August 2017

Emerging Community Bank
M&A Trends in 2017
Upcoming Webinar: How to Value an Early-Stage FinTech Company
Public Market Indicators
M&A Market Indicators
Regional Public Bank Peer Reports
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For Bankers Interested in FinTech

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Emerging Community Bank M&A Trends in 2017

As summer came to an end, the U.S. was treated with a historic event as the first total solar eclipse crossed the country since 1918. The timing of the event had social media and news outlets buzzing in a traditionally sleepy news month. For many, the event exceeded all expectations; for others, it was a dud that didn't live up to the hype. My personal experience was a bit of both. The minutes of darkened skies were definitely memorable, but things returned to normal quickly as the sun shone brightly only minutes after.

Traditional M&A Trends

Community bank M&A trends also seem mixed. Rising regulatory burdens, weak margins from a historically low interest rate environment and heightened competition have crimped ROEs for years. Many pundits have predicted a rapid wave of consolidation and the demise of community banks in the years since the financial crisis. However, the pace of consolidation the last few years is consistent with the past three decades in which roughly 3-4% of the industry's banks are absorbed through M&A yearly. The result is many fewer banks—5,787 at June 30 compared to about 15,000 in the mid-1980s when meaningful industry consolidation got underway.

Somewhat surprisingly, the spike in bank stock prices following the November 2016 national elections did not cause M&A to accelerate. As would be expected, acquisition multiples increased in 2017 because publicly traded acquirers could "pay-up" with appreciated shares. As seen in the table on the next page, the median P/E and P/TBV multiples and the median core deposit premium increased for the latest twelve months (LTM) ended July 31, 2017 compared to the year ago LTM period. The ability of buyers—at least the publicly traded ones—to more easily meet sellers' price expectations seemingly would lead more banks to sell. However, that has not happened as the pace of consolidation declined slightly to 132 transactions in the most recent LTM period compared to 140 in the year ago LTM time frame.
**Mercer Capital's Bank Watch**

**Community Bank M&A Overview**

<table>
<thead>
<tr>
<th></th>
<th>LTM Through July 2016</th>
<th>LTM Through July 2017</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Price / LTM Earnings</td>
<td>Price / Tangible BV</td>
<td>Core Deposit Premium</td>
</tr>
<tr>
<td>Price / LTM Earnings</td>
<td>17.5x</td>
<td>143%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Price / Tangible BV</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Core Deposit Premium</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Number of Deals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Bank Acquirers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median Deal Value ($M)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Target’s Median Assets ($000)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Target’s Median LTM ROAE</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Change (Green = +, Red = -)</td>
<td>18.1%</td>
<td>15.6%</td>
<td>58.3%</td>
</tr>
</tbody>
</table>

Evidence of multiple expansion, larger bank acquisitions, and more non-"bank" buyers.

Deal activity and profitability were down with the ROE of many targets below their cost of capital.

*Source: Mercer Capital Research; S&P Global Market Intelligence*

**FinTech’s Impact on M&A**

Another emerging M&A trend is the presence of non-traditional bank acquirers, which include private investor groups, non-bank specialty lenders, and credit unions. While a FinTech company has not yet announced an acquisition of a U.S. bank this year, several FinTechs have announced they are applying for a bank charter (SoFi, VaroMoney), and in the U.K., Tandem has agreed to acquire Harrods Bank.

So far, FinTech acquisitions of banks have been limited to a few acquisitions by online brokers and Green Dot Corporation’s acquisition of a bank in 2011. While FinTech companies have yet to emerge as active buyers, there have been some predictions that could change if regulatory hurdles can be navigated. Some FinTech companies are well-funded or have access to additional funding that could be tapped for a bank acquisition. In addition, an overlay of enhancing financial inclusion for the under-banked could mean bank transactions may not be as far-fetched as some may think.

Beyond serving as potential acquirers, FinTech continues to emerge as an important piece of the community banking puzzle of how to engage customers through digital channels as the costly branch banking model sees usage decline year-after-year. Many FinTechs are eager to partner with banks to scale their operations for greater profitability, thereby better positioning themselves for a successful exit down the road.

Consistent with this trend, we have also seen some acquirers (and analysts) comment on FinTech as a benefit of a transaction, as opposed to (or at least in addition to) the
historical focus on geographic location, credit quality, asset size, and profitability. We will be watching to see if FinTech initiatives, whether internally developed or acquired, become a bigger driving force in bank M&A. If so, acquisitions of FinTech companies by traditional banks may increase (as discussed more fully in this article).

As these trends grow in importance, buyers and sellers will have to grapple with unique valuation and transaction issues that require each to fully understand the value of the seller and the buyer, assuming a portion of the consideration consists of the buyer’s shares. Whether that buyer includes a traditional bank whose stock is private or a non-bank buyer, such as a specialty lender or FinTech company, we have significant valuation and transaction expertise to help your bank understand the deal landscape and the strategic options available to it.

To that end, we have an upcoming webinar on September 7 that will address the complex issue of how to value early-stage FinTech companies. Whether your bank is considering potential partnerships, investments, or you just desire to gain a better understanding of the FinTech landscape, the webinar should be informative. Additionally, webinar registrants will receive a copy of my latest book on the topic, Creating Strategic Value Through Financial Technology.

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469.778.5860
wilsonj@mercercapital.com

UPCOMING WEBINAR
How to Value an Early-Stage FinTech Company

<table>
<thead>
<tr>
<th>Date</th>
<th>September 7, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time</td>
<td>Noon–1:00 pm CST</td>
</tr>
<tr>
<td>CPE Offered</td>
<td>1 Hour</td>
</tr>
<tr>
<td>Registration</td>
<td>$79.00 (USD)</td>
</tr>
</tbody>
</table>

Whether your bank is considering potential partnerships or investments, this webinar will address the complex issues surrounding early-stage FinTech valuation to help your bank navigate the space.

Special Offer: Free copy of Creating Strategic Value Through Financial Technology with registration

Register

What We’re Reading

Bank Issues Primary School Kids with NFC Smartwatches that Let Them Make Payments and Track Pocket Money
NFC World

Many Family-Owned Banks Approach Day of Reckoning
American Banker
(subscription required)

Here Is Why Banks Will Soon Be Acquiring Fintech Startups Instead of Investing in Them
TechBullion
Mercer Capital’s Public Market Indicators

Mercer Capital’s Bank Group Index Overview

Median Valuation Multiples

<table>
<thead>
<tr>
<th>Indices</th>
<th>Month-to-Date</th>
<th>Year-to-Date</th>
<th>Last 12 Months</th>
<th>Price/ LTM EPS</th>
<th>Price / 17(E) EPS</th>
<th>Price / 18(E) EPS</th>
<th>Price / Book Value</th>
<th>Price / Tangible Book Value</th>
<th>Dividend Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atlantic Coast Index</td>
<td>0.01%</td>
<td>8.49%</td>
<td>43.17%</td>
<td>19.9x</td>
<td>18.5x</td>
<td>15.7x</td>
<td>139%</td>
<td>160%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Midwest Index</td>
<td>1.58%</td>
<td>1.49%</td>
<td>40.05%</td>
<td>16.9x</td>
<td>17.1x</td>
<td>15.4x</td>
<td>146%</td>
<td>164%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Northeast Index</td>
<td>0.06%</td>
<td>1.31%</td>
<td>37.45%</td>
<td>16.6x</td>
<td>17.3x</td>
<td>15.5x</td>
<td>147%</td>
<td>162%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Southeast Index</td>
<td>-2.36%</td>
<td>-1.22%</td>
<td>31.27%</td>
<td>18.7x</td>
<td>19.9x</td>
<td>16.6x</td>
<td>146%</td>
<td>146%</td>
<td>1.4%</td>
</tr>
<tr>
<td>West Index</td>
<td>1.69%</td>
<td>5.25%</td>
<td>46.43%</td>
<td>17.7x</td>
<td>17.8x</td>
<td>15.6x</td>
<td>152%</td>
<td>170%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Community Bank Index</td>
<td>0.35%</td>
<td>2.93%</td>
<td>39.98%</td>
<td>18.3x</td>
<td>17.8x</td>
<td>15.6x</td>
<td>146%</td>
<td>161%</td>
<td>1.7%</td>
</tr>
<tr>
<td>SNL Bank Index</td>
<td>0.19%</td>
<td>4.89%</td>
<td>40.62%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Return Stratification of U.S. Banks by Asset Size

- Month-to-Date: -1.42%, -0.10%, 0.31%, -0.62%, 0.23%
- Year-to-Date: 3.79%, 11.87%, 0.51%, -4.10%, 5.45%
- Last 12 Months: 27.68%, 42.55%, 40.65%, 31.40%, 41.02%

As of July 31, 2017

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Mercer Capital’s M&A Market Indicators

August 2017

**Median Price/Earnings Multiples**
*Target Banks’ Assets <$5B and LTM ROE >5%*

![Graph of Median Price/Earnings Multiples](image)

**Median Price/Tangible Book Value Multiples**
*Target Banks’ Assets <$5B and LTM ROE >5%*

![Graph of Median Price/Tangible Book Value Multiples](image)

**Median Core Deposit Multiples**
*Target Banks’ Assets <$5B and LTM ROE >5%*

![Graph of Median Core Deposit Multiples](image)

**Median Valuation Multiples for M&A Deals**
*Target Banks’ Assets <$5B and LTM ROE >5%, 12 months ended July 2017*

<table>
<thead>
<tr>
<th>Regions</th>
<th>Price / LTM Earnings</th>
<th>Price / Tang. BV</th>
<th>Price / Core Dep Premium</th>
<th>No. of Deals</th>
<th>Median Deal Value ($M)</th>
<th>Target's Median Assets ($000)</th>
<th>Target's Median LTM ROAE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atlantic Coast</td>
<td>22.1x</td>
<td>170%</td>
<td>11.8%</td>
<td>25</td>
<td>109.89</td>
<td>583,892</td>
<td>760%</td>
</tr>
<tr>
<td>Midwest</td>
<td>19.6x</td>
<td>164%</td>
<td>11.3%</td>
<td>51</td>
<td>44.20</td>
<td>181,409</td>
<td>8.83%</td>
</tr>
<tr>
<td>Northeast</td>
<td>15.0x</td>
<td>155%</td>
<td>4.3%</td>
<td>8</td>
<td>89.75</td>
<td>656,592</td>
<td>7.93%</td>
</tr>
<tr>
<td>Southeast</td>
<td>19.8x</td>
<td>160%</td>
<td>6.9%</td>
<td>26</td>
<td>41.90</td>
<td>170,925</td>
<td>7.57%</td>
</tr>
<tr>
<td>West</td>
<td>23.1x</td>
<td>182%</td>
<td>8.2%</td>
<td>22</td>
<td>50.69</td>
<td>287,957</td>
<td>9.06%</td>
</tr>
<tr>
<td>National Community</td>
<td>20.6x</td>
<td>165%</td>
<td>10.0%</td>
<td>132</td>
<td>50.94</td>
<td>259,383</td>
<td>8.44%</td>
</tr>
</tbody>
</table>

Source: S&P Global Market Intelligence
Mercer Capital’s Regional Public Bank Peer Reports

Updated weekly, 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 assists banks, thrifts, and credit unions with significant corporate valuation requirements, transactional 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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» Stress Testing

» Loan portfolio valuation
» Tax compliance
» Transaction advisory
» Strategic planning


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</thead>
<tbody>
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