MERCER CAPITAL

BUSINESS VALUATION &
FINANCIAL ADVISORY SERVICES

www.mercercapital.com

FEBRUARY 2025

Bank Watch

ARTICLE

A Cautiously Optimistic Outlook for Bank M&A: AOBA 2025 Recap

In This Issue

A Cautiously Optimistic Outlook for Bank M&A: AOBA 2025 Recap

We recently attended Bank Director's 2025 Acquire or Be Acquired Conference ("AOBA") in Phoenix, Arizona. AOBA is a two-and-a-half-day conference that covers a wide range of topics, including the nuts and bolts of bank M&A, an overview of bank valuation trends and drivers, growth strategies (both organic and inorganic), and FinTech strategies.

Phoenix's warm and sunny weather reflected the generally optimistic and upbeat mood of the 2025 conference. We discuss three primary themes below that stuck out to us.

Banks Turned a Corner in 2024

This theme was noted in several sessions, and the data observed for publicly traded banks was often cited as evidence of the turnaround. Small-cap publicly traded banks experienced negative returns in 2022, 2023, and the first half of 2024. On average, publicly traded bank's earnings per share declined in 2023 and 2024. This reflected a combination of headwinds, including NIM compression, higher operating expenses, slower growth, and increased provision expense (although credit quality and the macro economy generally remained strong from 2022-2024, pockets like CRE in certain markets/niches began to impact provisions for some banks).

However, a shift in sentiment appeared to occur in mid-2024, and small-cap banks increased 23% in the second half of the year. This reflected that sentiment began to shift towards a no (or perhaps extremely soft) landing for the economy, the uninverted yield curve, and bank net interest margins and cost of funds bottoming out in mid-2024. This provided a foundation for banks from which NIM expansion could occur and a tailwind for EPS growth in 2025. For 2025, EPS growth was forecast to be driven by a combination of NIM expansion from lower funding costs, higher yields as legacy assets continue to mature and/or reprice higher, and higher loan growth.

In addition to the more optimistic earnings outlook, it was noted that capital market availability for banks (opportunities to raise capital through debt and equity issuances) was on the rise. Several presenters noted evidence of this trend, with a few common equity raises by banks in the second half of 2024 that helped fund M&A, inorganic growth, and/or balance sheet repositioning. Earnings and capital growth were expected to fuel banks to position themselves for organic or inorganic growth (through M&A) in 2025.

FEATURING
Jeff K. Davis, CFA

PODCAST

Takeaways from AOBA: Heavy dose of optimism as the deal window is open

In the latest "Street Talk" podcast, Davis shared insights from the Acquire or Be Acquired Conference (Jan. 26–28), where advisers predicted stronger M&A activity this year. He also discussed the improving environment for banks, the outlook for valuations, and whether institutions should seize current opportunities for capital raises or acquisitions.

>> LISTEN NOW

Optimism That Bank M&A Will Accelerate

Consistent with the theme of turning the corner and greater capital market availability for M&A, there was noted optimism that bank M&A will accelerate in 2025. The reasons cited beyond banks generally turning the corner include the following:

- **Pent-Up M&A Demand.** The number of announced transactions and % contraction in the industry was below the long-term averages for the last few years. This has created a backlog of would-be sellers and buyers that could lead to enhanced discussions and merger activity as conditions improve.
- **Buyer Needs.** Elements that exist for buyers that could enhance M&A include capital market availability, a continued focus on improving efficiency and returns by achieving greater scale, the need to diversify and/or enhance loan/deposit mix, expanding geographically, and having improved valuations (relative to year-end 2023) to facilitate using their stock as acquisition currencies in deals.
- **Seller Needs.** For sellers, a number of the trends that could be drivers for M&A are an aging management/ownership/board and a need for liquidity for shareholders; a need for additional scale to enhance efficiency, technological, and/or profitability; and relatively low tax rates (present vs. historical).
- **Continued Need for Scale/Size in Light of Competitive Environment.** The growing number of attendees and presenters at AOBA illustrated a talking point that came up in several sessions. Banking remains a highly competitive marketplace with competition from traditional players (banks, CUs), non-traditional players (non-bank and alternative lenders), and emerging players (FinTechs). A few sessions discussed at what level of scale a bank needs to be for peak efficiency. While these discussions often led to further debate than a definitive answer, added size/scale was often cited as necessary to achieve better operating leverage and to have the earnings to fuel necessary investments in staff, facilities, and technology over time.
- **Potential for Less Regulation.** Although many sessions noted the significant uncertainty around the regulatory outlook, the potential for a less stringent regulatory environment in light of the changeover in administration is a factor that could lend itself to more M&A. This potential for a less stringent and more efficient regulatory approval process could shorten timelines to closing and be a tailwind for M&A.

Potential Headwinds to Bank M&A Still Persist

Despite improving conditions and the optimism around bank M&A in 2025 noted above, some of the headwinds that have kept deal and consolidation levels below historical norms in the last ~2 years were also frequent discussion topics in sessions. A few of the persistent headwinds include the following:

- **Fair Value Marks and Pressure on Pro Forma Capital Ratios.** Discounts on acquired assets, particularly long-term fixed rate loans and securities, pressure pro forma tangible capital ratios and may limit the number of viable and interested buyers and reduce buyers' valuation of the seller for those that remain interested.
- **Scarcity of Buyers.** We talked about pent-up demand for M&A, but another aspect that came up in a few sessions is how consolidation over the years has reduced the number of potential buyers willing, able, and interested in acquiring a particular bank. CUs and private equity have expanded the pool of potential buyers and helped offset this headwind to some extent, but some community banks still have a scarcity of buyers.
- **Bid-Ask Spread Between Buyers and Sellers.** The current environment is often conducive to a disconnect between buyers' valuations and sellers' expectations. The improved earnings outlook for 2025 could widen this disconnect between buyers and sellers.

- **Economic Uncertainty and Interest Rate Volatility.** Although we noted some favorable economic and interest rate trends for banks in recent months/quarters, a significant amount of economic uncertainty and interest rate volatility remains. This could lead some would-be buyers and sellers to sit on the sidelines until greater certainty and less volatility emerge.
- **Regulatory Uncertainty.** While hope exists for lighter regulations and a shorter timeline to closing, hope in and of itself is not a strategy and regulatory uncertainty still persists. It will be interesting to see if that trend starts to surface in 2025.

Recent Representative Transaction

Mercer Capital provides investment banking, transaction advisory, and restructuring services to a broad range of public and private companies and financial institutions.

>> View more transactions

First Missouri Bancshares, Inc.

VERIMORE BANK

Brookfield, Missouri

has agreed to acquire

CCSB Financial Corp.

Clay County Savings Bank

Liberty, Missouri

Mercer Capital served as financial advisor to First Missouri and rendered a fairness opinion

— **January 2025** —

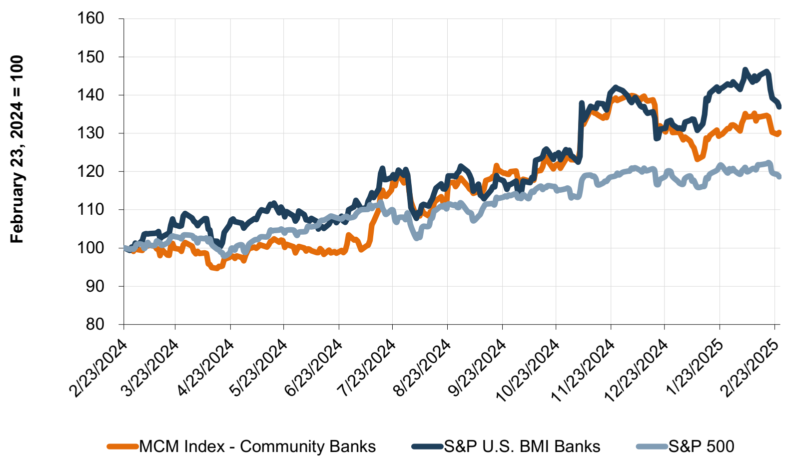
Conclusion

In conclusion, the discussions and talking points across different sessions led me to think that "cautious optimism" for bank M&A is the best description of the overall theme and mood of AOBA 2025. We look forward to discussing these issues further with clients in 2025 and monitoring how they evolve within the banking industry over the next year.

As always, Mercer Capital is available to discuss these trends as they relate to your financial institution, so feel free to call or email. Mercer Capital can assist financial institution clients with various valuation needs as well as transaction advisory services.

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

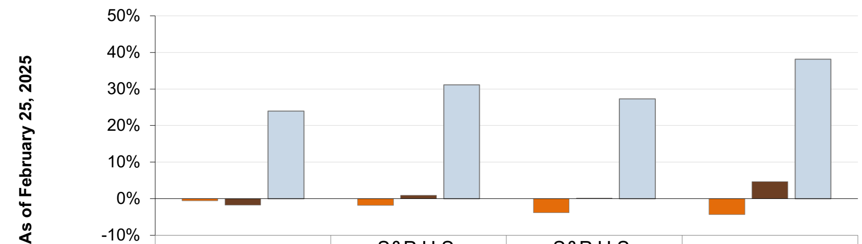
Mercer Capital's Bank Group Index Overview



Source: S&P Capital IQ Pro.

Return Stratification of U.S. Banks

by Market Cap



	S&P U.S. Banks Market Cap Under $250 Million	S&P U.S. Banks Market Cap Between $250 Million - $1 Billion	S&P U.S. Banks Market Cap Between $1 Billion - $5 Billion	S&P U.S. Banks Market Cap Over $5 Billion
Month-to-Date	-0.55%	-1.79%	-3.76%	-4.34%
Year-to-Date	-1.71%	0.94%	0.17%	4.74%
Last 12 Months	23.93%	31.09%	27.28%	38.13%

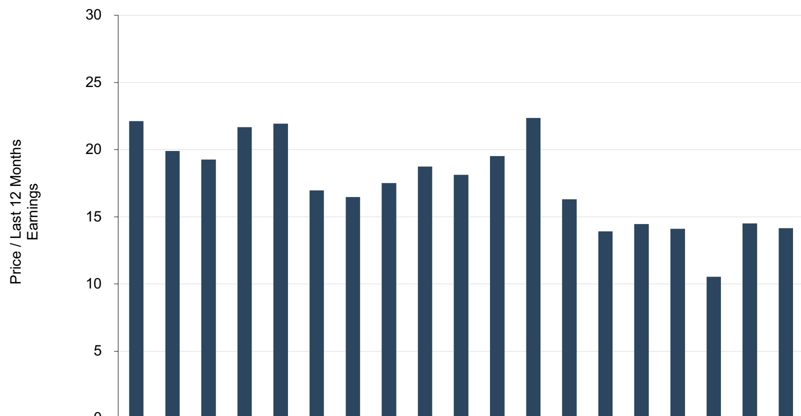
Source: S&P Capital IQ Pro.

	Total Return			Regional Index Data as of February 25, 2025					
	Month-to-Date	Year-to-Date	Last 12 Months	Price / LTM EPS	Price / 2025 (E) EPS	Price / 2026 (E) EPS	Price / Book Value	Price / Tangible Book Value	Dividend Yield
Atlantic Coast Index	-0.9%	0.7%	30.7%	12.9x	10.6x	9.1x	116%	128%	2.4%
Midwest Index	-2.0%	-4.0%	25.3%	11.3x	10.2x	9.5x	98%	104%	3.2%
Northeast Index	-2.4%	1.5%	32.7%	11.7x	9.7x	8.6x	111%	127%	3.2%
Southeast Index	-1.0%	-1.5%	27.7%	10.6x	10.1x	7.9x	100%	118%	2.3%
West Index	-0.7%	-0.7%	27.0%	13.0x	10.4x	9.5x	101%	122%	3.2%
Community Bank Index	-1.3%	-0.1%	30.2%	11.9x	10.1x	8.9x	105%	122%	3.0%
S&P U.S. BMI Banks	-4.2%	4.2%	36.9%	na	na	na	na	na	na

Source: S&P Capital IQ Pro.

Median Price/Earnings Multiples

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

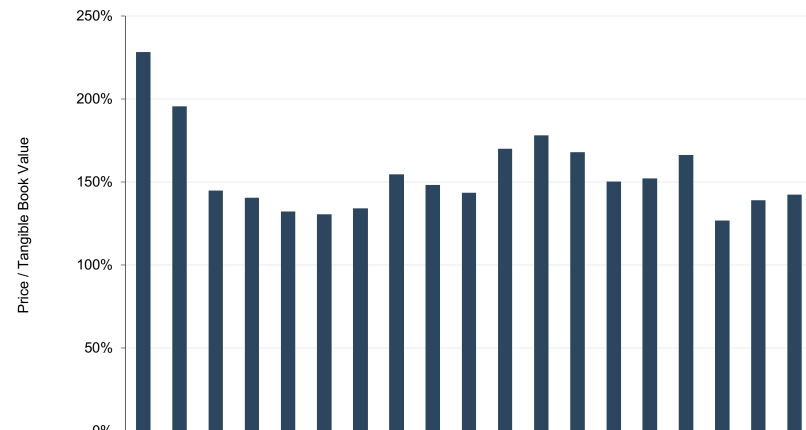


	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	LTM 2025
U.S.	22.1	19.9	19.3	21.7	21.9	17.0	16.5	17.5	18.8	18.1	19.5	22.4	16.3	13.9	14.5	14.1	10.5	14.5	14.1

Source: S&P Capital IQ Pro.

Median Price/Tangible Book Value Multiples

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

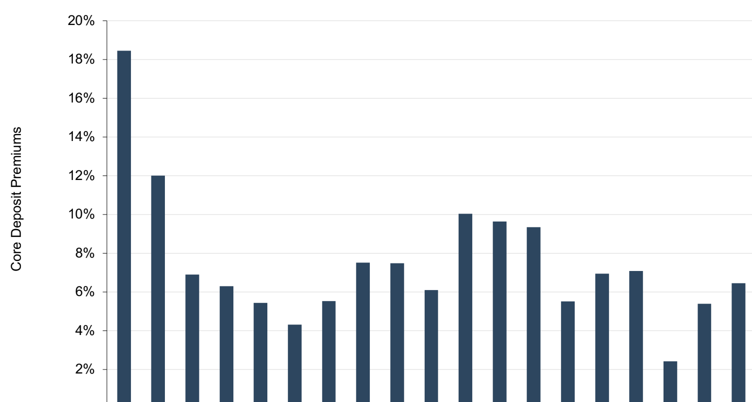


	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	LTM 2025
U.S.	228	196	145	141	132	130	134	155	148	143	170	178	168	150	152	166	127	139	142

Source: S&P Capital IQ Pro.

Median Core Deposit Premiums

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



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	LTM 2025
U.S.	18.4	12.0	6.9%	6.3%	5.4%	4.3%	5.5%	7.5%	7.5%	6.1%	10.0	9.6%	9.3%	5.5%	6.9%	7.1%	2.4%	5.4%	6.5%

Source: S&P Capital IQ Pro.

Median Valuation Multiples for M&A Deals

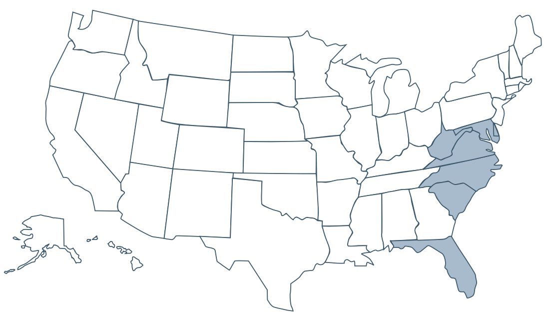
Target Banks' Assets <$5B and LTM ROE >5%, 12 months ended February 26, 2025

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	12.0x	128%	5.6%	2	74.7	493,164	10.1%
Midwest	14.5x	146%	7.4%	7	180.4	1,448,528	12.9%
Northeast	14.3x	136%	3.4%	6	253.3	2,258,309	9.3%
Southeast	9.8x	155%	8.4%	5	26.9	313,648	16.7%
West	17.1x	160%	11.0%	5	60.4	657,925	9.8%
National Community Banks	14.1x	142%	6.5%	25	86.6	858,589	10.6%

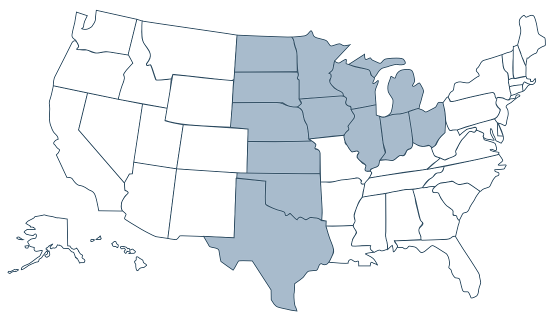
Source: S&P Capital IQ Pro.

Mercer Capital's Regional Public Bank Peer Reports

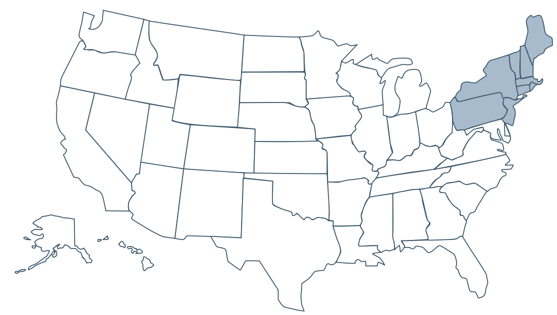
Updated monthly, Mercer Capital's Regional Public Bank Peer Reports offer a closer look at the market pricing and performance of publicly traded banks in the states of five U.S. regions. Click on the map to view the reports from the representative region.



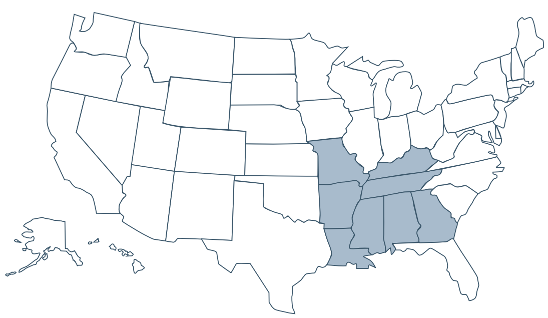
Atlantic Coast



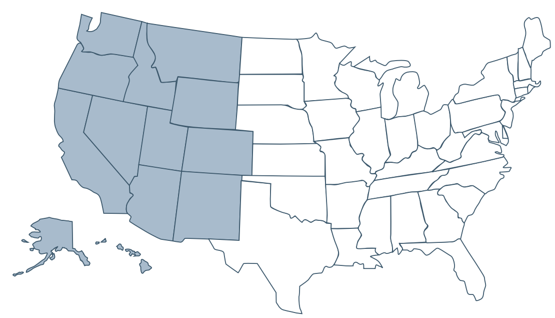
Midwest



Northeast



Southeast



West

MERCER CAPITAL
BUSINESS VALUATION & FINANCIAL ADVISORY SERVICES

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, ASA
901.270.7250
stantone@mercercapital.com

Mary Grace Arehart, CFA
901.322.9720
arehartm@mercercapital.com

Heath A. Hamby, CFA
615.457.8723
hambyh@mercercapital.com

Luke Tanner
469.904.6719
tannerl@mercercapital.com

www.mercercapital.com

Mercer Capital

www.mercercapital.com

MERCER CAPITAL