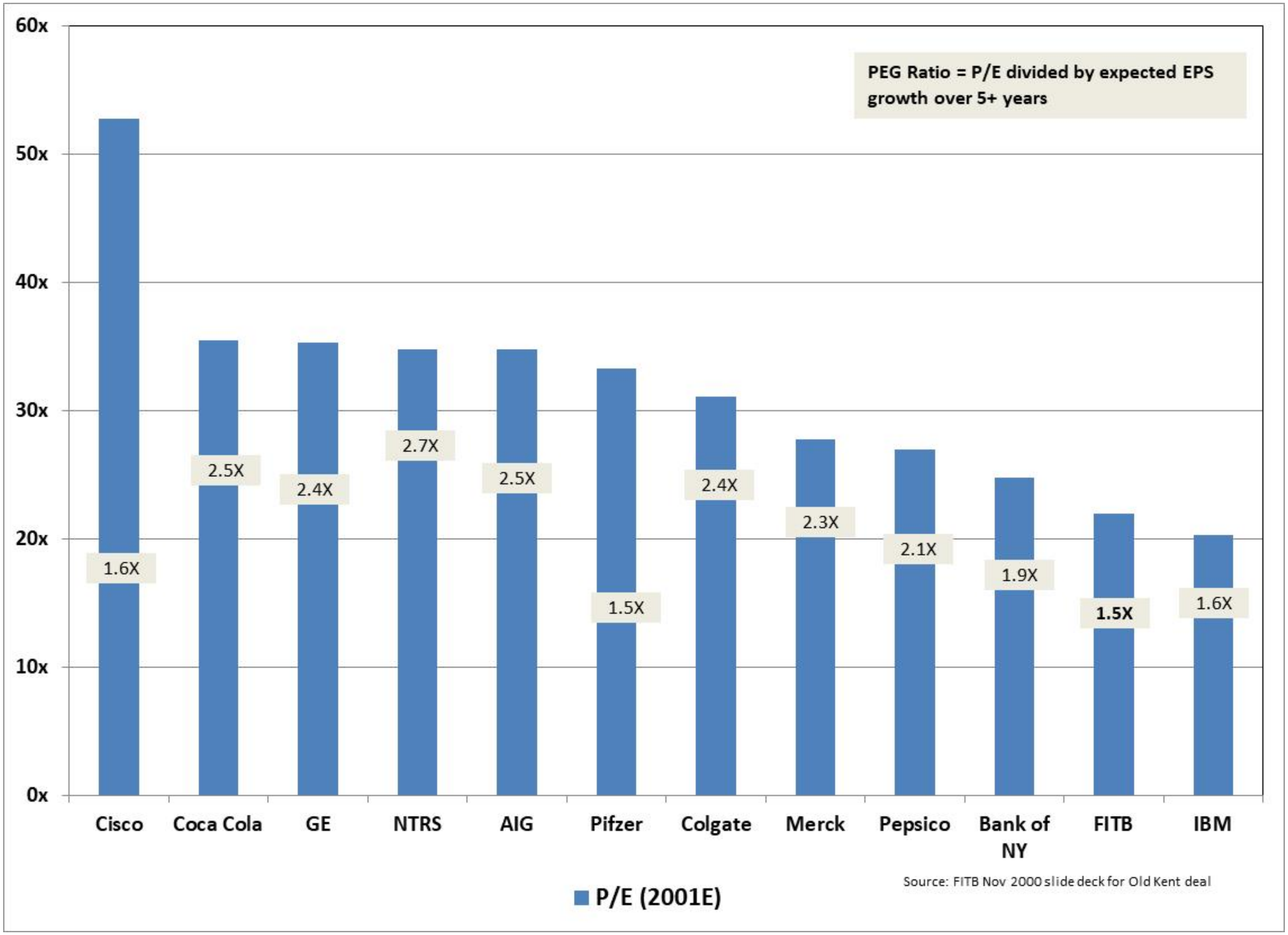
42% efficiency ratio

Active acquirer

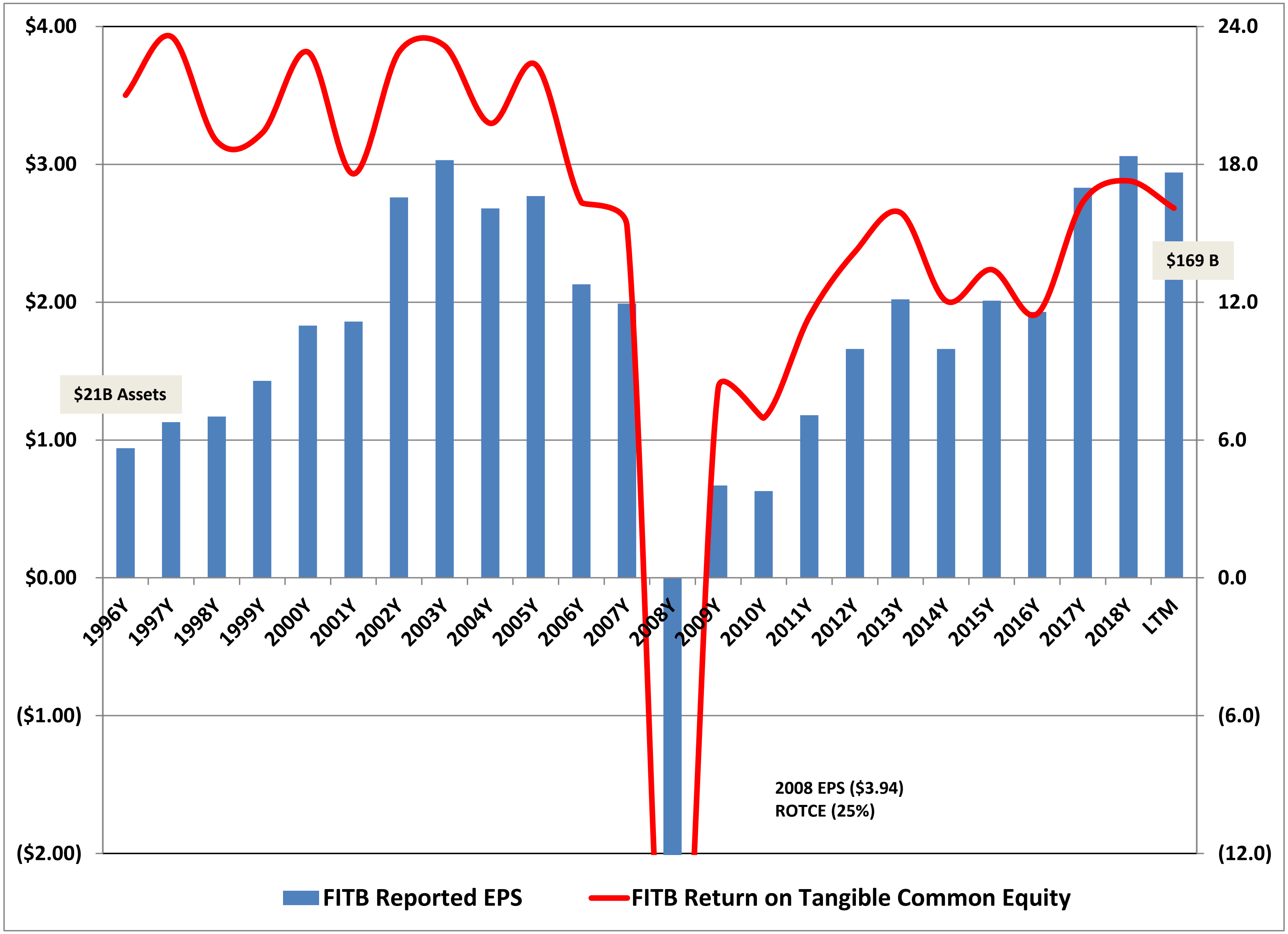
Processing fees (MPS)

Total return (price + dividend) ~30% 1978-1998

Large Cap Growth (meh)

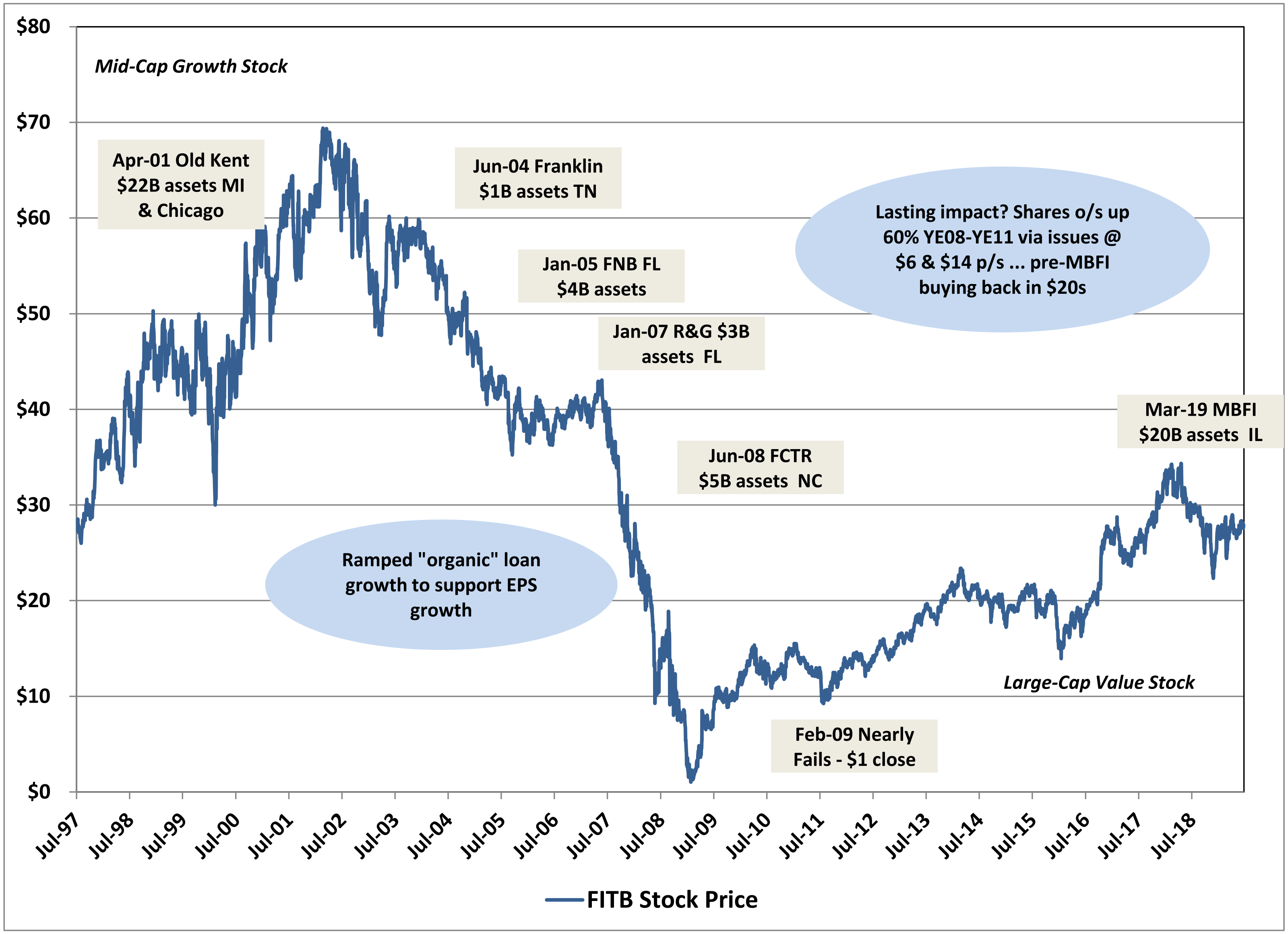


FITB EPS and ROTE



Source: S&P Global MI

FITB Share Price



BB&T (BBT)

John Allison (CEO) from **1999 Annual Report**

"BBT achieved its 18th consecutive year of record recurring earnings … Our vision is to create the best institution possible … best of the best … world standard

"We believe the great industry challenge is growing revenues and there are limits to efficiency improvements"

"We believe that our stock price is primarily driven by our cash EPS and our cash ROE provided that we maintain adequate capital and healthy asset quality"

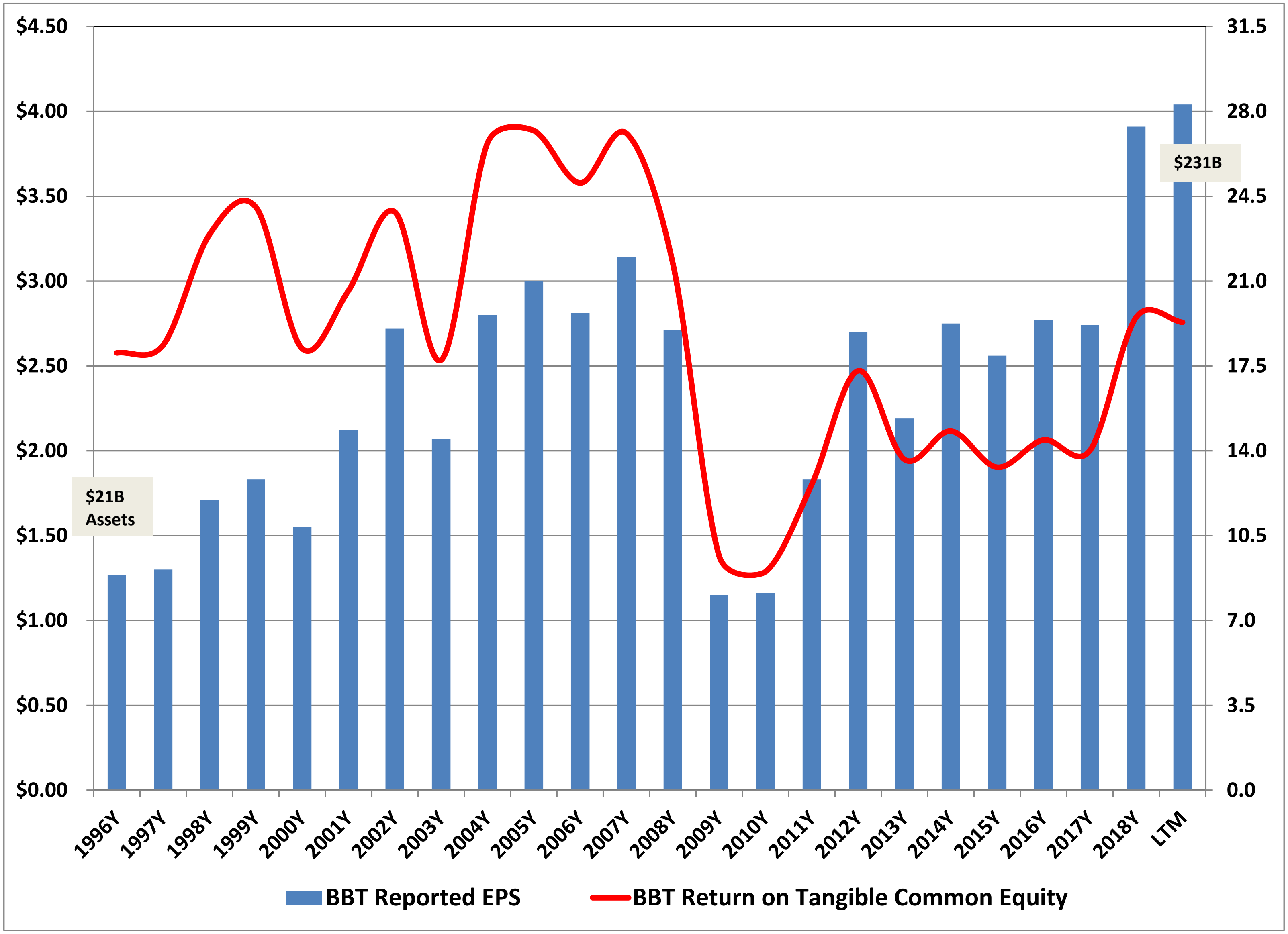
Kelly King (CEO) from **2018 Annual Report**

"BBT achieved strong results, including the best stock performance in our peer group by adhering to our long-held values … with greater profitability and lower (earnings) volatility over the long-term "

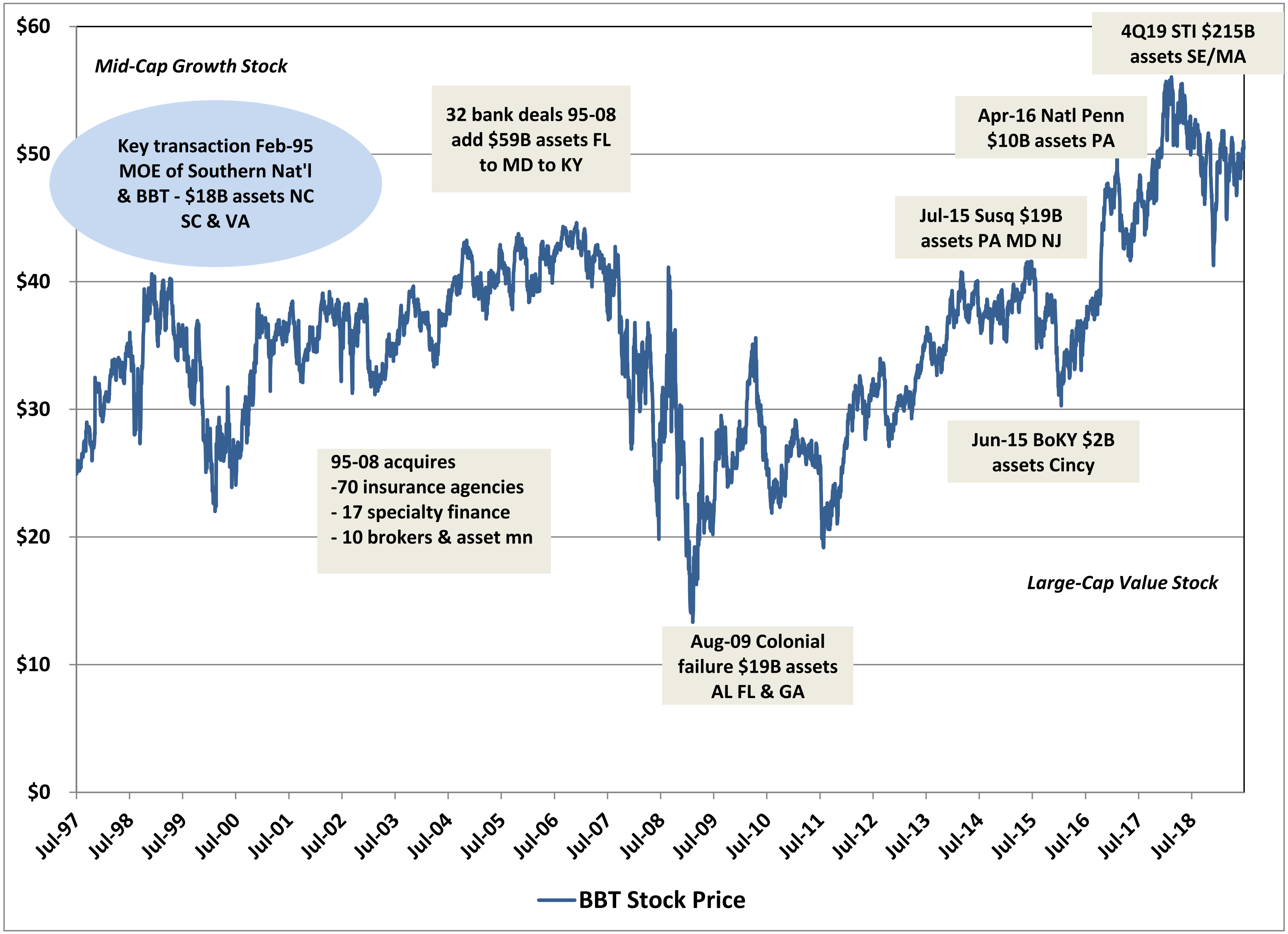
"Bold action is needed. Since 1995, 15 of the 25 largest banks by market cap no longer exist … BBT has moved from 36th to 9th"

"Our MOE with SunTrust … will allow us to invest more substantially in technology … and our 17-sate footprint and DC is projected to grow faster than any of our peers"

BBT EPS and ROTE



BBT Share Price



Source: S&P Global MI

A Few Observations

Starting point for measuring shareholder returns matters a lot!

Entry price is the one factor investors exercise total control over

Valuation matters over time for stocks (and sectors) that move from rich to cheap and vice versa

Over very long periods of time consistent growth and compounding returns with reinvested dividends largely trump entry price and valuation

No way for a shareholder to overcome big dilutive common raises at low prices

July 97 - July 19	Price Change	Div'd Return	Total Return	97-19 CAGR
COF	697%	197%	894%	11.0%
MTB	364%	295%	659%	9.7%
USB	270%	329%	599%	9.2%
JPM	229%	283%	512%	8.6%
WFC	203%	239%	442%	8.0%
BBT	105%	215%	320%	6.7%
DFS	194%	59%	253%	5.9%
CMA	47%	124%	171%	4.6%
FITB	8%	74%	82%	2.8%
STI	8%	72%	80%	2.7%
ZION	19%	42%	61%	2.2%
BAC	-10%	69%	59%	2.1%
HBAN	-34%	67%	33%	1.3%
KEY	-39%	61%	22%	0.9%
C	-68%	17%	-51%	-3.2%

Final Thoughts on Growth & Value

Growth Positives	Growth Negatives
Supports operating leverage and profitability	Bigness becomes an enemy of growth at some point (when?)
Diversification thru growth	Wall Street becomes obsessed with "it"
Above average ROE *and* growth = high-powered shareholder returns	Corporate America littered with bad deals and strategy to achieve growth
Wall Street loves growth – gives management a leash (be careful)	

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