MERCER CAPITAL

BUSINESS VALUATION &
FINANCIAL ADVISORY SERVICES

Bank Watch

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Could Your Bank Benefit From a Third-Party Shareholder Survey?

Hear Us Out…

Of all the well-worn clichés that should be retired, "maximizing shareholder value" is surely toward the top of the list. Since private companies don't have constant public market feedback, actions taken to "maximize" shareholder "value," whether over the short-run or the long-run, usually are subjected only to board scrutiny. While private company managers are not able to gauge instantaneous market reaction to their performance, they do know who their shareholders are. This is particularly true for community banks, where the shareholder base typically consists of some combination of one or several extended families, management and the board, and members of the local community. Wouldn't it be better to make corporate decisions based on the characteristics and preferences of actual flesh-and-blood shareholders than the assumed preferences of generic shareholders that exist only in textbooks? If so, there is no substitute for simply asking. Below is a quick list of five good reasons for conducting a survey of your shareholders. While we more commonly conduct shareholder surveys for multi-generational family-owned businesses, a survey is useful anytime there is a relatively small shareholder base consisting of individuals with disparate views on the role of the company's stock in their broader investment portfolio.

1. **A survey will help you learn about your shareholders.** A well-crafted shareholder survey will go beyond mere demographic data (age and family relationships) to uncover what deeper characteristics owners share and what characteristics distinguish owners from one another. In our experience, the boundary lines for shareholders' values and preferences do not fall where management naturally assumes they will. Instead, they tend to be defined by a shareholder's concentration of income coming from company stock and wealth concentrated in company stock.

2. **A survey will help you gauge shareholder preferences.** The results from a shareholder survey will help directors and managers move away from abstract objectives (like "maximizing shareholder value") toward concrete objectives that actually take into account shareholder preferences. For example, what are shareholder preferences for near-term liquidity, current distributions, and capital appreciation? Identifying these preferences will enable directors and management to craft a coherent strategy that addresses actual shareholder needs.

3. **A survey will help educate the shareholders about the strategic decisions facing the company.** While a survey provides information about the shareholders to the company, it also inevitably provides information about the company to shareholders. In our experience, the survey is most effective if preceded by a brief education session that reviews the types of questions that will be asked in the survey. This is especially critical for banks, which must balance shareholder needs and preferences against the added backdrop of regulatory constraints and capital requirements. Educated shareholders can provide valuable input to directors and managers and will prove to be more engaged in management's long-term strategy.

4. **A survey will help establish a roadmap for communicating operating results to shareholders.** Public companies are required by law to communicate operating results to the markets on a timely basis. Although community banks tend to have better shareholder communications than many private companies and more publicly available data, it is still the case that for most private banks, there is no roadmap for communicating results. The investor relations function is either ignored or consists of reluctantly answering potentially-loaded questions from disgruntled owners (who may, frankly, enjoy being a nuisance). An informed shareholder base that understands not only "what happened" but also "why" is more likely to take the long-view in evaluating performance.

5. **A survey gives a voice to the "un-squeaky" wheels.** A shareholder's input should not be proportionate to the volume with which the input is given. While the squeaky wheel often gets the grease, it is prudent for directors and managers to solicit the feedback regarding the needs and preferences of quieter shareholders. Asking for input from all shareholders through a systematic survey process helps ensure that the directors and managers are receiving a balanced picture of the shareholder base. A confidential survey administered by an independent third party can increase the likelihood of receiving frank (and therefore valuable) responses.

So now that we've convinced you that a shareholder survey would be beneficial, you may be wondering what topics the survey might address. The short answer is, whatever issues you feel are top of mind for management, the board and/or shareholders. Below are a few of the common themes and concerns that we encounter during shareholder survey construction:

» **Distribution policy:** Establishing a distribution policy that balances the lifestyle needs and aspirations of shareholders with the needs of the

What We're Reading

The American Banker has a timely article on "**What's Driving Surge in Sales of Larger Community Banks**."

BankRate's article addresses how community banks are **leveraging technology to access deposits nationally**.

Mercer Capital's Jeff Davis recent SNL article "**Spreadsheets Never Disappoint**" discusses Warren Buffet's letter to shareholders of Berkshire Hathaway Inc. and broader investing truths.

business cannot be understated as a key factor for good shareholder/management relations.

» **Investing for growth:** The flip-side of distribution policy is how to invest for growth. In cases where ownership of a bank has continued to be concentrated among a few families, can the business keep up with the biological growth of the family? Is that a desirable goal?

» **Management accountability:** Evaluating managerial performance is never easy; adding kinship ties to the mix only makes things dicier.

» **Generational transfer/estate planning:** Tax-efficient techniques for transferring ownership of a family business to succeeding generations is always a topic of interest for closely-held companies. While certainly important, there may be unanticipated pitfalls if estate and other taxes are the only factors considered when transferring wealth.

» **Evaluating acquisition offers:** Even if a family does not plan to sell, credible acquisition offers at what appear to be attractive financial terms need to be assessed. Given the amount of current consolidation activity in the banking industry, this should be top of mind. It is highly preferable that the board and management are aware of shareholders' preferences with respect to selling and that shareholders' are well educated about the strategic decision to sell, especially in the context of distribution and growth policy. The time to have these conversations is before an acquisition offer has been received, not after.

» **Share redemption/liquidity programs:** There are many reasons shareholders may want to sell shares: desire for diversification, major life changes (such as divorce), funding for estate tax payments, starting a new business, or funding other major expenditures. What is the best way to provide liquidity to shareholders on fair terms without sparking a run on the bank (metaphorically speaking of course)?

An engaged and informed shareholder base is essential for the long-term health and success of any private company, and a periodic shareholder survey is a great tool for achieving that result. To discuss how a shareholder survey or ongoing investor relations program might benefit your bank, give one of our professionals a call.

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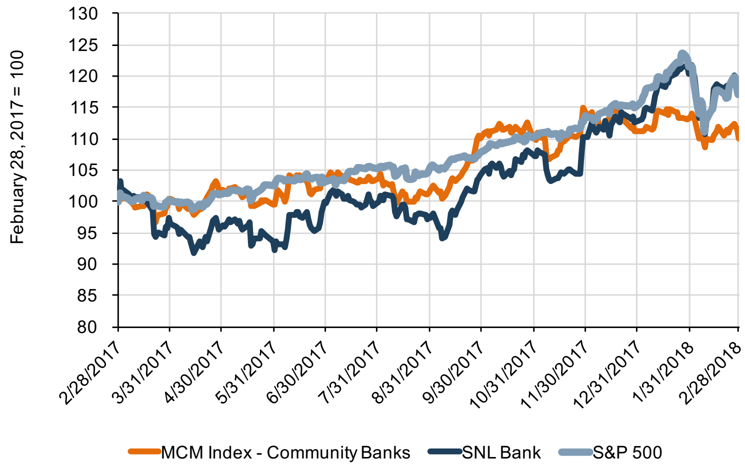
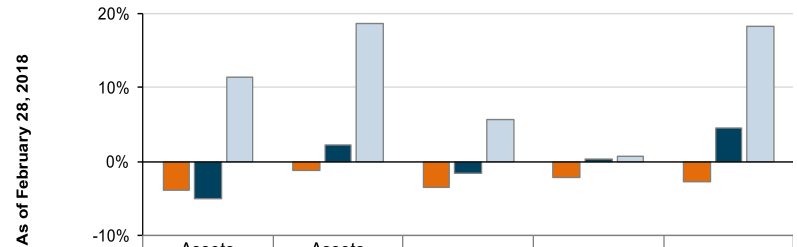
Mercer Capital's Bank Group Index Overview



Return Stratification of U.S. Banks

by Asset Size



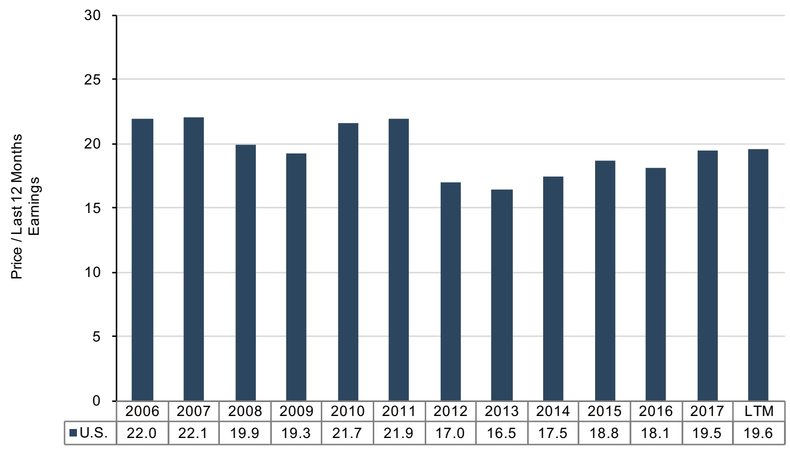
	Assets $250 - $500M	Assets $500M - $1B	Assets $1 - $5B	Assets $5 - $10B	Assets > $10B
Month-to-Date	-3.8%	-1.2%	-3.4%	-2.2%	-2.7%
Year-to-Date	-5.0%	2.2%	-1.6%	0.4%	4.5%
Last 12 Months	11.4%	18.7%	5.8%	0.8%	18.3%

Median Valuation Multiples

	Median Total Return as of February 28, 2018			Median Valuation Multiples as of February 28, 2018					
Indices	Month-to-Date	Year-to-Date	Last 12 Months	Price/ LTM EPS	Price / 2018 (E) EPS	Price / 2019 (E) EPS	Price / Book Value	Price / Tangible Book Value	Dividend Yield
Atlantic Coast Index	-3.7%	-1.6%	9.2%	25.2x	14.3x	12.4x	143%	158%	1.9%
Midwest Index	-3.2%	-0.9%	10.3%	18.4x	13.7x	12.0x	146%	170%	2.1%
Northeast Index	-1.8%	-0.6%	12.4%	19.5x	13.7x	11.7x	144%	157%	2.2%
Southeast Index	-3.8%	-2.5%	5.6%	21.5x	15.1x	13.1x	134%	151%	1.4%
West Index	-2.3%	-0.6%	10.7%	19.8x	13.8x	12.8x	148%	174%	1.4%
Community Bank Index	-2.9%	-1.2%	10.0%	21.1x	14.2x	12.2x	143%	159%	1.9%
SNL Bank Index	**-2.7%**	**4.2%**	**17.3%**						

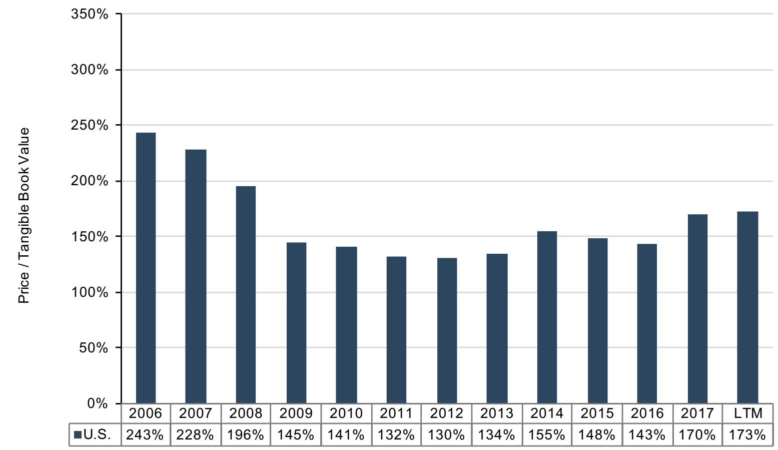
Median Price/Earnings Multiples

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



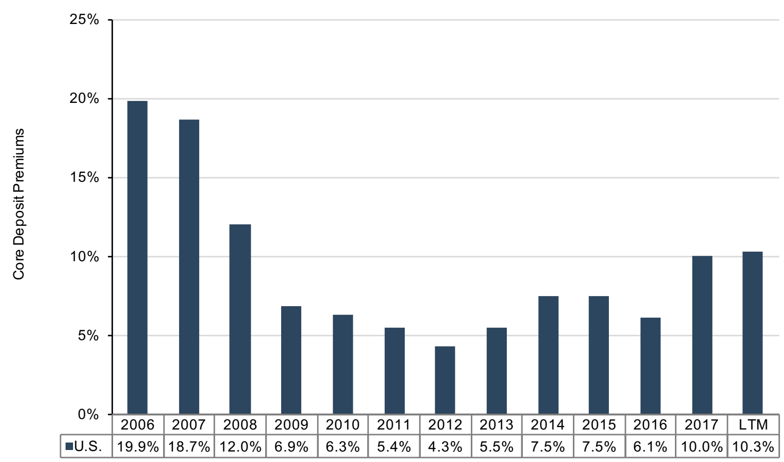
Median Price/Tangible Book Value Multiples

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

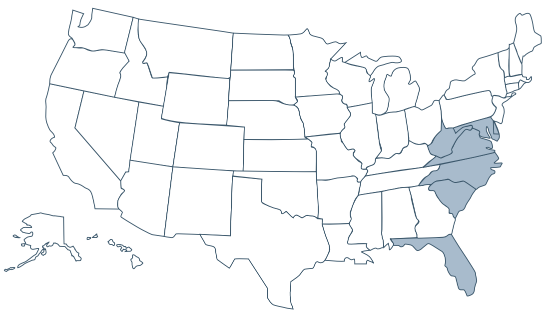
Target Banks' Assets <$5B and LTM ROE >5%, 12 months ended February 2018

Regions	Price / LTM Earnings	Price/ Tang. BV	Price / Core Dep Premium	No. of Deals	Median Deal Value ($M)	Target's Median Assets ($000)	Target's Median LTM ROAE
Atlantic Coast	21.9x	183%	12.4%	18	135.7	693,725	9.5%
Midwest	17.9x	184%	10.8%	61	59.3	253,966	9.4%
Northeast	20.8x	158%	8.6%	8	52.4	422,000	6.3%
Southeast	18.1x	154%	8.0%	34	34.5	185,932	8.7%
West	23.2x	194%	11.2%	29	55.0	325,472	9.1%
National Community Banks	**19.6x**	**173%**	**10.3%**	**150**	**58.5**	**269,390**	**8.9%**

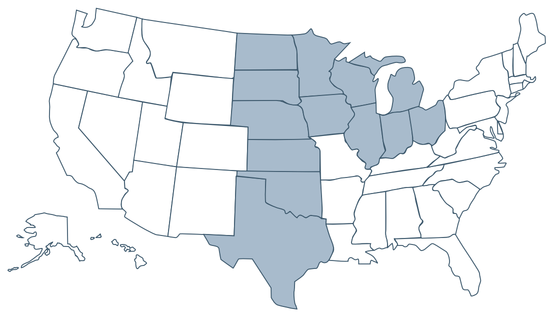
Source: S&P Global Market Intelligence

Mercer Capital's Regional Public Bank Peer Reports

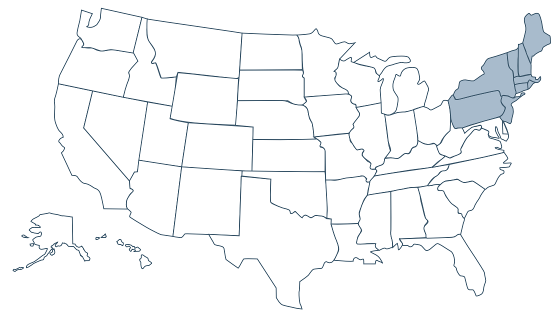
Updated weekly, Mercer Capital's Regional Public Bank Peer Reports offer a closer look at the market pricing and performance of publicly traded banks in the states of five U.S. regions. Click on the map to view the reports from the representative region.



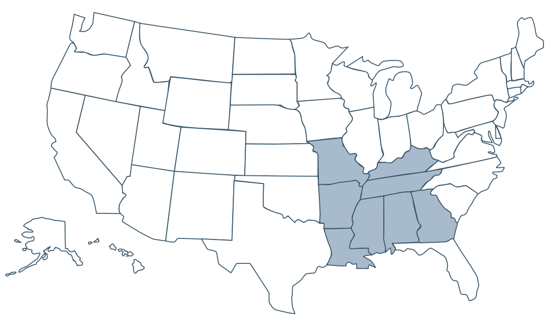
Atlantic Coast



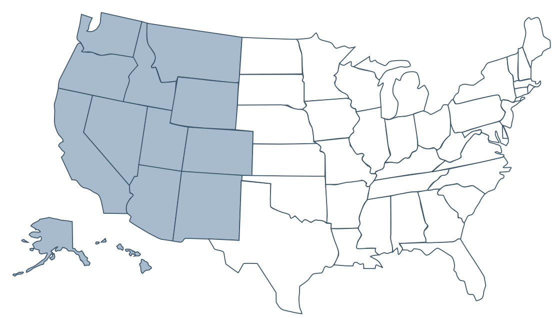
Midwest



Northeast



Southeast



West

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- Litigation support
- Stress Testing
- Loan portfolio valuation
- Tax compliance
- Transaction advisory
- Strategic planning

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

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