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Bank Watch

ARTICLE

Fairness Opinions

Evaluating a Buyer's Shares from the Seller's Perspective - 2025 Update

In This Issue

Fairness Opinions

Evaluating a Buyer's Shares from the Seller's Perspective - 2025 Update

Perhaps the IPO market is signaling that a notable improvement in the M&A market may occur after a so-so start in 2025. Financial services companies have been active, with notable IPOs such as Circle Internet Group (NYSE:CRCL) and Chime Financial (NASDAQ:CHYM). A pick-up in IPO activity historically has presaged a pick-up in M&A.

Bank M&A Deal Flow: 2025 Trends in Context

As of June 27, 2025, there have been 70 bank deals announced, which on an annualized basis if sustained would equate to about 3% of the 4,487 charters as of January 1. Over the past 35 years, typically 2% to 4% of the industry is acquired each year. The average P/TBV and P/E for the 26 deals with reported pricing was 146% and 17x.

Excluding small transactions, the issuance of common shares by bank acquirers usually is the dominant form of consideration sellers receive. While buyers have some flexibility regarding the number of shares issued and the mix of stock and cash, buyers are limited in the amount of dilution in tangible book value per share ("TBVPS") they are willing to accept and require visibility in EPS accretion over the next several years to recapture the dilution.

Because the number of shares will be relatively fixed, the value of a transaction and the multiple(s) the seller hopes to realize are a function of the buyer's valuation. High multiple stocks represent strong acquisition currencies for acquisitive companies because fewer shares are issued to achieve a targeted dollar value.

It is important for sellers to keep in mind that negotiations with acquirers where the consideration will consist of the buyer's common shares are about the exchange ratio rather than price, which is the product of the exchange ratio and buyer's share price. A fairness opinion will address the fairness of the exchange ratio and consideration received by selling shareholders, not "price" per se in a stock swap transaction.

The Complexity of Evaluating Offers

Unlike cash deals, comparing and assessing fairness (and value) when stock swap offers are received requires a lot more deliberation by a board of directors and its advisor. One offer may entail a higher nominal price, but the acquirer's shares may trade at a premium whereas a competing offer may equate to a lower price but the shares may entail less risk. Also, exchange ratios can be evaluated based upon the pro forma ownership of the acquirer post-closing compared with the contribution of operating income, core deposits and the like.

When sellers focus on price, it is easier all else equal for acquirers to ink a deal when their shares trade at a high multiple of TBVPS and EPS. However, high multiple stocks represent an under-appreciated risk to sellers who receive the shares as consideration. Accepting the buyer's stock raises a number of questions, most of which fall into the genre of: what are the investment merits of the buyer's shares? The answer may not be obvious even when the buyer's shares are actively traded.

Board Oversight

Our experience is that some if not most members of a board weighing an acquisition proposal do not have the background to thoroughly evaluate the buyer's shares. Even when financial advisors are involved, there still may not be a thorough vetting of the buyer's shares because there is too much focus on "price" instead of, or in addition to, "value."

The Role of Fairness Opinions in M&A

Fairness opinions seek to answer the question whether the proposed consideration is fair to a company's shareholders from a financial point of view. The opinion should be backed by a robust analysis of all of the relevant factors considered in rendering the opinion, including an evaluation of the shares to be issued to the selling company's shareholders. The intent is not to express an opinion about where the shares may trade in the future, but rather to evaluate the investment merits of the shares before and after a transaction is consummated.

Key Questions When Evaluating Acquirer Shares

As we have advised in the past, the key questions to ask about the buyer's shares remain the same. They are:

- **Liquidity of the Shares**. What is the capacity to sell the shares issued in the merger? SEC registration and NASADAQ and NYSE listings do not guarantee that large blocks can be liquidated efficiently. OTC listed shares should be scrutinized, especially if the acquirer is not an SEC registrant. Generally, the higher the institutional ownership, the better the liquidity.
- **Profitability and Revenue Trends**. The analysis should consider the buyer's historical growth and projected growth in revenues, pretax pre-provision operating income and net income as well as various profitability ratios before and after consideration of credit costs. The quality of earnings and a comparison of core vs. reported earnings over a multi-year period should be evaluated.
- **Pro Forma Impact**. The analysis should consider the impact of a proposed transaction on the pro forma balance sheet, income statement and capital ratios in addition to dilution or accretion in earnings per share and tangible book value per share both from the seller's and buyer's perspective.
- **Tangible BVPS Earn-Back**. The projected earn-back period in day-one dilution to TBVPS is an important consideration for the buyer. In the aftermath of the GFC, an acceptable earn back period was on the order of three to five years; today, two to three years as institutional shareholders have indirectly tightened the pricing box for M&A by demanding that publicly traded buyers limit TBVPS dilution to short payback periods.
- **Dividends**. Sellers should not be overly swayed by the pick-up in dividends from swapping into the buyer's shares; however, multiple studies have demonstrated that a sizable portion of an investor's return comes from dividends over long periods of time. Sellers should examine the sustainability of current dividends and the prospect for increases (or decreases). Also, if the dividend yield is notably above the peer average, the seller should ask why? Is it payout related, or are the shares depressed?
- **Capital and the Parent Capital Stack**. Sellers should have a full understanding of the buyer's pro-forma regulatory capital ratios both at the bank-level and on a consolidated basis (for large bank holding companies).

Separately, parent company capital stacks often are overlooked because of the emphasis placed on capital ratios and the combined bank-parent financial statements. Sellers should have a complete understanding of a parent company's capital structure and the amount of bank earnings that must be paid to the parent company for debt service and shareholder dividends.

» **Loan Portfolio Concentrations**. Sellers should understand concentrations in the buyer's loan portfolio, outsized hold positions, and review the source of historical and expected losses.

» **Ability to Raise Cash to Close**. What is the source of funds for the buyer to fund the cash portion of consideration? If the buyer has to go to market to issue equity and/or debt, what is the contingency plan if unfavorable market conditions preclude floating an issue?

» **Consensus Analyst Estimates**. If the buyer is publicly traded and has analyst coverage, consideration should be given to Street expectations vs. what the diligence process determines. If Street expectations are too high, then the shares may be vulnerable once investors reassess their earnings and growth expectations.

» **Valuation**. Like profitability, valuation of the buyer's shares should be judged relative to its history and a peer group presently and relative to a peer group through time to examine how investors' views of the shares may have evolved through market and profit cycles. Valuation is rarely a catalyst for a stock, but both absolute and relative valuation speak to one aspect of investment risk.

» **Share Performance**. Sellers should understand the source of the buyer's shares performance over several multi-year holding periods with returns disaggregated into three components: EPS growth, multiple expansion or contraction, and the impact of reinvested dividends. If the shares have significantly outperformed an index over a given holding period, is it because earnings growth accelerated? Or is it because the shares were depressed at the beginning of the measurement period? Likewise, underperformance may signal disappointing earnings, or it may reflect a starting point valuation that was unusually high.

» **Strategic Position**. Assuming an acquisition is material for the buyer, directors of the selling board should consider the strategic position of the buyer, asking such questions about the attractiveness of the pro forma company to other acquirers.

» **Contingent Liabilities**. Contingent liabilities are a standard item on the due diligence punch list for a buyer. Sellers should evaluate contingent liabilities too.

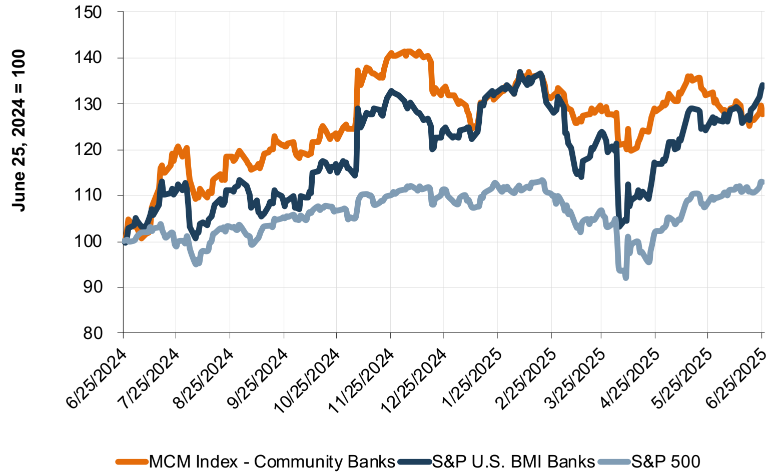
Conclusion: Value, Risk, and the Post-Deal Reality

The list does not encompass every question that should be asked as part of the fairness analysis, but it does illustrate that a liquid market for a buyer's shares does not necessarily answer questions about value, growth potential and risk profile. When one surveys the M&A history of banks, there is no shortage of sellers who were waylaid by the performance of the buyer's shares after the deal closed.

We at Mercer Capital have extensive experience in valuing and evaluating the shares (and debt) of financial and non-financial service companies garnered from over four decades of business.

Jeff K. Davis, CFA
jeffdavis@mercercapital.com | 615.345.0350

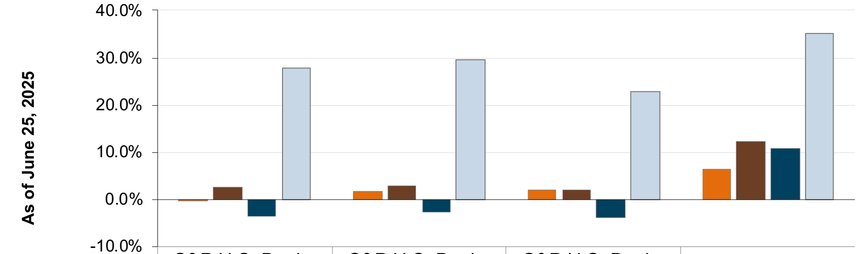
Mercer Capital's Bank Group Index Overview



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	-0.17%	1.80%	1.96%	6.55%
Quarter-to-Date	2.64%	2.99%	1.92%	12.15%
Year-to-Date	-3.49%	-2.60%	-3.98%	10.88%
Last 12 Months	27.70%	29.46%	22.87%	35.04%

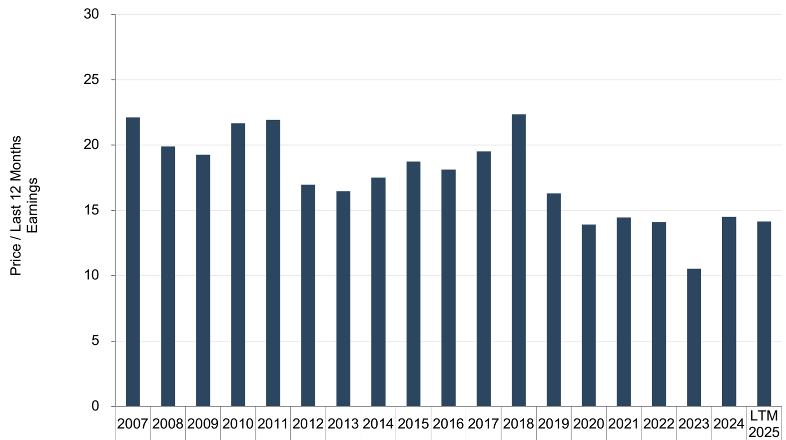
Source: S&P Capital IQ Pro.

	Total Return				Regional Index Data as of June 25, 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	-1.5%	1.7%	-2.7%	26.5%	11.1x	10.2x	8.6x	101%	108%	2.9%
Midwest Index	-2.7%	2.2%	-2.0%	29.4%	11.9x	9.9x	8.5x	92%	112%	3.3%
Northeast Index	-0.6%	4.3%	0.0%	31.4%	12.7x	9.5x	8.4x	98%	109%	3.6%
Southeast Index	1.5%	1.6%	1.1%	30.7%	9.9x	9.5x	8.3x	99%	107%	2.3%
West Index	-2.6%	-1.6%	-8.2%	38.1%	11.0x	11.1x	8.7x	96%	104%	3.2%
Community Bank Index	-1.7%	0.1%	-3.1%	27.7%	11.3x	9.8x	8.5x	97%	107%	3.1%
S&P U.S. BMI Banks	6.0%	10.9%	9.1%	33.9%	na	na	na	na	na	na

Source: S&P Capital IQ Pro.

Median Price/Earnings Multiples

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

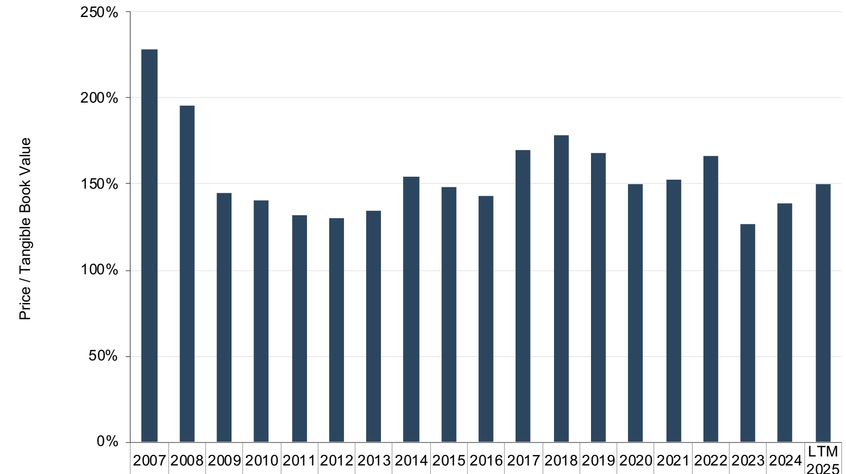


	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	LTM 2025
U.S.	22.1	19.9	19.3	21.7	21.9	17.0	16.5	17.5	18.8	18.1	19.5	22.4	16.3	13.9	14.5	14.1	10.5	14.5	14.1

Source: S&P Capital IQ Pro.

Median Price/Tangible Book Value Multiples

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

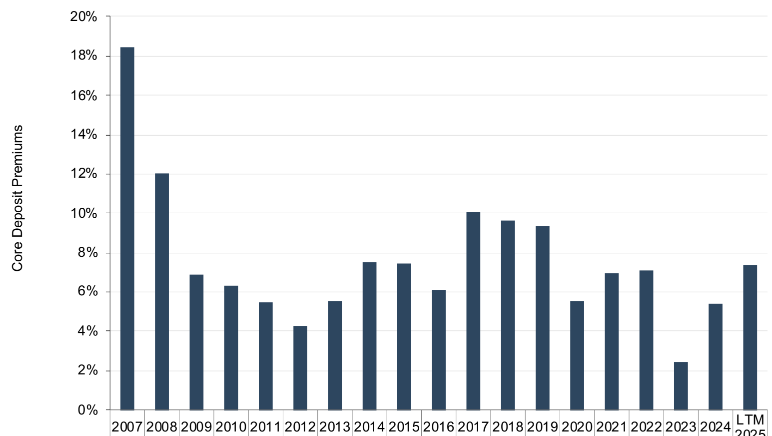


	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	LTM 2025
U.S.	228	196	145	141	132	130	134	155	148	143	170	178	168	150	152	166	127	139	150

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%	7.4%

Source: S&P Capital IQ Pro.

Median Valuation Multiples for M&A Deals

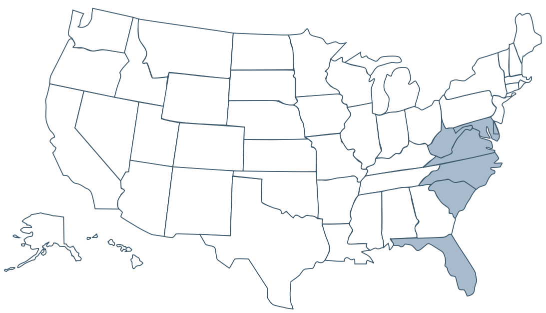
Target Banks' Assets <$5B and LTM ROE >5%, 12 months ended June 26, 2025

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	17.4x	164%	8.5%	6	150.6	828,948	8.7%
Midwest	14.4x	144%	6.1%	8	133.6	1,331,551	11.8%
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	14.5x	150%	7.4%	28	143.3	1,057,988	10.7%

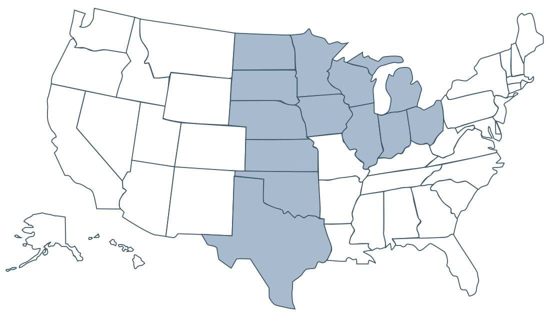
Source: S&P Capital IQ Pro.

Mercer Capital's Regional Public Bank Peer Reports

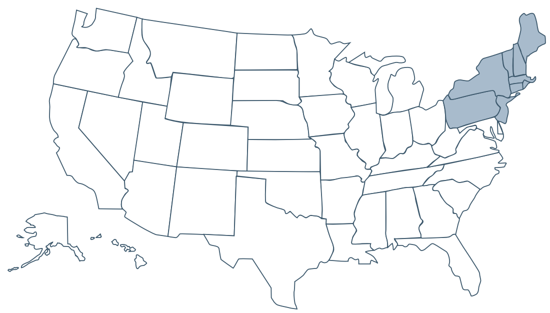
Updated monthly, Mercer Capital's Regional Public Bank Peer Reports offer a closer look at the market pricing and performance of publicly traded banks in the states of five U.S. regions. Click on the map to view the reports from the representative region.



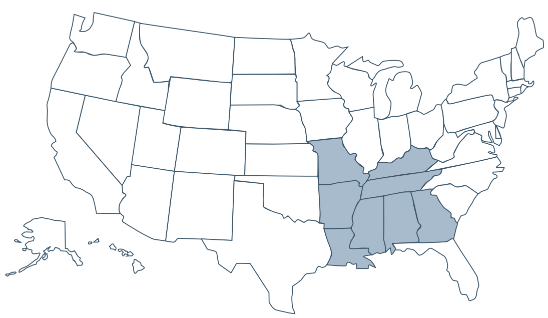
Atlantic Coast



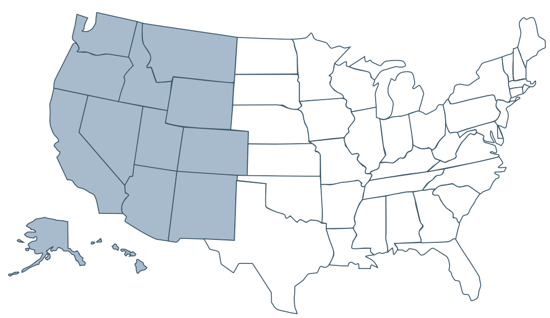
Midwest



Northeast



Southeast



West

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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.

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- 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

Eden G. Stanton, CFA, ASA
901.270.7250
stantone@mercercapital.com

Luke Tanner
469.904.6719
tannerl@mercercapital.com

Andrew K. Gibbs, CFA, CPA/ABV
901.322.9726
gibbsa@mercercapital.com

Mary Grace Arehart, CFA
901.322.9720
arehartm@mercercapital.com

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

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

www.mercercapital.com

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www.mercercapital.com