Bank Director Strong Board. Strong Bank.

November 2022
Research

2023 Bank M&A Survey

SPONSORED BY:

Crowe

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About Bank Director

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About Crowe

Crowe LLP is a public accounting, consulting and technology firm with offices around the world. Crowe uses its deep industry expertise to provide audit services to public and private entities. The firm and its subsidiaries also help clients make smart decisions that lead to lasting value with its tax, advisory and consulting services. Crowe is recognized by many organizations as one of the best places to work in the U.S. As an independent member of Crowe Global, one of the largest global accounting networks in the world, Crowe serves clients worldwide. The network consists of more than 200 independent accounting and advisory services firms in more than 130 countries around the world. For more information about Crowe financial industry services visit **www.crowe.com/fs**.

EXECUTIVE SUMMARY

Year after year, Bank Director's annual M&A surveys find a wide disparity between the executives and board members who want to acquire a bank and those willing to sell one. That divide appears to have widened in 2022, with the number of announced deals dropping to 130 as of Oct. 12, according to S&P Global Market Intelligence. That contrasts sharply with 206 transactions announced in 2021 and an average of roughly 258 annually in the five years before the onset of the pandemic in 2020.

Prospective buyers, it seems, are having a tough time making the M&A math work these days. And prospective sellers express a preference for continued independence if they can't garner the price they feel their owners deserve in a deal.

Bank Director's 2023 Bank M&A Survey, sponsored by Crowe LLP, finds that acquisitions are still part of the long-term strategy for most institutions, with responding directors and senior executives continuing to point to scale and geographic expansion as the primary drivers for M&A. Of these prospective buyers, 39% believe their bank is likely to acquire another financial institution by the end of 2023, down from 48% in last year's survey who believed they could make a deal by the end of 2022.

"Our stock valuation makes us a very competitive buyer; however, you can only buy what is for sale," writes the independent chair of a publicly-traded, Northeastern bank. "With the current regulatory environment and risks related to rising interest rates and recession, we believe more banks without scale will decide to sell but the old adage still applies: 'banks are sold, not bought.'"

Less than half of respondents to the survey, which was conducted in September, say their board and management team would be open to selling the bank over the next five years. Many point to being closely held, or think that their shareholders and communities would be better served if the bank continues as an independent entity. "We obviously would exercise our fiduciary responsibilities to our shareholders, but we feel strongly about remaining a locally owned and managed community bank," writes the CEO of a small private bank below $500 million in assets.

And there's a significant mismatch on price that prohibits deals from getting done. Forty-three percent of prospective buyers indicate they'd pay 1.5 times tangible book value for a target meeting their acquisition strategy; 22% would pay more. Of respondents indicating they'd be open to selling their institution, 70% would seek a price above that number.

Losses in bank security portfolios during the second and third quarters have affected that divide, as sellers don't want to take a lower price for a temporary loss. But the fact remains that buyers paid a median 1.55 times tangible book in 2022, based on S&P data through Oct. 12, and a median 1.53 times book in 2021.

Emily McCormick is the vice president of research for Bank Director, an information resource for directors and officers of financial companies. You can follow her on Twitter or get connected on LinkedIn.

KEY FINDINGS

Focus On Deposits

Reflecting the rising rate environment, 58% of prospective acquirers point to an attractive deposit base as a top target attribute, up significantly from 36% last year. Acquirers also value a complementary culture (57%), locations in growing markets (51%), efficiency gains (51%), talented lenders and lending teams (46%), and demonstrated loan growth (44%). Suitable targets appear tough to find for prospective acquirers: Just one-third indicate that there are a sufficient number of targets to drive their growth strategy.

Why Sell?

Of respondents open to selling their institution, 42% point to an inability to provide a competitive return to shareholders as a factor that could drive a sale in the next five years. Thirty-eight percent cite CEO and senior management succession.

Retaining Talent

When asked about integrating an acquisition, respondents point to concerns about people. Eighty-one percent worry about effectively integrating two cultures, and 68% express concerns about retaining key staff. Technology integration is also a key concern for prospective buyers. Worries about talent become even more apparent when respondents are asked about acquiring staff as a result of in-market consolidation: 47% say their bank actively recruits talent from merged organizations, and another 39% are open to acquiring dissatisfied employees in the wake of a deal.

Economic Anxiety

Two-thirds believe the U.S. is in a recession, but just 30% believe their local markets are experiencing a downturn. Looking ahead to 2023, bankers overall have a pessimistic outlook for the country's prospects, with 59% expecting a recessionary environment.

Technology Deals

Interest in investing in or acquiring fintechs remains low compared to past surveys. Just 15% say their bank indirectly invested in these companies through one or more venture capital funds in 2021-22. Fewer (1%) acquired a technology company during that time, while 16% believe they could acquire a technology firm by the end of 2023. Eighty-one percent of those banks investing in tech say they want to gain a better understanding of the space; less than half point to financial returns, specific technology improvements or the addition of new revenue streams. Just one-third of these investors believe their investment has achieved its overall goals; 47% are unsure.

Capital To Fuel Growth

Most prospective buyers (85%) feel confident that their bank has adequate access to capital to drive its growth. However, one-third of potential public acquirers believe the valuation of their stock would not be attractive enough to acquire another institution.

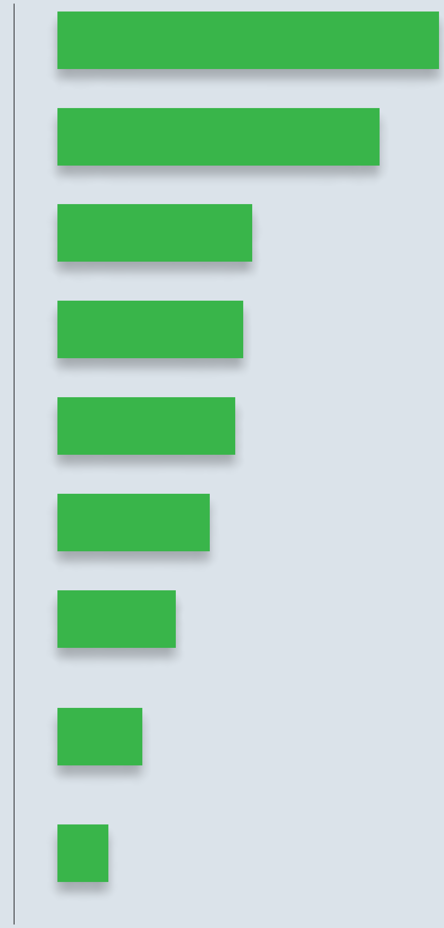
ACQUISITION PLANS

1. How would you characterize your bank's growth strategy over the next five years?

2. What are the two primary factors that make M&A an important piece of your bank's growth strategy?

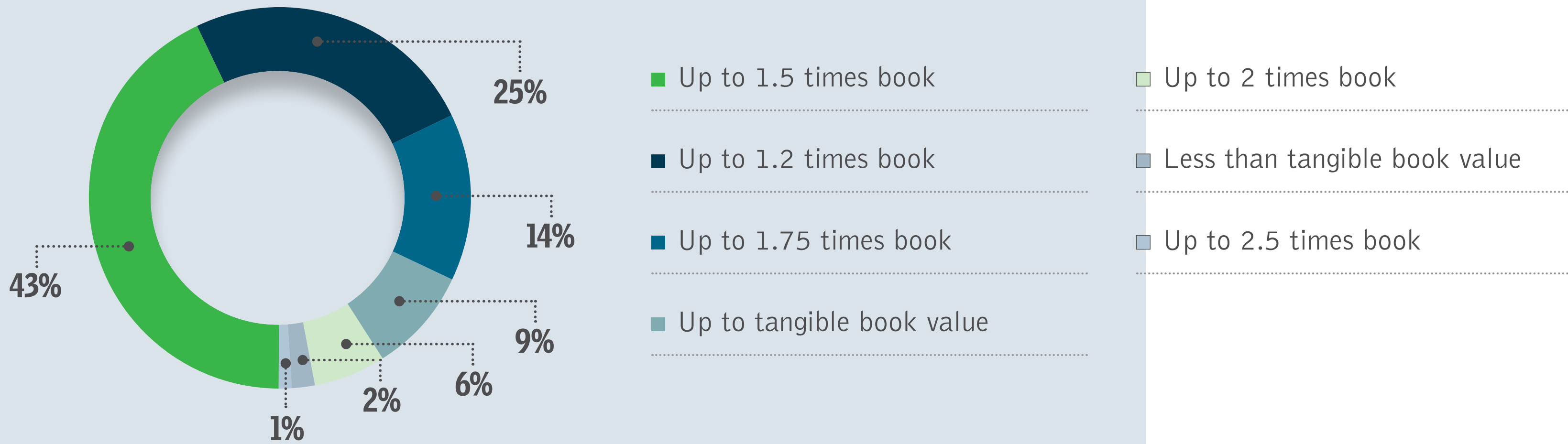
Respondents were asked to select no more than two options. Question only asked of those who describe their bank as an active acquirer or open to acquisitions.

45%	Scale to drive technology and other investments
38%	Geographic expansion
23%	New business lines/revenue opportunities
22%	Customer acquisition
21%	Adding a low-cost deposit base
18%	Cost savings
14%	Talent acquisition
10%	Pressures on profitability tied to the economic environment and similar factors
6%	Loan portfolio diversification



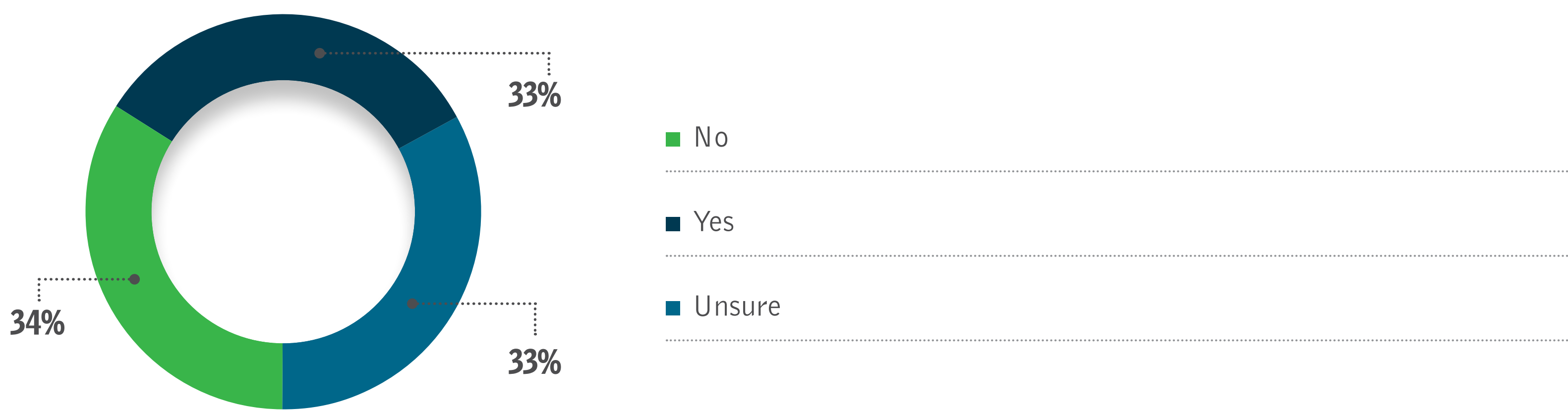
3. At most, how much would you be willing to pay today to acquire another institution that meets your target acquisition strategy?

Question only asked of those who describe their bank as an active acquirer or open to acquisitions.



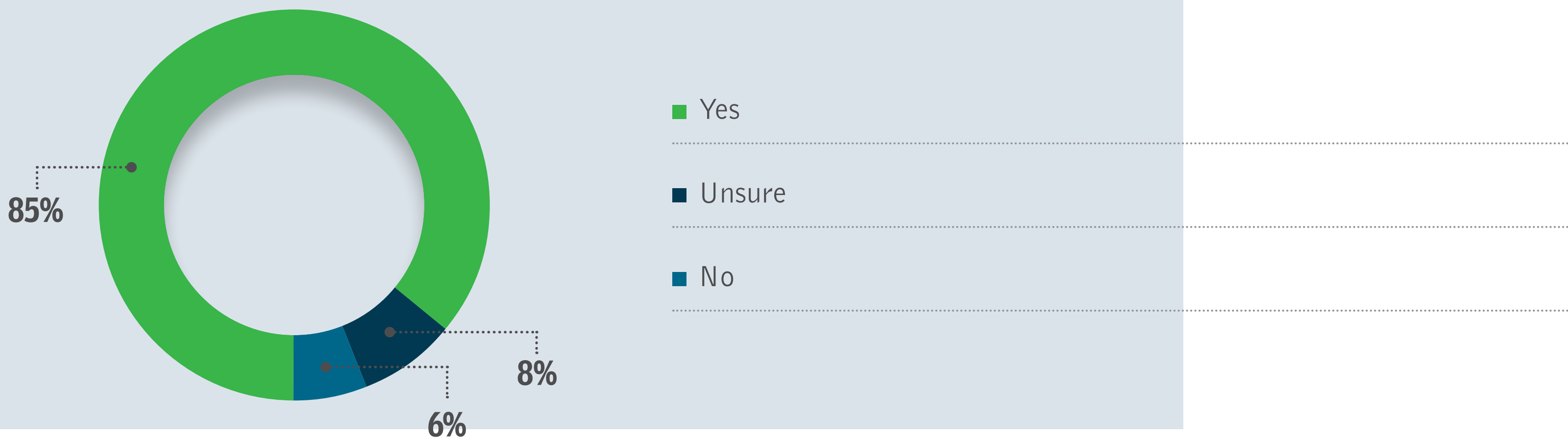
4. Are there a sufficient number of suitable acquisition targets to fuel your bank's growth strategy?

Question only asked of those who describe their bank as an active acquirer or open to acquisitions.



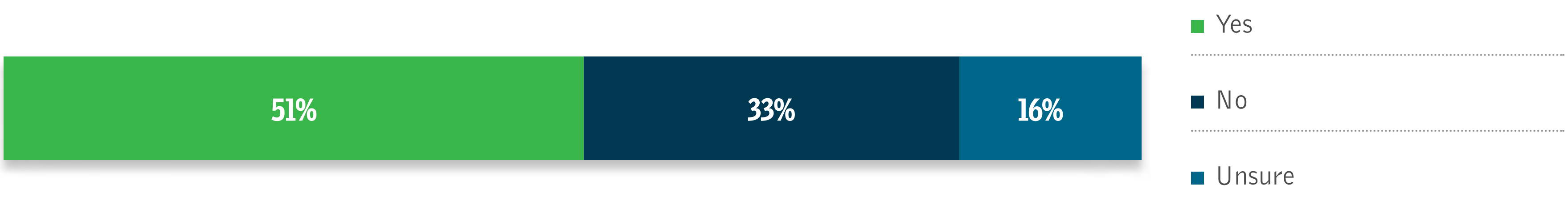
5. Do you believe your bank has adequate access to capital to drive its growth strategy?

Question only asked of those who describe their bank as an active acquirer or open to acquisitions. Numbers don't add up to 100% due to rounding.

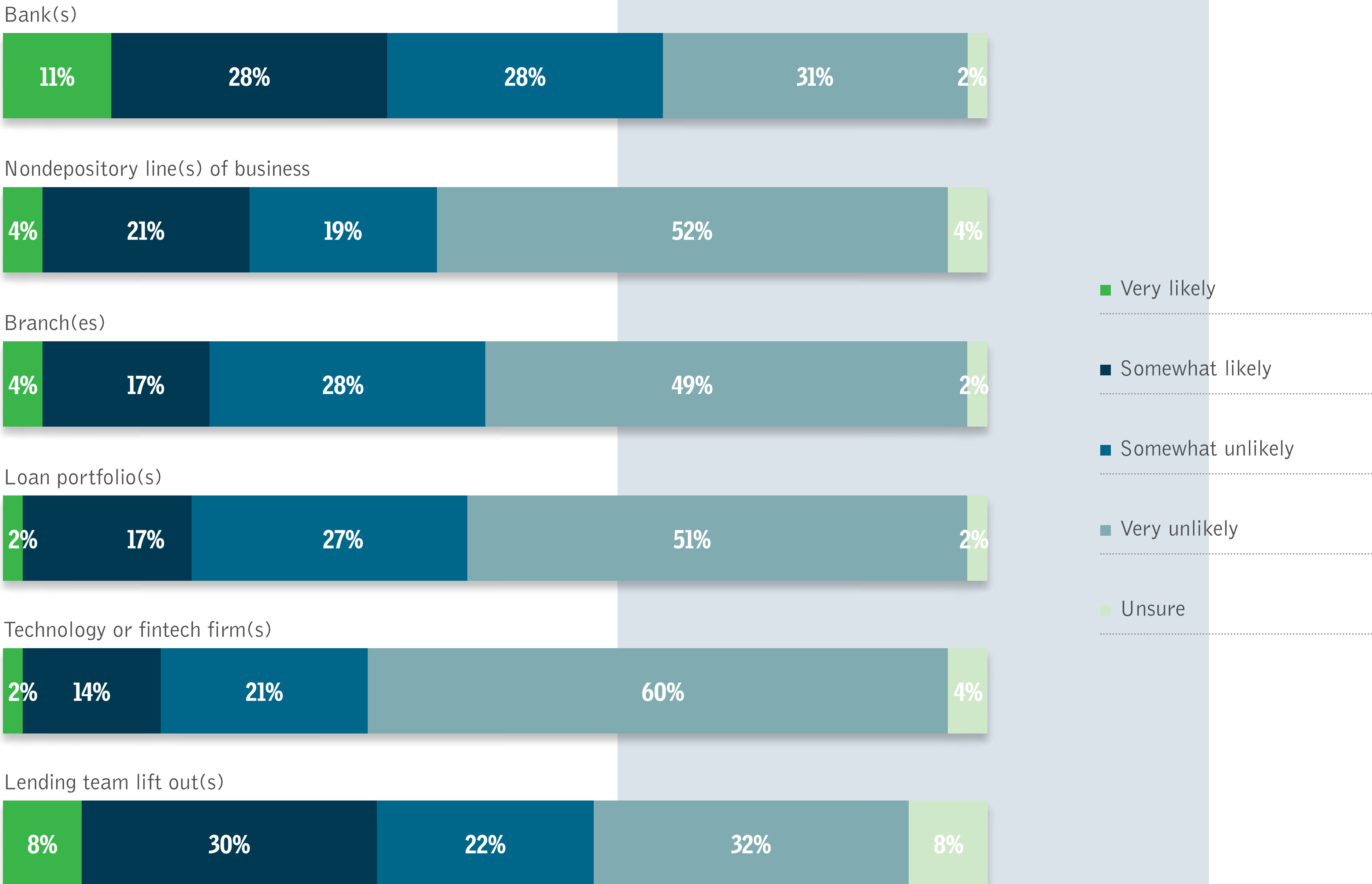


6. Do you believe that the valuation of your bank's stock today would be attractive enough to acquire an institution that meets your acquisition criteria?

Question only asked of respondents representing public banks who describe their bank as an active acquirer or open to acquisitions.

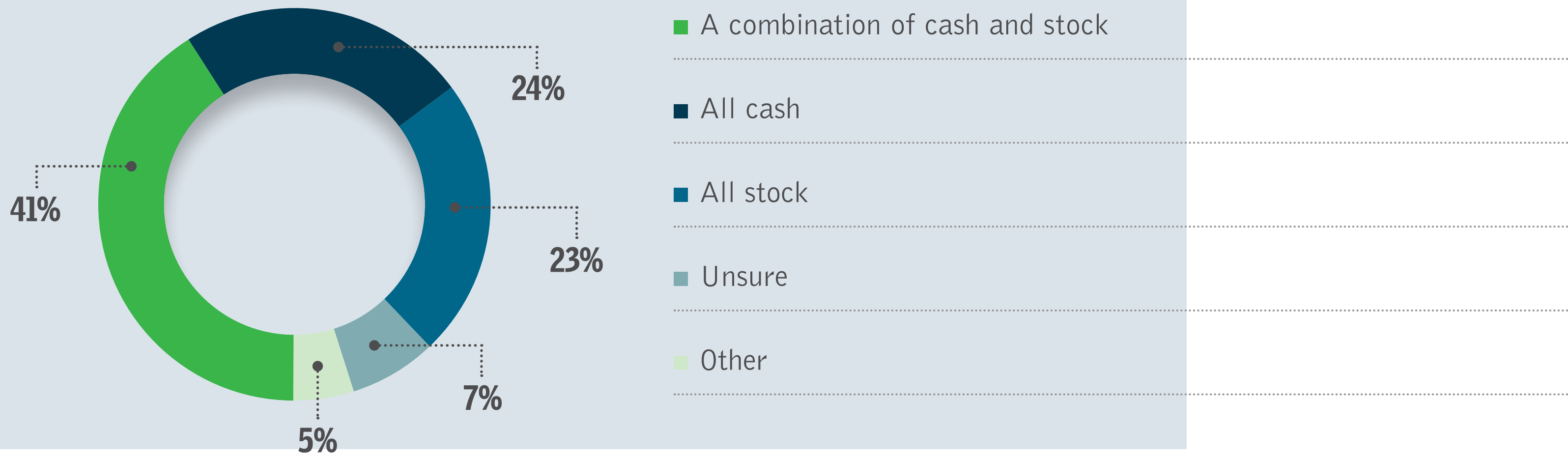


7. Given the current environment, how likely is it that your institution will purchase the following by the end of 2023?



8. If your institution were to acquire another bank, how would you want to structure the transaction?

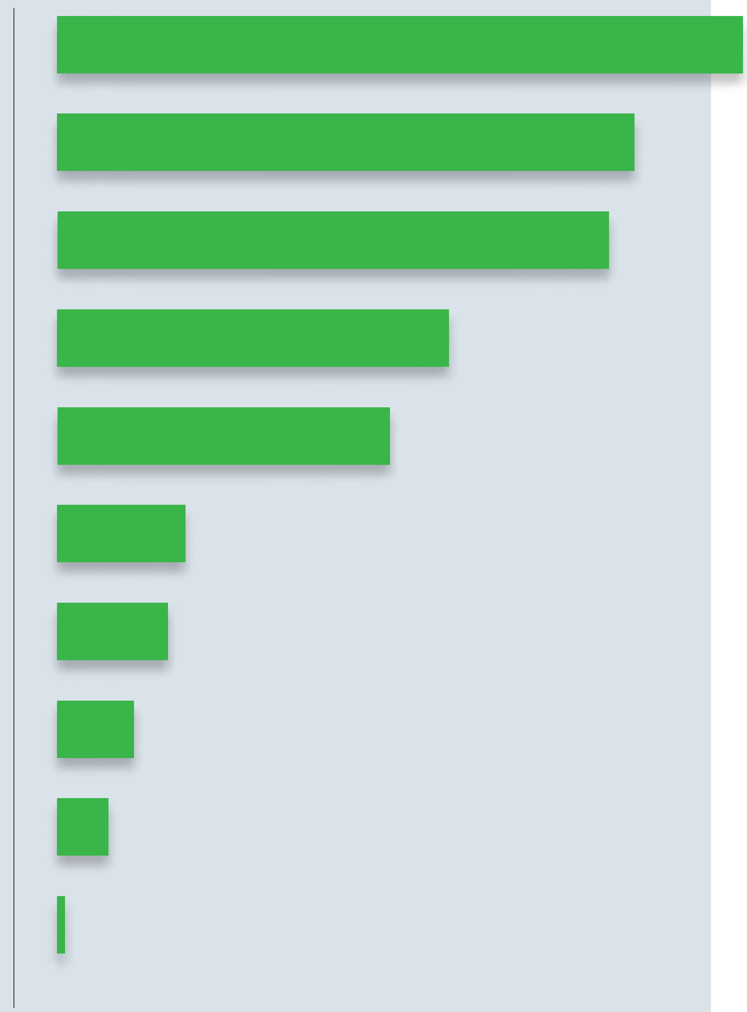
Question only asked of respondents indicating that their bank is likely to acquire another bank by the end of 2023.



9. If your institution were to acquire another bank by the end of 2023, what would be your biggest concerns about the integration?

Question only asked of respondents indicating that their bank is likely to acquire another bank by the end of 2023. Respondents were asked to select all that apply.

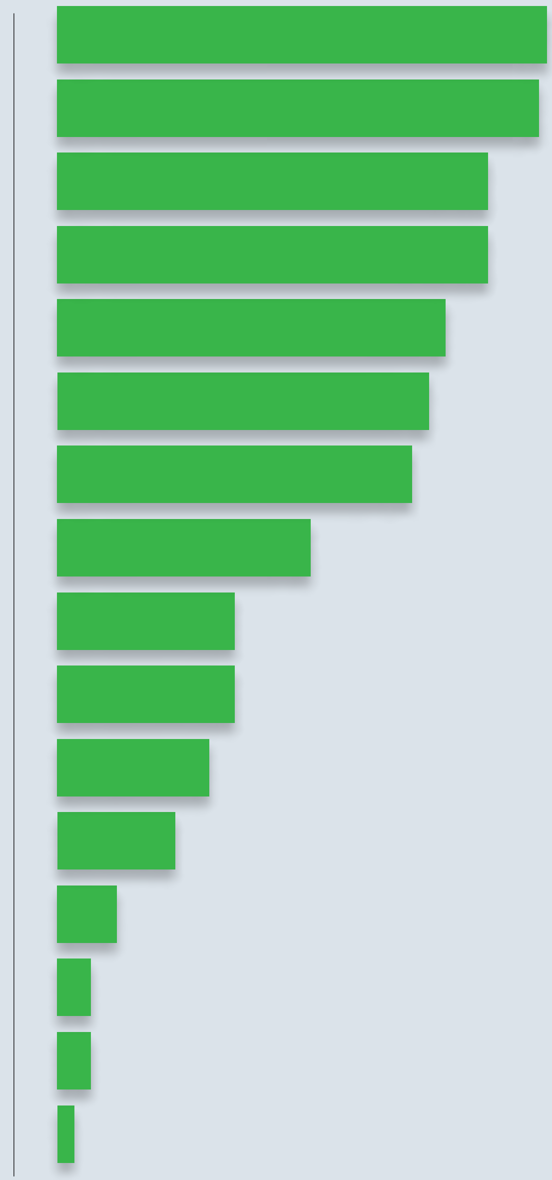
81%	Integrating two cultures
68%	Retaining key staff
65%	Integrating technology, including core systems
46%	Retaining customers
39%	Underwriting/credit philosophies
15%	Eliminating back office staff
13%	Reputation issues
9%	Integrating products
6%	Branch rationalization
1%	Other



10. In your opinion, what would be the top five attributes of a target in today's environment?

Respondents were asked to select no more than five options.

58%	Attractive deposit base
57%	Complementary culture
51%	Locations in growing markets
51%	Efficiency gains
46%	Talented lenders/lending teams
44%	Demonstrated/potential loan growth
42%	Complementary credit standards and/or consistent credit quality
30%	Target size
21%	Target's strong reputation/brand in its market(s)
21%	New business lines/sources of revenue
18%	Complementary business lines/sources of revenue
14%	High level of profitability
7%	Technology platform/infrastructure
4%	Branch network overlap
4%	Strong digital footprint
2%	Aligned ESG objectives



GROWTH & INVESTMENT OPPORTUNITIES

11. Which of the following types of nondepository acquisition targets are most attractive to your bank?

Question only asked of respondents indicating that their bank would be likely to purchase a nondepository line of business by the end of 2023. Respondents were asked to select all that apply.

67%
Investment management, wealth management and/or trust business

51%
Insurance brokerage and/or agency

39%
Specialty lending

28%
Residential mortgage origination

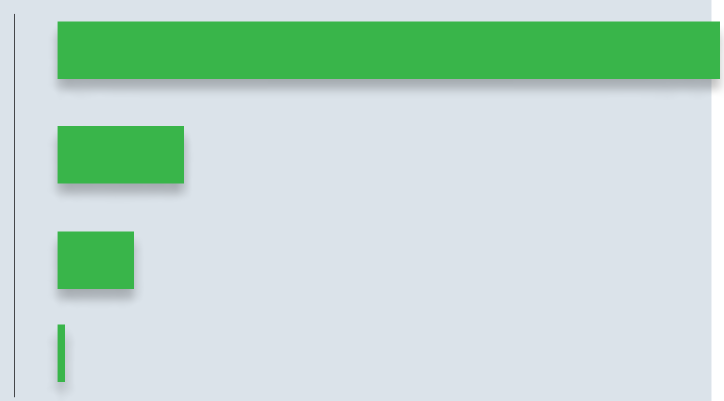
20%
Leasing company

8%
Other

12. Did your bank directly or indirectly invest in fintechs in 2021-22?

Respondents were asked to select all that apply.

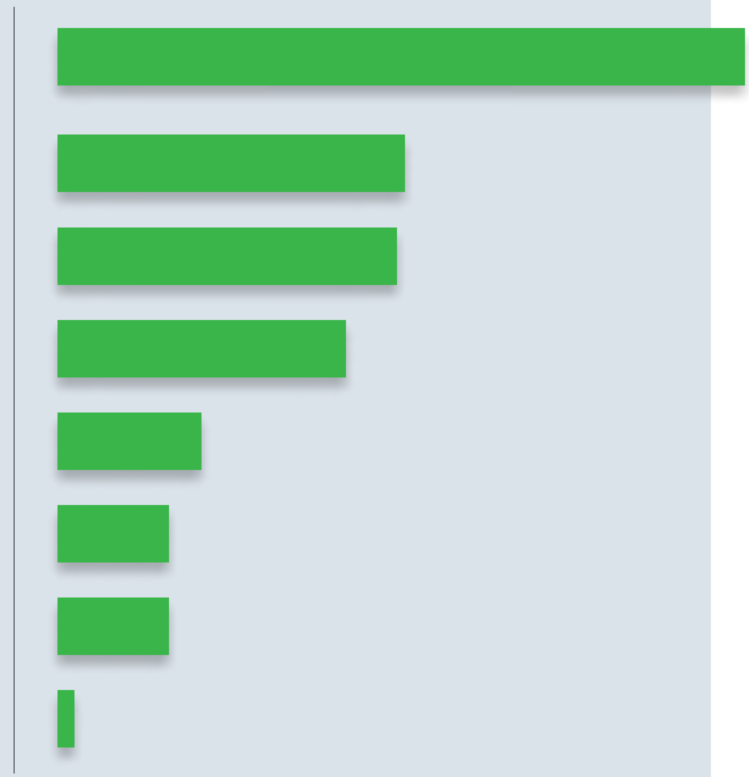
78%	Our bank has not invested in or acquired fintechs
15%	Yes, our bank invested indirectly via participation in a venture capital fund(s) focused on fintechs
9%	Yes, our bank invested directly in fintech companies
1%	Our bank acquired one or more fintechs



13. Why did your bank choose to invest in or acquire a fintech firm(s)?

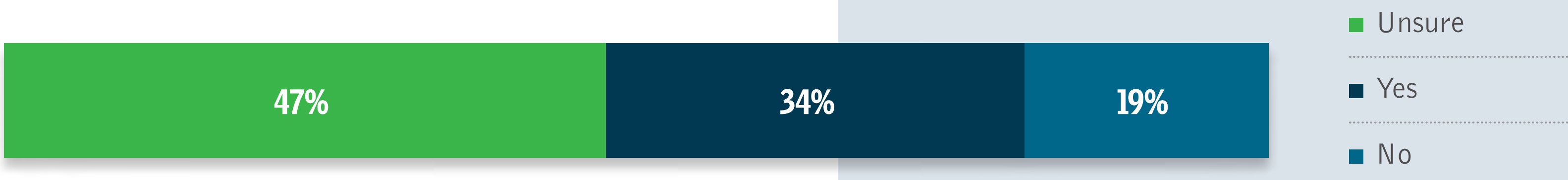
Question only asked of respondents indicating their bank had acquired or invested in fintechs. Respondents were asked to select all that apply.

81%	Gaining a better understanding of the fintech space/available solutions
43%	Financial returns
40%	Specific technology improvements
34%	New revenue streams/additional business lines
17%	Diversification of customer base
13%	Access to talent
13%	Branding/customer perception
2%	Other



14. So far, has your bank's investment in fintechs largely achieved the overarching goals and objectives set by its board and management team?

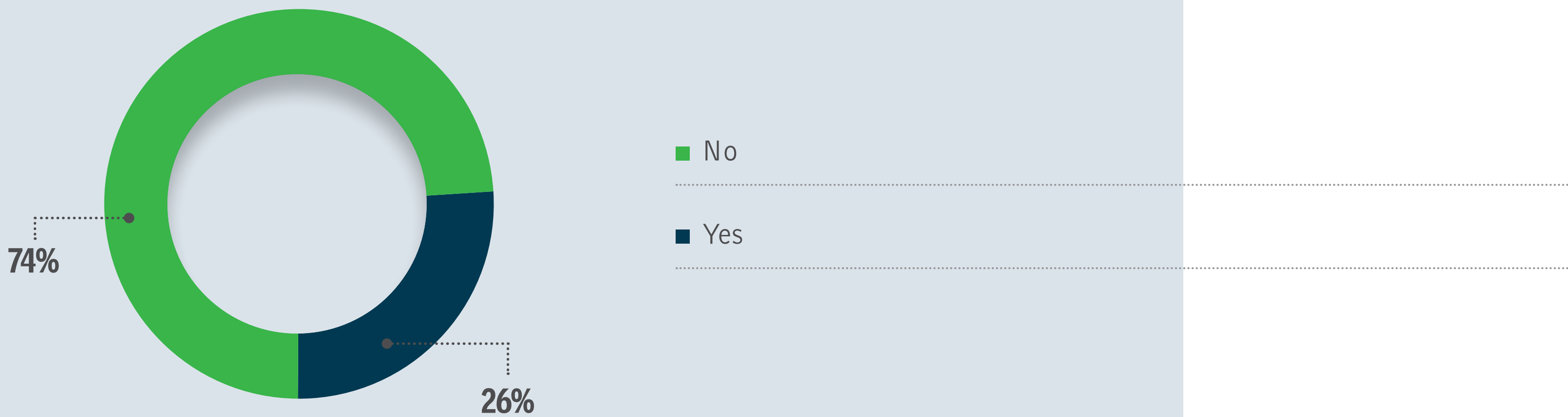
Question only asked of respondents indicating their bank had acquired or invested in fintechs.



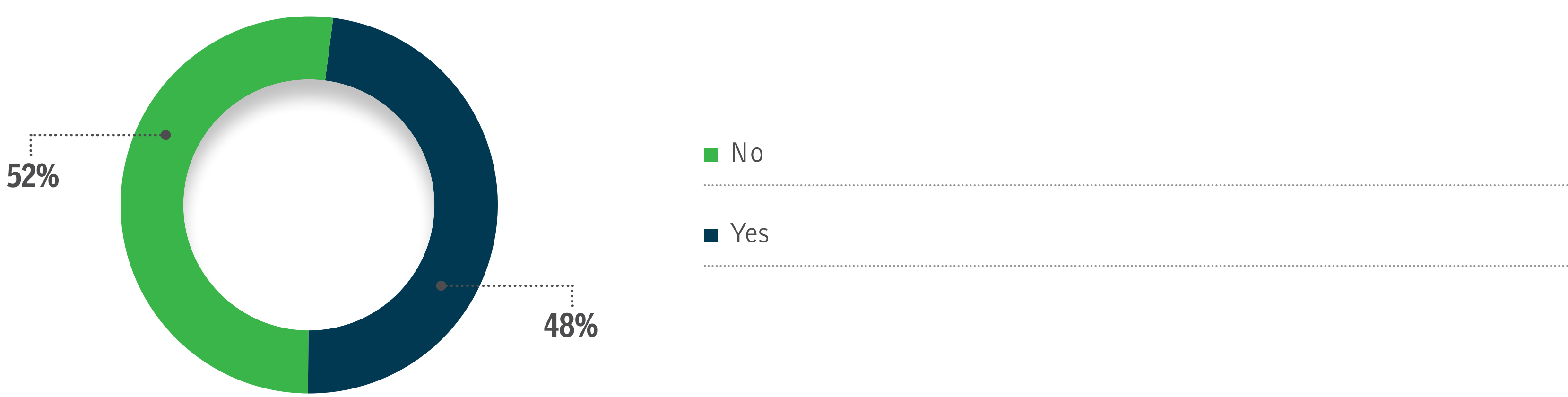
15. How likely is it that your bank will directly or indirectly invest in a fintech firm over the next fifteen months, through the end of 2023?

EVALUATING WHETHER TO SELL

16. To your knowledge, did another financial institution express interest in acquiring your bank in 2021 or 2022?



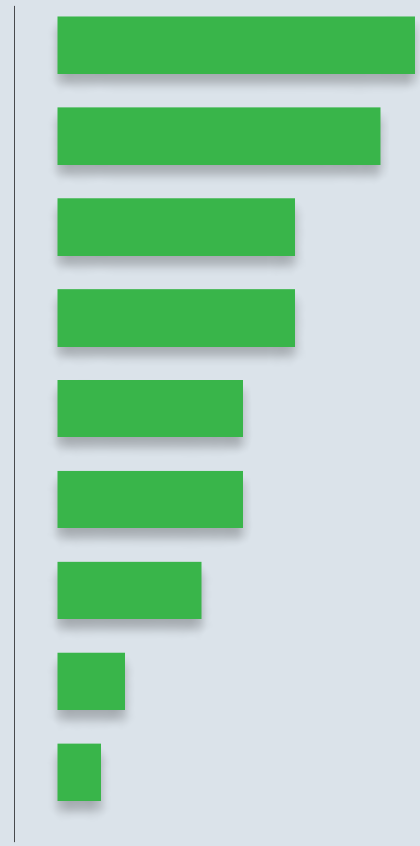
17. Would your board and management team be open to selling the bank over the next five years, at the right price?



18. Which of the following situations could drive your bank to sell in the next five years?

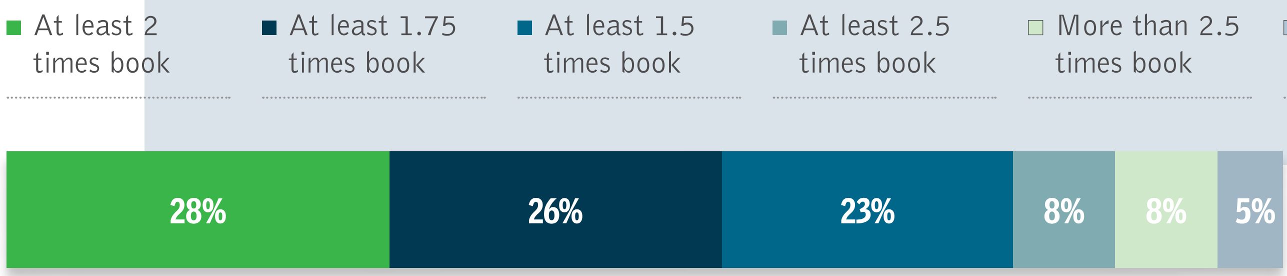
Question only asked of respondents indicating that their board and management team would be open to selling their institution over the next five years. Respondents were asked to select all that apply.

42%	Inability to provide a competitive return to shareholders
38%	CEO/senior management succession
28%	Regulatory compliance burden
28%	Need to provide shareholder liquidity
22%	Inability to operate efficiently
22%	None of the above
17%	Inability to keep pace with digital evolution
8%	Stiff competition in our market(s)
5%	Inability to attract low-cost deposits



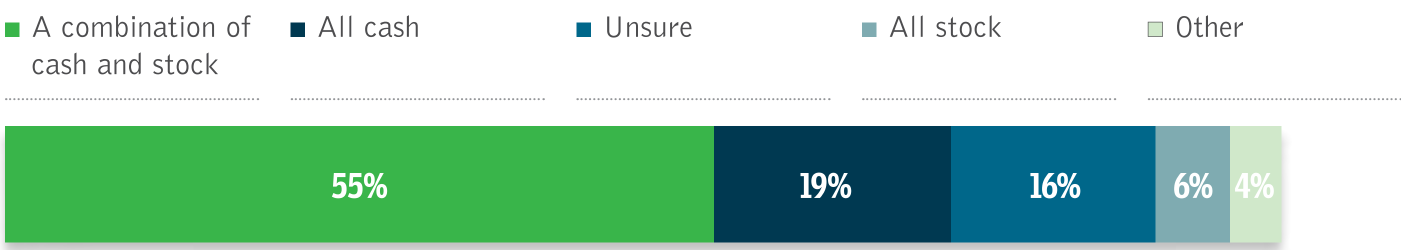
19. If your bank were to consider a sale, what would be the minimum value that you'd be willing to accept for your institution?

Question only asked of respondents indicating that their board and management team would be open to selling their institution over the next five years.



20. If your bank were to consider a sale in today's environment, how would you want to structure the transaction?

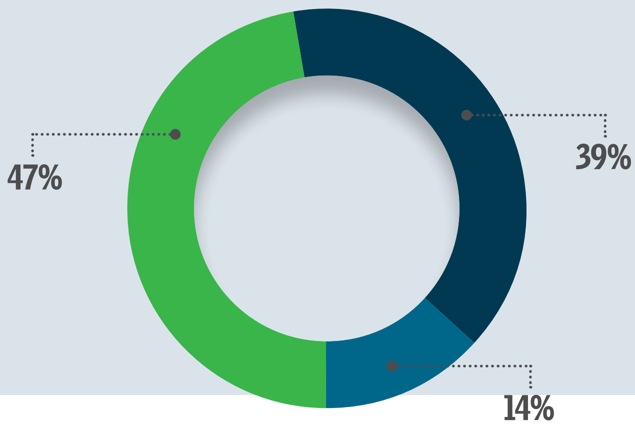
Question only asked of respondents indicating that their board and management team would be open to selling their institution over the next five years.



PURSUING ORGANIC GROWTH

21. Does your bank view in-market consolidation as an opportunity to acquire talent?

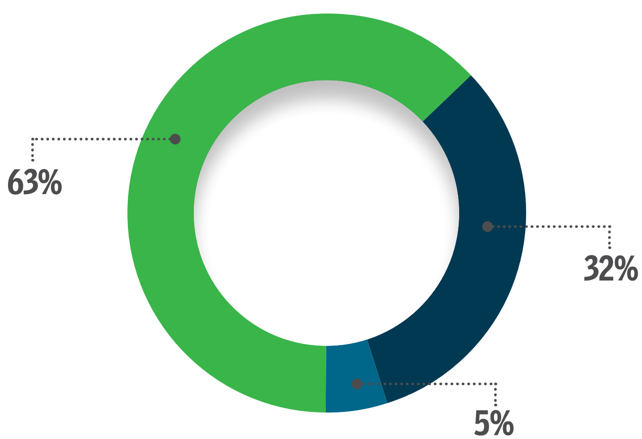
Respondents were asked to select the option that best aligns with their bank's strategy.



- Yes, we actively recruit talent from merged organizations
- We're open to acquiring talent following a merger, but don't actively recruit
- No, we don't typically acquire talent via in-market consolidation

22. Does your bank view in-market consolidation as an opportunity to acquire customers?

Respondents were asked to select the option that best aligns with their bank's strategy.



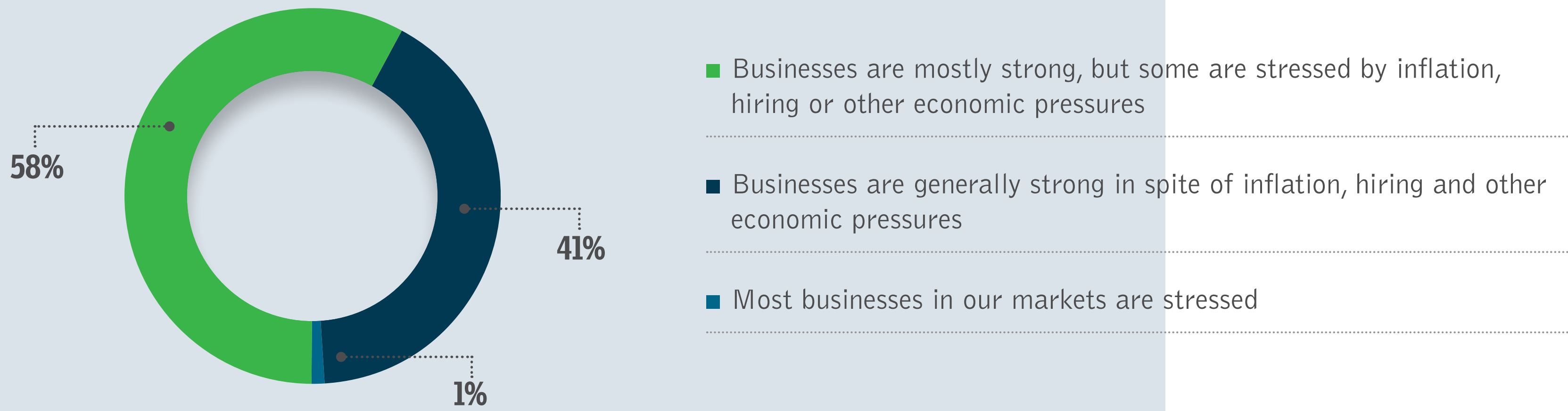
- Yes, we focus marketing efforts on customers who may be dissatisfied following a merger
- We believe we're positioned to attract customers, but don't actively promote to customers impacted by a deal
- No; to my knowledge, we don't typically gain customers from merged banks

23. In 2021-22, what means of organic growth has your bank engaged in?

Respondents were asked to select all that apply.

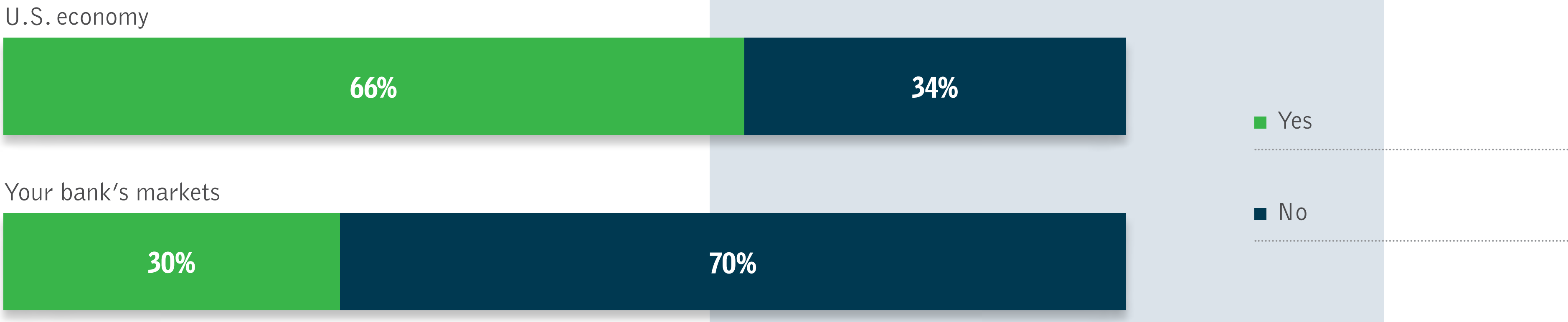
63%	Adding staff in revenue-generating areas of the bank
50%	New digital initiatives or upgrades that attract deposits
44%	Adding new products within existing business areas
41%	New digital initiatives or upgrades to drive loan originations
39%	De novo expansion (offices or branches) in new markets
36%	Shift in marketing and advertising strategies
29%	Adding new business lines
5%	Other
5%	None of the above

24. Overall, how would you describe business conditions in the markets where your bank operates?

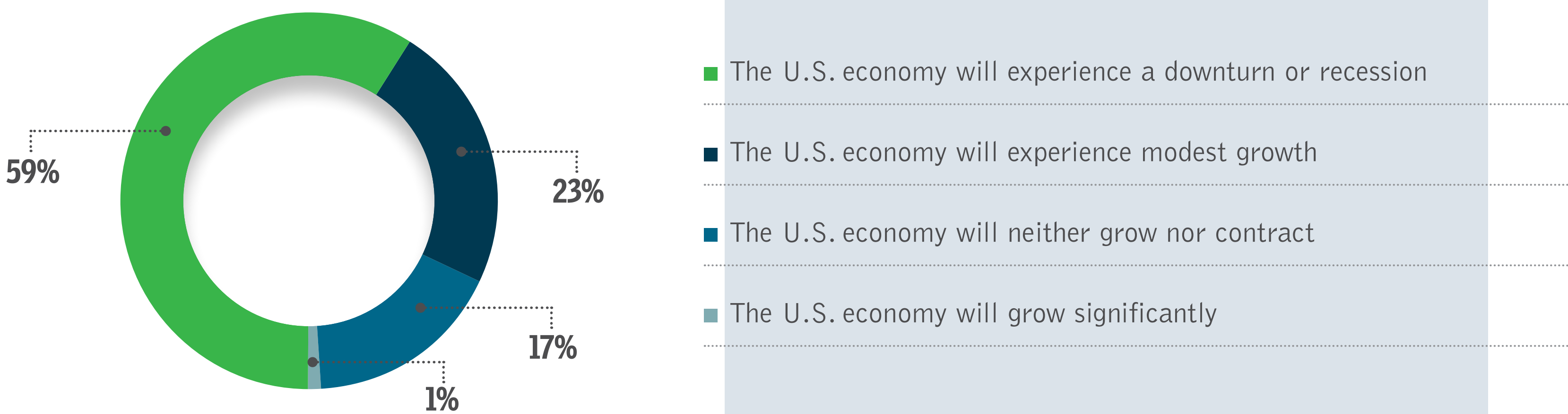


ECONOMIC OUTLOOK

25. Do you believe the U.S. economy is currently experiencing a recession? On the whole, are your bank's markets experiencing a downturn?

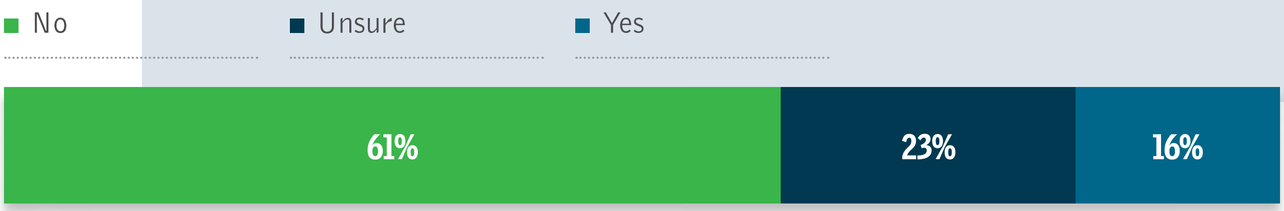


26. What is your outlook for the U.S. economy through the end of 2023, compared to 2022?



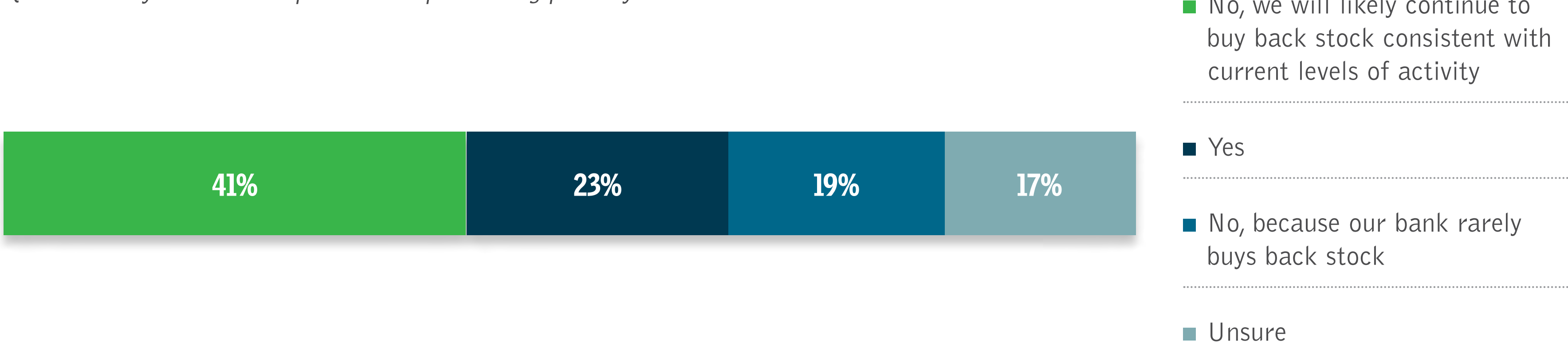
27. The Inflation Reduction Act, passed in August 2022, includes a 1% tax on stock buybacks. Will this make your bank more likely to accelerate plans to buy back stock before the end of 2022?

Question only asked of respondents representing publicly traded banks.



28. Do you believe the 1% tax on stock buybacks in the Inflation Reduction Act will eventually make your bank reduce its buyback activity over the next three years?

Question only asked of respondents representing publicly traded banks.

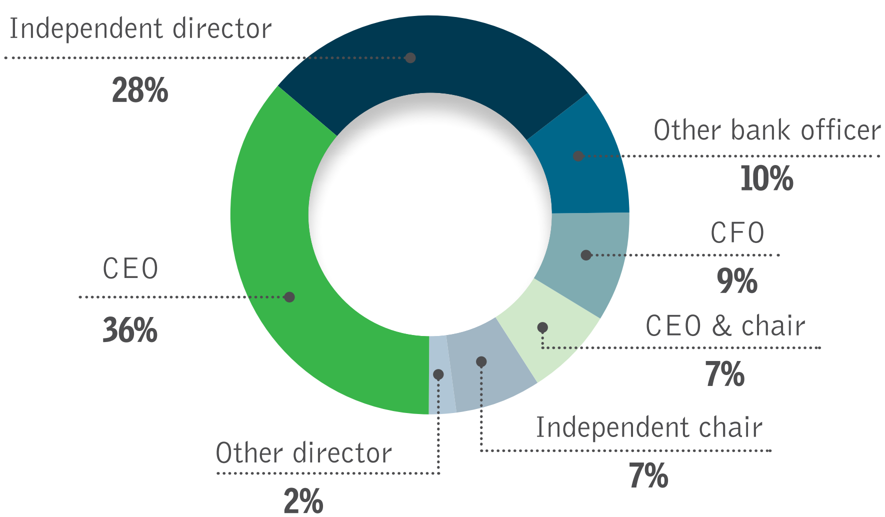


ABOUT THE SURVEY

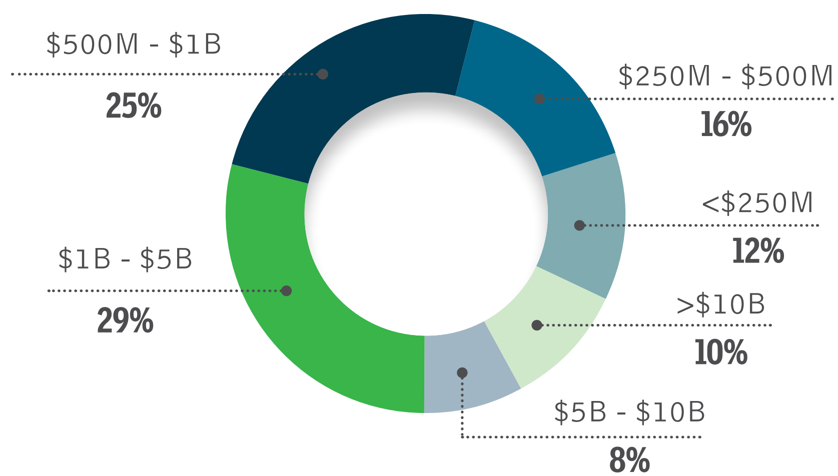
Bank Director's 2023 Bank M&A Survey, sponsored by Crowe LLP, surveyed 250 independent directors, CEOs, chief financial officers and other senior executives of U.S. banks below $100 billion in assets to examine current growth strategies, particularly M&A. Almost half of the respondents represent banks that are privately held, while 43% represent a publicly traded institution. Thirty-six percent serve as the bank's CEO; more than one-third represent independent board members.

TITLE

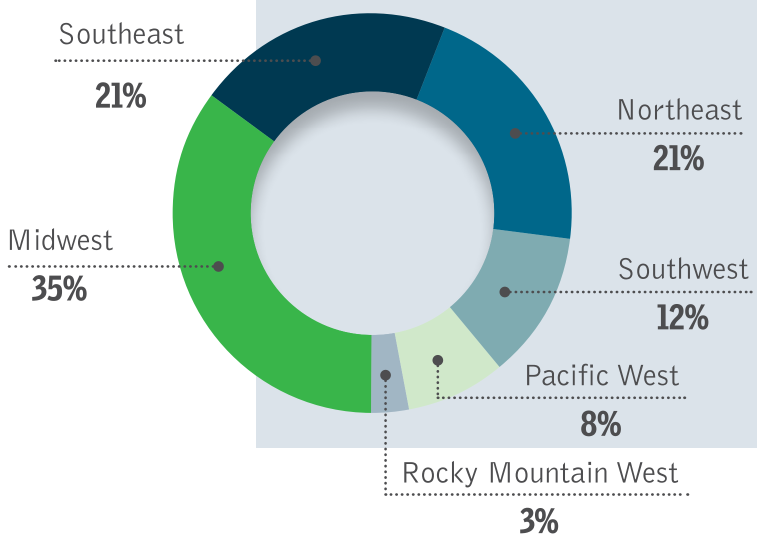
Numbers don't add up to 100% due to rounding.



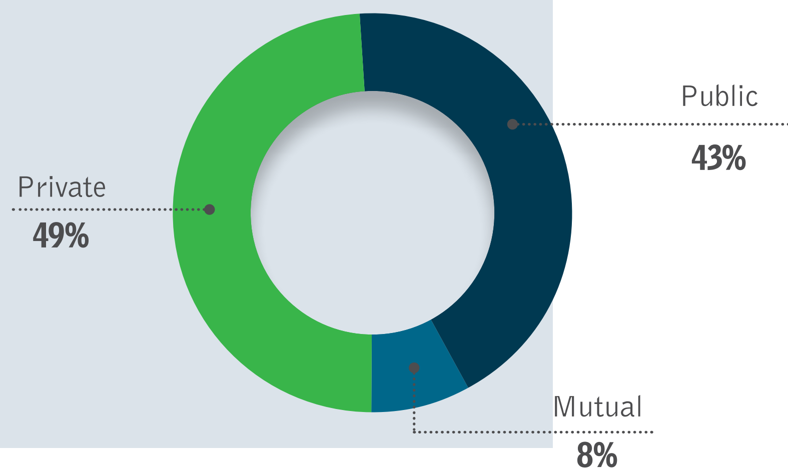
ASSET SIZE



REGION



OWNERSHIP



*Regions defined as follows: Midwest (IL, IN, IA, KS, MI, MN, MO, NE, ND, OH, SD, WI); Northeast (CT, ME, MA, NH, NJ, NY, PA, RI, VT); Pacific West (AK, CA, HI, OR, WA); Rocky Mountain West (CO, ID, MT, NV, UT, WY); Southeast (AL, AR, DE, DC, FL, GA, KY, LA, MD, MS, NC, SC, TN, VA, WV); Southwest (AZ, NM, OK, TX)