

Bank Watch



June 2018

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Takeaways from the FinXTech Conference

The Rise of Bank and FinTech Partnerships

I recently attended FinXTech, an industry event where the hosts at *Bank Director* bring together FinTech founders and bank directors and executives for productive conversations about the road ahead as partners (and competitors).

Those discussions occurred against a backdrop in which FinTech, as a concept to enhance the customer experience and to drive operating efficiencies, is widely accepted by bank management, shareholders, and regulators. How “FinTech” is implemented varies depending upon resources. As shown in the Table 1, there has been no surge of M&A in which banks buy FinTech companies. Only 9 of 276 transactions announced since year-end 2016 entailed a bank or bank holding company acquirer. KeyCorp has been the most active bank acquiring FinTechs and announced their most recent FinTech acquisition in late June 2018, acquiring digital lending technology for small businesses built by Chicago-based FinTech company Bolstr. At best, activity can be described as episodic as it relates to bank acquisitions, which appears to be designed to supplement internal development.

Table 1: Bank Acquisition of FinTech Companies Since 12/31/16

FinTech Seller	Bank Buyer	Announce Date	Deal Val (\$M)
Patrick Consulting Group	Peoples Bancorp Inc.	1/31/17	0.50
Downeast Pension Services, Inc	NBT Bancorp Inc.	4/3/17	5.70
HelloWallet Holdings Inc.	KeyCorp	5/31/17	NA
Sharp BancSystems Inc.	First Baird Bancshares Inc.	6/9/17	NA
Key Merchant Services LLC	KeyCorp	6/30/17	NA
BoeFly, LLC	First Colorado Financial Corp.	8/30/17	NA
WePay Inc	JPMorgan Chase & Co.	10/17/17	NA
Tech and soft dev. resources	Northern Trust Corp.	1/11/18	NA
Digital Lending Platform (Bolstr)	KeyCorp	6/20/18	NA

Source: S&P Global Market Intelligence

The very largest banks such as JPMorgan Chase & Co. are spending billions of dollars annually to upgrade technology—a level of spending that even super regional banks cannot match. In contrast, community and regional banks have been left scratching their heads about how to address FinTech-related issues when money is a constraining factor.

During the 2018 FinXTech conference held in Scottsdale, the focus shifted from the potential disruption of a bank's franchise by FinTech to the potential to partner with FinTech companies, which stood out to me as a marked change from prior years. Both banks and FinTech companies realize that they need each other to some degree. For banks, FinTech offers the potential to leverage innovation

and new technologies to meet customer expectations, enhance efficiency, and compete more effectively against the biggest banks. For FinTech companies, the benefits from bank partnerships can include the potential to leverage the bank's customer relationships to scale more quickly, access to funding, and regulatory/compliance expertise. Several examples of successful partnerships between banks and FinTech companies were highlighted at the FinXTech event. (You can read more about some of them [here](#).)

The FinTech/Bank partnership theme was also evident in [Greensky's recent IPO](#), a FinTech company out of Atlanta. GreenSky arranges loans primarily for home improvement projects. Bank partners pay GreenSky to generate and service the loans while the bank funds and holds the loans on their balance sheet.

As more partnerships emerge, it will be interesting to see if FinTech impacts the valuation of banks that effectively leverage technology to achieve strategic objectives such as growing low-cost core deposits, opening new lending venues, and improving efficiency. One would think the answer will be yes if the impact can be measured and is meaningful.

A second trend to look for will be whether smaller banks become more active as investors in FinTech companies as is the case with larger banks. For the most part, investments by community and regional banks in FinTech companies remains sporadic at best even though FinTech companies raised nearly \$16 billion of equity capital between year-end 2016 and June 2018 in both private and public offerings. An interesting transaction we observed was a \$16 million Series A financing by Greenlight Financial Technology, Inc., a creator of smart debit cards, in which the investors included SunTrust Bank, Amazon Alexa Fund, and \$619 million asset NBKC Bank, among others.

The FinXTech conference included several sessions related to due diligence for FinTech partnerships; however, with limited M&A and investing activity by banks there

What We're Reading

Nathan Stovall and Zuhair Gull review the causes for U.S. banks' [net interest margin contraction](#) in the first quarter of 2018.
(subscription required)

Asset manager AllianceBernstein Holding LP [announces plans to establish headquarters](#) in Nashville, TN and shift 1,000 jobs over the next couple of years.

Banking Exchange's article "[Still Engulfed by Regs](#)" discusses the regulatory burden faced by small banks despite the newly signed legislation.

was little discussion about valuation issues, which can be challenging for FinTech companies and differs markedly from methods employed to value a bank.

Not surprisingly, we have lots of thoughts on the subject.

With the emerging partnership theme from FinXTech in mind, we have prepared several resources for bankers considering partnerships and investments/acquisitions in FinTech companies. Written for community banks interested in leveraging FinTech, pick up a copy of my book ***Creating Strategic Value Through Financial Technology***. Also available, view our complimentary webinar "**How to Value an Early-Stage FinTech Company**." Additionally, if you have questions, reach out to one of our professionals to discuss your needs in confidence.



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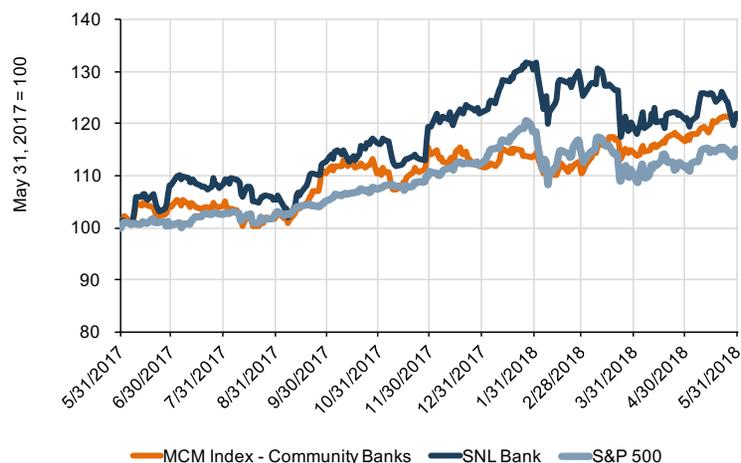
ASU 2016-01

Mercer Capital has developed fair value estimates for a wide variety of loan portfolios, on an exit price basis, ranging in size from under \$100 million to over \$1 billion, covering numerous lending niches, and possessing insignificant to severe asset quality deterioration. We have the resources, expertise, and experience to assist banks in complying with the new requirements in ASU 2016-01.



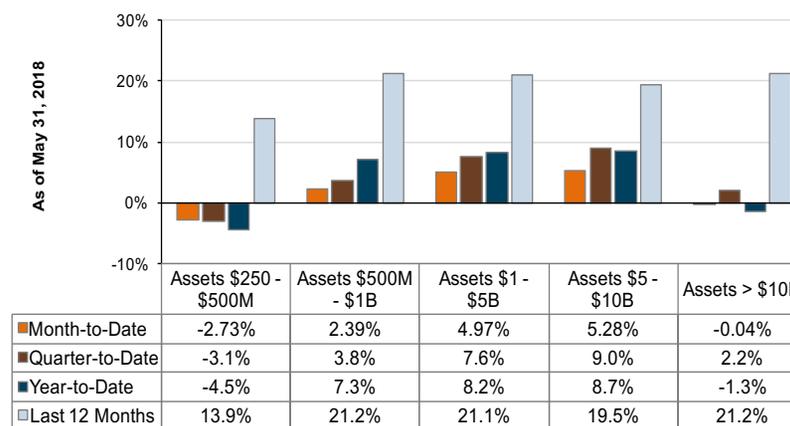
For more information on the topic, read our article "**ASU 2016-01: Recognition and Measurement of Financial Assets and Liabilities: It's Not CECL, But It Could Affect You.**"

Mercer Capital's Bank Group Index Overview



Return Stratification of U.S. Banks

by Asset Size



Median Valuation Multiples

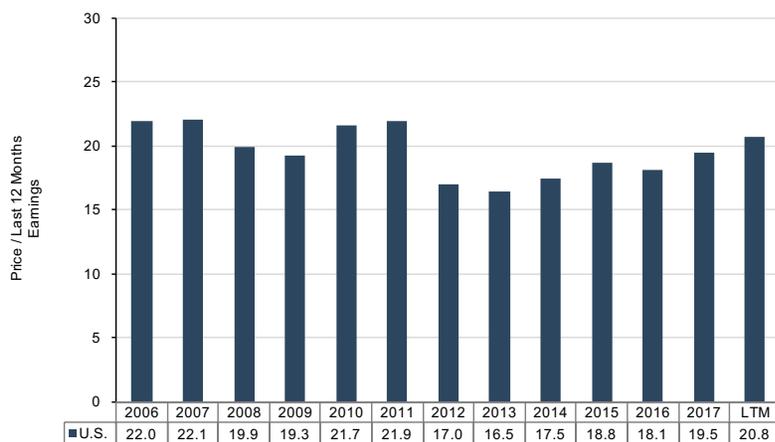
Median Total Return as of May 31, 2018

Median Valuation Multiples as of May 31, 2018

Indices	Median Total Return as of May 31, 2018				Median Valuation Multiples as of May 31, 2018					
	Month-to-Date	Quarter-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	3.3%	3.8%	7.7%	18.4%	24.3x	15.6x	13.8x	140%	167%	1.8%
Midwest Index	3.8%	5.6%	8.1%	19.8%	18.5x	14.0x	12.6x	163%	192%	2.0%
Northeast Index	3.9%	5.1%	8.7%	23.7%	21.3x	14.5x	13.0x	157%	174%	2.0%
Southeast Index	4.8%	7.6%	8.5%	18.4%	25.6x	16.5x	13.9x	146%	169%	1.2%
West Index	5.7%	7.3%	11.3%	28.1%	19.9x	16.1x	13.6x	163%	190%	1.5%
Community Bank Index	4.1%	5.6%	8.6%	21.4%	21.3x	15.3x	13.5x	152%	175%	1.8%
SNL Bank Index	0.3%	0.6%	-0.7%	21.1%						

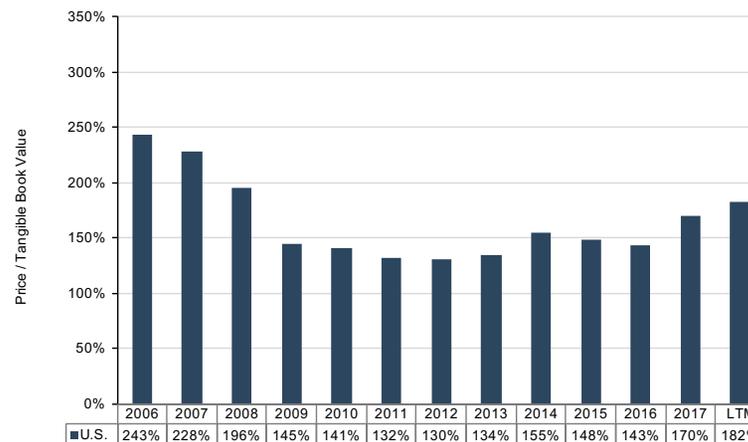
Median Price/Earnings Multiples

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



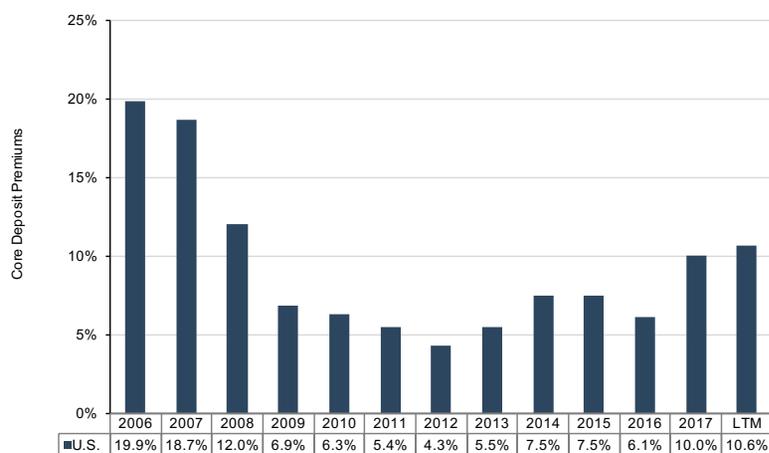
Median Price/Tangible Book Value Multiples

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 May 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	16.7x	170%	10.0%	11	89.2	545,116	8.4%
Midwest	20.0x	180%	10.2%	67	61.1	210,215	10.1%
Northeast	26.9x	194%	11.5%	7	54.3	323,797	6.2%
Southeast	19.1x	165%	9.2%	38	49.1	198,471	8.9%
West	23.9x	196%	11.4%	27	70.6	373,456	9.1%
National Community Banks	20.8x	182%	10.6%	150	59.2	264,948	9.2%

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

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.

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- » Financial reporting for banks
- » Goodwill impairment
- » Litigation support
- » Stress Testing
- » Loan portfolio valuation
- » Tax compliance
- » Transaction advisory
- » Strategic planning

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

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

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