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# Bank Watch

ARTICLE

## Now Could Be a Great Time for Bank Investors to Consider Estate Planning

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# Now Could Be a Great Time for Bank Investors to Consider Estate Planning

It may be an opportune time for bank investors to consider estate planning opportunities. Rising inflation has been top of mind for business owners and bankers (and everyone for that matter) over the last few years. While inflation has decelerated from its peak, business owners, bankers, and investors are adjusting to the new higher for longer interest rate environment.

Higher inflation and interest rates have affected every business with few exceptions. All else equal, higher interest rates will negatively affect business value as higher discount rates are used to bring future cash flows to the present. In some industries though, inflation-driven increases in earnings or revenue growth expectations have offset (or even outweighed) the negative impact of higher interest rates.

However, not all industries have been immune to pressure from higher interest rates and inflation on the value of their shares. Banking is one of several industries that have underperformed broader market indices as investors remain skeptical of the “new normal” and impact of the rate environment on banks’ cost of funds and net interest margins.

As shown in the following tables, small and mid cap public bank stocks have underperformed broad market indices, and valuation multiples (as measured by P/E and P/TBV) remain below long-term historical averages.

While it remains uncertain when the interest rate easing cycle will begin, the easing cycle will likely also have divergent outcomes for different industries. At this point

between cycles and with bank valuation multiples below long-term averages, it is important to consider the potential opportunity to favorably transfer business value to future generations.

| CAGR Total Return (Price Ch. + Reinv. Div.) |         |        |        |        |         |         |
|---|---------|--------|--------|--------|---------|---------|
| Index                                       | 4/24/24 | 1 Year | 3 Year | 5 Year | 10 Year | 15 Year |
| Small Cap Bank                              | 209     | 19.6%  | -4.0%  | 2.5%   | 6.0%    | 8.2%    |
| Mid Cap Bank                                | 500     | 25.7%  | -12.7% | -1.2%  | 3.4%    | 7.3%    |
| Large Cap Bank                              | 477     | 38.8%  | 6.0%   | 8.7%   | 9.9%    | 12.6%   |
| S&P 500                                     | 5072    | 24.5%  | 8.3%   | 13.5%  | 12.5%   | 14.7%   |
| NASDAQ                                      | 15713   | 30.5%  | 3.9%   | 14.2%  | 14.2%   | 16.0%   |

Source: S&P Capital IQ

| Avg. Price / Earnings (Trailing 4 Quarters) |         |       | Avg. Price / Tangible Book Value |         |       |
|---|---------|-------|----------------------------------|---------|-------|
| Index                                       | 4/24/24 | 10 Yr | Index                            | 4/24/24 | 10 Yr |
| Small Cap Bank                              | 12.9x   | 15.9x | Small Cap Bank                   | 105%    | 181%  |
| Mid Cap Bank                                | 11.5x   | 13.7x | Mid Cap Bank                     | 173%    | 182%  |
| Large Cap Bank                              | 12.5x   | 12.8x | Large Cap Bank                   | 179%    | 164%  |

Source: S&P Capital IQ

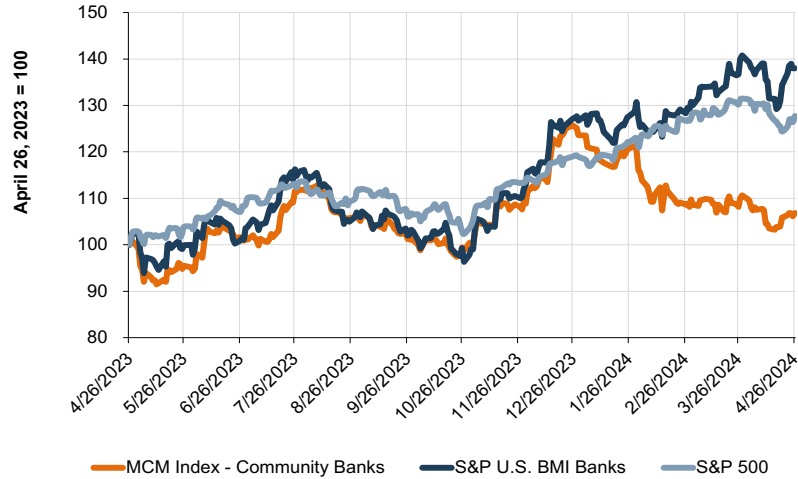
A second reason to consider estate planning transactions in the current environment is issues on the tax and policy front. The *Tax Cuts and Jobs Act* enacted in December 2017 doubled the basic exclusion amounts individuals could give away without paying estate taxes. The **sunsetting** of this provision on December 31, 2025 and the potential for lower exclusion amounts thereafter and higher estate taxes, makes considering transfers all the more important.

The combination of lower bank stock valuations combined with sunsetting favorable estate tax provisions make 2024 a worthwhile year for bank investors to consider estate planning strategies. Many strategies will require a current valuation of your bank, and our professionals are here to help.

A handwritten signature in black ink that reads "Jay Wilson, Jr." in a cursive style.

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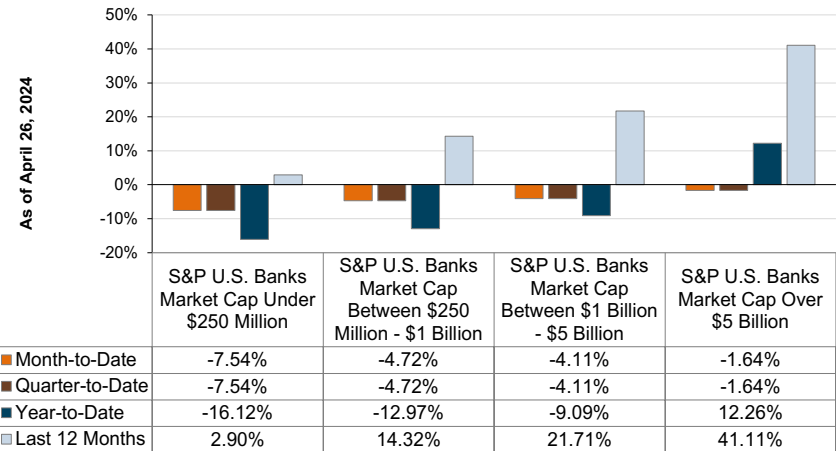
Mercer Capital's Bank Group Index Overview



Source: S&P Capital IQ Pro.

Return Stratification of U.S. Banks

by Market Cap



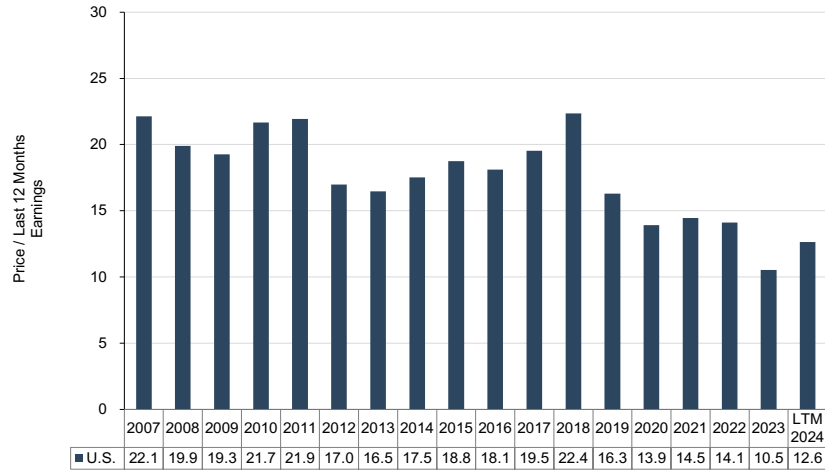
Source: S&P Capital IQ Pro.

|                      | Total Return  |                 |              |                | Regional Index Data as of April 26, 2024 |                      |                      |                    |                             |                |
|----------------------|---------------|-----------------|--------------|----------------|--|----------------------|----------------------|--------------------|-----------------------------|----------------|
|                      | Month-to-Date | Quarter-to-Date | Year-to-Date | Last 12 Months | Price / LTM EPS                          | Price / 2024 (E) EPS | Price / 2025 (E) EPS | Price / Book Value | Price / Tangible Book Value | Dividend Yield |
| Atlantic Coast Index | -7.0%         | -7.0%           | -19.8%       | -0.9%          | 10.2x                                    | 8.4x                 | 7.8x                 | 91%                | 98%                         | 3.7%           |
| Midwest Index        | 1.5%          | 1.5%            | -2.1%        | 14.7%          | 8.7x                                     | 9.5x                 | 9.0x                 | 84%                | 100%                        | 3.8%           |
| Northeast Index      | -4.0%         | -4.0%           | -15.6%       | 5.6%           | 8.8x                                     | 9.9x                 | 8.5x                 | 82%                | 93%                         | 4.1%           |
| Southeast Index      | -3.6%         | -3.6%           | -10.1%       | 8.4%           | 10.7x                                    | 8.2x                 | 6.9x                 | 84%                | 94%                         | 4.0%           |
| West Index           | -3.4%         | -3.4%           | -13.9%       | 9.9%           | 9.0x                                     | 9.9x                 | 8.5x                 | 90%                | 95%                         | 3.8%           |
| Community Bank Index | -3.4%         | -3.4%           | -13.5%       | 6.9%           | 9.1x                                     | 9.8x                 | 8.2x                 | 86%                | 96%                         | 3.8%           |
| S&P U.S. BMI Banks   | -2.0%         | -2.0%           | 8.9%         | 38.0%          | na                                       | na                   | na                   | na                 | na                          | na             |

Source: S&P Capital IQ Pro.

**Median Price/Earnings Multiples**

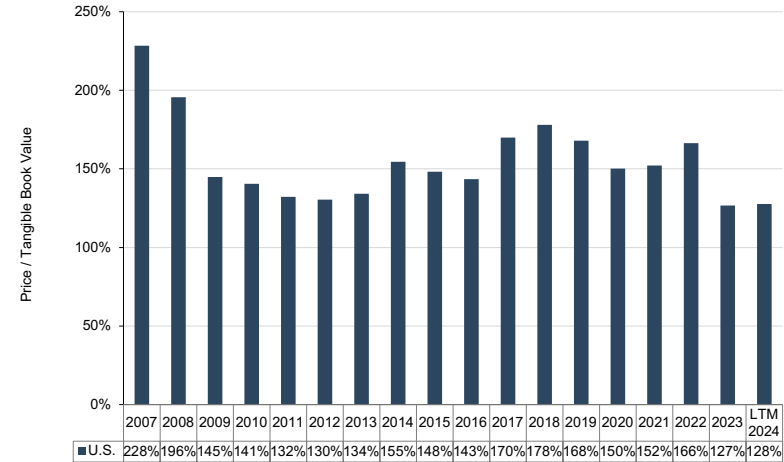
Target Banks' Assets <\$5B and LTM ROE >5%



Source: S&P Capital IQ Pro.

**Median Price/Tangible Book Value Multiples**

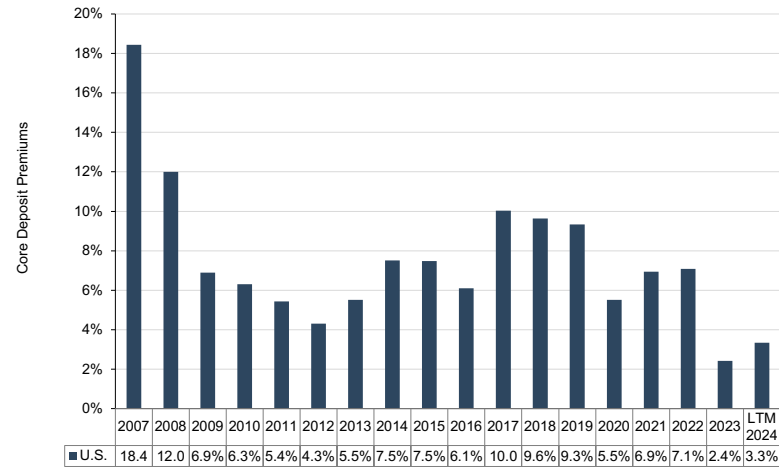
Target Banks' Assets <\$5B and LTM ROE >5%



Source: S&P Capital IQ Pro.

**Median Core Deposit Premiums**

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



Source: S&P Capital IQ Pro.

**Median Valuation Multiples for M&A Deals**

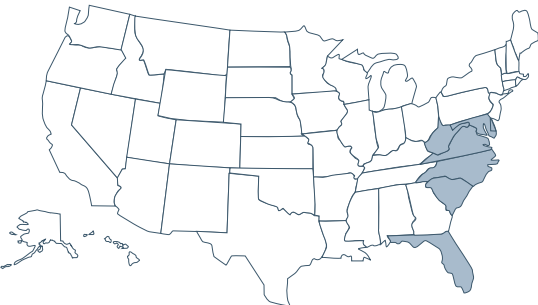
Target Banks' Assets <\$5B and LTM ROE >5%, 12 months ended April 2, 2024

| 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           | 10.6x                | 114%            | 1.9%                     | 5            | 67.7                    | 684,661                        | 11.7%                    |
| Midwest                  | 12.9x                | 152%            | 4.6%                     | 3            | 87.6                    | 842,634                        | 15.0%                    |
| Northeast                | 8.0x                 | 113%            | 1.7%                     | 3            | 128.1                   | 1,861,872                      | 13.0%                    |
| Southeast                | 11.8x                | 128%            | 3.6%                     | 6            | 35.6                    | 359,665                        | 8.7%                     |
| West                     | 16.4x                | 156%            | 6.3%                     | 7            | 80.6                    | 753,765                        | 10.2%                    |
| National Community Banks | 12.6x                | 128%            | 3.3%                     | 24           | 70.5                    | 693,240                        | 10.4%                    |

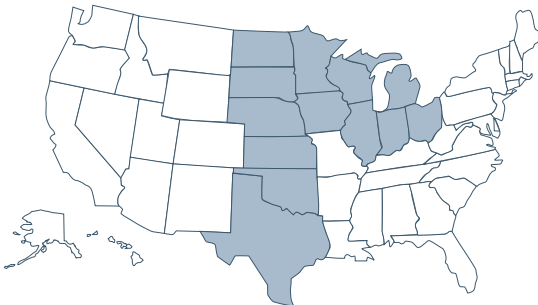
Source: S&P Capital IQ Pro.

# 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.



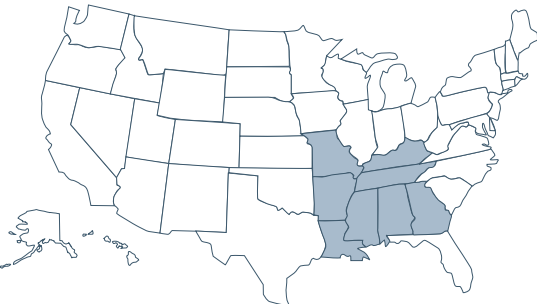
**Atlantic Coast**



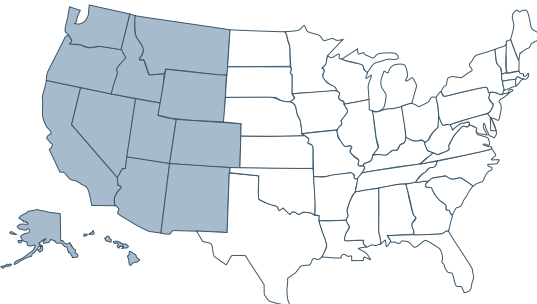
**Midwest**



**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

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