

JULY 2019

# Bank Watch

ARTICLE

**Bank M&A Mid-Year Update**

## In This Issue

Bank M&A Mid-Year Update	1
Public Market Indicators	4
M&A Market Indicators	5
Regional Public	
Bank Peer Reports	6
About Mercer Capital	7

# Bank M&A Mid-Year Update

Through late July, M&A activity in 2019 is on pace to match the annual deal volume achieved in the last few years. Since 2014, approximately 4%-5% of banks have been absorbed each year via M&A. According to data provided by S&P Global Market Intelligence, there were 136 announced transactions in the year-to-date period, which equates to 2.5% of the 5,406 FDIC-insured institutions that existed as of year-end 2018.

In the first seven months of the year, aggregate deal volume reached \$41.3 billion, which surpasses the \$30.5 billion in announced deals in all of 2018 as shown in Figure 1. The increase primarily reflects the \$28 billion BB&T-SunTrust merger that was announced on February 7 and represents the largest deal since the 2007-2009 financial crisis. While deal value is up, multiples are down relative to 2018 with the average P/TBV multiple declining from 174% to 161% and the median P/E multiple declining from 25.3x to 17.1x as shown in Figure 2, although the price/earnings multiples from the 2018 period may be distorted by the effects of tax reform.

The tables on the following page provide a more detailed look at deal activity and the change in multiples in 2019 relative to 2018. For banks with assets less than \$500 million, P/TBV multiples declined approximately 5%. While deal volume in the \$500 million to \$1 billion size group somewhat limits the meaningfulness of comparisons, it's interesting to note that the median P/TBV multiple increased for this group relative to 2018 while the median buyer size increased from \$3.1 billion in assets to \$6.8 billion.

Figure 1 :: Deal Value and Volume

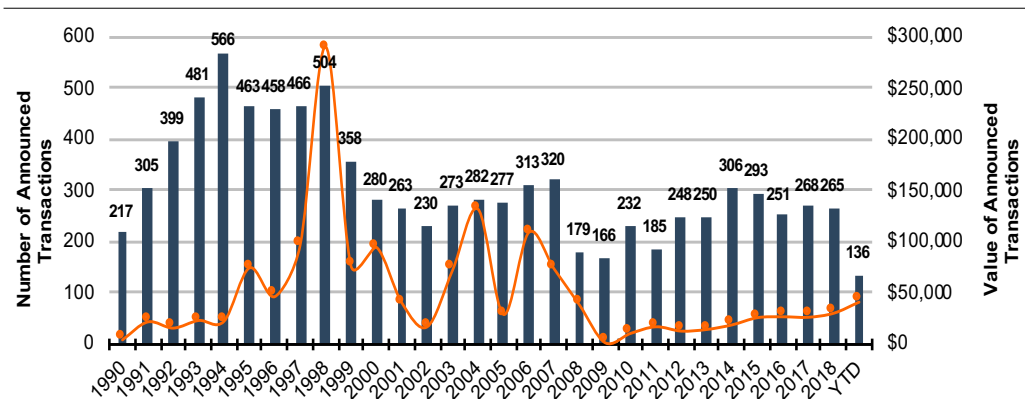
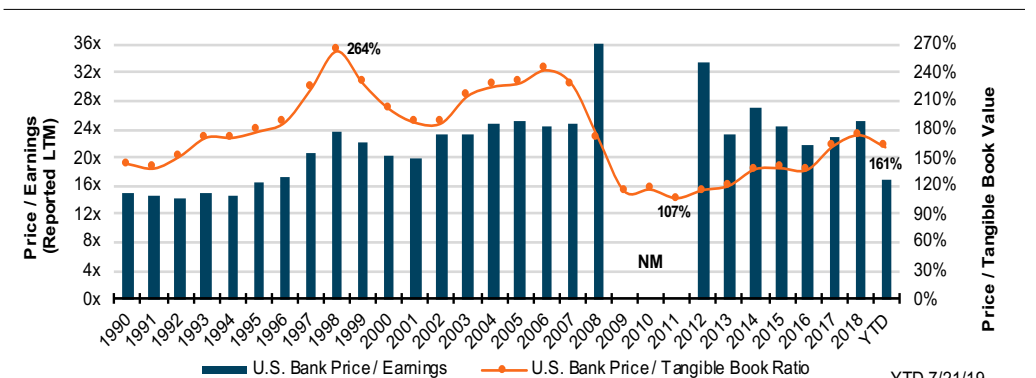


Figure 2 :: Long-term Trend in Pricing Multiples



Source: S&P Global Market Intelligence and Mercer Capital research

YTD 7/21/19

Table 1 :: 2019 Deal Statistics

Target Size	No. of Deals	Aggregate Deal Value (\$MM)	Median P/E	Median P/TBV	Median Target Size (\$M)	Median Buyer Size (\$M)
< \$500 Million	108	1,220	16.8x	148%	139,849	926,519
\$500 Million - \$1 Billion	11	1,311	20.4x	187%	728,402	6,816,964
\$1 Billion - \$3 Billion	4	1,137	16.8x	182%	1,689,920	28,490,231
\$3 Billion - \$10 Billion	4	3,570	13.2x	138%	5,919,970	27,415,616
\$10 - \$50 Billion	2	5,652	14.5x	157%	17,684,204	14,865,880
> \$50 Billion	1	28,283	11.0x	179%	215,543,000	225,697,000

Table 2 :: 2018 Deal Statistics

Target Size	No. of Deals	Aggregate Deal Value (\$MM)	Median P/E	Median P/TBV	Median Target Size (\$M)	Median Buyer Size (\$M)
< \$500 Million	194	3,660	22.4x	156%	130,530	945,872
\$500 Million - \$1 Billion	31	2,972	28.1x	179%	621,690	3,119,392
\$1 Billion - \$3 Billion	19	5,883	23.3x	195%	1,607,135	8,381,002
\$3 Billion - \$10 Billion	11	9,846	25.1x	212%	4,103,345	9,905,198
\$10 - \$50 Billion	2	7,486	17.7x	250%	16,179,911	86,620,153
> \$50 Billion	1	28,283	11.0x	179%	215,543,000	225,697,000

Source: S&P Global Market Intelligence and Mercer Capital research

## What We're Reading

Matt Klein at *Barron's* [recaps New York Fed President John Williams' keynote speech](#) and what it could mean for future monetary policy decisions.

CA-based Summit Bancshares Inc.'s proposed merger with Faciam Holdings Inc. [could force the FDIC to formally rule](#) on servicing marijuana-related businesses. (subscription required)

A new report at *Banking Exchange* [reviews the changing deposits landscape](#) for banks as technology and fintech competitors are exerting increased influence over the competition for retail deposits.

As shown in Figure 3 below, the landscape of buyers has shifted somewhat in favor of bigger banks over the last decade. Deal activity among the smallest group (buyers with assets less than \$500 million) peaked in 2015 with 95 announced deals. In 2018, this group announced 56 acquisitions. In contrast, buyers with total assets between \$10 billion-\$50 billion announced a 10-year high, 28 deals in 2018 and are on pace to reach a similar level in 2019. In May 2018, the SIFI threshold was increased to \$250 billion, providing immediate relief to banks with assets between \$50 billion and \$100 billion. For those with assets between \$100 billion and \$250 billion, regulatory relief will phase in after 18 months. This change is expected to encourage additional M&A activity among bigger players.

The theme of the story hasn't changed; consolidation of the banking industry continues at a pace on par with the historical average. Target banks with less than \$500 million in assets continue to comprise 75%-85% of total deal volume, but the composition of the buyer universe does seem to be shifting. In addition to the move towards larger buyers, another trend that appears to be gaining speed is the

acquisition of commercial banks by credit unions. In 2015, three of such transactions were announced. In 2018, nine deals by credit unions were announced, and an additional ten have been announced through late July of this year.

As to be expected, pricing trends over the last few years have also further cemented the value of a stable and low-cost customer base. As shown in Figure 4 below, as interest rates increased from the end of 2015 through 2018, pricing diverged in favor of banks with the highest percentage of noninterest-bearing deposits to total deposits.

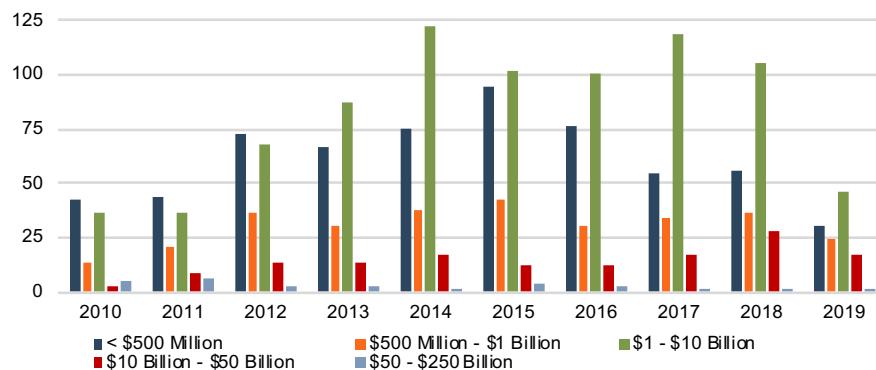
Mercer Capital has been providing transaction advisory and valuation services for over 30 years. To discuss a transaction or valuation issue in confidence, please contact us.

*Mary Grace Arehart*

**Mary Grace Arehart**

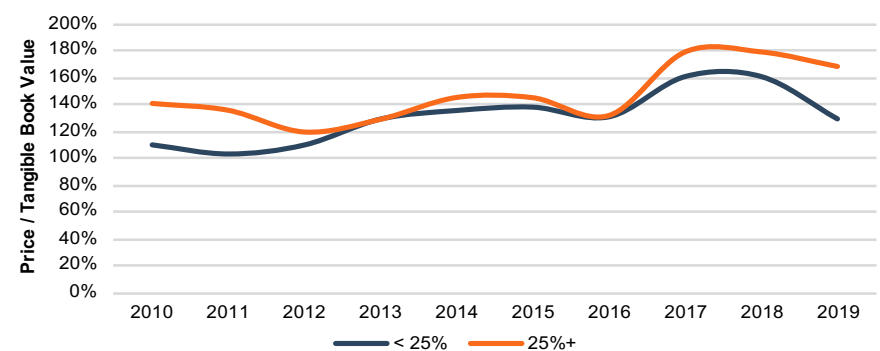
901.322.9720 | arehartm@mercercapital.com

**Figure 3 :: Number of Deals by Buyer Asset Size**



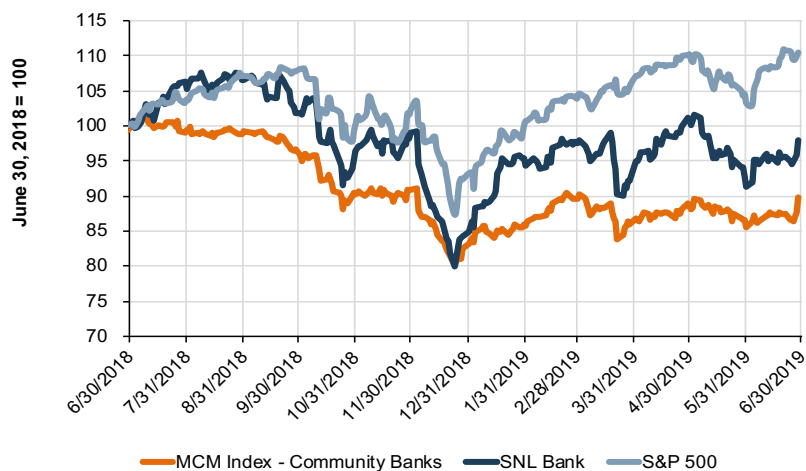
Source: S&P Global Market Intelligence and Mercer Capital research

**Figure 4 :: Percentage of Noninterest Bearing Deposits / Total Deposits**



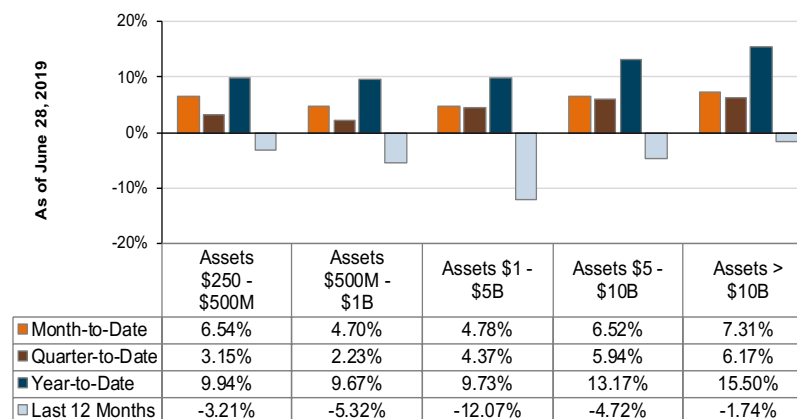
Source: S&P Global Market Intelligence and Mercer Capital research

Mercer Capital's Bank Group Index Overview



Return Stratification of U.S. Banks

by Asset Size

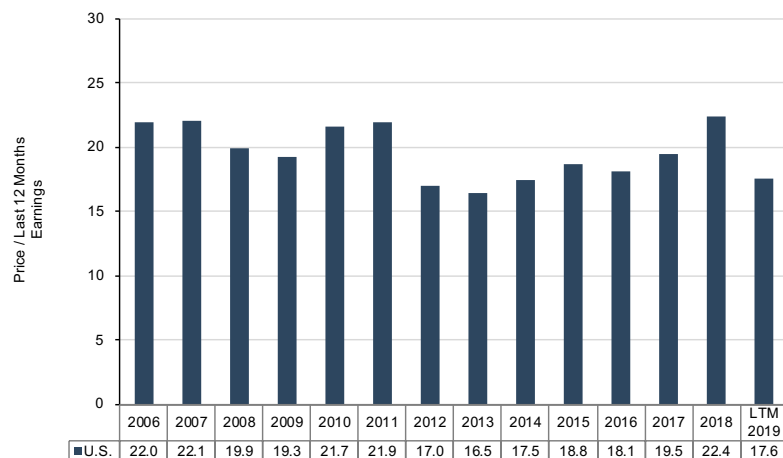


Median Valuation Multiples

Indices	Median Total Return as of June 30, 2019				Median Valuation Multiples as of June 30, 2019					
	Month-to-Date	Quarter-to-Date	Year-to-Date	Last 12 Months	Price/LTM EPS	Price / 2019 (E) EPS	Price / 2020 (E) EPS	Price / Book Value	Price / Tangible Book Value	Dividend Yield
Atlantic Coast Index	7.0%	7.5%	12.0%	-7.5%	13.4x	12.9x	12.2x	122%	137%	2.3%
Midwest Index	4.4%	4.6%	11.1%	-9.3%	12.7x	11.9x	10.6x	139%	155%	2.4%
Northeast Index	7.2%	7.5%	9.5%	-8.5%	13.5x	11.7x	10.9x	125%	138%	2.5%
Southeast Index	4.2%	4.9%	8.0%	-10.9%	13.5x	12.5x	12.4x	123%	138%	1.7%
West Index	5.3%	6.7%	5.2%	-14.3%	12.9x	12.4x	11.4x	120%	129%	2.0%
Community Bank Index	4.9%	4.4%	7.8%	-10.3%	13.3x	12.3x	11.4x	124%	138%	2.2%
<b>SNL Bank Index</b>	<b>7.2%</b>	<b>6.1%</b>	<b>15.2%</b>	<b>-2.1%</b>						

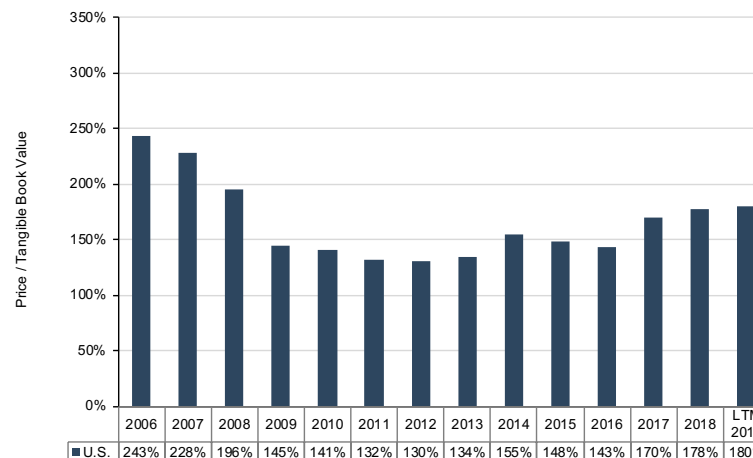
### Median Price/Earnings Multiples

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



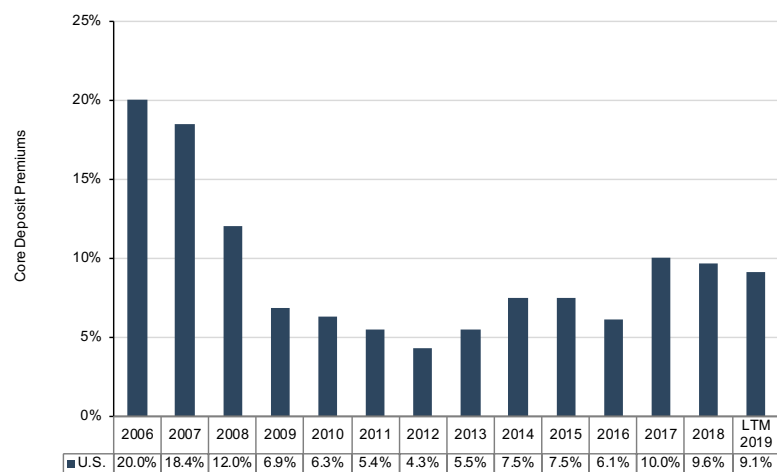
### Median Price/Tangible Book Value Multiples

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

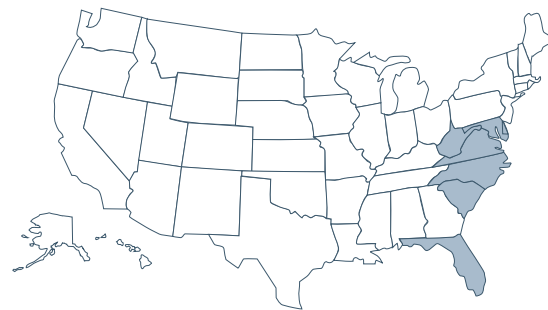
Target Banks' Assets <\$5B and LTM ROE >5%, 12 months ended June 2019

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	18.1x	179%	11.1%	17	100.3	471,912	10.2%
Midwest	16.1x	164%	7.7%	77	51.8	178,467	10.0%
Northeast	17.3x	189%	9.1%	10	71.4	506,647	9.7%
Southeast	17.9x	181%	9.2%	21	35.8	227,881	9.8%
West	20.9x	200%	13.1%	19	68.0	280,539	10.7%
<b>National Community Banks</b>	<b>17.6x</b>	<b>180%</b>	<b>9.1%</b>	<b>144</b>	<b>65.5</b>	<b>232,962</b>	<b>10.1%</b>

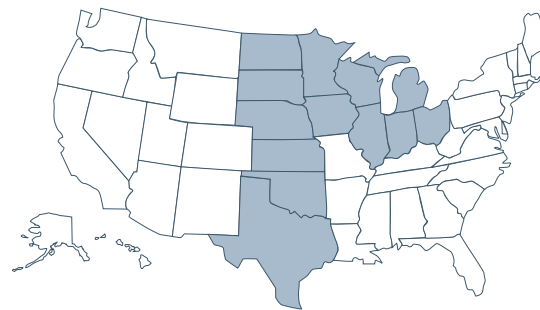
Source: S&P Global Market Intelligence

# Mercer Capital's Regional Public Bank Peer Reports

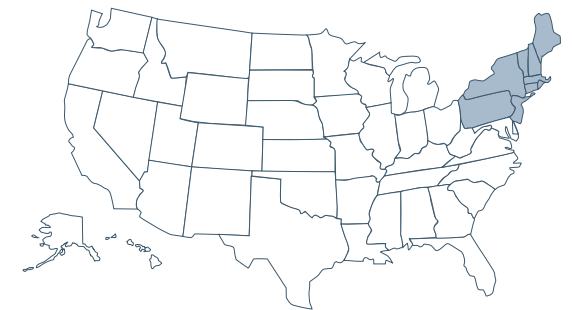
Updated weekly, Mercer Capital's Regional Public Bank Peer Reports offer a closer look at the market pricing and performance of publicly traded banks in the states of five U.S. regions. Click on the map to view the reports from the representative region.



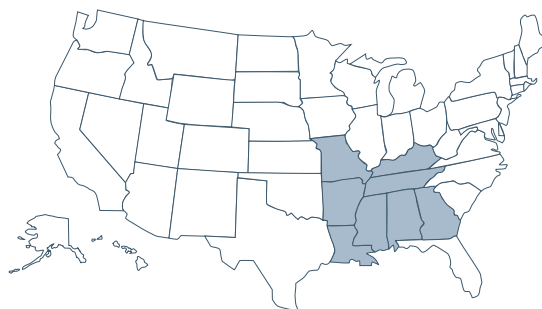
**Atlantic Coast**



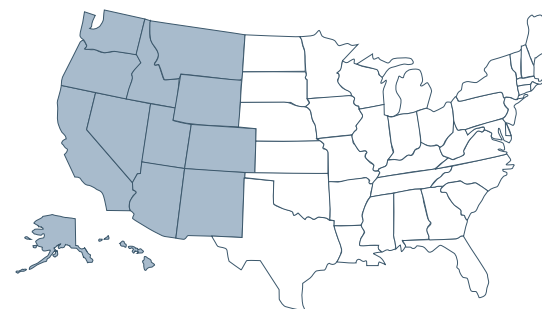
**Midwest**



**Northeast**



**Southeast**



**West**

MERCER CAPITAL

# Depository Institutions Services

Mercer Capital assists banks, thrifts, and credit unions with significant corporate valuation requirements, transaction 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.

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

## Depository Institutions Team



**Jeff K. Davis, CFA**  
 615.345.0350  
 jeffdavis@mercercapital.com



**Andrew K. Gibbs, CFA, CPA/ABV**  
 901.322.9726  
 gibbsa@mercercapital.com



**Jay D. Wilson, Jr., CFA, ASA, CBA**  
 469.778.5860  
 wilsonj@mercercapital.com



**Eden G. Stanton, CFA**  
 901.270.7250  
 stantone@mercercapital.com



**Mary Grace Arehart**  
 901.322.9720  
 arehartm@mercercapital.com



**Madeleine G. Davis**  
 901.322.9715  
 davism@mercercapital.com



**Brian F. Adams**  
 901.322.9706  
 adamsb@mercercapital.com

[www.mercercapital.com](http://www.mercercapital.com)





# Mercer Capital

[www.mercercapital.com](http://www.mercercapital.com)

