

BankDirector.

Breakout 1:
Bank Director 101:
M&A Primer

Brian Palmer
Olsen Palmer LLC

#BBTF23

Bank Director 101: M&A Primer

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Presented by:



Brian Palmer
President

bpalmer@olsenpalmer.com
720-797-9233



Bank M&A Advisor Rankings

S&P Global Market Intelligence - All Bank M&A Transactions

Rank	Advisor
1	<i>Piper Sandler & Co.</i>
2	Olsen Palmer LLC
3	<i>Hovde Group, LLC</i>
4	<i>Keefe, Bruyette & Woods</i>
5	<i>Janney Montgomery Scott LLC</i>
6	<i>Stephens Inc.</i>
6	<i>Performance Trust Capital Partners, LLC</i>
8	<i>Raymond James & Associates, Inc.</i>
8	<i>D.A. Davidson & Co.</i>
10	<i>The Capital Corporation, LLC</i>
11	<i>McQueen Financial Advisors II, Inc.</i>
12	<i>Hillworth, LLC</i>
13	<i>Forvis, LLP</i>
13	<i>Mercer Capital Management, Inc.</i>
13	<i>Prudential Financial, Inc.</i>
13	<i>Oak Ridge Financial Services Group, Inc.</i>
17	<i>Donnelly Penman & Partners Inc.</i>
17	<i>Gerrish Smith Tuck, PC</i>
19	<i>Wipfli LLP</i>

S&P Global Market Intelligence - Sell-Side Bank M&A Transactions

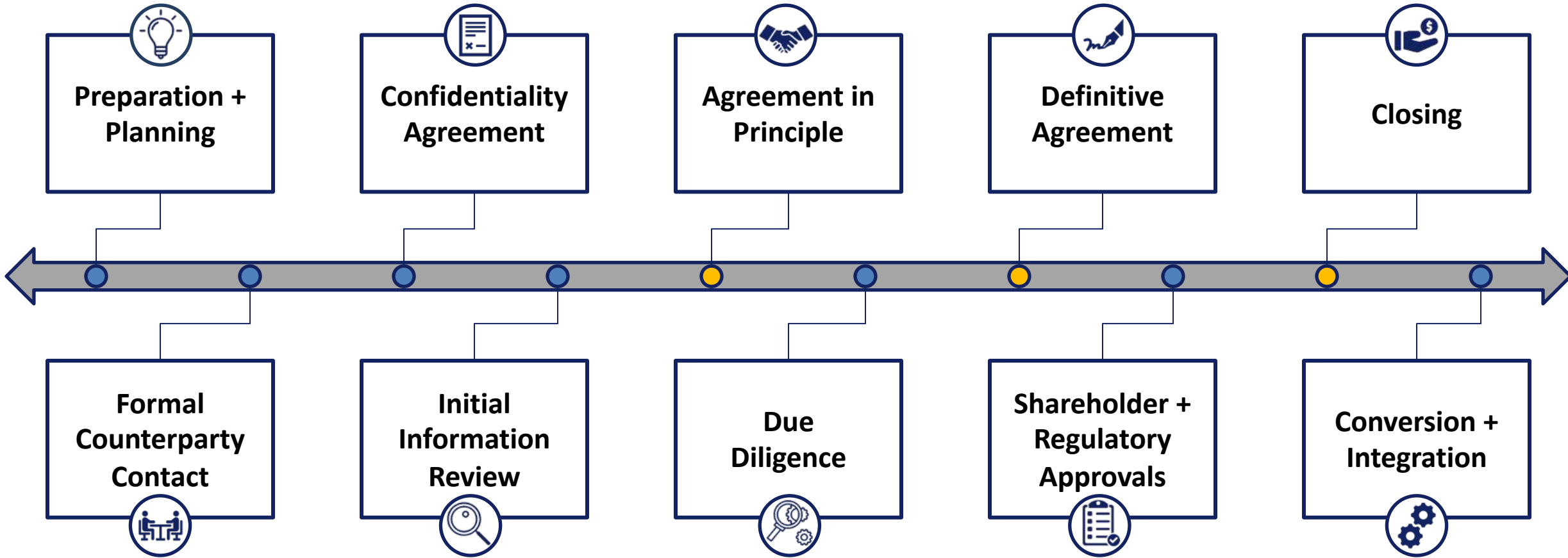
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1	Olsen Palmer LLC
2	<i>Piper Sandler & Co.</i>
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15	<i>Donnelly Penman & Partners Inc.</i>
16	<i>Stephens Inc.</i>
16	<i>Boenning & Scattergood, Inc.</i>
16	<i>The Burke Group, LLC</i>
19	<i>Wipfli LLP</i>

Notes: Firm rankings reflect number of announced whole-bank transactions advised upon from January 1, 2020 to July 31, 2023 with seller total assets less than \$1.25 billion. Source: S&P Global.

Bank M&A Primer: *Process*

Key Transaction Steps

Sequence of Key Steps in Bank M&A Transaction Process

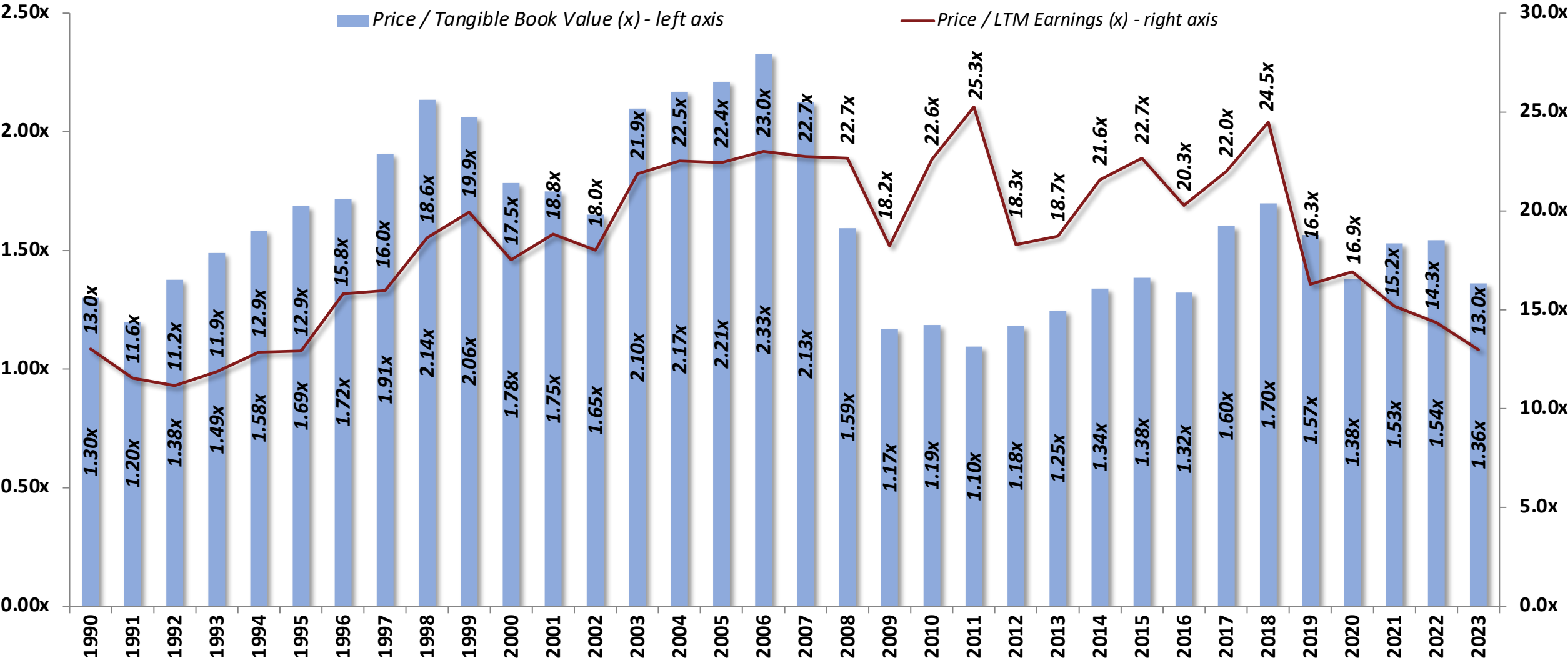


Bank M&A Marketplace: *Valuations*

M&A Pricing Over Time

Bank M&A Valuation Multiples

Median M&A Transaction Valuation Multiples By Year Since 1990

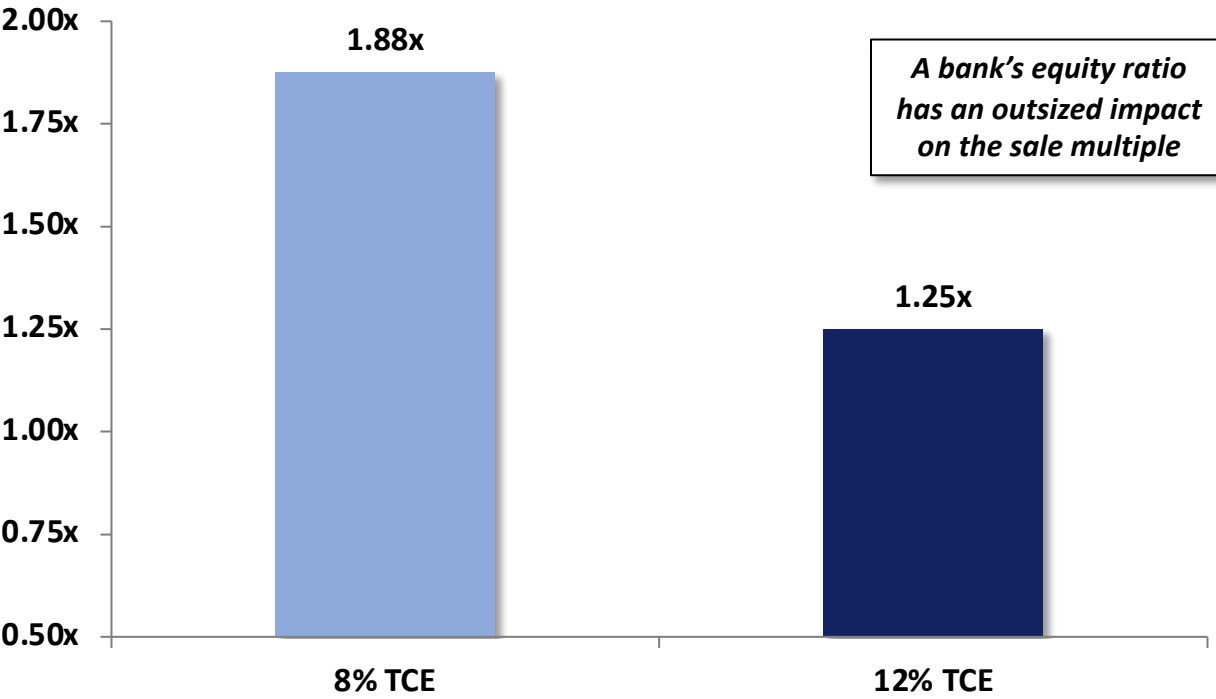


Note: Data as of July 31, 2023. "LTM" refers to "last twelve months." Source: S&P Global.

Multiples: A Cautionary Tale

Price-to-Tangible Book Value

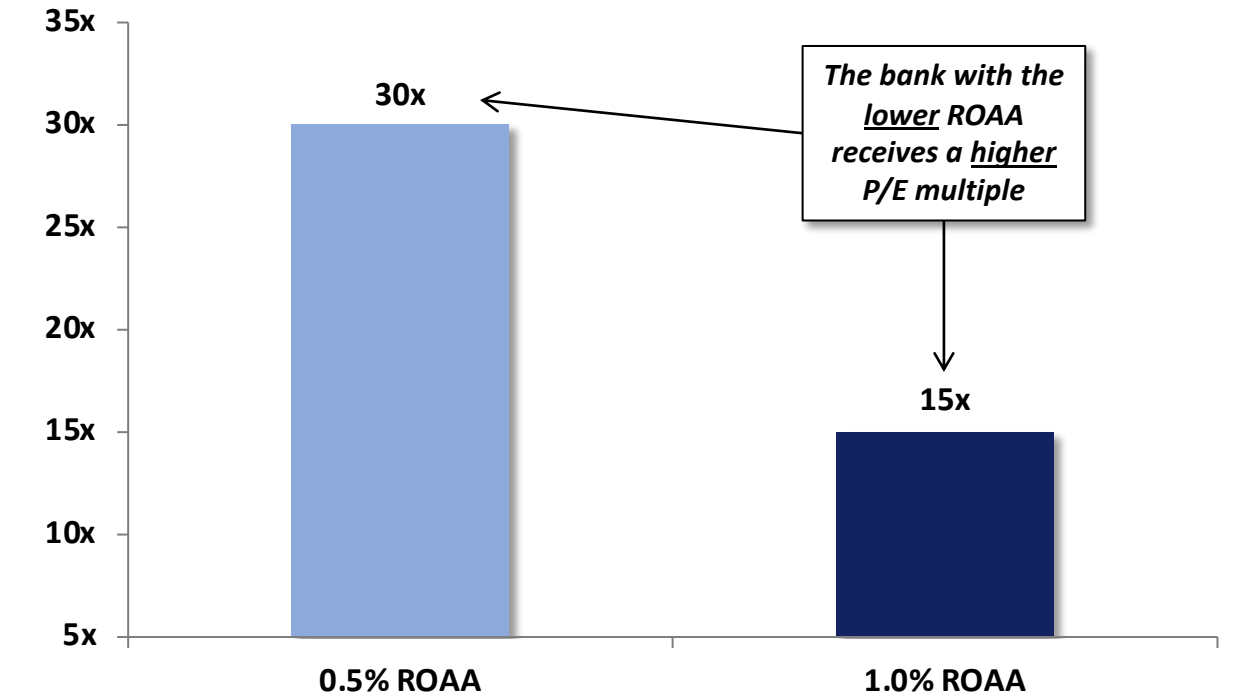
Low Capital vs. High Capital



Assets	\$500MM	\$500MM
Deal Value	\$75MM	\$75MM
TCE Ratio	8.0%	12.0%
Equity	\$40MM	\$60MM
P/TBV	1.88x	1.25x

Price-to-Earnings

Low ROAA vs. High ROAA



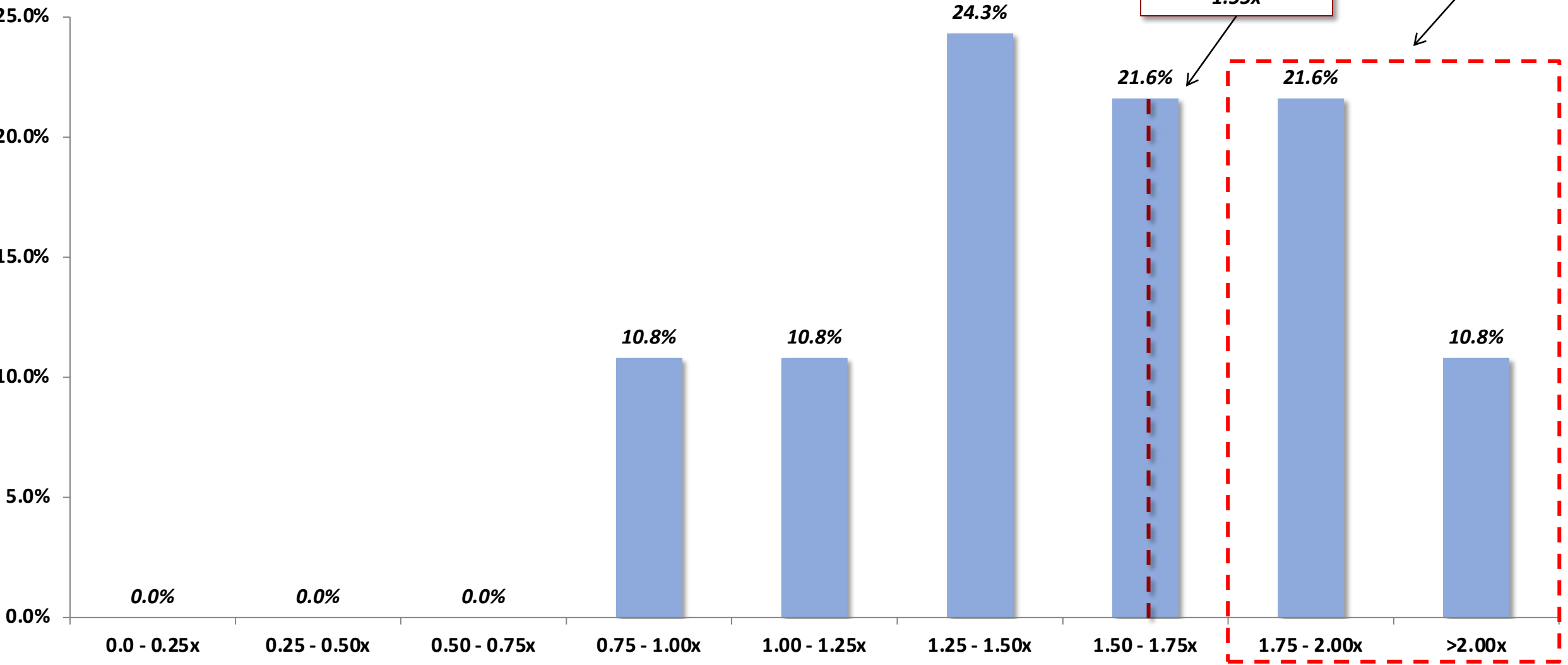
Assets	\$500MM	\$500MM
Deal Value	\$75MM	\$75MM
ROAA	0.50%	1.00%
Net Income	\$2.5MM	\$5.0MM
P/E	30x	15x

Valuation Methodologies: *Worst to Best*

Methodology #1: Pick-a-Multiple

Percent of Deals by Price/Tangible Book Value Range

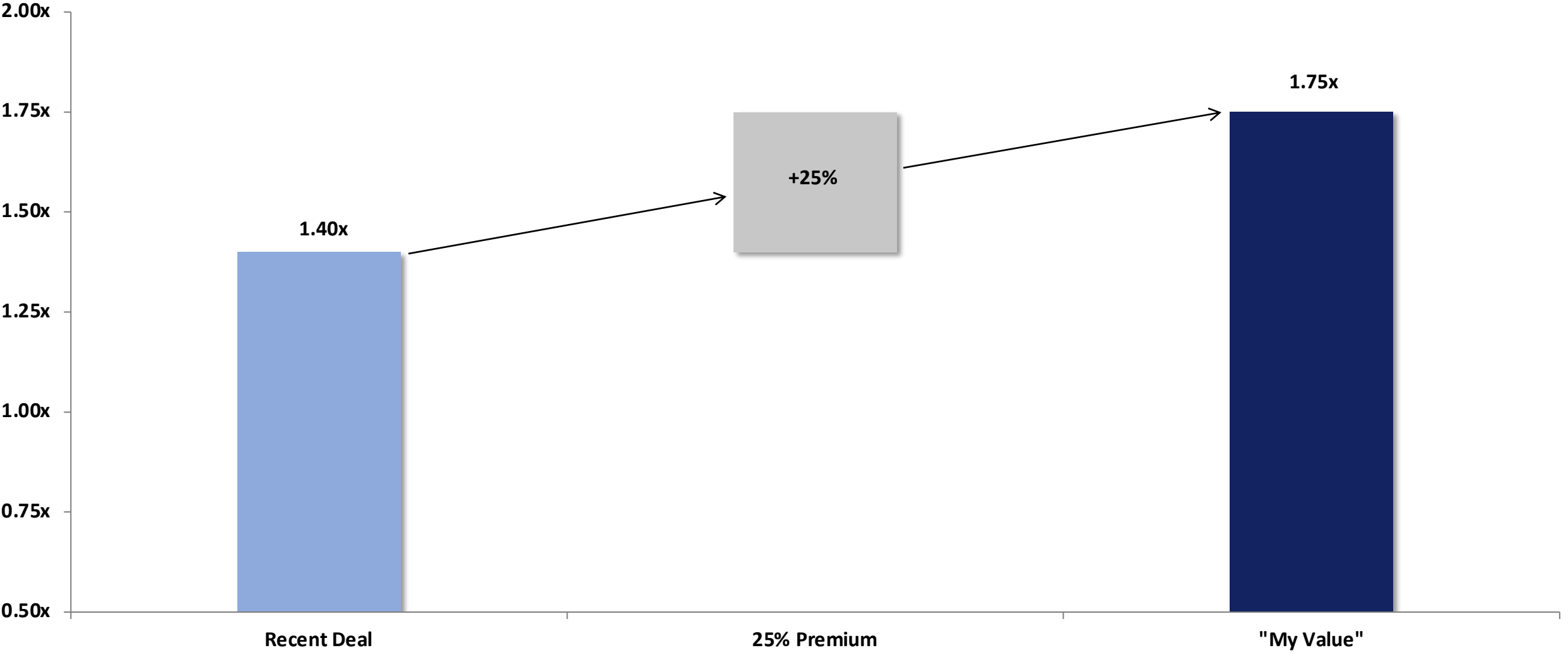
Whole-Bank Acquisitions Announced Over Last 12 Months



Methodology #2: Last Deal "Plus"

Applying a Premium to a Recent Deal

Illustrative Example









Methodology #3: Comparable Transactions

Bank M&A Transactions

Summary Information on Similar Transactions

 Indicates deal in which Olsen Palmer served as advisor

Date		Buyer			Seller					Transaction Terms		
Announce Date	Institution	State	Assets (\$MM)	Institution	State	Assets (\$MM)	NPAs / Assets (%)	LTM ROAA (%)	Deal Value (\$MM)	LTM Net Inc. (x)	Tg. Com. Equity (x)	
	8/19/22	Highland Bancshares Inc.	MN	624	Boundary Waters Bank	MN	115	0.58	1.11	NA	NA	NA
	6/1/22	NuMark Credit Union	IL	624	Pioneer State Bank	IL	135	0.88	0.66	NA	NA	NA
	4/27/22	CoVantage CU	WI	2,634	LincolnWay Community Bank	IL	277	1.38	1.52	NA	NA	NA
	3/3/22	Summit CU	WI	4,831	Commerce State Bank	WI	837	0.96	1.47	NA	NA	NA
	12/28/21	Lowndes Bancshares Inc.	GA	324	Citizens Natl Bk of Quitman	GA	119	0.84	1.08	NA	NA	NA
	10/14/21	BankFirst Capital Corp.	MS	1,790	Citizens Bank of Fayette	AL	222	0.61	0.90	11.7	15.5	NA
	8/25/21	Planters Holding Co.	MS	1,310	Germantown Capital Corp. Inc.	TN	378	0.74	0.72	NA	NA	NA
	8/10/21	First Financial Corp.	IN	4,753	Hancock Bancorp Inc.	KY	334	0.66	0.83	9.4	16.5	1.08
	6/23/21	Farmers National Banc Corp.	OH	3,325	Cortland Bancorp	OH	792	0.99	1.21	15.7	12.8	1.53
	6/7/21	Simmons First National Corp.	AR	23,348	Landmark Community Bank	TN	1,007	0.66	1.08	14.5	14.0	1.43
	6/7/21	Simmons First National Corp.	AR	23,348	Triumph Bancshares Inc.	TN	894	0.92	0.98	14.8	17.2	1.53
	5/4/21	First Paragould Bankshares Inc	AR	1,889	Cumberland Bancshares Inc.	TN	289	0.77	0.94	NA	NA	NA
Number of Deals: 12					Median	311	0.81	1.03	14.5	15.5	1.48	
					Illustrative Seller	500	0.75	1.05				

Note: Transaction criteria based on similar size, geography, profitability, capitalization, and asset quality as the illustrative seller. No one transaction is directly comparable to any target. Source: S&P Global.

Methodology #4: Discounted Cash Flow Analysis

Discounted Cash Flow Analysis

Illustrative Example

(000s)	At Close	Projected Year					
	12/31/2023	2024	2025	2026	2027	2028	2029
Required Capital							
Total Assets for Leverage Ratio	\$500,000	\$525,000	\$551,250	\$578,813	\$607,753	\$638,141	
Period End Tier 1 Capital	\$50,000	\$45,000	\$47,250	\$49,613	\$52,093	\$54,698	
Required Tier 1 Capital at 9.0% Leverage Ratio	\$45,000	\$47,250	\$49,613	\$52,093	\$54,698	\$57,433	
Excess Capital / (Capital Infusion)	\$5,000						
Required Retained Earnings		(\$2,250)	(\$2,363)	(\$2,481)	(\$2,605)	(\$2,735)	
Free Cash Flows to Equity Holders							
Projected Net Income (0.75% ROAA)		\$3,844	\$4,036	\$4,238	\$4,450	\$4,672	\$4,906
Required Retained Earnings		(\$2,250)	(\$2,363)	(\$2,481)	(\$2,605)	(\$2,735)	
<i>After-tax Adjustments:</i>							
Cost Savings (25% of Noninterest Expense)		\$2,642	\$2,774	\$2,913	\$3,058	\$3,211	\$3,289
Opportunity Cost of Cash Used in Transaction ¹		(\$86)	(\$86)	(\$86)	(\$86)	(\$86)	(\$86)
Dividend / (Infusion) to Equity Holders	\$5,000	\$4,150	\$4,362	\$4,584	\$4,818	\$5,063	
Terminal Value of Projected Net Income at 10.9x							\$53,472
Terminal Value of After-tax Adjustments at 10.9x							\$34,923
<i>Free Cash Flows to Equity Holders</i>	\$5,000	\$4,150	\$4,362	\$4,584	\$4,818	\$5,063	\$88,395
Present Value of Cash Flows at 15.9% Discount Rate	\$5,000	\$5,575	\$5,055	\$4,584	\$4,157	\$3,769	\$56,778
Net Present Value	\$84,918						
Price / TBV Multiple	1.70x						

(1) Assumes 100% stock consideration and 1.5% opportunity cost of cash used for transaction expenses.
Notes: For illustrative purposes only. Terminal value multiple represents a price/earnings ratio for S&P U.S. BMI Banks Index on August 31, 2022.
Discount rate reflects an estimate of the cost of equity capital estimated using the Kroll discount rate build-up method based on the sum of a risk-free rate, equity risk premium, industry premium, and size premium.

Methodology #5: Buyer's Criteria – "Ability to Pay"

Strategic Considerations

Strategic Rationale for an Acquisition

- Operating Scale
- Deposit Funding and/or Loan Growth
- Market Share
- Diversification
- Enhanced Fee Income
- Cultural Compatibility
- Maintain Brand / Identity
- Minimize Ownership Dilution
- Human Capital
- Enhance Overall Franchise Value

Financial Considerations

Financial Rationale for an Acquisition

	Earnings per Share ("EPS") Accretion	Internal Rate of Return ("IRR")	Tangible Book Value Dilution Earnback (in Years)	Regulatory Capital (Leverage Ratio)
Customary	≥ 0 - 5%	12 - 20%	2-5 years	≥ 9 - 10%
Exceptional	> 5 - 10%	> 20%	< 2 years	> 10%
Sub-Optimal	< 0%	< 12%	> 5 years	< 9%

Methodology #6: The Complete Picture

Illustrative Value Range

		Valuation Metric	Reference Value (\$000)	Illustrative Value Range (\$ Millions)					
				\$40.0	\$50.0	\$60.0	\$70.0	\$80.0	\$90.0
Acquisition-Based	Precedent Transactions	Net Income	\$5,000				\$66.0	\$75.5	
		13.2x - 15.1x							
		Net Income Plus Cost Savings	\$7,577				\$68.2	\$77.3	
		9.0x - 10.2x							
		Tangible Book Value	\$50,000				\$66.5	\$79.0	
	1.33x - 1.58x								
	Total Assets	\$500,000				\$65.0	\$71.5		
13.0% - 14.3%									
	DCF	Core Deposit Premium	\$409,932				\$71.3	\$76.6	
5.2% - 6.5%									
	ATP	Discounted Cash Flows	NA				\$69.6	\$80.5	
5-Year Projected Cash Flows									
		Ability to Pay Analysis	NA				\$67.5	\$80.2	
		<i>Based on financial criteria</i>							

Analysis at Various Prices

Example Institution	(\$000s)	In Millions Per Share	Indicative Value Range					
			\$70.0	\$72.0	\$74.0	\$76.0	\$78.0	\$80.0
			\$35.00	\$36.00	\$37.00	\$38.00	\$39.00	\$40.00
Tangible Common Equity	\$50,000		1.40x	1.44x	1.48x	1.52x	1.56x	1.60x
LTM Net Income	\$5,000		14.0x	14.4x	14.8x	15.2x	15.6x	16.0x
LTM Net Income + Cost Savings	\$7,577		9.2x	9.5x	9.8x	10.0x	10.3x	10.6x
Total Assets	\$500,000		14.0%	14.4%	14.8%	15.2%	15.6%	16.0%
Core Deposit Premium	\$409,932		4.9%	5.4%	5.9%	6.3%	6.8%	7.3%
Premium to Current Market Price	\$27.00		29.6%	33.3%	37.0%	40.7%	44.4%	48.1%

Note: For illustrative purposes only. Net income reflects last 12 months. Cost savings represent 30% of last 12 months noninterest expense. Range for discounted cash flow based on terminal multiples of 9.9x to 11.9x and discount rate of 14.9% to 16.9%. Ranges for selected transactions reflect 40th to 60th percentile values. Source: Olsen Palmer analysis.

Value Drivers... and Value Detractors

What Drives Value...And What Detracts From Value

What **does** drive value...



Core Earnings

- **Consistent, predictable earnings have the highest historical correlation with premium deal values**



Synergies

- **Cost savings are a key value driver**, and over the last few years, transactions generated on avg. 35% noninterest expense cost savings



Core Growth

- All-else-equal, balance sheet and earnings growth increases a buyer's ability to pay (shorter TBV earnback, higher EPS accretion, etc.)



Credit Quality

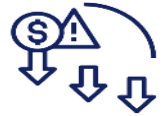
- Superior credit quality reduces one-time purchase accounting adjustments (marks), which enhance a buyer's ability to pay (shorter TBV earnback, lower initial capital requirement, etc.)



Management & Human Capital

- Management commitment to the deal process and willingness to either work with the proforma institution or sign non-compete agreements increases value

What **does not** drive value...



Non-Core Earnings

- Generally, buyers view non-core loans and deposits/borrowings less favorably, as they are either less 'sticky' or easily replaced



Non-Core Growth

- Growth as a result of adding non-core components (i.e. purchasing loans, participations) is discounted by most buyers



Outsized Transaction Costs

- Large, one-time transaction costs such as contract termination fees and change-in-control payments lower a buyer's ability to pay



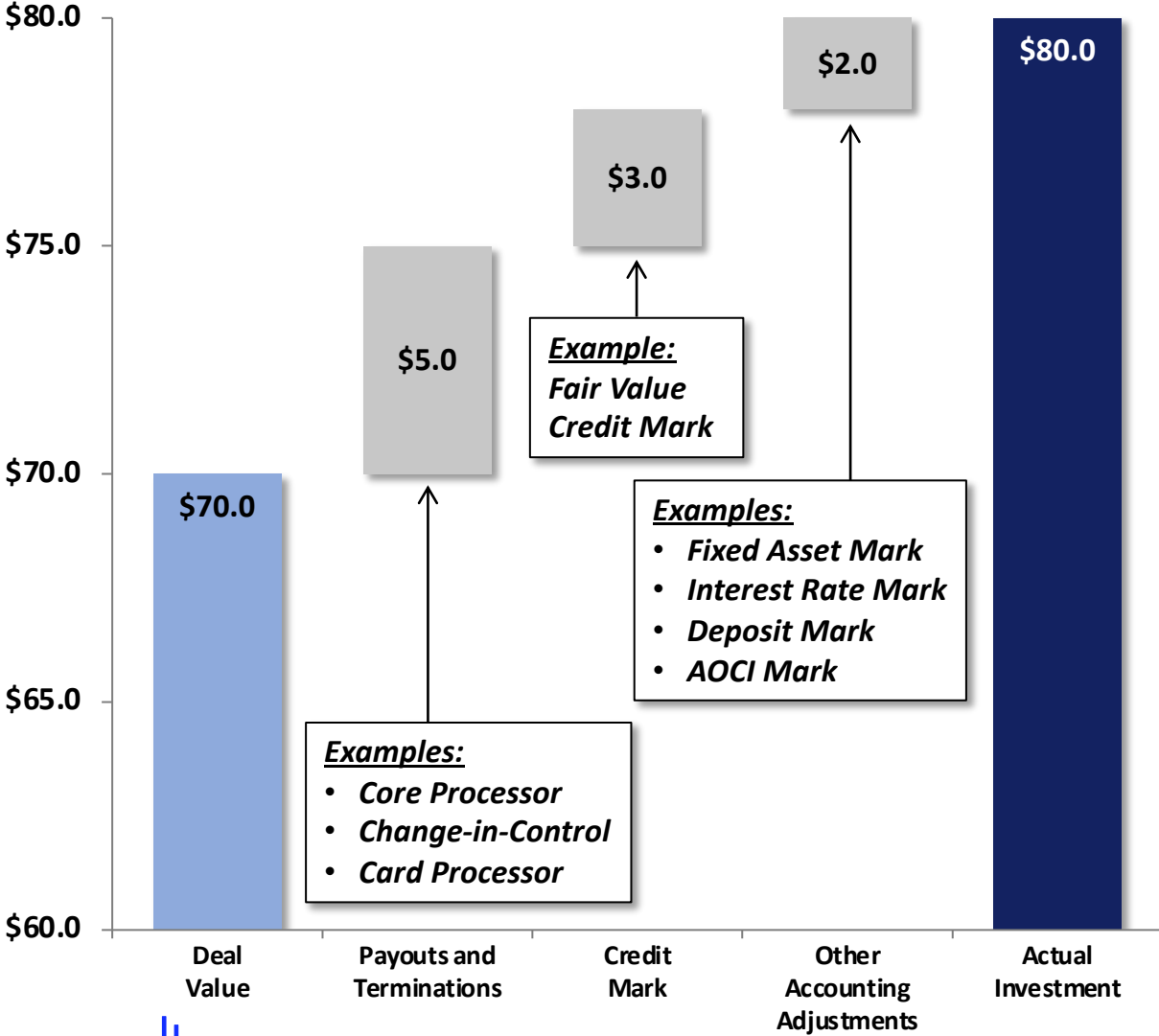
Multiples (e.g. Price-to-Book)

- *The multiple is merely the end result of a more complex calculus*

Actual Price Tag vs. Actual Earnings Acquired

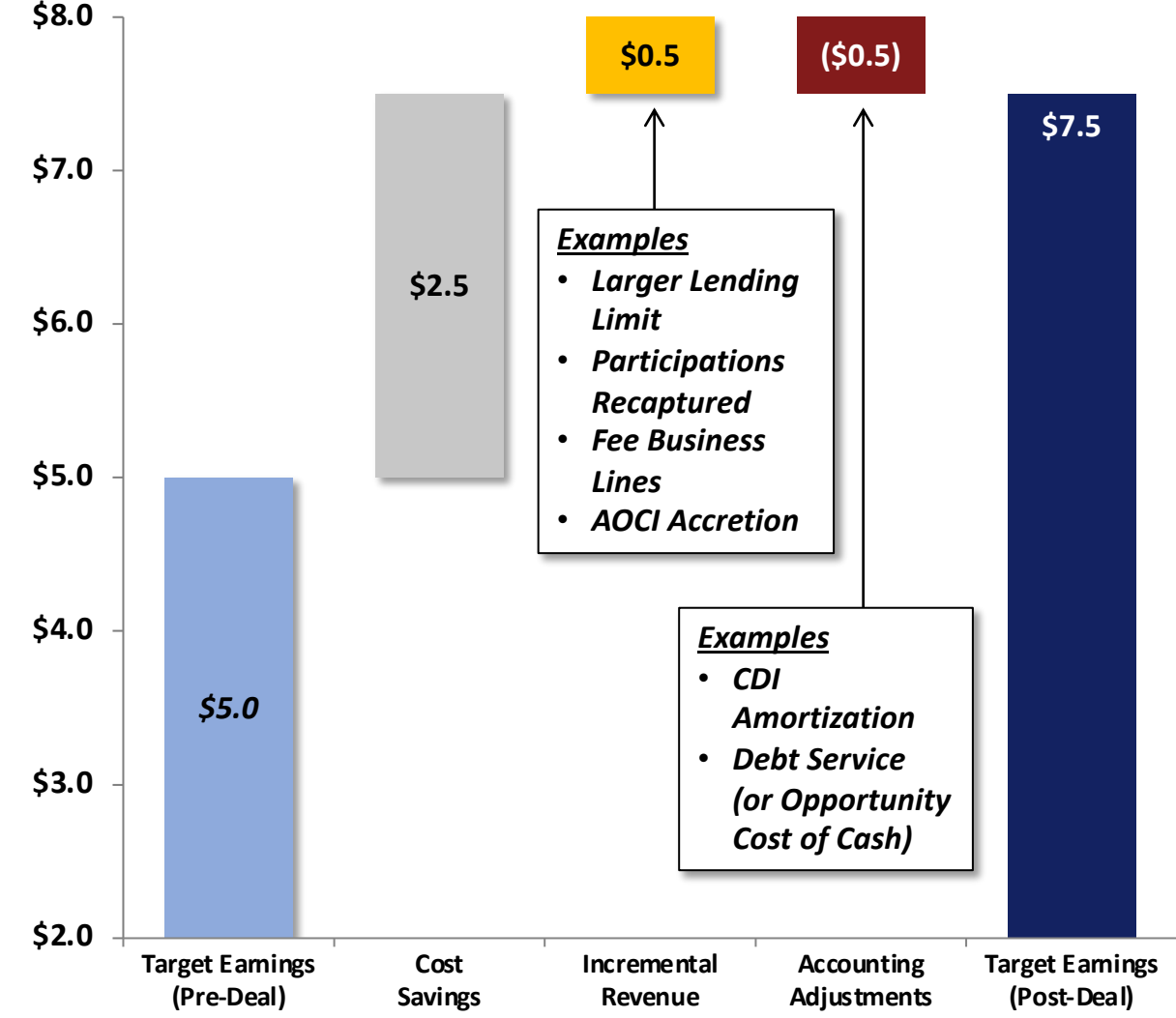
Actual Deal Investment

Purchase Price + Other Costs



Actual Earnings Received

Standalone Net Income + Cost Savings +/- Other Adjustments



Best Practices

Board Best Practices Summarized

<i>Action</i>	<i>Description</i>
<i>Educate</i>	board on valuation, deal process, fiduciary duties, and risks
<i>Understand</i>	current M&A environment, deal drivers, and valuation implications
<i>Review</i>	periodically, all potential strategic options
<i>Identify</i>	and actively monitor the list of potential targets and acquirers
<i>Initiate</i>	and maintain relationships with potential targets and acquirers
<i>Determine</i>	your bank's estimated actual market value periodically
<i>Revisit</i>	term and penalties of any long-term commitments, especially data processing if considering a sale
<i>Engage</i>	expert advisors – especially investment banking and legal – before pursuing any potential transaction

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