

AUGUST 2024

Bank Watch

ARTICLE

2024 Mid-Year Market Update

BONUS ARTICLE

Equity Capital Raises

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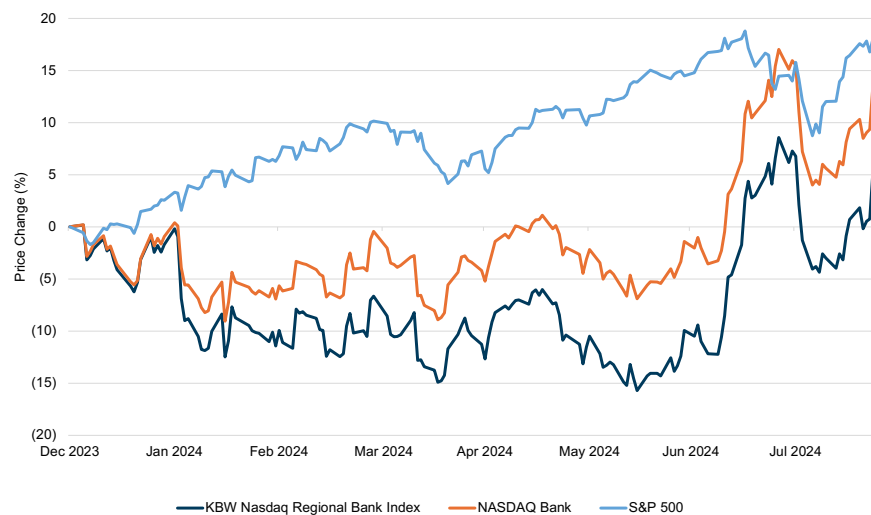
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2024 Mid-Year Market Update

Year-to-date through August 23, the Nasdaq Bank Index and the KBW Nasdaq Regional Bank Index appreciated by 14% and 6%, respectively, compared to 18% appreciation by the S&P (see Figure 1). Through June, bank stocks were flat to down from year-end 2023 but rallied in July to outperform the broader market with the Nasdaq Bank Index and the KBW Regional Bank Index appreciating by 17% and 19%, respectively, compared to 1% appreciation for the S&P in the month of July.

After a period of underperformance due to earnings pressure from rising rates and falling margins, banks rallied strongly during the reporting of 2Q24 earnings in July as it became apparent NIMs for most banks had or soon would stabilize and prospectively widen as the Fed moves to reduce short-term policy rates.

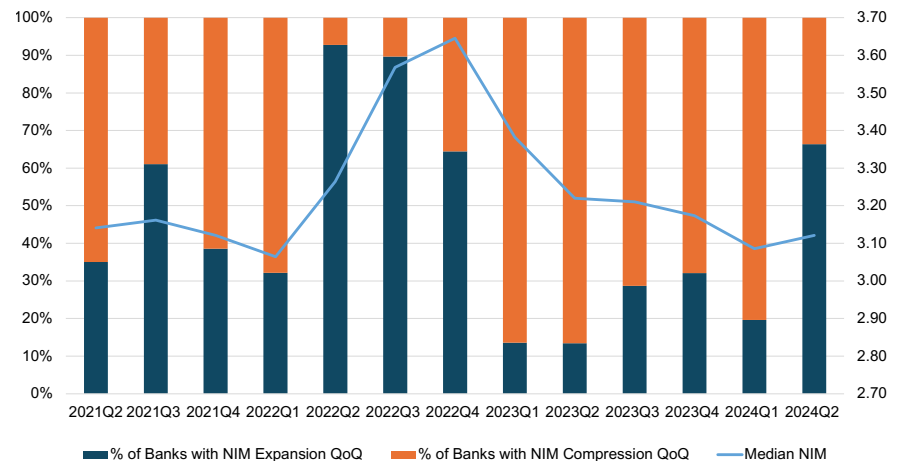
Figure 1: Index Performance (12/31/2023 – 8/23/2024)



Source: S&P Capital IQ Pro

After steadily declining from a peak of 3.65% in the last quarter of 2022, the median net interest margin for all banks traded on the NYSE and Nasdaq widened by 3 bps in 2Q24 compared to 1Q24. Furthermore, as shown in Figure 2, 66% of all banks reported net interest margin expansion quarter-over-quarter, compared to just 20% in the first quarter of the year. Margin improvement was less prevalent for the biggest banks as only 32% of banks with assets over \$100 billion reported net interest margin expansion in 2Q24, and the group as a whole reported median net interest margin compression of 3 bps (see Figure 3 on the next page).

Figure 2: Trend in Median Net Interest Margin & QoQ Change in NIM



Source: S&P Capital IQ Pro, Mercer Capital Research

Stock price appreciation was greatest for the banks with total assets between \$1 billion and \$100 billion, in part reflecting investor optimism for earnings improvement for banks that faced the most margin compression from 4Q22 to 1Q24.

As shown in Figure 3, banks with assets less than \$1 billion or greater than \$100 billion reported stock price appreciation of 7%-8% from March 31, 2024 to July 31, 2024 compared to a 16% median increase for all banks.

Figure 3: Change in Net Interest Margin by Asset Size Range

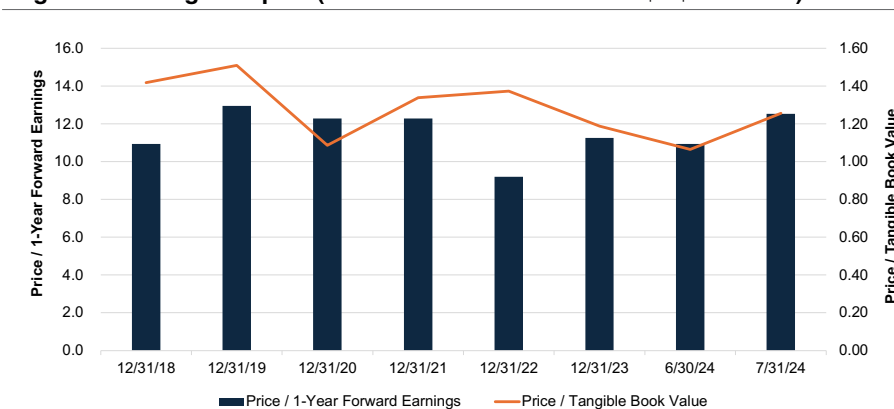
Asset Size Range	1Q24 - 2Q24 Median NIM Change	% of Banks with NIM Expansion in 2Q24	Median Stock Price Change 3/31/24-7/31/24	4Q22 - 1Q24 Median NIM Change
< \$1 Billion	7 bps	86%	8%	-30 bps
\$1 - \$5 Billion	3 bps	68%	15%	-68 bps
\$5 - \$10 Billion	1 bps	60%	22%	-49 bps
\$10 - \$100 Billion	5 bps	72%	16%	-54 bps
> \$100 Billion	-3 bps	32%	7%	-29 bps
All Publicly Traded Banks	3 bps	66%	16%	-56 bps

Source: S&P Capital IQ Pro, Mercer Capital Research

As illustrated in Figure 4, valuation multiples increased significantly with the rally in stock prices in July. Publicly traded banks with assets between \$1 and \$15 billion reported a median price/one year forward earnings multiple of 12.5x and a price/tangible book value multiple of 1.26x as of July 31, 2024, up from 10.9x and 1.06x as of June 30. In addition to higher forward P/Es, Analysts' estimates for 2024 EPS were 12% higher as of July 31 compared to estimates for 2024 EPS available as of year-end 2023.

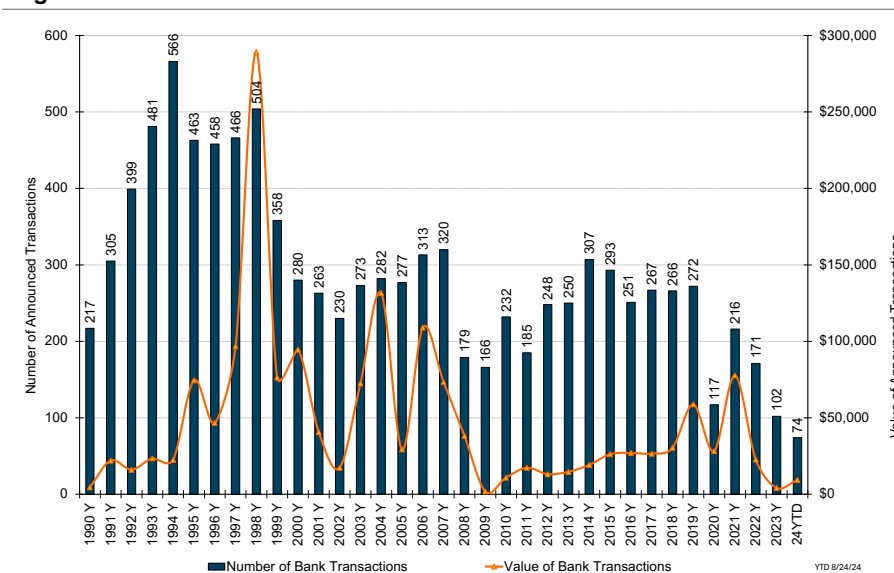
According to data provided by S&P Capital IQ Pro, there were 74 announced M&A transactions through August 24, compared to 102 announced transactions for the entirety of 2023. Notably, aggregate deal volume reached \$9.4 billion, which exceeds the \$4.2 billion in announced deals in all of 2023 as shown in Figure 5. After a period of subdued activity, the bank M&A market is showing signs of recovery. Three deals valued at over \$1 billion have been announced in 2024 compared to just one in 2022 and 2023, and the median P/E multiple increased from 12.4x in 2023 to 17.1x in 2024.

Figure 4: Pricing Multiples (Banks with Assets between \$1-\$15 Billion)



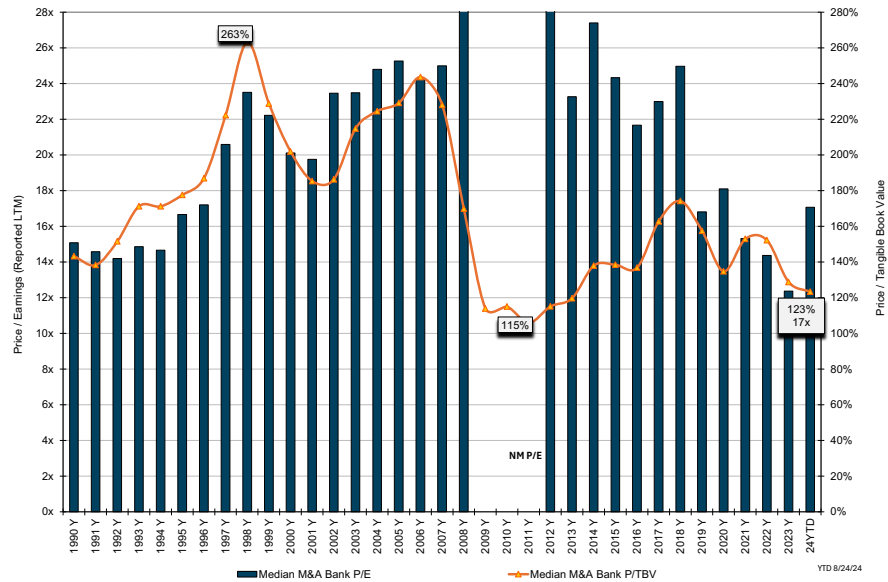
Source: S&P Capital IQ Pro, Mercer Capital Research

Figure 5: Deal Value and Volume



Source: S&P Capital IQ Pro

Figure 6: Long-Term Trend in Pricing Multiples



Source: S&P Capital IQ Pro

After a tumultuous period for the banking industry marked by bank failures, liquidity concerns, margin pressure, depressed valuations, and subdued M&A activity, the outlook for the remainder of 2024 is cautiously optimistic. EPS estimates are trending higher, M&A activity is showing signs of improving, and net interest margins are poised to expand. Potential deterioration in asset quality remains the dark cloud on the horizon for the banking industry as margin pressures ease alongside weakening economic conditions.

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Equity Capital Raises

The banking zeitgeist is evolving: 2023 was about a liquidity crisis that claimed three banks who were members of the S&P 500; 2024 is shaping up as the year of capital raises by a handful of regionals to deal with the aftermath of the Fed's ultra-low-rate environment.

KeyCorp (NYSE:KEY) was the latest bank to raise capital. The Bank of Nova Scotia (TSX:BNS) will purchase ~163 million newly issued common shares in a two-step transaction that once consummated will result in Scotia owning 14.9% of the common shares.

The \$17.17 per share issue price equates to:

- » 15% premium to the ten-day volume weighted average price through August 9;
- » ~1.50x pro forma tangible book value; and
- » 10.8x consensus 2025 EPS estimate.

The market was surprised by the investment because KEY's and KeyBank's common equity tier 1 ratios were 10.5% and 12.6% respectively as of June 30, 2024. However, the respective tangible common equity ratios were 5.2% and 6.9% given sizable unrealized losses in the AFS bond portfolio and receive fix/pay variable swaps book. KEY has earmarked about one-half the capital to absorb losses from restructuring the balance sheet.

Unlike the New York Community Bancorp (NYSE:NYCB) and First Foundation (NASDAQ:FFWM) capital raises that occurred at significant discounts to the market and tangible BVPS, KEY's shares traded up on the announcement. Investors took the investment price as a form of validation of KEY's credit marks, plus there is the potential for the "strategic minority" investment to become a control position via acquiring the remaining common shares one day.

Figure 1: Bank of Nova Scotia Equity Investment in KeyCorp

Dilution Summary				
	\$Mil	CSEs	Per Share	%
Tangible Common	\$9,547	943.2	\$10.12	85.3%
New Capital - Scotia	2,800	163.1	\$17.17	14.7%
Estimated Expenses	(28)			
Pro Forma TCE	12,319	1,106.3	\$11.14	100.0%
Warrants	0	0.0	\$0.00	0.0%
Fully Diluted TCE	\$12,319	1,106.3	\$11.18	100.0%
Bank of Nova Scotia-R1	\$800			
Bank of Nova Scotia-R2	2,000			
Investor #3	0			
Investor #4	0			
Others	0			
Total Capital	\$2,800			
Common Shares	163,080			
Series A Pref'd	0.000		<> Common share equivalent	
Series B Pref'd	0.000		<> Common share equivalent	
Total CSE's	163,080			
Price per CSE	\$17.17			
Warrants	0.000		<> NA	
Strike Price	\$0.00		<> NA	
Blended Inv Price P/S	\$17.17		<> "As if" exercised	
If 2026 (or 2025?) ROA =				
ROA	0.60%	0.80%	1.00%	1.20%
Net Income (\$Mil)	\$1,141	\$1,522	\$1,902	\$2,283
EPS (Fully Diluted)	\$1.03	\$1.38	\$1.72	\$2.06
KEY @ P/E of 9.0x	\$9.29	\$12.38	\$15.48	\$18.57
KEY @ P/E of 11.0x	\$11.35	\$15.13	\$18.92	\$22.70
KEY @ P/E of 13.0x	\$13.41	\$17.88	\$22.36	\$26.83
P/FDTBV @ 6/30 \$11.18	83%	111%	138%	166%
P/FDTBV @ 6/30 \$11.18	102%	135%	169%	203%
P/FDTBV @ 6/30 \$11.18	120%	160%	200%	240%
MOIC per share \$17.17	54%	72%	90%	108%
MOIC per share \$17.17	66%	88%	110%	132%
MOIC per share \$17.17	78%	104%	130%	156%

Figure 2: KEYCORP Pro Forma Balance Sheet

	Reported @ 6/30/24			Investor Capital	Cash Use ¹	Pro Forma @ 6/30/24		
	KeyCorp	Key Bank	Parent Company			Key Bank	Parent Company	KeyCorp
Cash	\$1,350	\$1,349	\$3,486	\$2,800	(\$1,428)	\$2,749	\$4,858	\$4,122
ST Investments	15,537	15,518	0	0	0	15,518	0	15,537
Securities	46,877	45,434	0	0	0	45,434	0	46,877
Loans - HFS	517	517	0	0	0	517	0	517
Loans - HFI	107,369	107,369	0	0	0	107,369	0	107,369
LL Reserve	(1,562)	(1,562)	0	0	0	(1,562)	0	(1,562)
Inv in KeyBank, N.A.	0	0	15,047	0	1,400	0	16,447	0
Inv in Non-Bank Subs	0	0	877	0	0	0	877	0
Fixed Assets	1,101	1,067	33	0	0	1,067	33	1,101
MSRs	721	721	0	0	0	721	0	721
Goodwill & CDI	2,796	2,510	167	0	0	2,510	167	2,796
Other Assets	12,769	12,040	953	0	0	12,040	953	12,769
Total Assets	\$187,475	\$184,963	\$20,564	\$2,800	(\$28)	\$186,363	\$23,336	\$190,247
Deposits	145,744	149,274	0	0	0	149,274	0	145,744
Bank Borrowings	17,632	17,632	0	0	0	17,632	0	17,632
Parent Co Debt	5,267	0	5,267	0	0	0	5,267	5,267
Other Liabilities	4,041	3,010	507	0	0	3,010	507	4,041
Total Liabilities	172,685	169,916	5,774	0	0	169,916	5,774	172,685
Preferred Equity	2,446	0	2,446	0	0	0	2,446	2,446
Common & Conv Pfd	12,343	15,047	12,343	2,800	(28)	16,447	15,115	15,115
Total Equity	14,789	15,047	14,789	2,800	(28)	16,447	17,561	17,561
Liabilities & Equity	\$187,475	\$184,963	\$20,564	\$2,800	(\$28)	\$186,363	\$23,336	\$190,247
Common Shr Equiv	943.2		943.2	163.1			1,106.3	1,106.3
Tangible BVPS	\$10.12		\$10.12	\$17.17			\$11.18	\$11.18
Common Eq Tier 1	14,893	17,594				18,994		17,665
Tangible Com Eq	5.2%	6.9%				7.6%		6.6%
Leverage Ratio	9.1%	9.4%				10.1%		10.6%
CET1 Ratio	10.5%	12.6%				13.5%		12.2%
Total RBC Ratio	14.7%	14.8%				15.6%		16.3%



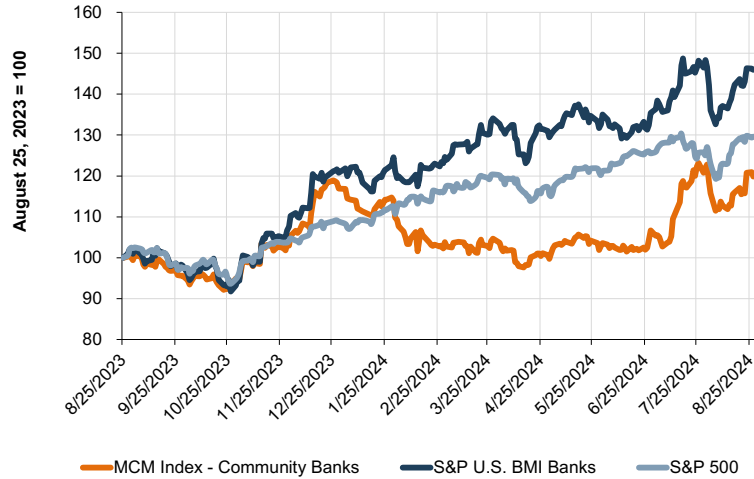
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1) Assumes ~\$28M of deal and other expenses, \$1.4B contributed to KeyBank as additional capital

Source: Mercer Capital, SEC and regulatory filings, and S&P Global Market Intelligence

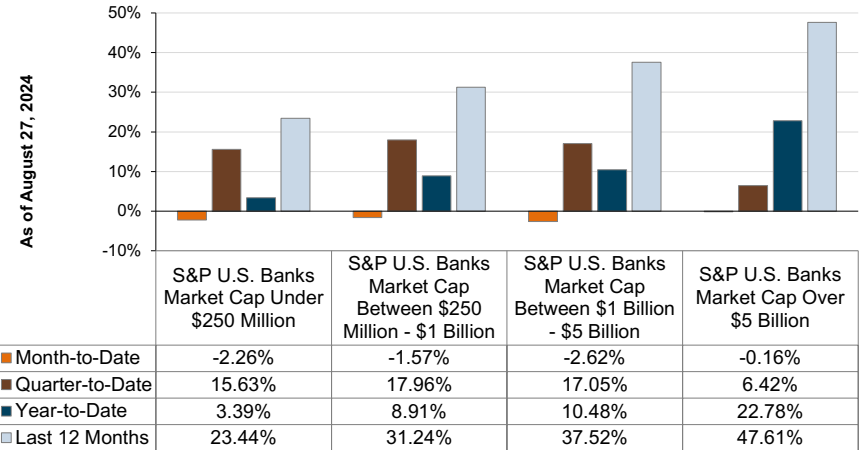
Mercer Capital's Bank Group Index Overview



Source: S&P Capital IQ Pro.

Return Stratification of U.S. Banks

by Market Cap



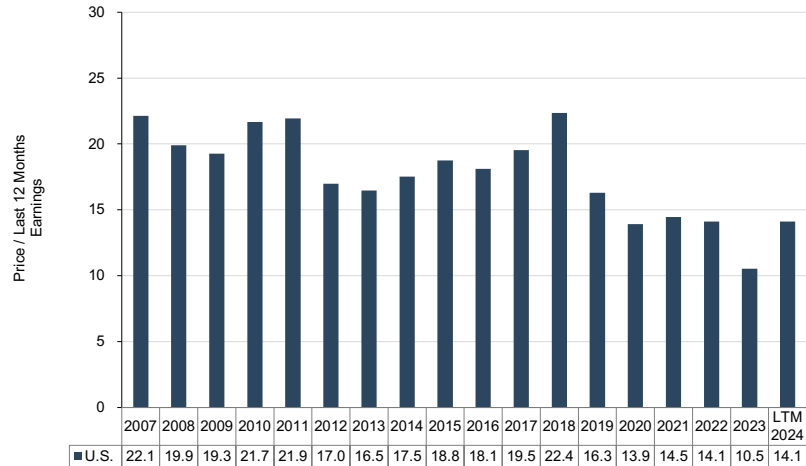
Source: S&P Capital IQ Pro.

	Total Return				Regional Index Data as of August 27, 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	-4.0%	13.7%	-1.9%	11.5%	13.4x	12.6x	10.0x	103%	116%	2.8%
Midwest Index	-0.4%	11.6%	9.7%	20.9%	10.3x	10.5x	10.2x	94%	105%	3.5%
Northeast Index	-3.2%	12.6%	0.2%	19.1%	10.8x	10.2x	9.2x	97%	111%	3.4%
Southeast Index	-0.8%	12.5%	8.5%	35.1%	12.1x	11.2x	9.5x	104%	118%	3.0%
West Index	-1.8%	12.6%	0.8%	18.9%	11.1x	13.5x	9.6x	102%	109%	3.1%
Community Bank Index	-2.4%	12.3%	2.5%	19.8%	11.2x	11.5x	9.9x	98%	109%	3.1%
S&P U.S. BMI Banks	-0.5%	7.8%	20.8%	46.0%	na	na	na	na	na	na

Source: S&P Capital IQ Pro.

Median Price/Earnings Multiples

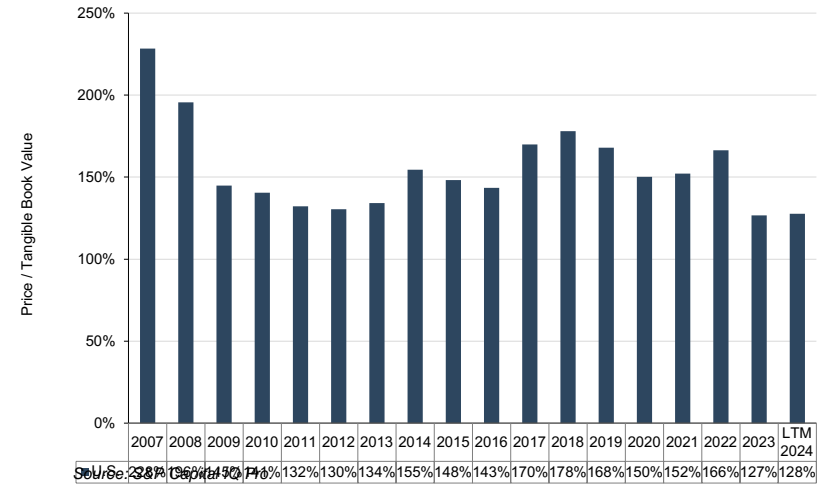
Target Banks' Assets <\$5B and LTM ROE >5%



Source: S&P Capital IQ Pro.

Median Price/Tangible Book Value Multiples

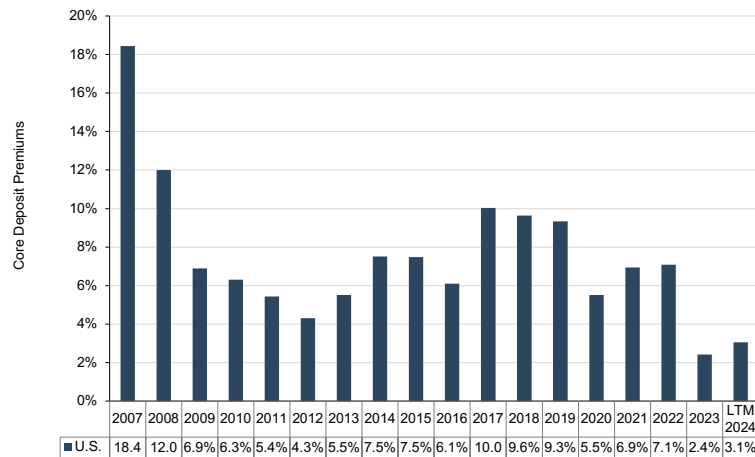
Target Banks' Assets <\$5B and LTM ROE >5%



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

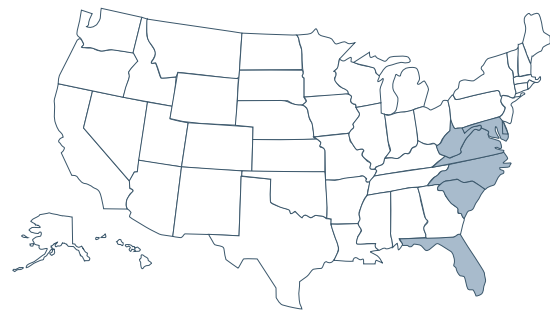
Target Banks' Assets <\$5B and LTM ROE >5%, 12 months ended August 28, 2024

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	110%	2.2%	3	57.9	547,563	11.7%
Midwest	14.5x	152%	6.2%	5	180.4	1,756,629	13.0%
Northeast	12.2x	121%	1.7%	4	107.6	1,360,231	10.7%
Southeast	9.8x	128%	4.4%	7	73.4	701,819	9.6%
West	17.1x	137%	4.6%	6	80.3	1,072,981	9.0%
National Community Banks	14.1x	128%	3.1%	25	80.2	850,612	9.9%

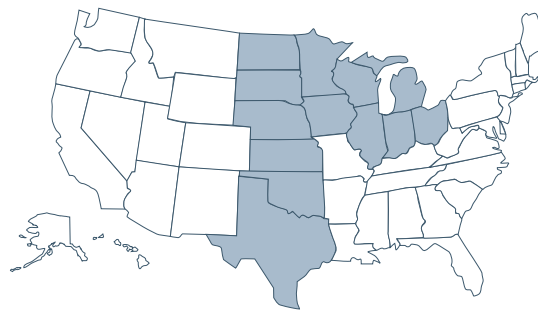
Source: S&P Capital IQ Pro.

Mercer Capital's Regional Public Bank Peer Reports

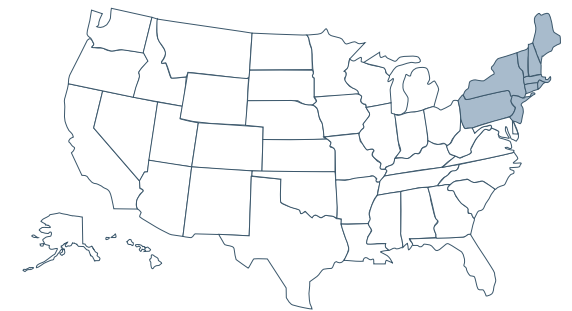
Updated weekly, Mercer Capital's Regional Public Bank Peer Reports offer a closer look at the market pricing and performance of publicly traded banks in the states of five U.S. regions. Click on the map to view the reports from the representative region.



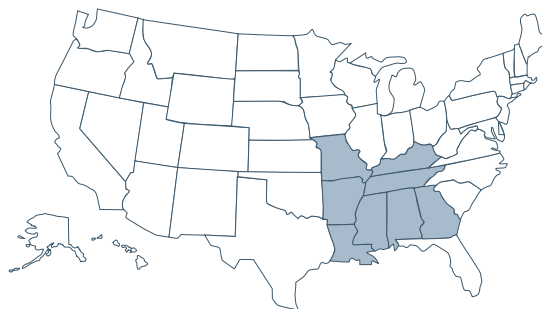
Atlantic Coast



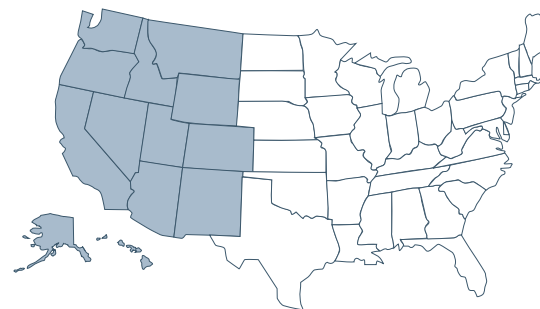
Midwest



Northeast



Southeast



West

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