

# Past is Prologue?

## Valuation of Banks in the Public and M&A Markets

### 2018 Bluegrass Community Bankers Association Annual Convention – Bowling Green, KY

**Jeff K. Davis, CFA**

Managing Director – FIG

615-345-0350 | [jeffdavis@mercercapital.com](mailto:jeffdavis@mercercapital.com)



Bluegrass Community  
Bankers Association

August 27, 2018

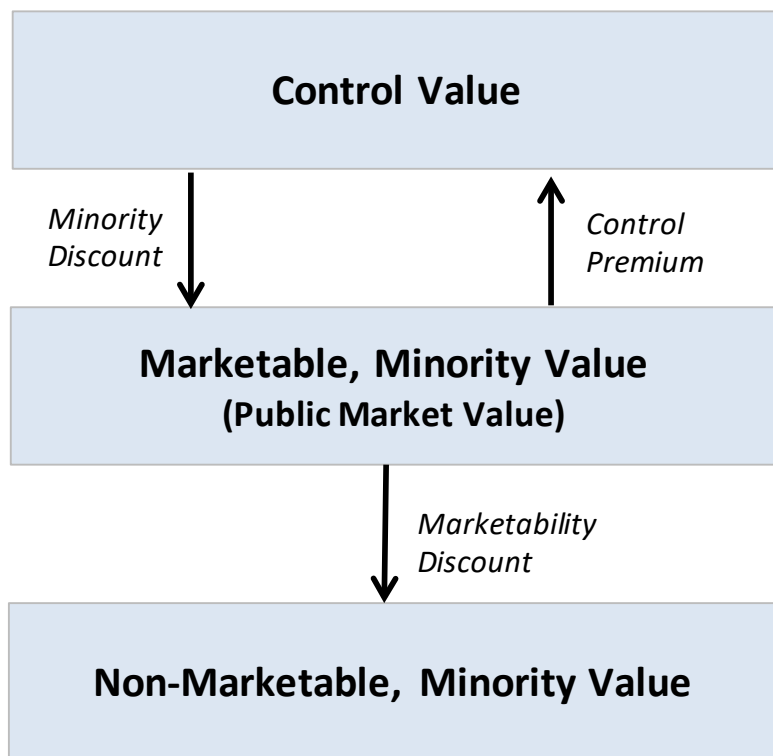
# Valuation and Sentiment



*Markets make opinions – Richard Russell (Dow Theory Letters)*

# General Valuation Thoughts

# Valuation Perspective



Control premiums (or minority interest discounts from the control price) tend to be heavily influenced by buyer synergies or buyer financing structures (e.g., stock swap using a high multiple stock, or the amount of debt financing available)

Marketability discounts tend to be inversely related to (a) # of shareholders; (b) IPO potential; (c) M&A potential; (d) absence of shareholder agreements; (e) dividends

# Wall Street ....



Growth!

Accelerating Growth!!



# Hubris = Bad Stocks

---

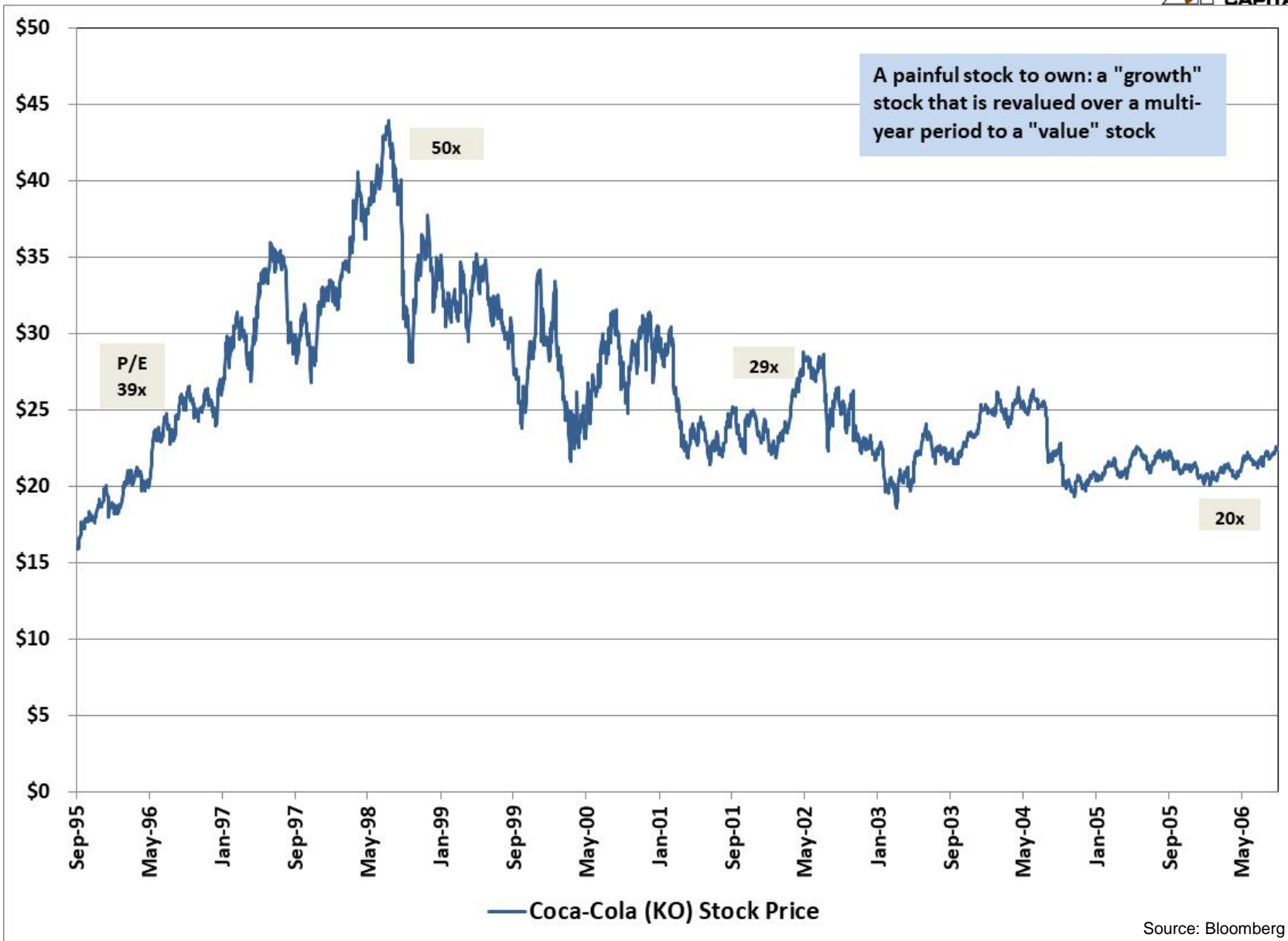
## Robert Goizueta (KO CEO) 1995 Annual Report

“Our virtual *infinite* opportunity for growth”

On using the infinity sign as an “unregistered trademark of our growth potential”

On when KO would not repurchase shares “whenever securities laws say we can’t. Otherwise we’ve yet to encounter a time when we felt our stock wasn’t a long-term investment bargain for us.”

Source: Coca-Cola (KO) 1995 annual report  
and Grant’s Interest Rate Observer  
(10/11/96)



Source: Bloomberg

# High Level Math = Big Picture

---

$$P/TBV = ROE (ROTE) \times P/E$$

$$ROE = ROA \times \text{Leverage} \dots \text{or}$$

$$ROE = (\text{Income} / \text{Assets}) \times (\text{Assets} / \text{Equity})$$


$$P/E = \text{Risk Profile} \text{ and } \text{Growth Expectations}$$


Bank investors toggle between what is top of mind



# Why Risk and Growth Matters

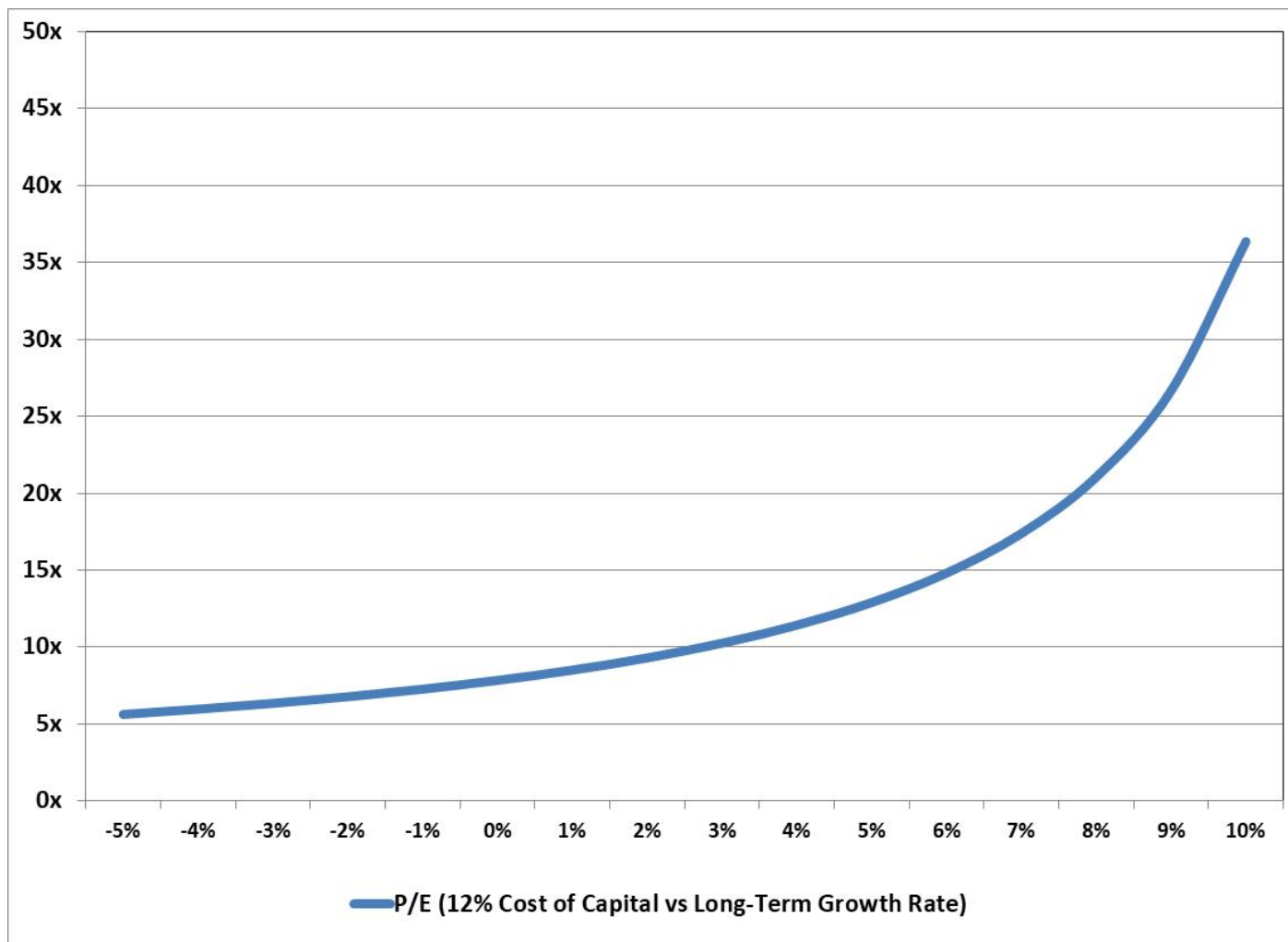
+ Yield to Maturity on 10 Yr UST		2.90%
+ Equity Premium	5.50%	
x Company Beta	1.20	
=Beta Adj Equity Premium		6.60%
+ Small-Mid Cap Equity Premium		2.15%
+ Company Specific Risks		1.00%
= Discount Rate (Equity Cost of Capital)		12.65%
<b>- Long-Term Growth Rate (G)</b>		<b>-7.00%</b>
= Capitalization Rate		5.65%
<b>= Multiple (1 / Cap Rate)</b>		<b>17.7x</b>
Ongoing Earning Power Estimate		\$100,000
x Price/Earnings Ratio		17.7x
= Capitalized Earnings Value		<u>\$1,770,000</u>

Multiples are negatively correlated with risk ...  
higher risk =  P/E

Multiples are positively correlated with growth ...  
higher G =  P/E

Growth matters a lot to value, but so does risk

# P/E Increases with Growth



# Valuation Perspective

---

## Value as an independent company

- Discounted Cash Flow (DCF) of projected future cash flow and terminal value discounted at a risk appropriate rate (12-15%)
- Public market comps
- Transactions in the subject's stock and (sometimes) net asset value

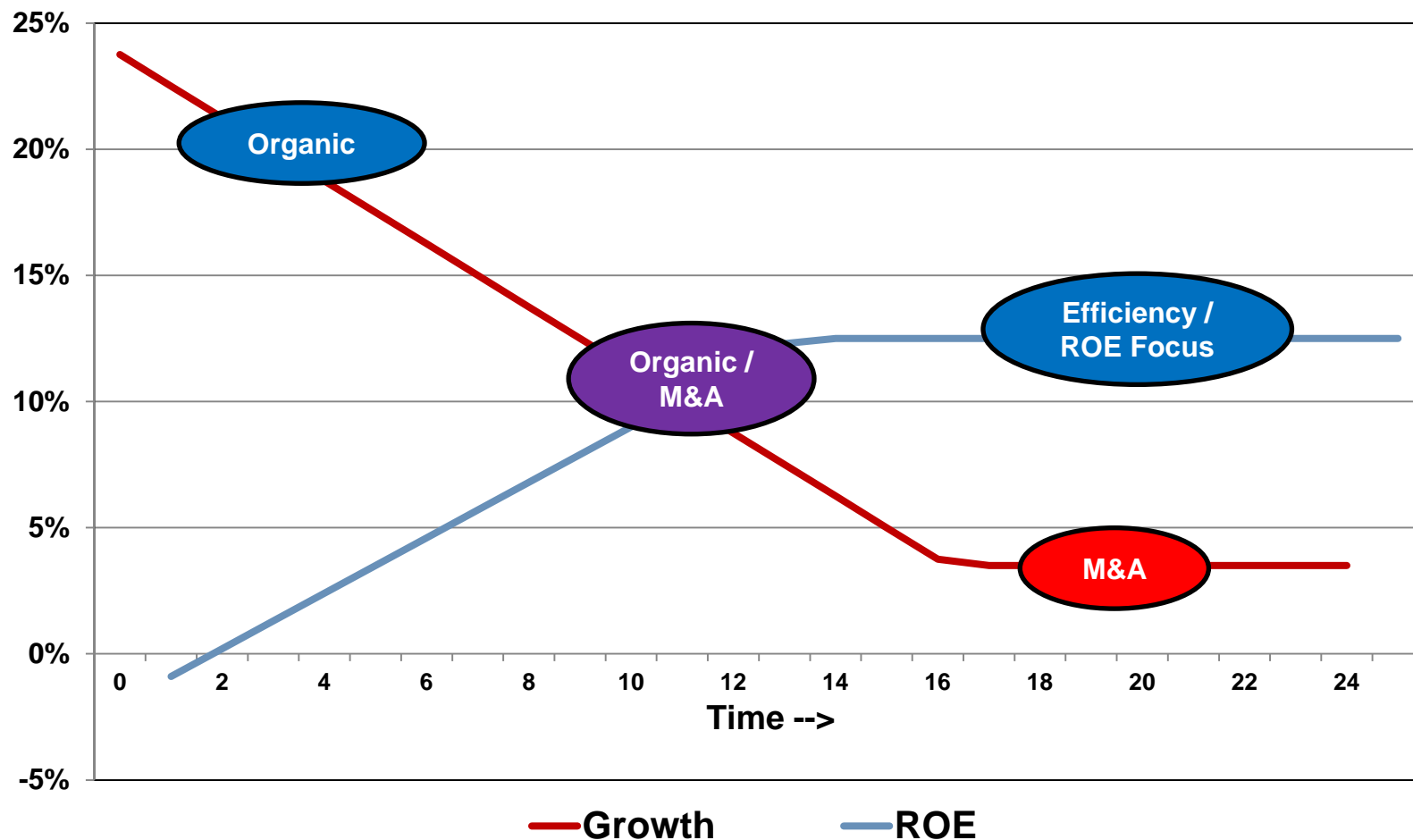
## Acquisition value

- DCF with expense savings (and deal costs)
- M&A comp transactions
- Contribution analysis

## Buyer dynamics

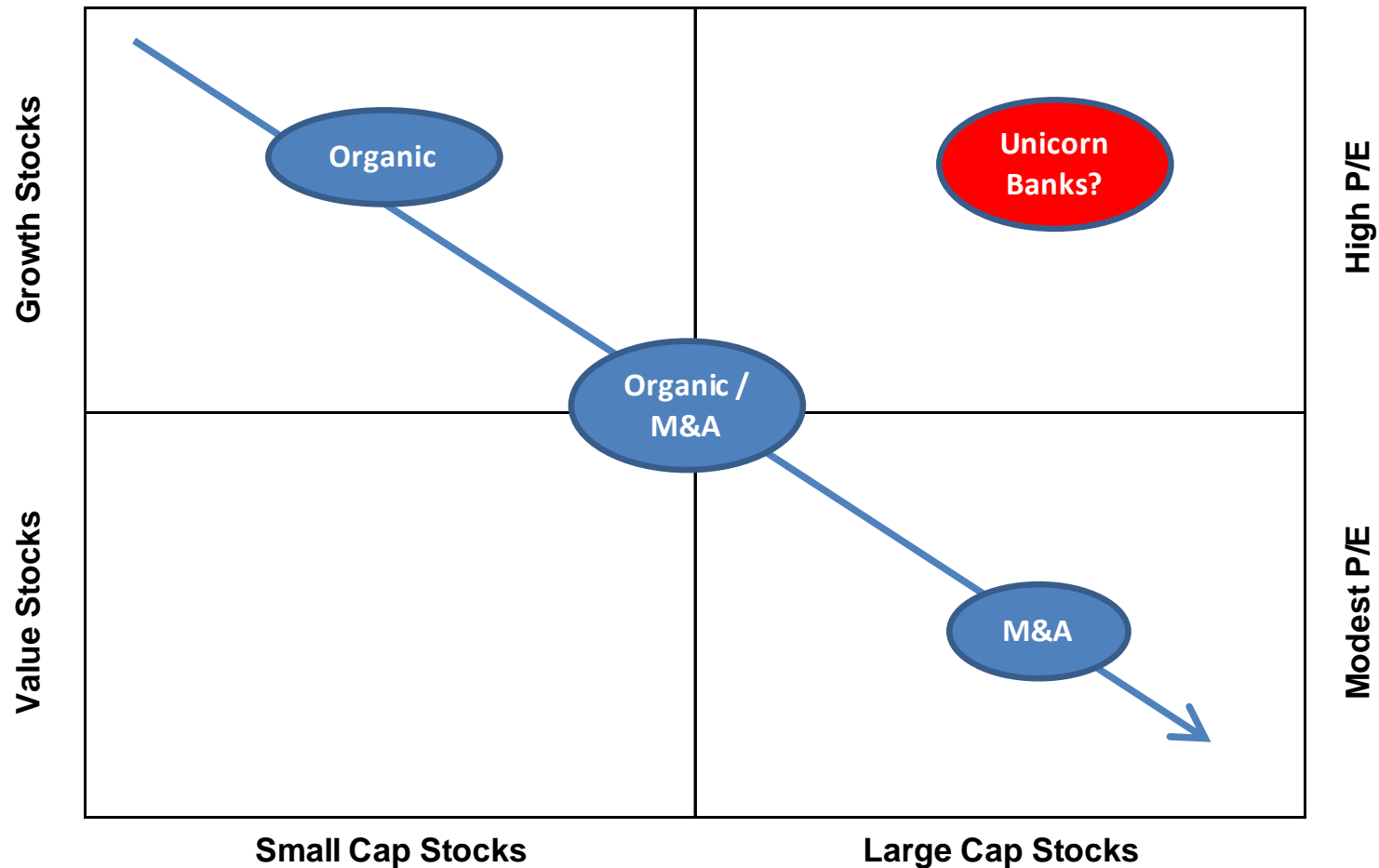
- Internal rate of return projected vs. hurdle rate
- EPS accretion vs. TBVPS dilution and earn-back period
- Strength of the buyer's currency (how richly valued?)
- Excess capital and/or access to the capital markets to fund cash portion

# Typical Successful Bank Life-Cycle: *Organic → Organic/M&A → Max ROE or Sell*



# Ownership Changes Too

→ Small Cap Growth → Mid Cap Growth → Large Cap Value



# Industry Fundamentals

# Industry Themes

---

## Secular

Consolidation

Digital

Capital build

NIM decline

CRE concentration

ZIRP new reality each recession?

Rise of capital markets and private capital vs bank balance sheets

## Cyclical

1H18 industry earnings +25%

Credit costs are very low

Liquidity tightening (loan growth > deposit growth)

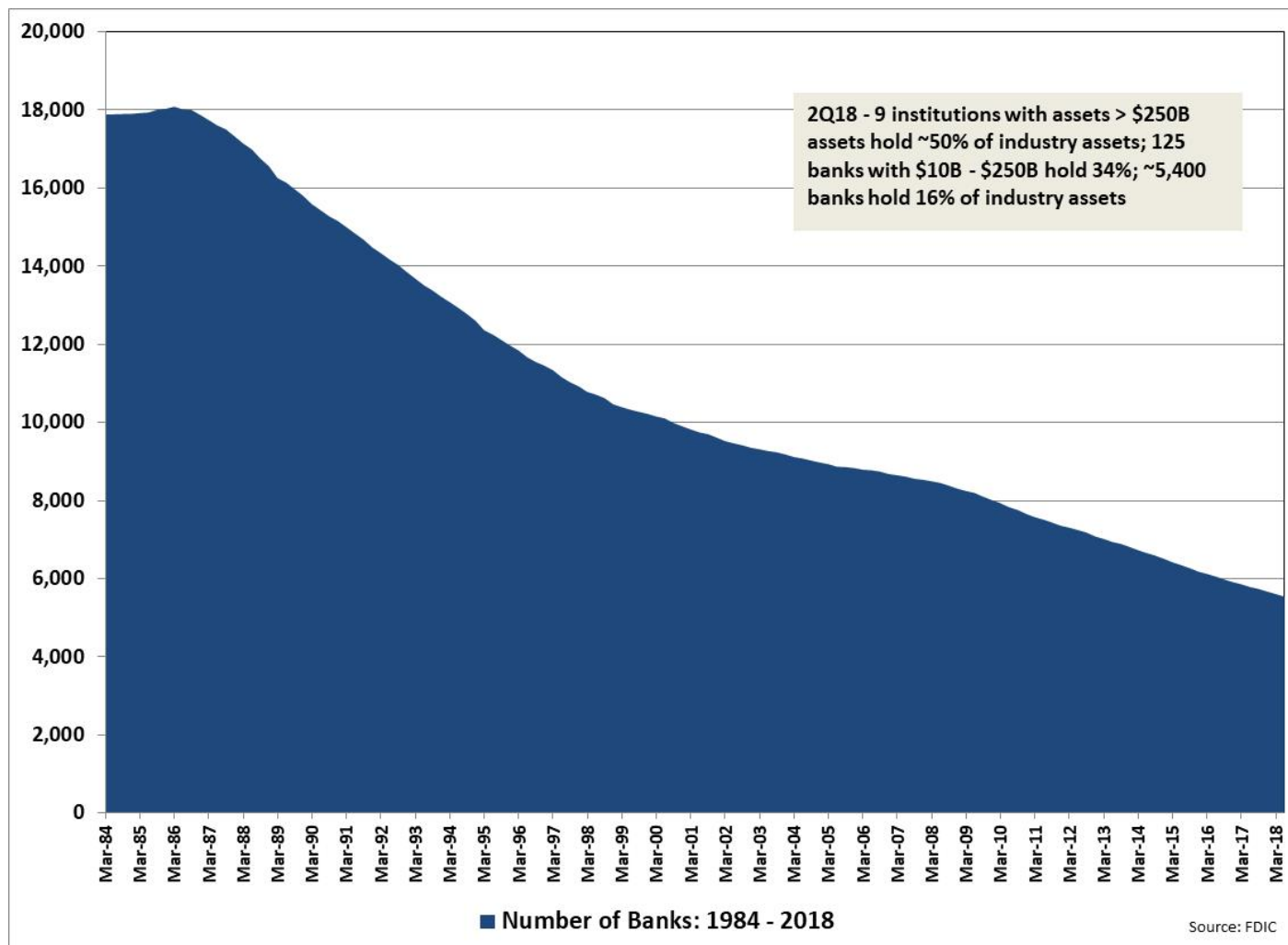
NIM up with higher short-rates (with partial offset from flatter yield curve)

Rates moving higher!

Regulatory relief

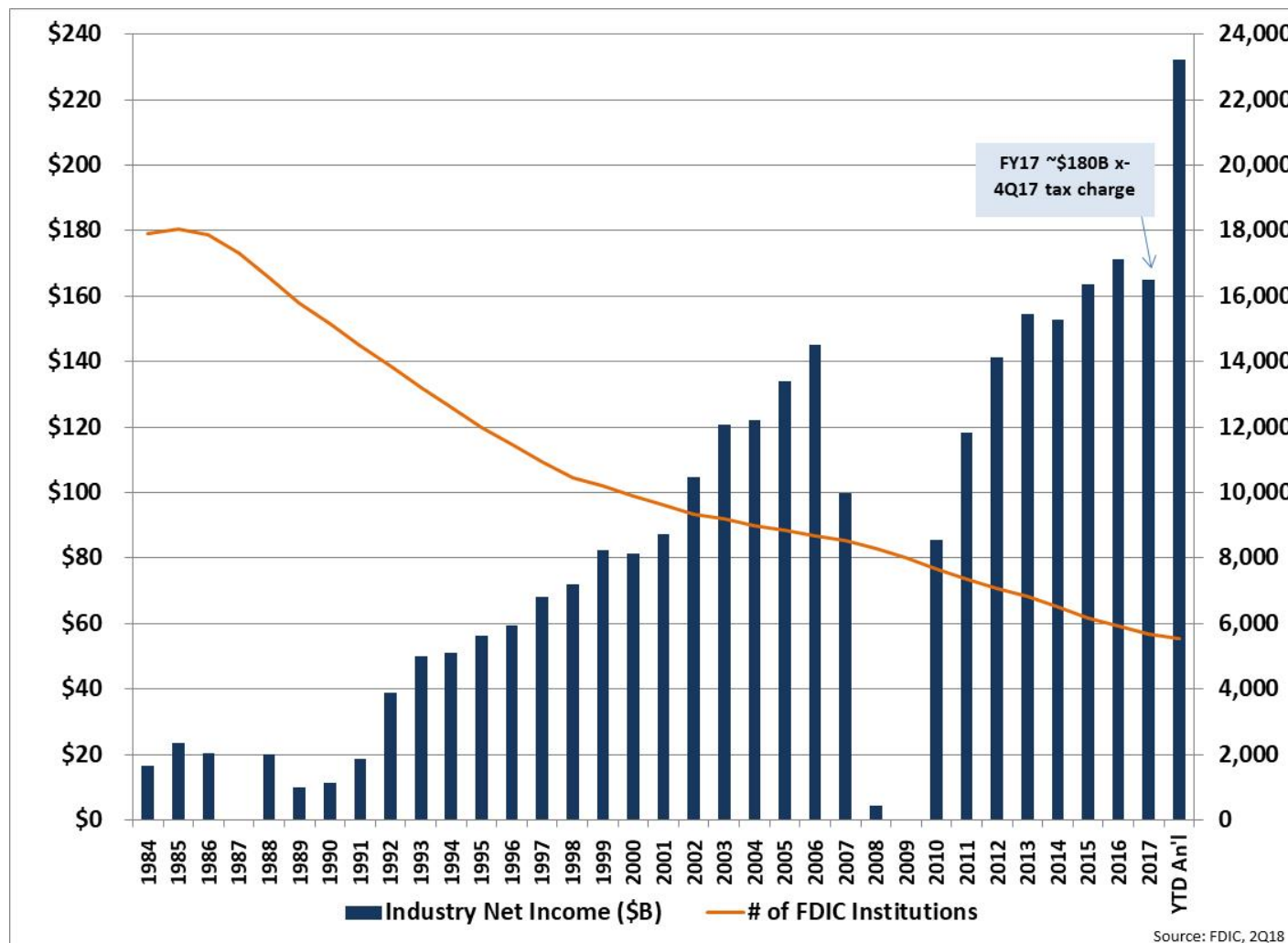
ROE improving

# Consolidation

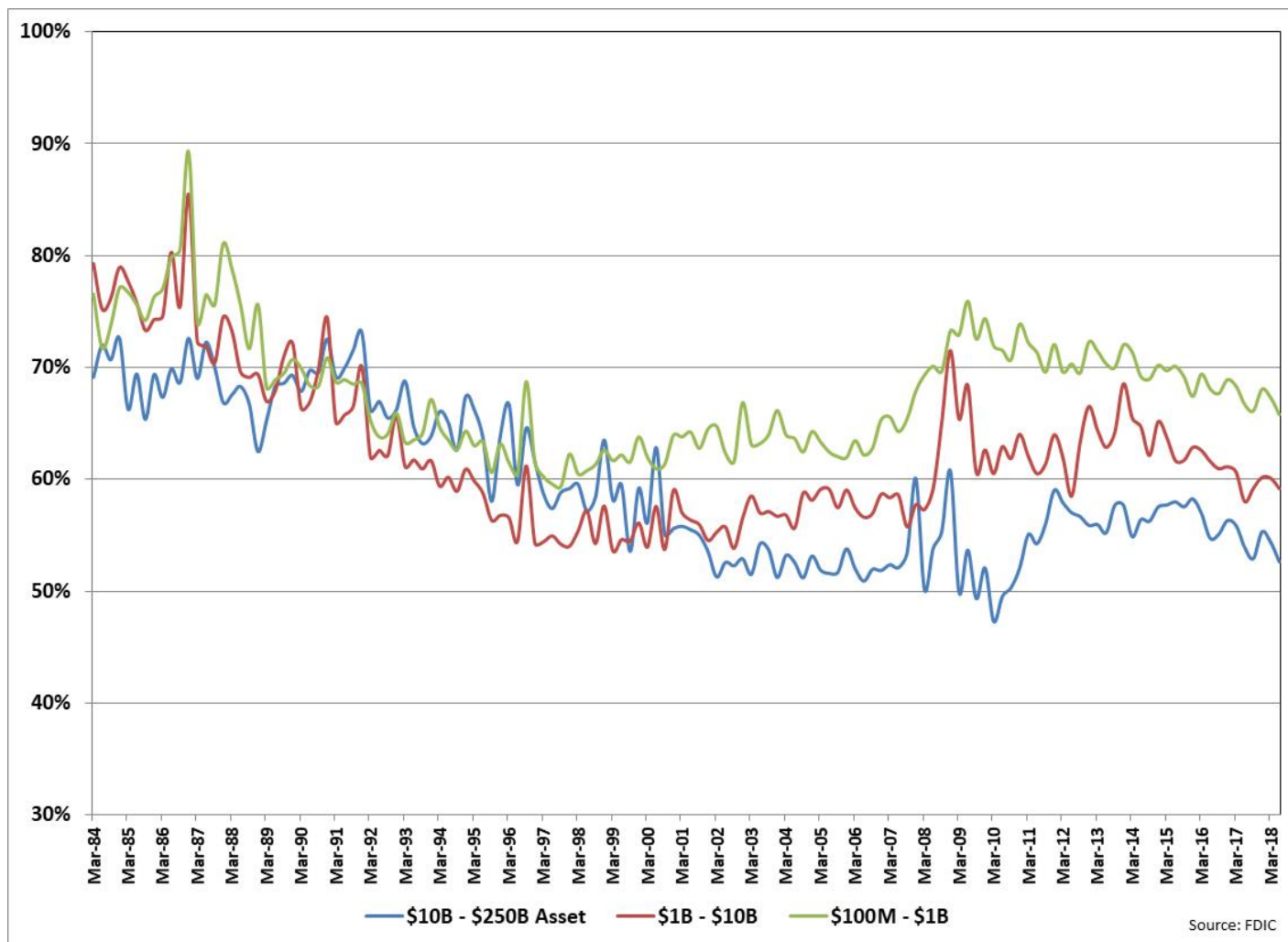




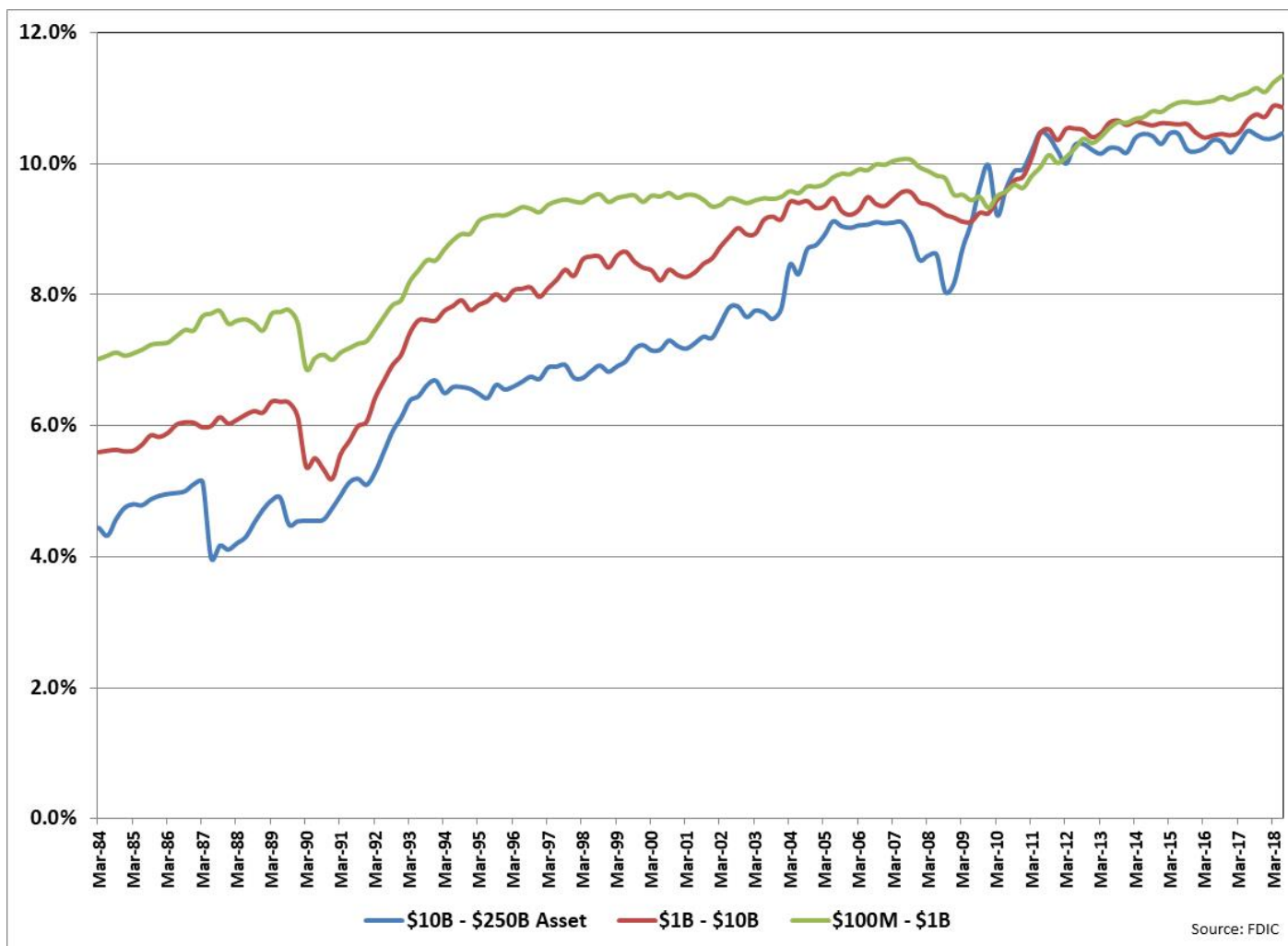
# Consolidation and Earnings



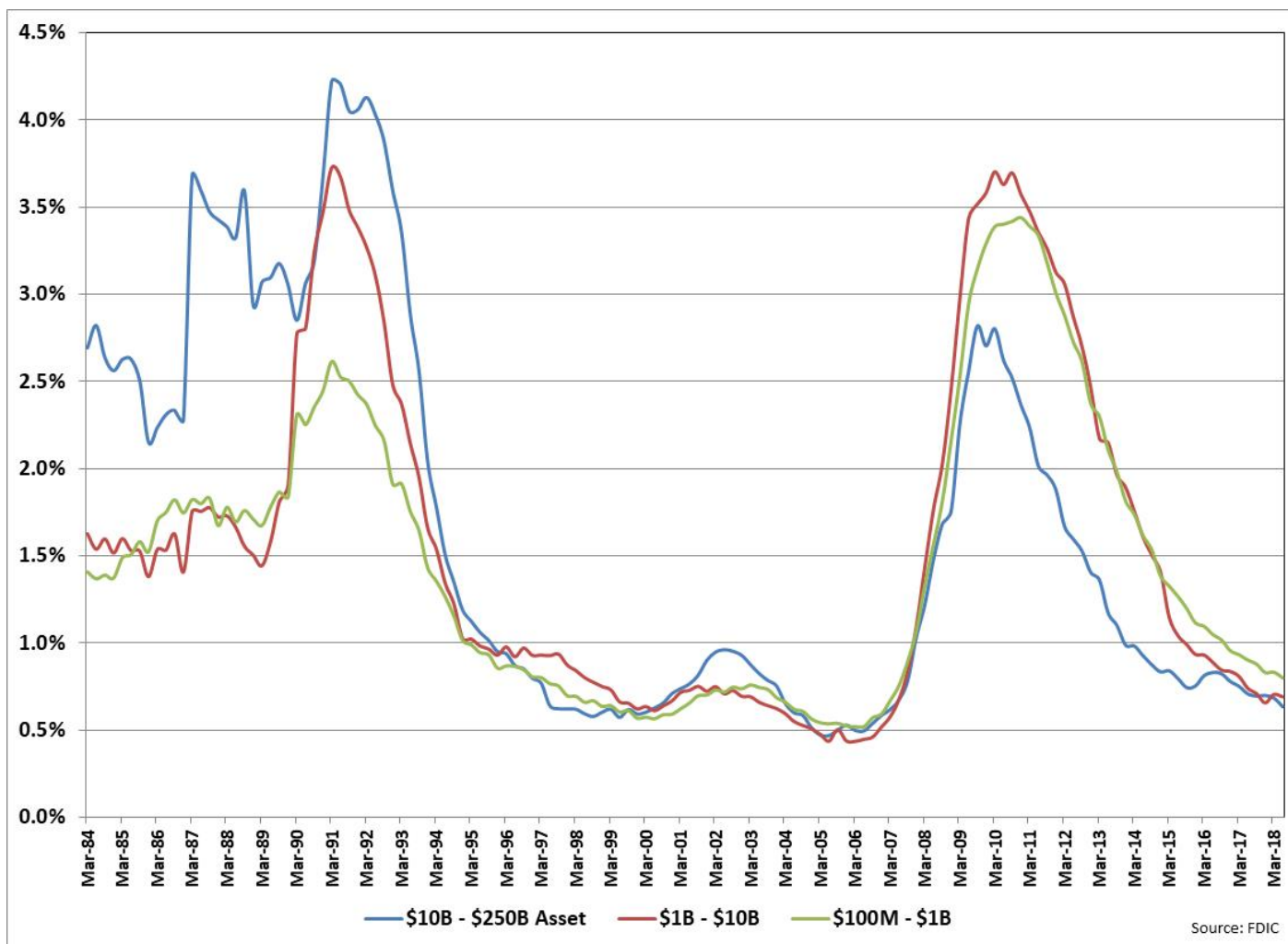
# Efficiency (1Q84-2Q18)



# Leverage Ratio (1Q84-2Q18)



# NPA / Assets (1Q84-1Q18)



# Then vs Now

	Assets > \$10B		Assets \$3B - \$10B		Assets \$300M - \$1B	
	2006	1Q18	2006	1Q18	2006	1Q18
<b>Pre-Tax ROA</b>	<b>1.83%</b>	<b>1.51%</b>	<b>1.73%</b>	<b>1.54%</b>	<b>1.81%</b>	<b>1.40%</b>
ROA	1.21%	1.17%	1.12%	1.20%	1.26%	1.16%
<b>ROE</b>	<b>14.0%</b>	<b>9.8%</b>	<b>12.4%</b>	<b>10.9%</b>	<b>13.7%</b>	<b>11.0%</b>
<b>ROTE (~)</b>	<b>20.5%</b>	<b>13.0%</b>	<b>16.1%</b>	<b>12.6%</b>	<b>14.8%</b>	<b>11.1%</b>
<b>Tangible Common / Tang Assets</b>	<b>5.9%</b>	<b>9.0%</b>	<b>7.0%</b>	<b>9.5%</b>	<b>8.5%</b>	<b>10.4%</b>
<b>Net Interest Margin</b>	<b>3.41%</b>	<b>3.28%</b>	<b>3.87%</b>	<b>3.54%</b>	<b>4.21%</b>	<b>3.77%</b>
NIM less Net Charge-Offs	3.18%	3.07%	3.72%	3.48%	4.10%	3.73%
Fee Income / Revenue	36.4%	29.1%	24.6%	20.6%	17.4%	16.2%
<b>Efficiency Ratio</b>	<b>60.9%</b>	<b>62.0%</b>	<b>61.2%</b>	<b>61.6%</b>	<b>59.0%</b>	<b>65.0%</b>
Loans / Assets	62.6%	63.6%	67.6%	72.5%	71.1%	69.5%
NPLs+ORE / Loans+ORE	0.57%	0.69%	0.49%	0.60%	0.71%	0.97%
Net Charge-Offs / Avg Loans	0.23%	0.21%	0.15%	0.06%	0.11%	0.04%
Loan Loss Reserve / Loans	1.11%	0.96%	1.23%	0.97%	1.20%	1.28%

Source: FDIC, FFIEC (BHCPRs) and Mercer Capital

# Public Market for Bank Stocks

# Trump Trade

Banks were the top-performing sector in the immediate after-math of the national election

- New regulators!
- Dodd-Frank reform
- Lower corporate tax rates (banks had among highest rates)
- Higher economic growth = better loan growth
- Cover (or reason) for Fed to hike rates faster and further

# Fed & Bank Stocks

Rate hikes are a plus for most traditional commercial bank NIMs

- Core bank spread widens
- Wholesale bank spread narrows

Performance of bank stocks and Fed actions more nuanced (early hikes positive, late hikes meh)

Bank stocks tend to bottom and peak with credit, not the Fed

*Bank stocks are “early cyclicals” – tend to turn down when economy is hot and bottom/turn-up when economy bottoms*

# Investor 2018 Themes

---

## Bull Case

Asset sensitive (lots of non-IB deposits & Libor loans)

Return of capital (dividend hikes and share repurchases)

Regulatory relief with Dodd-Frank roll-back (or definition of what sized bank is subject to what)

Tax cuts propel economy = loan demand, income growth, extend credit cycle

HY and IG corporate bond spreads not signaling pending credit issues

## Bear Case

Fed is tightening and withdrawing liquidity when central banks have created massive, global asset bubble

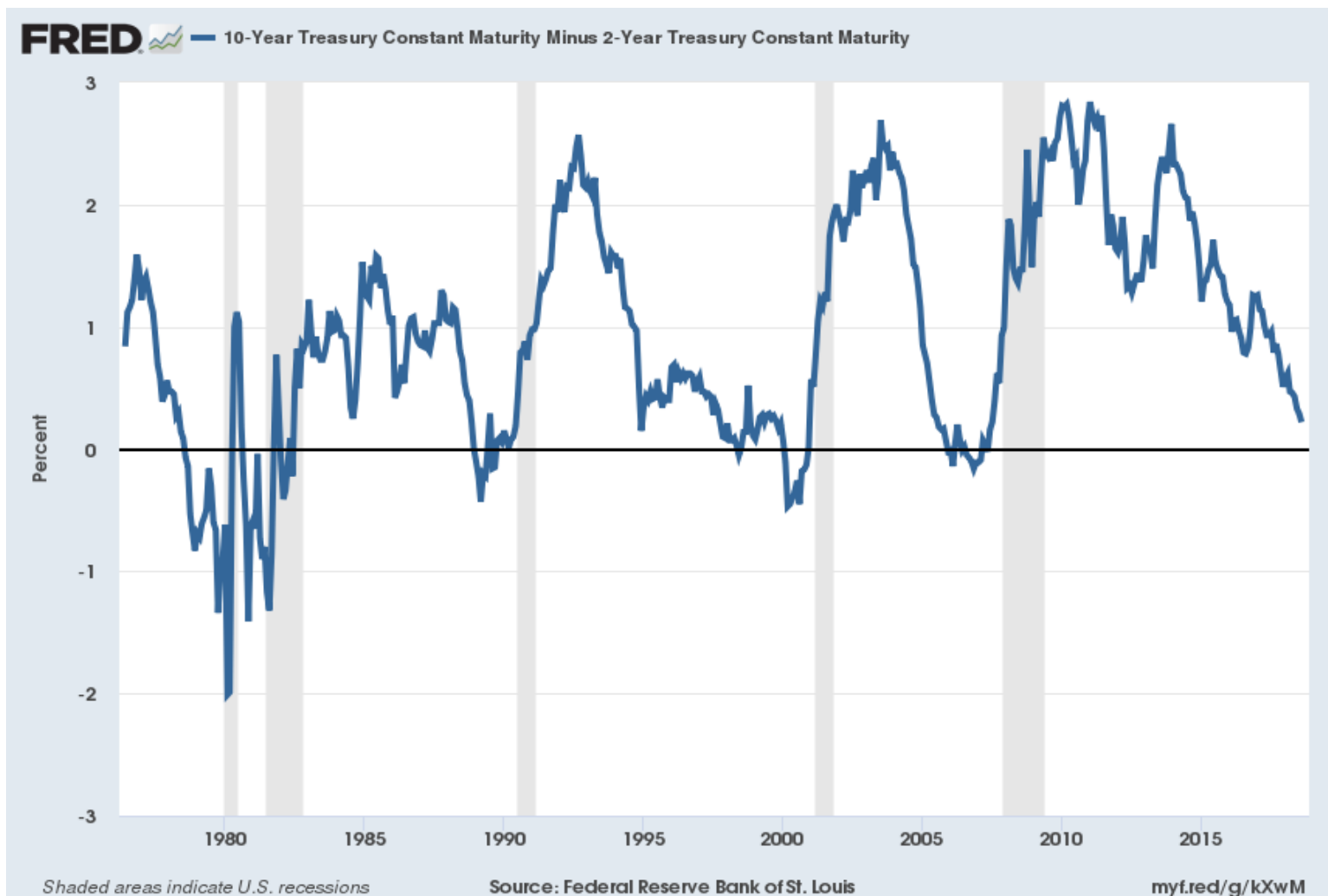
Traditional yardsticks (2/10 narrowing, froth in HY and levered loan markets re structure) point to latish credit cycle

Market is efficient—impact of tax reform was priced into stocks during 4Q17

Earnings overstated to the extent credit costs are exceptionally low



# 10/2 YR UST Spread



# HY & IG Option Adjusted Spread



# Total Return (price + dividends)

	<u>S&amp;P 500</u>	<u>Russell 2000</u>	<u>SNL Large Cap Bank Index</u>	<u>SNL Small Cap Bank Index</u>	<u>Large Cap Banks vs S&amp;P 500</u>	<u>Small Cap Banks vs Russell 2000</u>	<u>Large Cap vs Small Cap Banks</u>
Year-to-Date (8/21/18)	8.4%	12.7%	4.2%	11.0%	-4.2%	-1.7%	-6.8%
11/8/16 - 8/21/18	38.4%	46.4%	53.5%	48.5%	15.1%	2.1%	5.0%
<b>National Election</b>							
1 Year to Election	4.2%	1.1%	-3.2%	5.5%	-7.4%	4.4%	-8.7%
3 Year to Election	28.7%	13.3%	23.0%	35.8%	-5.7%	22.5%	-12.8%
5 Year to Election	86.7%	69.8%	108.4%	110.5%	21.7%	40.7%	-2.1%
10 Year to Election	91.5%	78.3%	-13.5%	5.6%	-105.0%	-72.7%	-19.1%

Much of the industry's outperformance post-election occurred 11/16 to 2/17

Small bank outperformance vs large caps reflects a) higher EPS growth; and b) M&A

YTD underperformance consistent with flattening curve ... late cycle (NIM or future credit?)

Source: S&P Global Market Intelligence

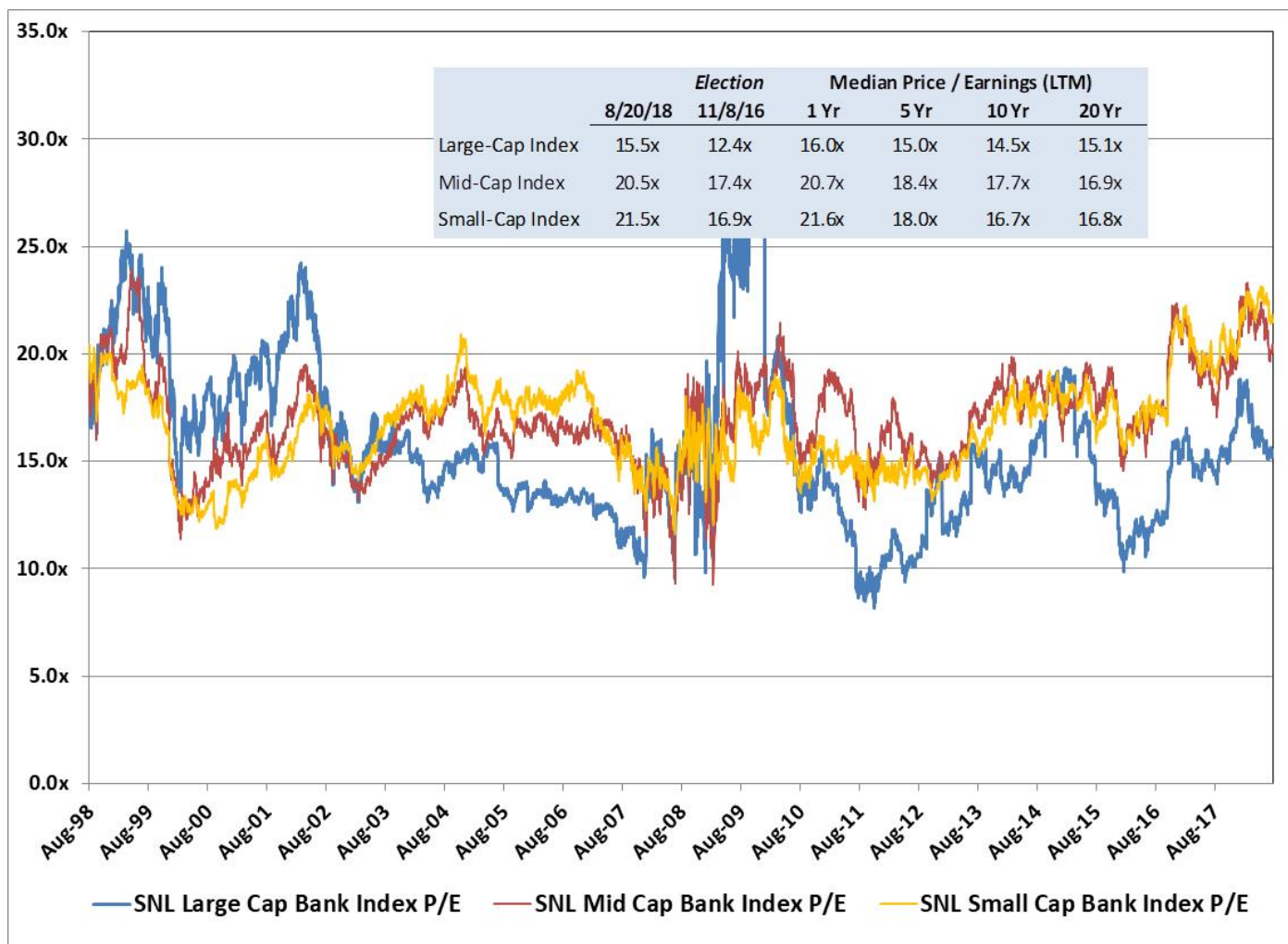
# Bank Index Valuation

	<i>Election</i>		<b>Median Price / Earnings (LTM)</b>			
	<b>8/20/18</b>	<b>11/8/16</b>	<b>1 Yr</b>	<b>5 Yr</b>	<b>10 Yr</b>	<b>20 Yr</b>
Large-Cap Index	15.5x	12.4x	16.0x	15.0x	14.5x	15.1x
Mid-Cap Index	20.5x	17.4x	20.7x	18.4x	17.7x	16.9x
Small-Cap Index	21.5x	16.9x	21.6x	18.0x	16.7x	16.8x

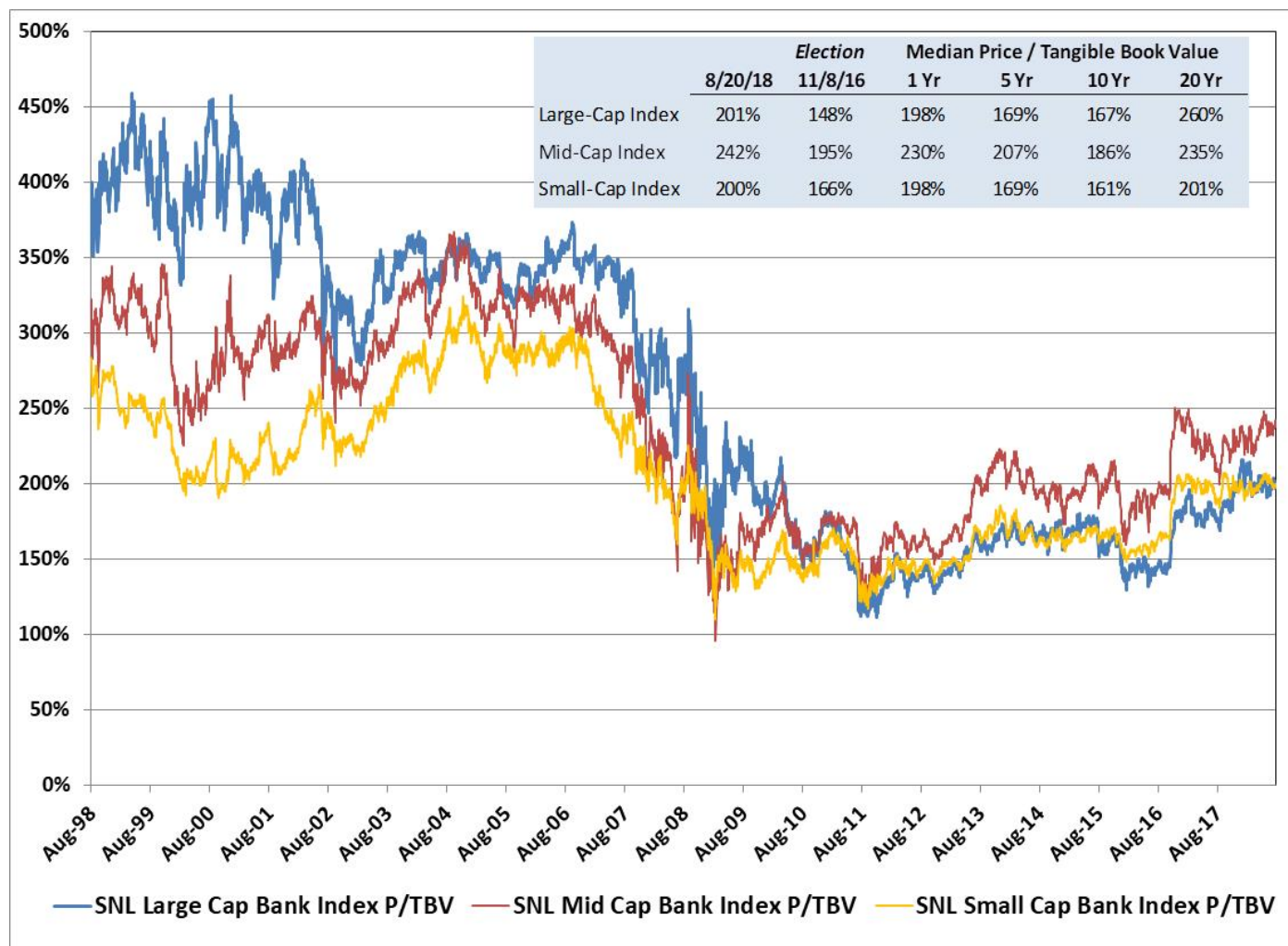
	<i>Election</i>		<b>Median Price / Tangible Book Value</b>			
	<b>8/20/18</b>	<b>11/8/16</b>	<b>1 Yr</b>	<b>5 Yr</b>	<b>10 Yr</b>	<b>20 Yr</b>
Large-Cap Index	201%	148%	198%	169%	167%	260%
Mid-Cap Index	242%	195%	230%	207%	186%	235%
Small-Cap Index	200%	166%	198%	169%	161%	201%

Source: S&P Global Market Intelligence

# P/E (98-18; LTM EPS)



# P/TBV (98-18)



# EPS & Revenue Growth for Small and Mid-Cap Banks (i.e. the Buyers)

8/21/2018	P/E LTM	P/E FY18E	P/E FY19E	Price/TBV	Div'd Yield	2Q18 ROA	2Q18 ROE	2Q18 ROTCE	Y/Y EPS	Y/Y Rev	Y/Y PTPP	Y/Y Loans
Money Center	15.8x	10.7x	9.5x	138%	1.9%	1.14%	12.8%	13.7%	43.2%	2.6%	13.4%	3.7%
Trust Banks	14.2x	12.4x	11.6x	281%	2.1%	1.28%	14.7%	25.6%	22.9%	7.4%	6.3%	-3.1%
Wealth Mng't Banks	23.2x	15.4x	14.8x	252%	2.3%	1.35%	11.1%	15.8%	21.3%	10.1%	5.9%	11.6%
Card Banks	14.3x	9.5x	9.0x	185%	1.8%	2.76%	22.5%	23.6%	43.6%	5.8%	5.6%	6.6%
Super Regionals	15.0x	13.2x	12.1x	219%	2.7%	1.42%	12.6%	17.6%	30.4%	4.7%	5.6%	1.0%
<b>Regional Banks</b>	<b>18.6x</b>	<b>14.6x</b>	<b>13.3x</b>	<b>221%</b>	<b>2.0%</b>	<b>1.30%</b>	<b>10.2%</b>	<b>15.4%</b>	<b>29.8%</b>	<b>11.3%</b>	<b>13.5%</b>	<b>8.2%</b>
<b>Assets \$2B - \$10B</b>	<b>19.7x</b>	<b>15.3x</b>	<b>13.9x</b>	<b>211%</b>	<b>2.0%</b>	<b>1.23%</b>	<b>11.0%</b>	<b>13.6%</b>	<b>26.9%</b>	<b>11.3%</b>	<b>15.2%</b>	<b>11.3%</b>
<b>Assets \$500M - \$2B</b>	<b>17.7x</b>	<b>15.0x</b>	<b>13.1x</b>	<b>158%</b>	<b>1.8%</b>	<b>1.02%</b>	<b>10.7%</b>	<b>11.7%</b>	<b>25.0%</b>	<b>9.7%</b>	<b>11.9%</b>	<b>10.2%</b>
Thrifts	20.0x	16.8x	14.4x	152%	2.1%	0.96%	8.3%	9.4%	22.9%	6.4%	9.5%	6.7%

Source: S&P Global Market Intelligence

# KY and Area Banks

Total Return		Company	ST	Ticker	Price (\$)	Market		Price /			Yield (%)	Assets (\$M)	ROA (%)	ROE (%)	Efic (%)	NPAs/ Assets (%)
1 Yr (%)	3 Yr (%)					Cap (\$M)	Avg Day Volume	LTM (x)	FY18E (x)	TBVPS (%)						
39	94	Limestone Bncp	KY	LMST	15.25	112	7,267	NM	NA	132	0.0	1,041	0.78	9.7	74	0.83
21	51	HopFed Bncp Inc	KY	HFBC	16.80	112	9,459	22.9	20.7	128	1.7	913	0.62	6.5	83	0.91
30	87	Kentucky Bcshs	KY	KTYB	51.20	152	388	12.7	NA	177	2.4	1,047	1.19	12.5	69	0.25
14	74	Stock Yards Bncp	KY	SYBT	38.65	879	58,196	17.8	16.3	256	2.4	3,324	1.73	15.9	55	0.23
24	59	CommunityTrustBncp	KY	CTBI	50.25	890	41,358	16.0	15.2	187	2.9	4,205	1.31	10.2	57	2.42
49	114	Republic Bncp KY	KY	RBCA.A	50.30	1,051	16,303	16.2	15.4	162	1.9	5,266	1.67	13.2	52	0.85
<b>36</b>	<b>90</b>	<b>City Holding Co</b>	<b>WV</b>	<b>CHCO</b>	<b>82.37</b>	<b>1,273</b>	<b>58,523</b>	<b>18.5</b>	<b>16.9</b>	<b>299</b>	<b>2.2</b>	<b>4,374</b>	<b>1.85</b>	<b>15.4</b>	<b>51</b>	<b>1.11</b>
37	107	Premier Finl Bncp	WV	PFBI	20.15	269	18,855	15.6	NA	183	3.0	1,514	1.26	10.2	58	2.58
<b>42</b>	<b>76</b>	<b>WesBanco Inc</b>	<b>WV</b>	<b>WSBC</b>	<b>50.59</b>	<b>2,760</b>	<b>131,437</b>	<b>17.5</b>	<b>16.4</b>	<b>274</b>	<b>2.3</b>	<b>10,947</b>	<b>1.28</b>	<b>9.1</b>	<b>54</b>	<b>0.39</b>
<b>19</b>	<b>100</b>	<b>German Amer Bncp</b>	<b>IN</b>	<b>GABC</b>	<b>37.52</b>	<b>862</b>	<b>43,605</b>	<b>19.3</b>	<b>17.8</b>	<b>283</b>	<b>1.6</b>	<b>3,345</b>	<b>1.44</b>	<b>12.6</b>	<b>56</b>	<b>0.27</b>
27	58	Old National Bncp	IN	ONB	20.15	3,070	847,542	15.5	15.4	232	2.6	17,483	1.06	8.5	62	0.91
35	85	First Fin Bancorp	OH	FFBC	31.90	3,123	441,063	15.8	14.6	287	2.5	13,920	1.17	9.1	53	0.46
20	76	Peoples Bncp Inc	OH	PEBO	35.56	694	43,309	14.2	13.6	207	3.1	3,972	1.05	8.3	62	0.45
5	NA	CapStar Finl Hlgs	TN	CSTR	17.76	213	21,259	13.6	15.7	154	0.9	1,401	0.98	8.9	68	0.47
28	NA	FB Finl Corp	TN	FBK	43.95	1,349	103,554	16.7	15.3	281	0.5	4,923	1.77	13.8	64	0.56
9	63	SmartFinancial Inc	TN	SMBK	24.87	316	33,498	25.6	15.7	176	0.0	2,062	0.80	6.5	65	0.28
23	49	Simmons First Natl	AR	SFNC	31.30	2,889	386,306	15.4	13.3	240	1.9	16,166	1.37	9.9	55	0.73
27	58	Great Southern	MO	GSBC	60.35	853	26,904	17.1	14.8	178	1.9	4,569	1.23	11.3	56	0.71
<b>27</b>	<b>76</b>	<b>Median</b>				<b>870</b>		<b>16.2</b>	<b>15.4</b>	<b>197</b>	<b>2.1</b>	<b>4,089</b>	<b>1.25</b>	<b>10.0</b>	<b>58</b>	<b>0.64</b>

Source: S&P Global Market Intelligence



# M&A Trends

# M&A Themes

---

Pricing driven by seller earnings and expense savings (*but value quoted as a multiple of tangible book value!*)

Expense savings always a key in pro forma earnings but who gets credit?

Emerging theme of need to buy to acquire deposits

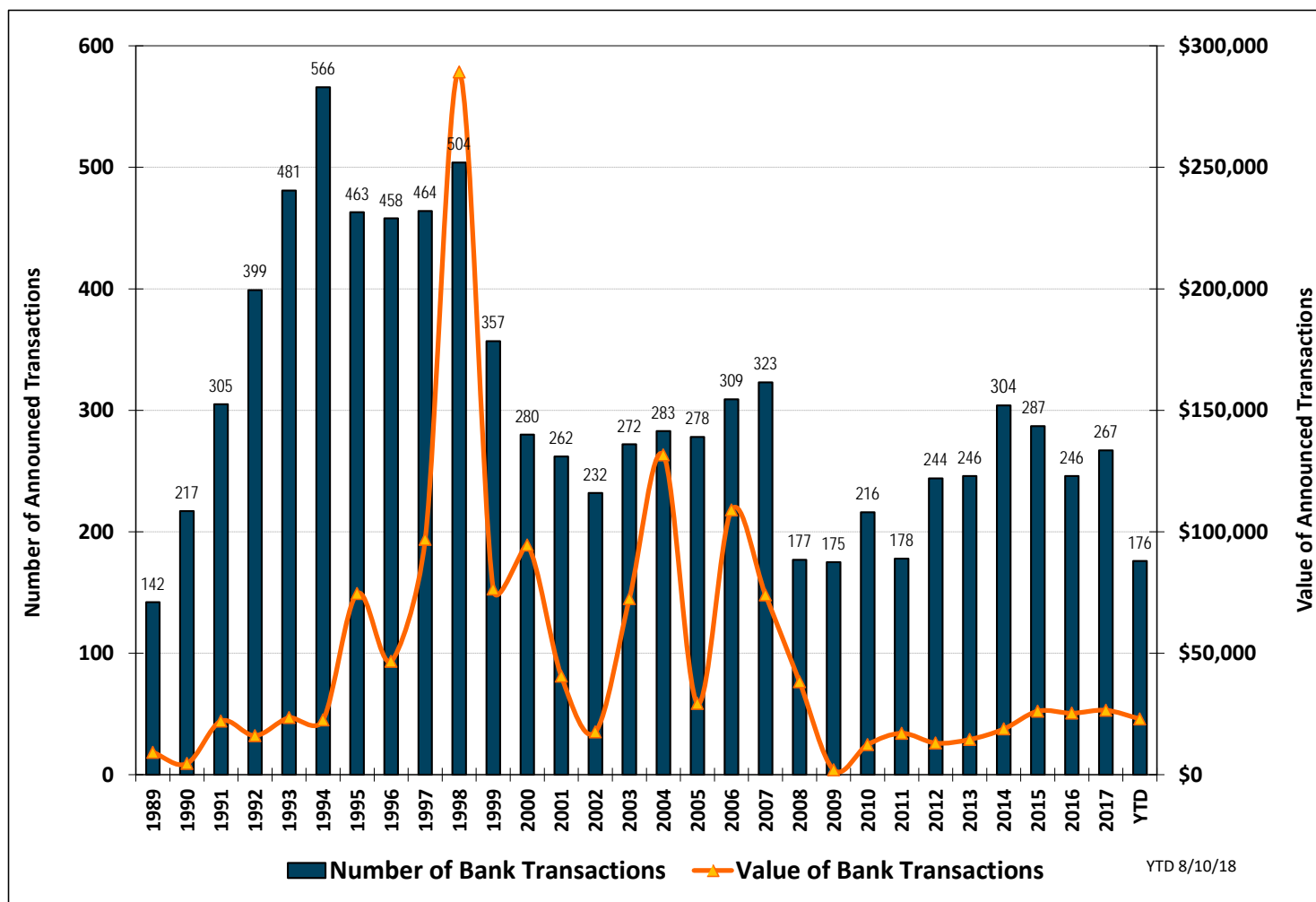
Post-crisis M&A largely among small banks; may be changing post reform

Emergence of more super community banks and small regional banks with publicly-traded stock to acquire

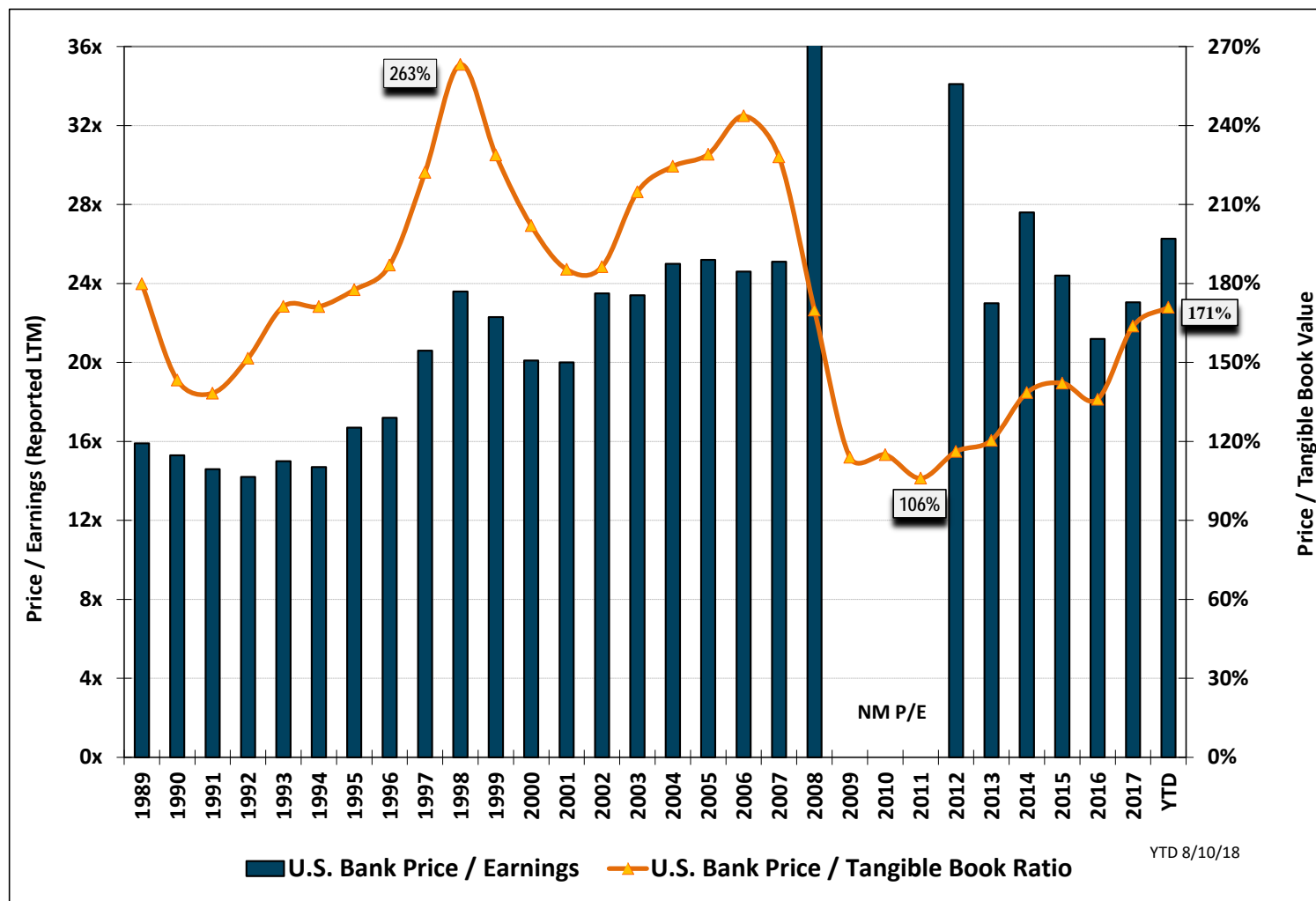
Era of positive reactions to deals over; most buyers see neutral-to-pressure on their shares upon announcement

Street prefers premium acquisitions to MOEs (though do not let the Street dissuade your board from an intelligent MOE)

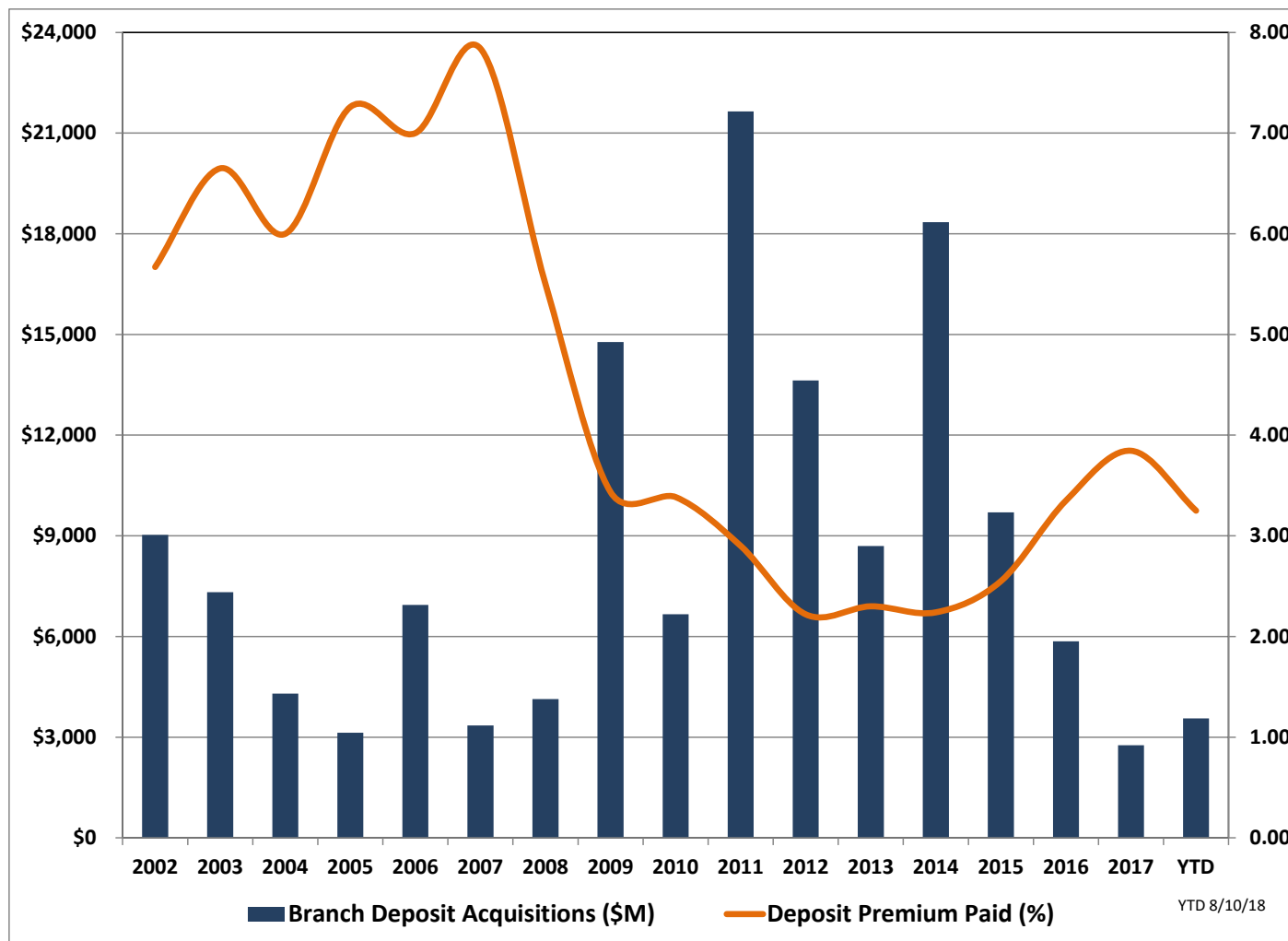
# US Bank M&A Activity and Deal Value



# US Bank M&A Median Multiples



# US Branch Transactions



# Cash vs Stock Matters! Size too

	100% Stock or Mix w/Stock > 50%			100% Cash or Majority Cash Deals		
	2018 Only	Post 11/16	Pre-Election	2018 Only	Post 11/16	Pre-Election
Commercial Bank Deals	71	192	147	25	67	106
Median Asset Size	\$480	\$444	\$397	\$207	\$183	\$127
Median ROA	0.83%	0.82%	0.75%	0.85%	0.85%	0.58%
Median ROE	7.4%	7.7%	7.3%	7.6%	6.6%	5.1%
Median Transaction Value	\$89	\$71	\$57	\$19	\$22	\$16
Median P/BV	176%	170%	141%	144%	139%	120%
Median P/TBV	191%	173%	147%	150%	143%	123%
Adj Price / Core Equity	201%	194%	156%	177%	162%	132%
Median P/E (LTM)	24.5x	23.0x	20.3x	24.9x	19.5x	23.8x

1) Post-election 11/9/16 - 8/22/18; pre-election 3/8/15 - 11/8/16

2) Adj price / core equity assumes 8% tangible equity with excess capital valued \$-for-\$

3) Transactions with disclosed pricing only

Source: S&P Global Market Intelligence

# Typical Pricing Parameters

---

**Pricing:** 9-12x pro forma earnings with 100% after-tax expense saves

**Expense Saves:** 25-30% for out-of-market deals, 30-45% in-market

**Revenue Synergies:** Good luck!

**TBVPS Dilution Earn-Back:** 3-5 years via the “cross-over” method

**EPS Accretion:** Threshold varies, but ~5% *minimum* accretion

**Internal Rate of Return:** Comfortably above the buyer’s cost of capital

**Bank Capital:** Varies but day one leverage ratio 8-9% (*investors in public acquirers are focused on consolidated capital, not bank-level*)

**Parent Capital Structure:** Significant flexibility for small BHCs (*though most boards probably not comfortable with Fed allowed max*)

# Transaction Summary

Credible assumptions?

Initial dilution from deal charges and creating goodwill is certain

EPS accretion is less certain and occurs in the out years but it ongoing

Question for buyer: Is value of our franchise enhanced?

Question for seller: Value of consideration received today vs the value of waiting to sell?

Transaction Multiples	(\$000)	P/S	
<b>Price to Seller</b>	<b>\$32,137</b>	<b>\$37.32</b>	
Price / Tangible BVPS (with Options)	\$20,407	\$23.70	157%
Price / 2018E Earnings	\$2,147	\$2.53	14.8x
Price / 2019E w 50% Expense Saves	\$2,807	\$3.31	11.3x
Price / 2020E w 100% Expense Saves	\$3,472	\$4.09	9.1x
<b>Buyer Price Per Share</b>		<b>\$55.85</b>	
DBI Price / Post-Raise YE18 TBV	\$46,462	\$33.06	169%
DBI Price / FY19E	\$6,856	\$4.15	13.5x
DBI Price / FY20E	\$7,914	\$4.53	12.3x

Buyer Accretion / (Dilution) Summary	As Is	Pro-Forma	Δ
Tangible BVPS @ 3/31/18	\$40.30	\$36.21	-10%
TBVPS Cross-Over Recovery			~4 yrs
FY19E EPS	\$3.81	\$4.15	9%
FY20E EPS	\$4.08	\$4.53	11%
Bank Leverage Ratio @ 3/18	9.2%	8.1%	-110 bps
Bank Tier-One Ratio @ 3/18	12.5%	11.5%	-104 bps
Bank TRBC Ratio @ 3/18	13.0%	11.9%	-114 bps
Buyer Shareholders' Ownership	100%	86%	-1400 bps
Parent Debt / Equity @ 3/18	0.0%	28.1%	



# Recent KY Deals

Announce Date	Buyer	Seller	Deal Value and Costs			Deal Multiples			Core Dep Prem (%)
			Target Assets (\$M)	Deal Value (\$M)	Est Cost Saves (%)	Price/BV (%)	Price/Tang BV (%)	Price/ EPS (x)	
4/22/2014	Community Bank Shares of IN	First Financial Service Corp.	837	18	40	113	120	NM	0.5
6/11/2014	Forcht Bancorp Inc.	Grant County Bancorp Inc.	79	7	NA	79	79	NM	(3.2)
8/14/2014	Citizens National Corp.	Peoples Security Bancorp Inc.	48	6	35	132	132	NM	4.1
9/8/2014	BB&T Corp.	Bank of Kentucky Finl Corp.	1,858	379	NA	189	225	17.3	14.4
10/14/2014	First Southern Bancorp Inc.	First United Inc.	144	17	NA	110	114	12.3	2.8
11/21/2014	Hambac Inc.	Kentucky Home Bancshares Inc.	108	19	NA	115	115	19.6	3.4
1/21/2015	Kentucky Bancshares Inc.	Madison Financial Corp.	123	7	NA	101	101	15.4	0.1
6/4/2015	First Capital Inc.	Peoples Bncp Inc Bullitt Cnty	239	30	NA	103	103	17.1	0.5
6/17/2015	Pvt Invr- William P. Butler	American Founders Bank Inc.	293	14	NA	119	121	NM	1.2
9/16/2015	First Cecilian Bancorp Inc.	Farmers Bancshares Inc.	232	49	NA	122	122	16.3	5.2
9/30/2015	Citizens National Corp.	Alliance Banking Co.	56	4	NA	75	75	NM	(4.0)
6/21/2016	Monticello Bankshares Inc.	Banco Harlan Inc.	140	14	NA	91	91	41.1	(1.5)
7/26/2016	South Central Bcshs of KY Inc.	Kentucky National Bancorp Inc	132	19	NA	126	126	21.0	4.5
12/19/2016	MainSource Financial Group	FCB Bancorp Inc	523	57	40	185	186	21.5	NA
11/14/2017	First Breckenridge	Bancorp of Lexington Inc.	263	42	NA	150	150	20.1	11.8
2/15/2018	Monticello Bankshares Inc.	Bluegrass Bancorp Inc.	56	5	NA	80	80	NM	NM
4/19/2018	WesBanco Inc.	Farmers Capital Bank Corp.	1,686	378	35	195	195	26.9	13.9
5/22/2018	German American Bancorp Inc.	First Security Inc.	586	103	38	151	162	35.5	11.1
7/11/2018	City Holding Co.	Poage Bankshares Inc.	450	95	45	153	162	NM	12.6
7/11/2018	City Holding Co.	Farmers Deposit Bancorp Inc.	122	25	50	133	133	NM	6.9
4/25/2018	Pvt Invr- Gaylon Lawrence Jr.	Volunteer State Bcshs (TN)	622	128	NA	234	234	28.1	20.3

Source: S&P Global Market Intelligence

# Stock Swap

Many questions to address

Liquidity—can I sell?

Ownership % vs contribution %

Profitability trends

Loan portfolio history, risks

Pro forma impact on EPS, TBVPS, DPS, capital, ROE ....

Historical valuation and pro forma valuation (realistic?)

Has buyer created reasonable value for its shareholders and outlook to do so post-close?

Are sellers getting a better piece of paper than what they have?



**Price paid matters for buyers but post-close execution and not misjudging credit matter a lot!**

---



# Jeff K. Davis, CFA



[Jeffdavis@mercercapital.com](mailto:Jeffdavis@mercercapital.com)

[jeffkdavis@comcast.net](mailto:jeffkdavis@comcast.net)

Twitter@JeffKDavis1

615-345-0350 (O)

615-767-9490 (M)

Managing Director – Financial Institutions Group (FIG) @ Mercer Capital

Provides financial advisory services primarily related to the valuation of privately-held equity and debt issued by financial services companies and advisory related to capital structures and M&A

Clients include public and private financial institutions; private equity and private credit funds

SNL Financial contributor “Nashville Notes”

Previously a sell-side analyst covering commercial banks and specialty finance companies for Guggenheim Partners, FTN Financial and J.C. Bradford & Co.

Securities Licenses 7, 63, 79 (CRD #4007205; StillPoint Capital, LLC)

Rhodes College (BA); Vanderbilt University (MBA)

# Mercer Capital

Memphis | Dallas | Nashville

1.800.769.0967

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