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BUSINESS VALUATION & FINANCIAL ADVISORY SERVICES

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Bank Watch

ARTICLE

Dividends and Shareholder Returns
A Ten-Year Lookback

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Dividends and Shareholder Returns | A Ten-Year Lookback

Morningstar recently reported, given volatility in the equity markets, that U.S. equity funds and ETFs took in a relatively modest $5.7 billion in March 2025, of which $5.6 billion flowed into dividend **growth funds**. This investor preference for dividends caused us to reevaluate the role of dividends in bank shareholder returns.

An investor's total return is a function of three variables:

1. The stock price change over the holding period
2. The cumulative dividends received
3. The return on reinvested dividends. The market convention is that a dividend payment is reinvested in the issuer's common stock. If the issuer's common stock price increases after receipt of the dividend, this appreciation in value of the reinvested dividend will enhance the shareholder's total return.

To simplify this analysis, we do not consider taxes.

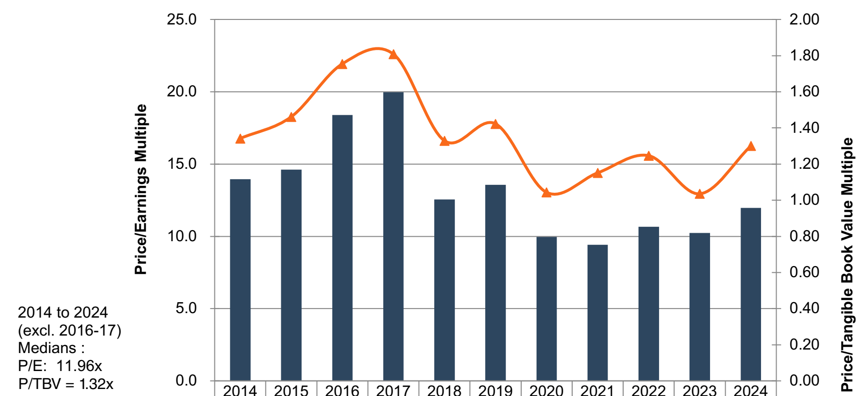
A Middling Decade

Our analysis covers the period between year-end 2014 and 2024. With a pandemic, a war in Europe, a bout of inflation, and a strong response from the Federal Reserve, bank stocks have persevered but have been outshone by investors' preference for "growthier" investments. Between 2014 and 2024, the madian compound annual stock price change was 4.8% for a group of 120 banks with assets between $3 billion and $25 billion that trade on a major exchange.

Returns were rather pedestrian for several reasons.

1. The median compound annual growth rate in earnings per share and tangible book value per share excluding accumulated other comprehensive incomewas about 7% over the 2014 to 2024 period. The impact of higher interest rates continues to weigh on banks' earnings and, therefore, book value growth.
2. Multiple compression also weighed on returns. As shown in the chart below, price/earnings multiples compressed between 2014 and 2024, while price/tangible book value multiples would have fallen to a greater extent absent the unrealized losses existing on securities portfolios.

Price/Earnings and Price/Tangible Book Value Multiples
Banks with Assets of $1 - $3 Billion & Return on Tang. Equity 7.5% - 15%



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Price / Earnings	14.0	14.6	18.4	20.0	12.6	13.6	10.0	9.4	10.7	10.2	12.0
Price / Tang. BV	1.34	1.46	1.75	1.81	1.33	1.42	1.04	1.15	1.25	1.04	1.30

Dividends Make a Difference

In a period marked by moderate share price appreciation, dividends become a crucial component of shareholders' total returns. As indicated in Table 1 below, the group of publicly traded banks generated a median total return of 114% over the 2014 to 2024 period, or a 7.9% annualized return. For the median bank, stock price appreciation was 59%, implying that the remainder of the median bank's 114% total return came from dividends and the return on reinvested dividends.

Table 1

	Cumulative Contribution to Return	Annual Contribution to Return
Price Change	59%	4.8%
Dividends	37%	3.2%
Return on Reinvested Dividends	12%	1.2%
Total Return	**114%**	**7.9%**

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

Data set includes banks with assets between $3 and $25 billion Note that index components are the median values for the data set; therefore the sum of the three components does not equal the median total return

Table 2 stratifies the 120 banks included in the analysis by their total return. Almost one-half of the banks reported a total return between 50% and 150% over the 2014 to 2024 period, which equates to a mid to high single-digit annual return.

Table 2

Total Return 12/31/14 - 12/31/24	Implied Annual Return*	Number of Banks	% of Total
< 0%		7	6%
0% - 50%	0.0% - 4.1%	16	13%
50% - 100%	4.1% - 7.2%	31	26%
100% - 150%	7.2% - 9.6%	28	23%
150% - 200%	9.6% - 11.6%	13	11%
> 200%		25	21%
Median = 114%	**7.9%**		

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

** Note: A total return between 50% and 100% from 12/31/14 to 12/31/24 would equate to an annual return between 4.1% and 7.2%*

Implications

Does the impact of dividends on shareholder returns mean that bank management teams should immediately increase dividend payouts? Not necessarily, as markets reward growth in per share earnings and book value. Table 3, on the next page, suggests that shareholder returns are negatively correlated with dividend payouts; that is, banks with the highest dividend payouts report the lowest shareholder returns. It is difficult to draw firm conclusions, though, as few banks in the analysis pay dividends of 0% or greater than 50%.

Table 3

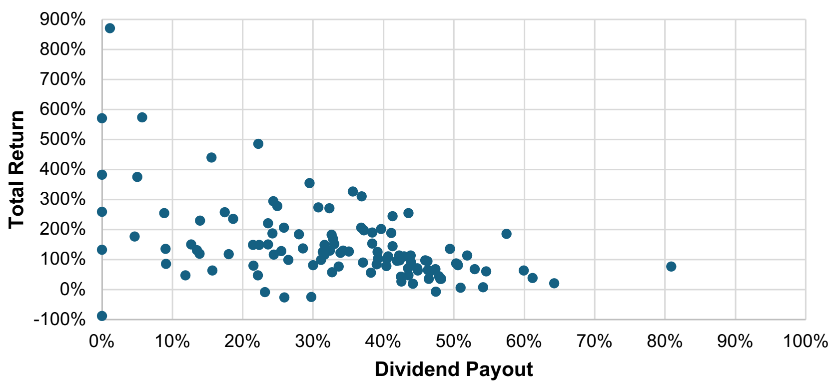
Dividend Payout Range	Number of Banks	Average Total Return	Average EPS Growth
0%	5	252%	11%
0% - 25%	30	219%	11%
25% - 50%	68	121%	6%
50% - 75%	12	69%	3%
> 75%	5	30%	0%

Source: S&P Capital IQ & Mercer Capital research

Dividend payout computed as total dividends paid over the 2015-2024 period divided by total EPS over the same period.

Figure 1 below compares dividend payout ratios and shareholder returns. The scatter plot suggests another factor influencing shareholder return: risk. Banks with low dividend payouts report widely dispersed returns, but returns tend to be more clustered for banks with dividend payouts in the 30% to 50% range. Dividend payout ratios are one way to estimate the potential volatility—and therefore the risk—of an investment, and investors want higher returns for assuming more risk.

Figure 1



The relationship between shareholder returns and dividend payouts makes sense, as banks with high payouts often have fewer organic growth opportunities and, therefore lower EPS growth. Table 4 stratifies the data set by compound annual growth in EPS over the 2014 to 2024 period, whereby banks with the lowest EPS growth have the highest dividend payout ratios (and lower shareholder returns).

Table 4

EPS CAGR Range	Number of Banks	Average Dividend Payout	Average Total Return
< 0%	14	45%	113%
0% - 5%	22	56%	84%
5% - 10%	41	37%	130%
10% - 15%	21	24%	224%
> 15%	11	16%	323%

Source: S&P Capital IQ & Mercer Capital research

We also evaluated the relationship between the tangible common equity/assets ratio and dividend payouts. One may expect that banks with lower TCE/asset ratios have lower dividend payout ratios, but the data does not support this expectation. We note, though, that banks with excess capital, defined as TCE/asset ratios over 12%, tend to maintain higher dividend payout ratios. These banks can offer a relatively high payout, as well as maintain dry powder for opportunistic initiatives. (see Table 5 on the next page)

Table 5

12/31/15 TCE / Assets Range	Number of Banks	Dividend Payout	Total Return
< 8%	29	35%	116%
8% - 10%	52	34%	139%
10% - 12%	26	38%	157%
> 12%	12	65%	209%

Source: S&P Capital IQ & Mercer Capital research
Tangible common equity excludes AOCI

Conclusions

The analysis shows that dividends, while an important component of shareholder returns, do not necessarily drive shareholder returns. Our analysis includes 120 banks, and 60 have dividend payout ratios between 30% and 50%. With dividend payout ratios clustered in a relatively tight range, it is difficult to make fine distinctions about dividend policies and shareholder returns. The implication is not that a bank with low EPS growth likely will enhance its shareholder returns by reducing its dividend payout ratio.

Over a long period, we know that shareholder value is created by growing earnings per share, which leads to rising tangible book value per share. Earnings also enable the dividend policy. Most banks have recognized, though, that they can both invest in growth opportunities and provide immediate return to shareholders through dividends. In challenging market environments, as occurred over the last ten years, this capital management strategy provides a material source of shareholder return.

While *BankWatch* does not make investment recommendations, we noted a recent article in the ***Wall Street Journal*** regarding dividend investing. It proposed, with some historical support, sorting the S&P 500 into quintiles by dividend yield. The research suggests that the quintile with the highest dividend yield underperforms, as high yields often result from financial distress and suggest the risk of future dividend cuts. Rather, investors should invest in the quintile with the second highest dividend yield, which has been shown to outperform the S&P 500.

Table 6

	Average Dividend Yield as of 12/31/14	Average Total Return (12/31/14 - 12/31/24)
Quintile 1	4.53%	98%
Quintile 2	2.82%	145%
Quintile 3	2.06%	128%
Quintile 4	1.22%	167%
Quintile 5	0.05%	184%

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

We replicated this investment strategy for our bank universe. We did find that banks with the highest dividend yields at year-end 2014 underperformed over the next ten years. However, we found no evidence that the second quintile outperformed (Table 6).

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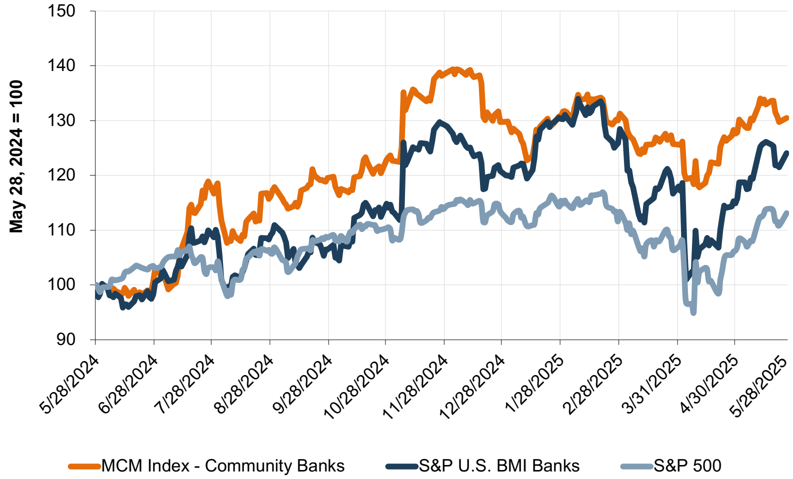
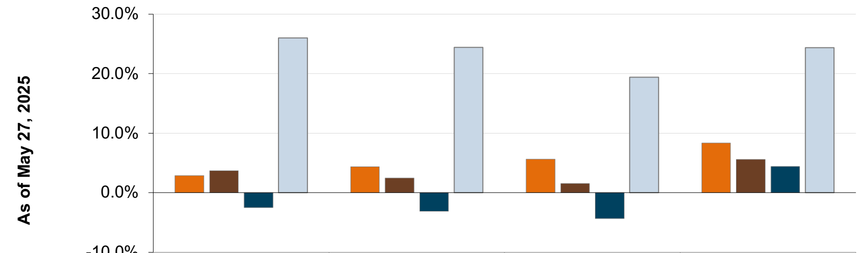
Mercer Capital's Bank Group Index Overview



Source: S&P Capital IQ Pro.

Return Stratification of U.S. Banks

by Market Cap



	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	2.87%	4.35%	5.65%	8.35%
Quarter-to-Date	3.72%	2.48%	1.55%	5.61%
Year-to-Date	-2.48%	-3.09%	-4.33%	4.42%
Last 12 Months	26.02%	24.44%	19.42%	24.36%

Source: S&P Capital IQ Pro.

	Total Return				Regional Index Data as of May 28, 2025					
	Month-to-Date	Quarter-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	2.7%	3.9%	-1.1%	27.3%	11.3x	10.7x	9.0x	104%	111%	2.8%
Midwest Index	2.4%	4.3%	0.4%	29.3%	12.7x	10.1x	8.8x	99%	115%	2.9%
Northeast Index	2.8%	6.1%	1.8%	34.3%	11.0x	9.4x	8.3x	101%	117%	3.4%
Southeast Index	2.1%	1.4%	0.8%	32.6%	10.6x	9.6x	8.4x	93%	109%	2.2%
West Index	3.5%	5.0%	-1.5%	28.4%	12.0x	9.8x	9.0x	95%	114%	3.0%
Community Bank Index	2.2%	3.9%	0.5%	30.5%	11.4x	9.6x	8.8x	98%	113%	2.9%
S&P U.S. BMI Banks	8.0%	5.2%	3.4%	24.0%	na	na	na	na	na	na

Source: S&P Capital IQ Pro.

Median Price/Earnings Multiples

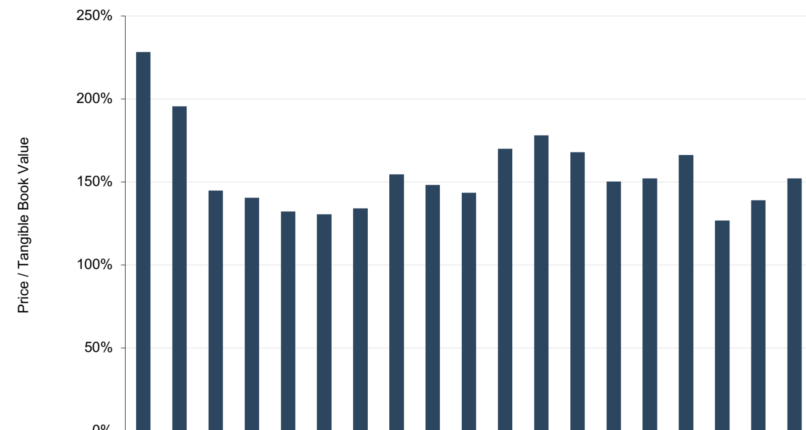
Target Banks' Assets <$5B and LTM ROE >5%

	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%

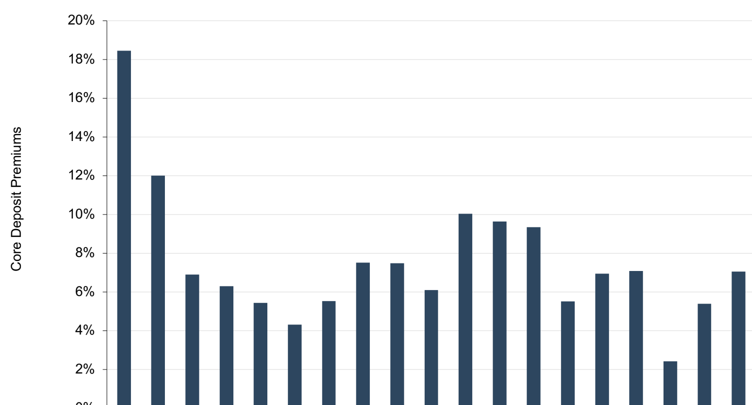


	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	LTM 2025
U.S.	228	196	145	141	132	130	134	155	148	143	170	178	168	150	152	166	127	139	152

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%	7.1%

Source: S&P Capital IQ Pro.

Median Valuation Multiples for M&A Deals

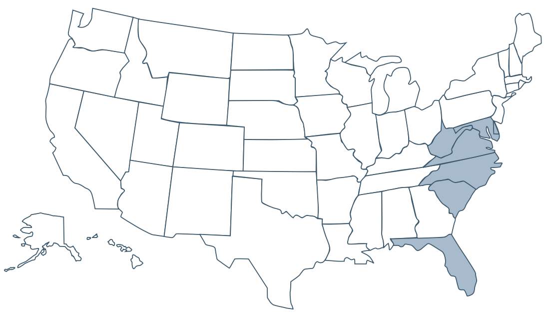
Target Banks' Assets <$5B and LTM ROE >5%, 12 months ended May 28, 2025

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	18.3x	166%	10.3%	5	106.3	734,080	8.6%
Midwest	13.8x	142%	4.0%	6	70.8	630,517	14.1%
Northeast	15.5x	133%	3.1%	7	236.2	2,257,367	8.3%
Southeast	10.0x	165%	11.4%	4	155.9	890,789	16.6%
West	16.8x	172%	11.0%	3	61.7	657,925	9.8%
National Community Banks	14.1x	152%	7.1%	25	105.8	906,473	10.9%

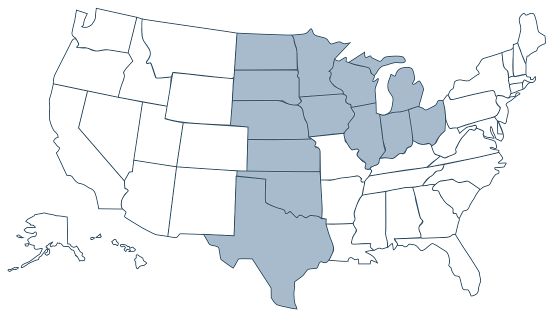
Source: S&P Capital IQ Pro.

Mercer Capital's Regional Public Bank Peer Reports

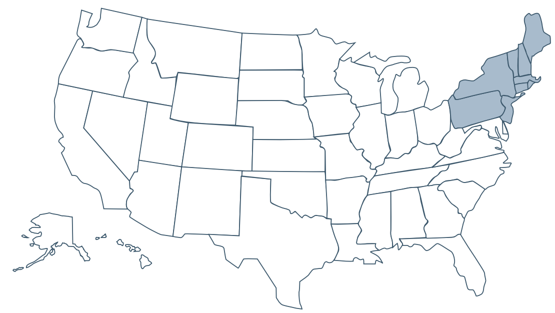
Updated monthly, Mercer Capital's Regional Public Bank Peer Reports offer a closer look at the market pricing and performance of publicly traded banks in the states of five U.S. regions. Click on the map to view the reports from the representative region.



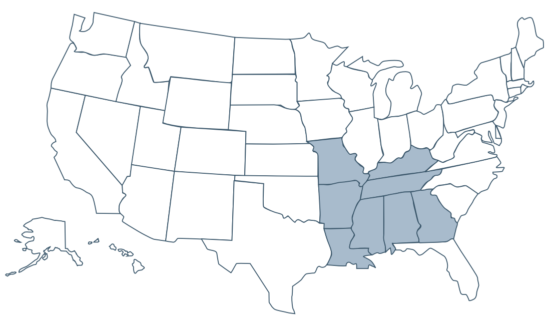
Atlantic Coast



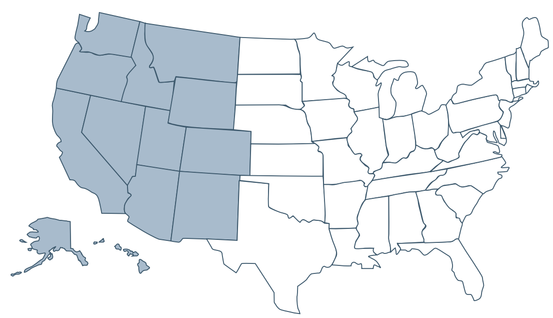
Midwest



Northeast



Southeast



West

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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.

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- Tax compliance
- Transaction advisory
- Strategic planning

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