

MARCH 2025

# Bank Watch

ARTICLE

## Profitability, Growth and Valuation

### In This Issue

---

Profitability, Growth and Valuation	1
Public Market Indicators	4
M&A Market Indicators	5
Regional Public Bank Peer Reports	6
About Mercer Capital	7

## Profitability, Growth and Valuation

After a great run in 2024, community and regional bank stocks are on pace to post modest losses in the first quarter of 2025. As of March 27, the KBW Regional Bank Index is down 5% compared to flat for the S&P 500 Bank Index. Both indices are market cap weighted. The outsized weighting of mega-cap JPMorgan (NYSE:JPM) and to a lesser extent Citigroup (NYSE:C) and Wells Fargo (NYSE:WFC), all three of which have risen year-to-date, accounts for much of the differential.

The outperformance of the three likely reflect several factors: a) the importance of the steady bid large cap companies have from passive flows into the market—especially for ~\$700 billion market cap JPMorgan; b) reasonably good trading results for JPM and Citi; c) possibly misplaced enthusiasm by investors regarding Citi management's ability to cut overhead to produce a competitive ROE; and d) the prospect of the lifting of WFC's consent order that has capped the bank's assets at \$2 trillion for seven years.

The performance story is more nuanced, however. Bank stocks peaked around December 1 last year after a big run that occurred from mid-year through November. As shown in Figure 1, regional banks are down about 15% since late November compared to 7% for the larger banks as investors perhaps overreacted to Fed rate cuts and the impact of the national election on the sector. The regulatory environment will be more industry friendly, but ultimately stocks will follow (and anticipate changes in) earnings.

Stocks ebb and flow and tend to overshoot to the upside and downside when a significant event occurs. Likewise, industry valuations will expand and contract in anticipation of changes in interest rates, growth rates, and profitability.

**Figure 1:: Banks vs the Market**

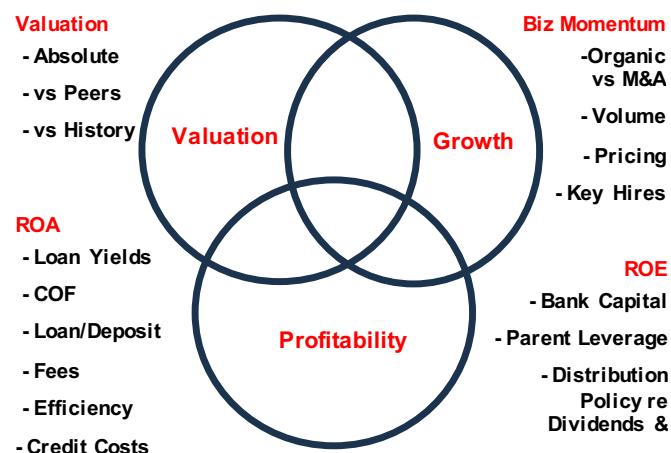
Index	3/27/25	Not Annualized		CAGR	
		YTD	120-Day	1 Year	3 Year
Micro Cap Banks	31850	-3.4%	-10.7%	22.7%	-0.4%
KBW Regionals	114	-5.0%	-15.2%	12.0%	-3.6%
NASDAQ Bank	4214	-4.4%	-14.0%	13.0%	-5.0%
S&P 500 Banks	471	-0.1%	-6.7%	18.0%	5.0%
S&P 500	5693	-3.2%	-5.1%	8.5%	7.8%
Russell 2000	2066	-7.4%	-14.9%	-2.3%	-0.2%
NASDAQ	17804	-7.8%	-6.6%	8.6%	7.9%

Source: S&P Global Market Intelligence – excludes dividends

Figure 2 (on the next page) provides a good framework for thinking about the sector and individual banks. I copied it from a mounted picture in a conference room of a Boston-based asset manager in the winter of 2002 when I was taking a bank around to see institutional investors. At the time the U.S. had emerged from a shallow recession, but the gloom around the collapse of tech stocks and the S&P 500 (both would bottom in the fall) weighed on the investing landscape even though banks emerged from the recession largely unscathed.

The three pillars the firm used to evaluate individual investments were: profitability, growth and valuation. The three were presented as concentric circles with some overlap, meaning nothing ever lines up perfectly. Usually, if growth and profitability are attractive the valuation is not; or profitability and the valuation may be attractive, but the growth prospects are absent.

Figure 2:: Stock Selection Framework



Source: Conference room wall at the Boston Company

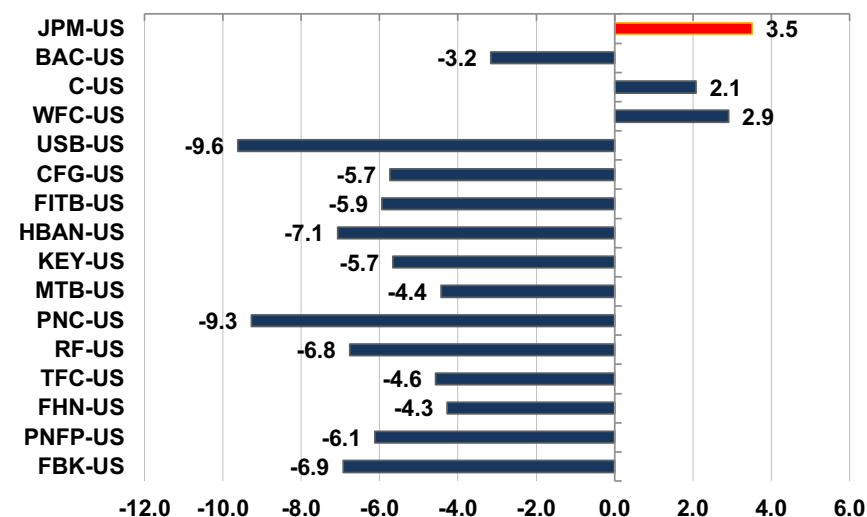
Occasionally, a stock would be identified where all three virtues existed, which usually entailed small companies with limited coverage from Wall Street. However, it is impossible to build a portfolio with perfect stocks if such a stock even exists. There are always a range of outcomes.

Margin of safety is an important concept for investing. We have no idea if the current downdraft in bank stocks reflects a completely normal pullback after a big run or is signaling an emerging earnings issue due to credit, a lower multiple environment due to stagflation or some combination thereof.

A review of each of the pillars would indicate the banking environment is fine; it could be better but that is usually the case. ROA for the industry per the FDIC rose 3bps to 1.12% in 2024, while the pretax ROA for community banks (many banks with less than \$10 billion of assets are S-corps) eased 8bps to 1.14%.

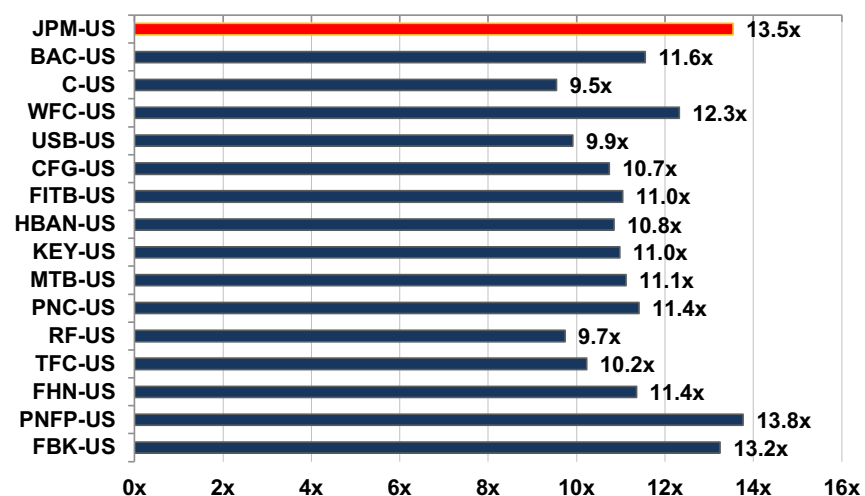
Asset quality metrics are okay, but directionally problem loans and credit costs have been grinding higher from the post-COVID lows. Further, credit metrics for subprime and near prime consumers are problematic. Limited expansion of NIMs for many banks that is expected in 2025 after two years of contraction may be absorbed by higher credit costs. If so, the high single digit EPS growth the Street forecasts for many banks (vs core 2024 results x-bond portfolio restructurings) may not occur.

Figure 3:: YTD Performance of Selected Bank Stocks



Source: S&P Global Market Intelligence – pricing as of 3/27/25

Figure 4:: P/E 2025 Consensus EPS



Source: S&amp;P Global Market Intelligence

However, valuations are modestly cheap to history with banks trading in the vicinity of 10x to 12x consensus 2025 estimates. Absent a material reduction in earnings expectations, valuation provides a margin of safety but is not a catalyst for the stocks.

Jeff K. Davis, CFA

jeffdavis@mercercapital.com | 615.345.0350

## 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.



has agreed to acquire

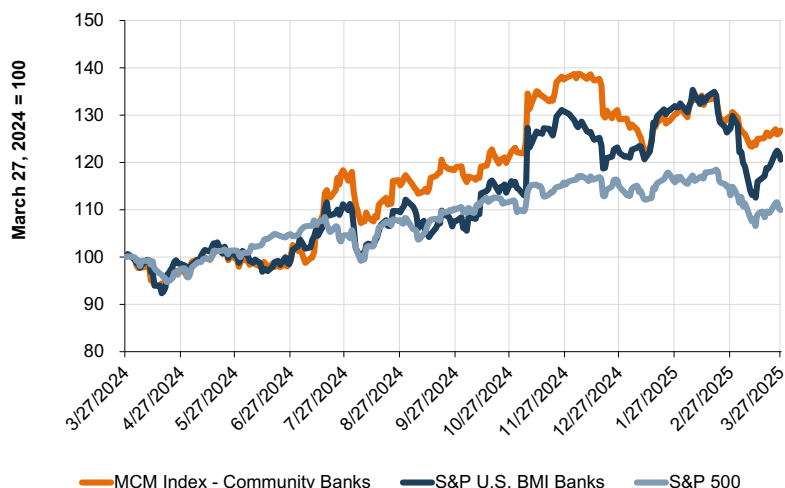
CCSB Financial Corp.



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

— January 2025 —

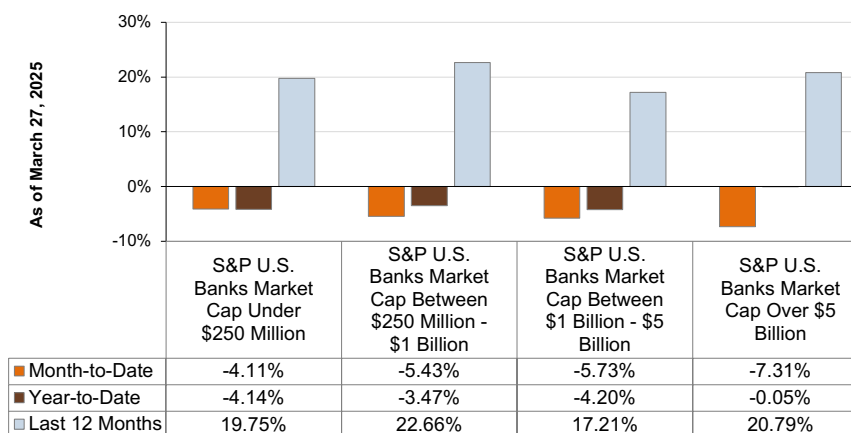
### Mercer Capital's Bank Group Index Overview



Source: S&P Capital IQ Pro.

### Return Stratification of U.S. Banks

by Market Cap



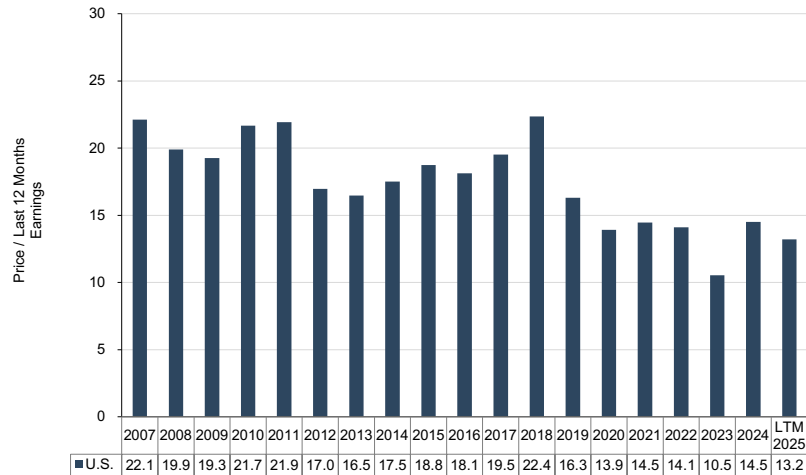
Source: S&P Capital IQ Pro.

	Total Return			Regional Index Data as of March 27, 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	-4.3%	-2.1%	26.3%	12.2x	10.1x	9.2x	115%	123%	2.6%
Midwest Index	-1.0%	-1.9%	24.6%	11.6x	10.2x	9.4x	101%	107%	3.0%
Northeast Index	-4.3%	-1.8%	28.1%	11.6x	9.5x	8.3x	103%	116%	3.4%
Southeast Index	-2.6%	-3.5%	25.8%	10.4x	9.9x	7.7x	95%	115%	2.3%
West Index	-5.1%	-4.3%	20.3%	12.4x	10.2x	8.8x	99%	126%	3.2%
Community Bank Index	-3.0%	-2.0%	26.7%	11.9x	9.9x	8.8x	103%	120%	2.8%
S&P U.S. BMI Banks	-7.1%	-0.6%	20.6%	na	na	na	na	na	na

Source: S&P Capital IQ Pro.

### Median Price/Earnings Multiples

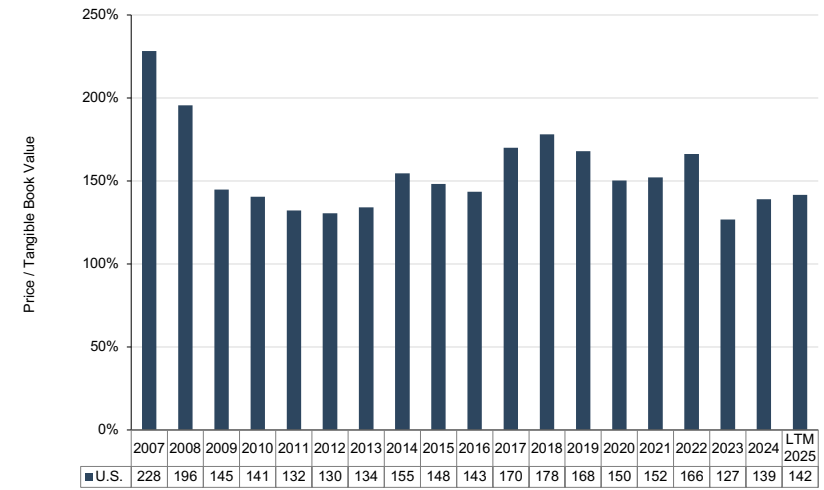
Target Banks' Assets <\$5B and LTM ROE >5%



Source: S&P Capital IQ Pro.

### Median Price/Tangible Book Value Multiples

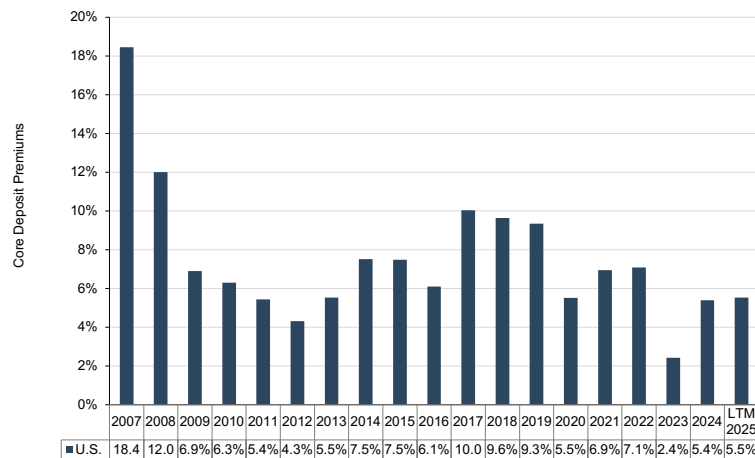
Target Banks' Assets <\$5B and LTM ROE >5%



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

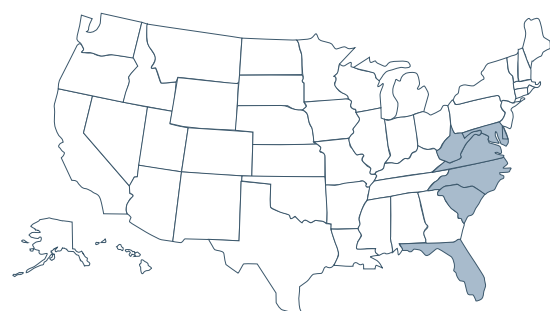
Target Banks' Assets <\$5B and LTM ROE >5%, 12 months ended March 28, 2025

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	9.0x	150%	6.7%	3	80.4	547,563	12.0%
Midwest	13.4x	153%	6.6%	6	117.5	1,055,595	14.0%
Northeast	14.3x	136%	3.4%	6	253.3	2,258,309	9.3%
Southeast	9.8x	155%	10.4%	5	105.8	589,417	16.5%
West	17.7x	154%	9.1%	4	61.1	836,229	7.7%
National Community Banks	13.2x	142%	5.5%	25	86.7	858,589	11.4%

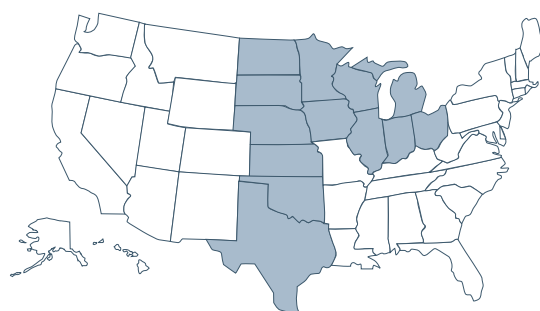
Source: S&P Capital IQ Pro.

## Mercer Capital's Regional Public Bank Peer Reports

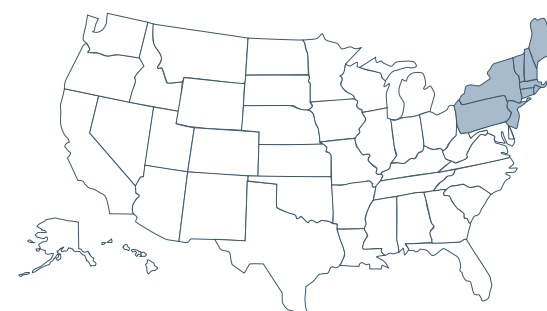
Updated monthly, Mercer Capital's Regional Public Bank Peer Reports offer a closer look at the market pricing and performance of publicly traded banks in the states of five U.S. regions. Click on the map to view the reports from the representative region.



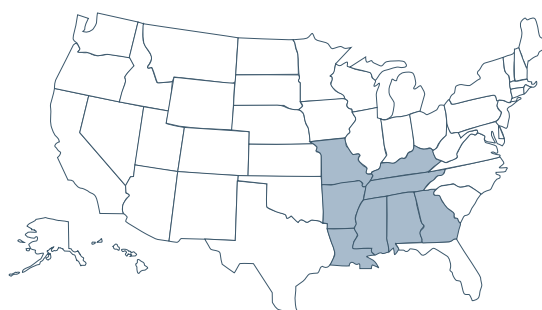
**Atlantic Coast**



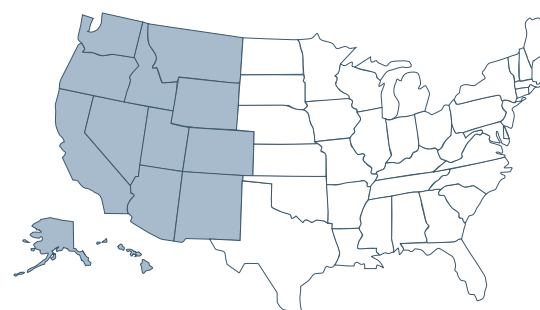
**Midwest**



**Northeast**



**Southeast**



**West**

**MERCER CAPITAL**

# 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                | » Litigation support       | » Tax compliance       |
| » Financial reporting for banks | » Stress Testing           | » Transaction advisory |
| » Goodwill impairment           | » Loan portfolio valuation | » 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](http://www.mercercapital.com)





**Mercer Capital**

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

