

**Bank**Director

Breakout 1:  
**What the Board Needs  
to Know in 2024**

**Rob Fleetwood**

*Barack Ferrazzano  
Kirschbaum & Nagelberg LLP*

**Al Laufenberg**

*Keefe, Bruyette & Woods, A  
Stifel Company*

#A0BA24



**Bank**Director.

## **Acquire or Be Acquired:**

# **What The Board Needs To Know in 2024**

**Robert M. Fleetwood**

*Barack Ferrazzano  
Financial Institutions Group*

**Al Laufenberg, CFA**

*Keefe, Bruyette & Woods  
A Stifel Company*

# 2023 in Review

## January 2023 Presentation



The Industry Is In Good Shape,  
But The Economy And **Rates Are Shifting**



## Today

Rate Shifts Led To Compressed Margins, Pressure  
On Investment Portfolios And Contributed To 3  
Bank Failures But Interest Rates Appear To Have  
Peaked



Investors Want Certainty **And Are Waiting**



They Were Right With Little Capital Market Activity  
And Depressed Stock Prices But There Is Newfound  
Optimism

1/1 – 11/1

↓ KRX: (26%)

↓ BKX: (27%)

↑ S&P 500: 10%

Since 11/1

↑ KRX: 29%

↑ BKX: 28%

↑ S&P 500: 14%



The Battle Royale Is **Underway**  
*Largest Banks*  
*Other Banks*  
*Non-Banks*  
*FinTech*



Biggest Banks Are Winning With The Consumer  
While Non-Banks Continue To Make Progress But  
Regional/Community Banks Maintaining Strength In  
Small-and Middle-Market Commercial Lending



Headwinds Slow Bank Consolidation



M&A Transactions Significantly Off But Consolidation  
Conversations Are Picking Up

01

## Industry Dynamics & Resulting Impact

- *Increased Competition*
- *Succession*

02

## Capital Allocation

- *Importance of Developing Strategy*

03

## M&A Environment – Discussions Are Increasing

- *Traditional vs. Alternative Buyers*

04

## Shareholder Communication & Regulatory Environment

- *Capital, Liquidity & Deposits*
- *Regulators' Concerns*

## Industry Dynamics & Resulting Impact

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# Important Forces That Cannot Be Ignored

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**Non-Bank Competition**



**FinTech & Technology Evolution**



**Washington DC ... Regulation & 2024 Election**

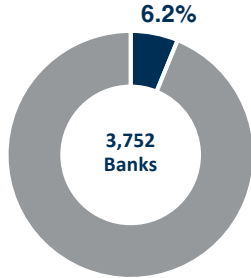
# The Bigger Banks Control More Market Share

< \$1 Billion in Total Deposits

\$1-10 Billion in Total Deposits

> \$10 Billion in Total Deposits

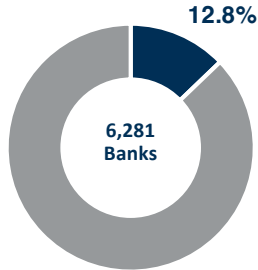
**2023 Deposit Market Share**  
\$17.2 Trillion  
 Total US Deposits



Aggregate Deposits:

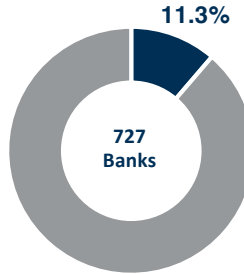
**\$1.1 Trillion**

**2013 Deposit Market Share**  
\$9.8 Trillion  
 Total US Deposits

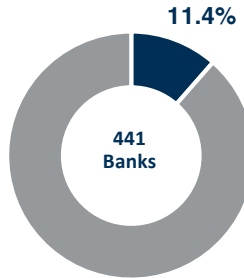


Aggregate Deposits:

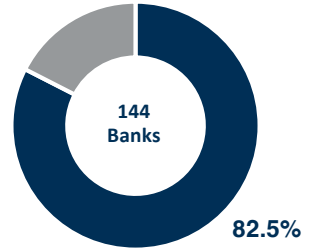
**\$1.3 Trillion**



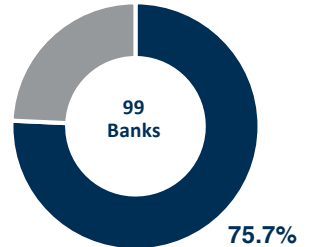
**\$1.9 Trillion**



**\$1.1 Trillion**



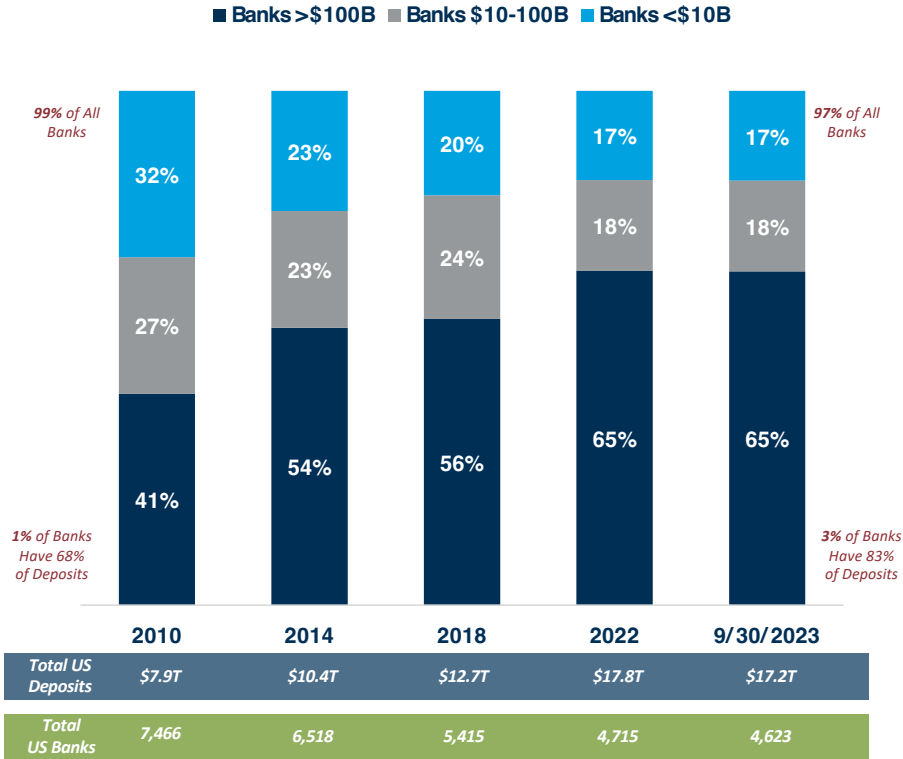
**\$14.2 Trillion**



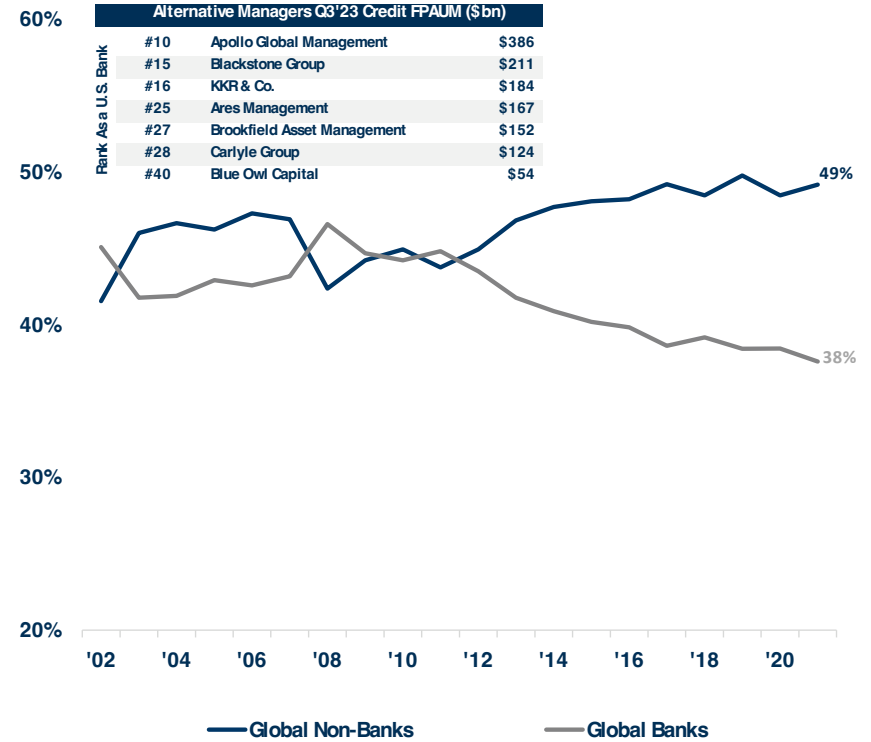
**\$7.4 Trillion**

# Big Banks And Non-Banks Are Taking Share

## Deposit Market Share by Total Deposits (%) <sup>(1)</sup>

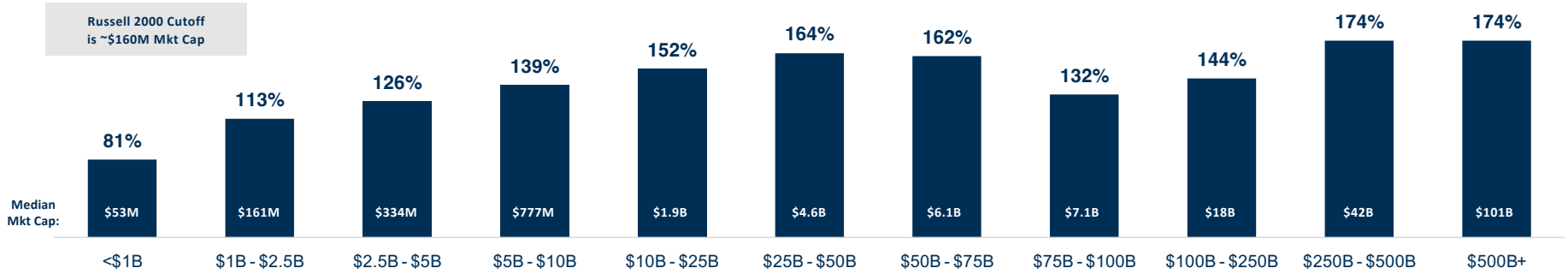


## Global Financial Asset Market Share (%)

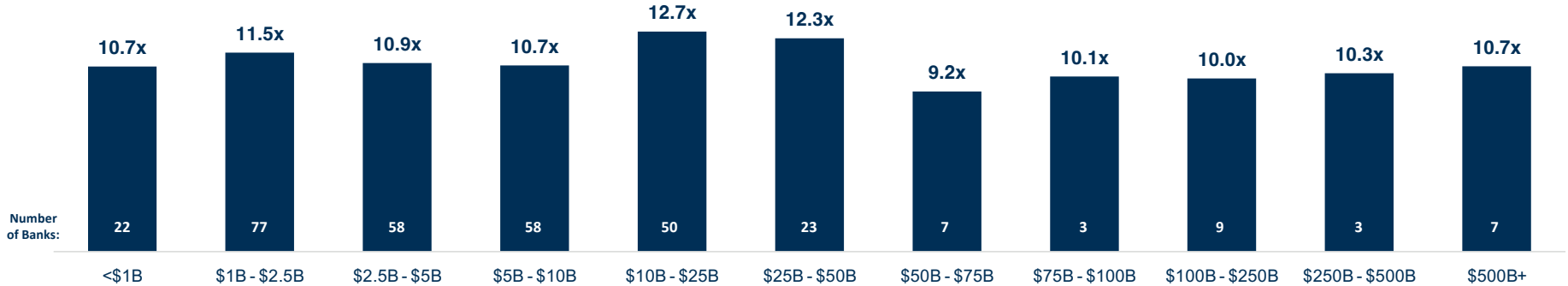


# Scale Is Impacting Valuation

## P/TBV by Assets Today



## P/'24E by Assets Today

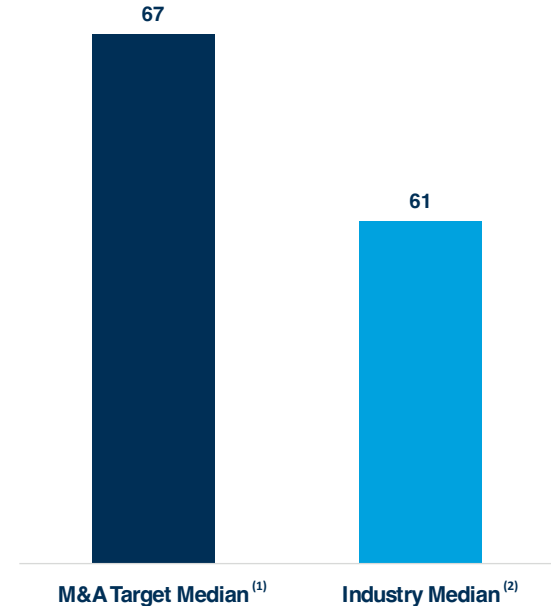


# Succession

- **CEO succession creates challenges and opportunities**
  - Board of Directors should always be considering succession planning no matter CEO's age and current interest level to keep working
  - 3 to 5 year plans are typical
  - If opportunity to plan in advance, the best candidate is usually internal, but some board members may still want to consider external candidates
  - Mergers-of-equals or transformational transactions can be advantageous in significantly enhancing the depth of management teams and Boards of Directors
- **Don't forget about non C-suite succession**
  - Identify and nurture young lenders and producers
  - Qualified risk management and regulatory professionals
- **Board members**
  - Diversity in ethnicity, gender, life experience and business is critical
  - Understand qualifications and expectations

## Age of Target CEO in Recent Bank M&A

- *CEOs of M&A targets are ~6 years older than the industry average*

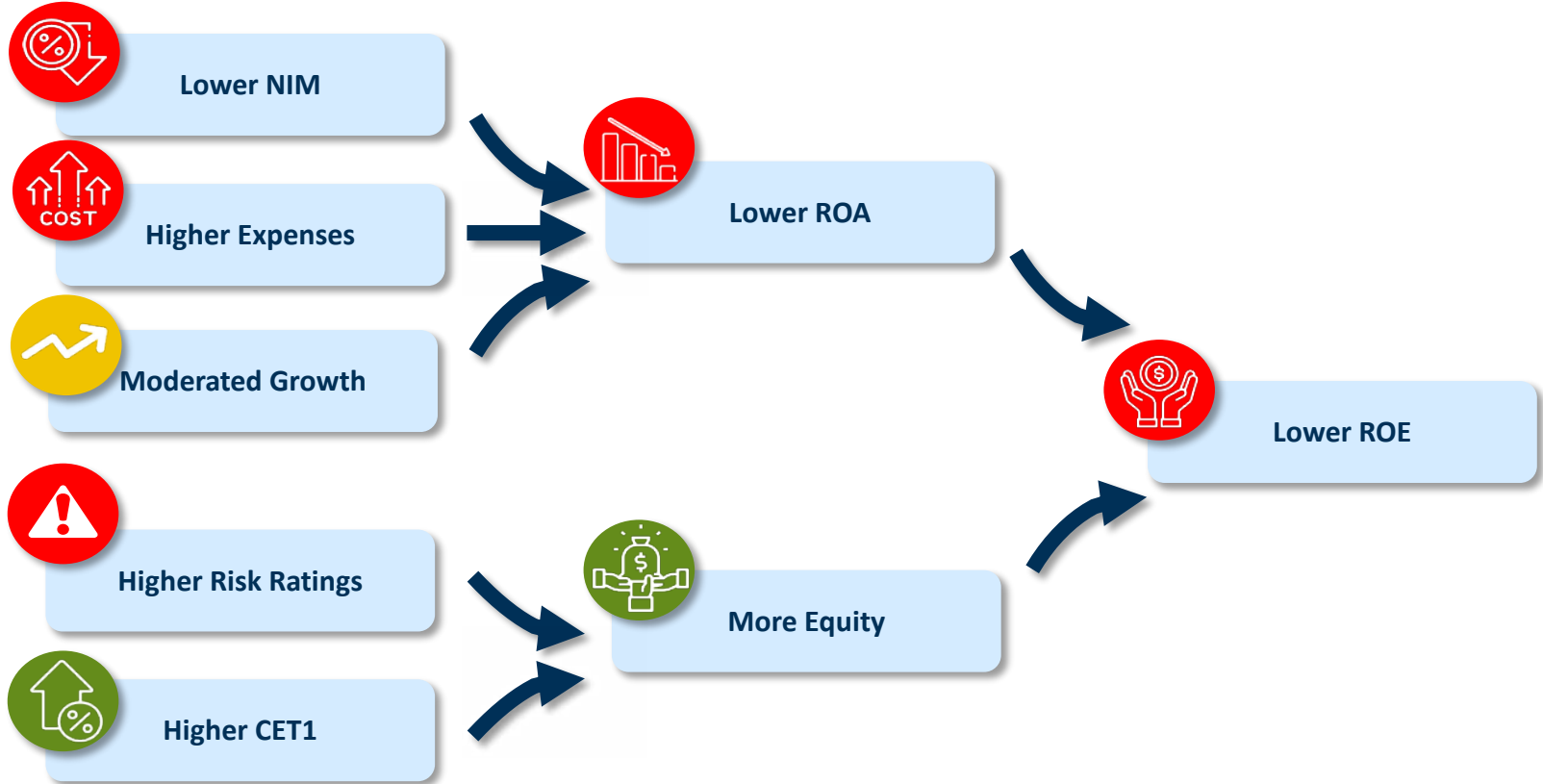


Source: S&P Global Market Intelligence; Data as of 1/22/24

(1) Median target CEO age in 100 most recent bank acquisitions with announced deal value > 50mm

(2) Median CEO age of nationwide regulated depositories; Excludes merger targets

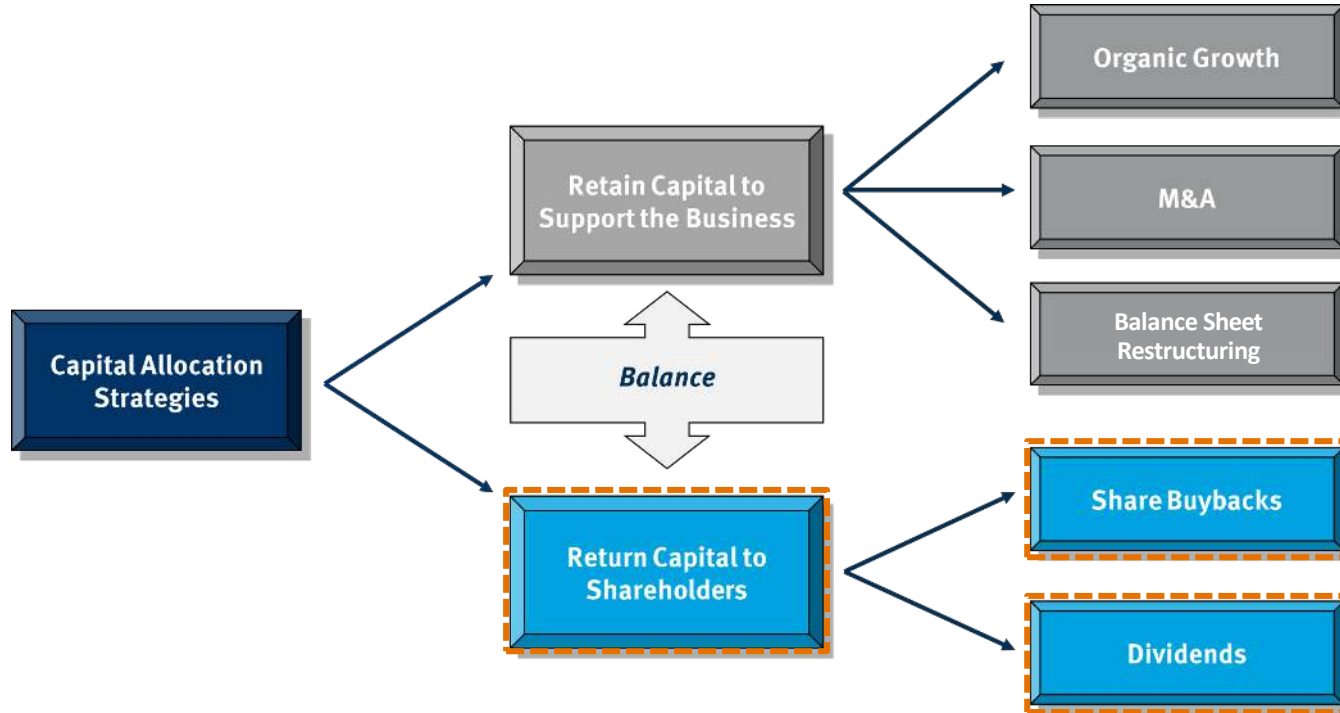
# What This Means



## Capital Allocation

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# Capital Allocation Strategies



# Factors in the Capital Allocation Balance

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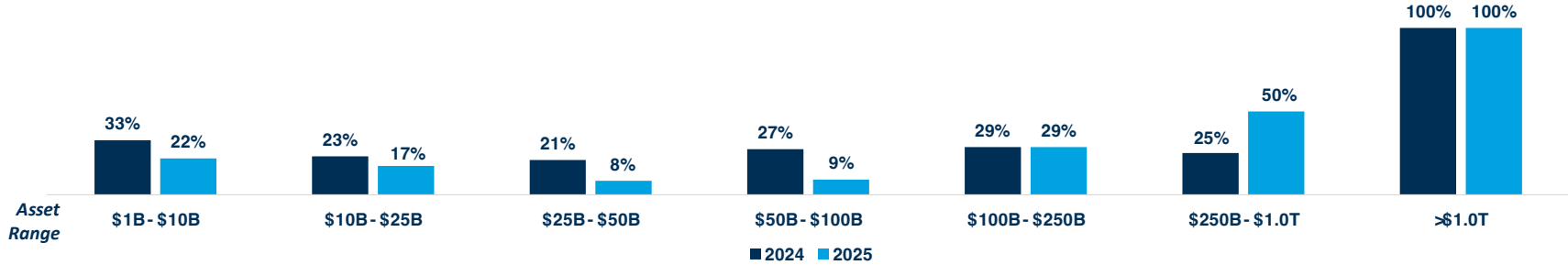
- Evaluate what is available to modify without limiting or impairing long-term opportunities
  - Balance sheet trades
  - Creative, one-time considerations (i.e., sale-leasebacks)
- Current investor expectations
  - Shareholder considerations and liquidity needs
  - Different instruments = different goals
    - Preferred vs. common vs. sub-debt
    - Owe fiduciary duties to all
- Regulators have a position
  - Fed Supervisory Letter SR 09-4
  - Credit quality and concentration trends
  - How/when to communicate
- Replacement capital – market participants and terms
  - More expensive (\$ and control) than 2-3 years ago
  - Fewer active investors and less interest in space
  - Sub-debt grab in '20 and '21, will it come back?



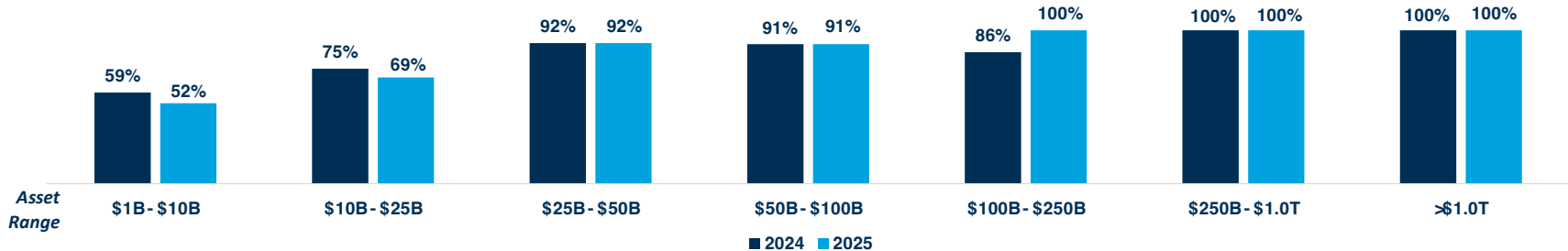
# Returning Capital To Shareholders: *Banks By Asset Size*

Estimated 2024 and 2025 shares repurchases and dividend increases per KBW Research

## Percentage of Banks Repurchasing Shares



## Percentage of Banks Increasing Dividends

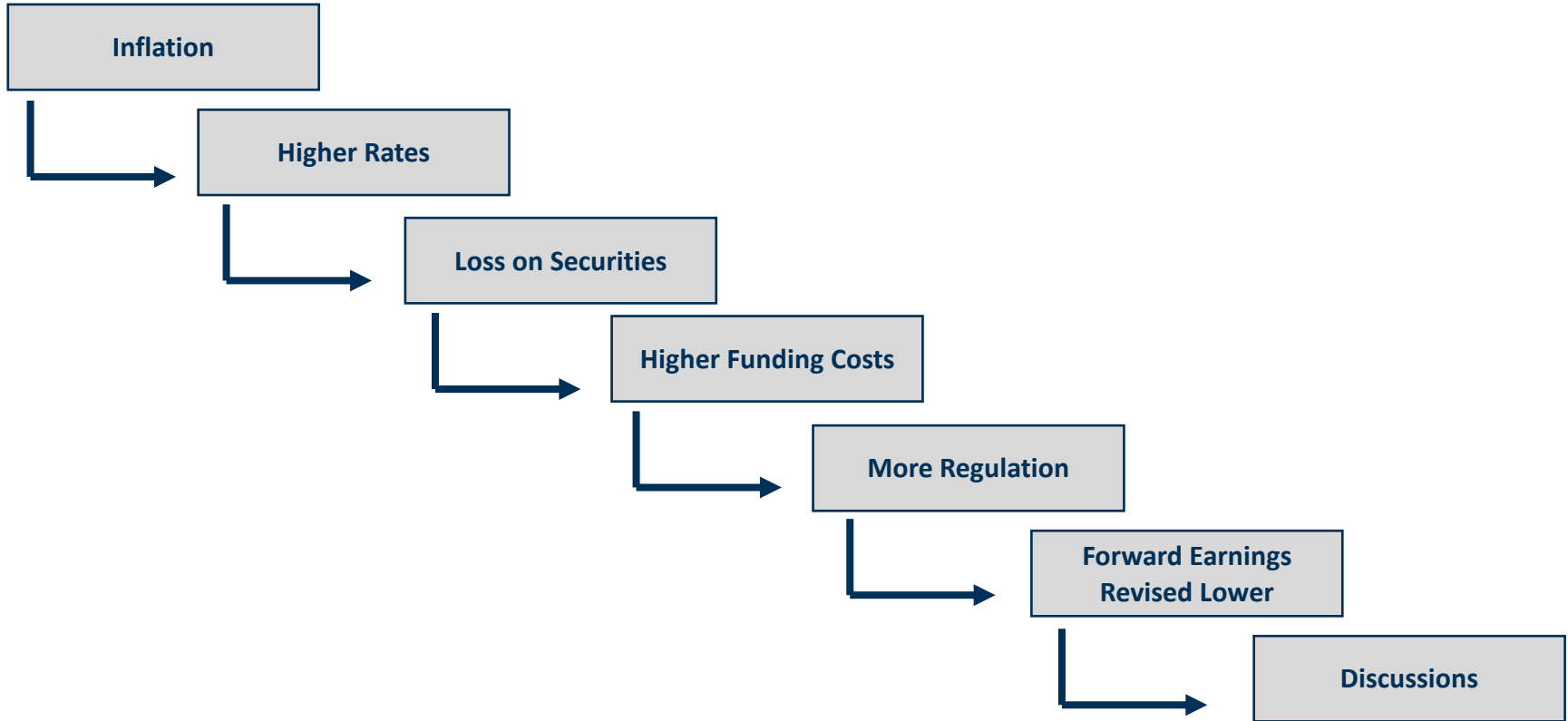


## M&A Environment – Discussions Are Increasing

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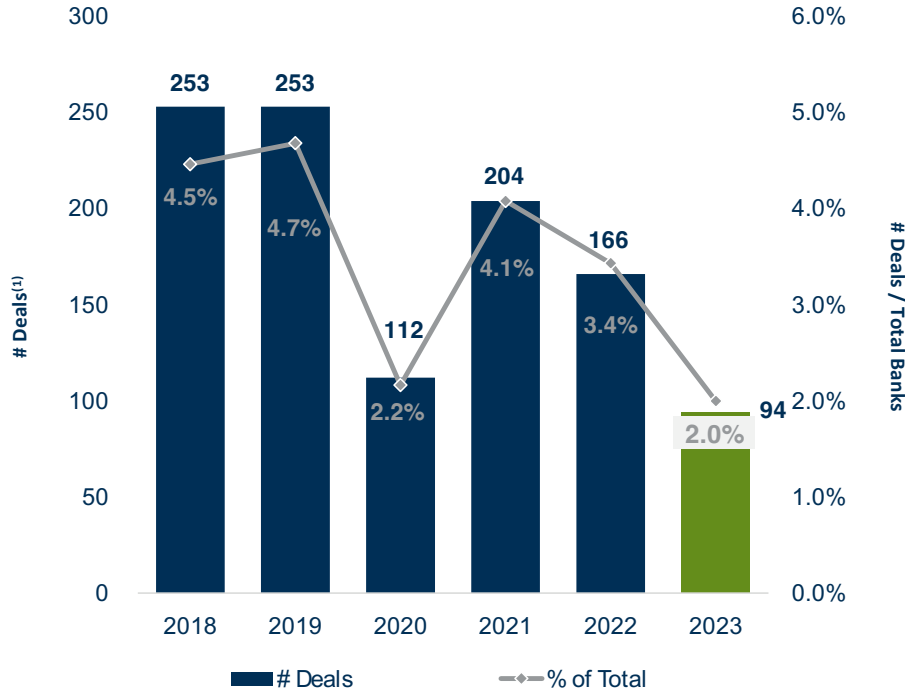
# Reasons Why M&A Discussions Are Increasing

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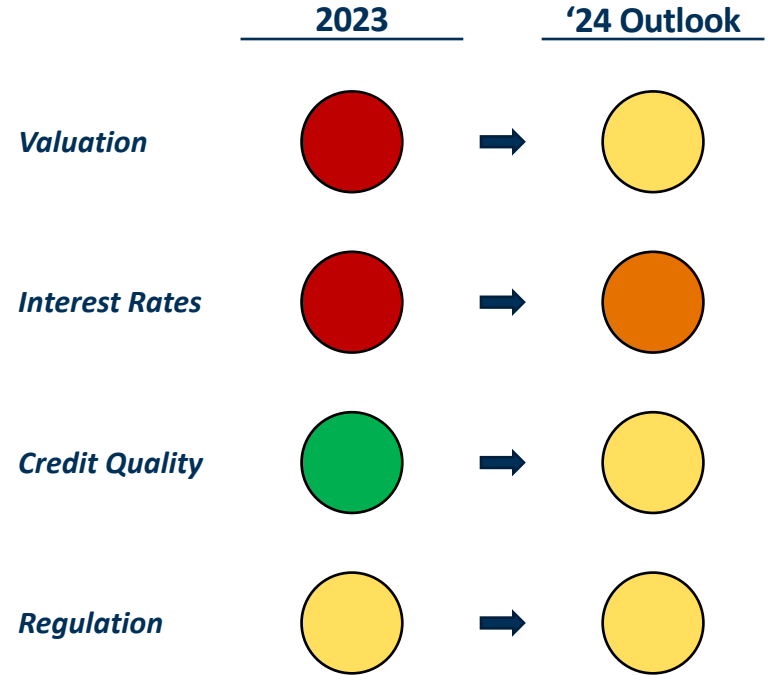


# M&A Activity Has Slowed... But Dialogues Are Increasing

## Deal Activity Since 2018

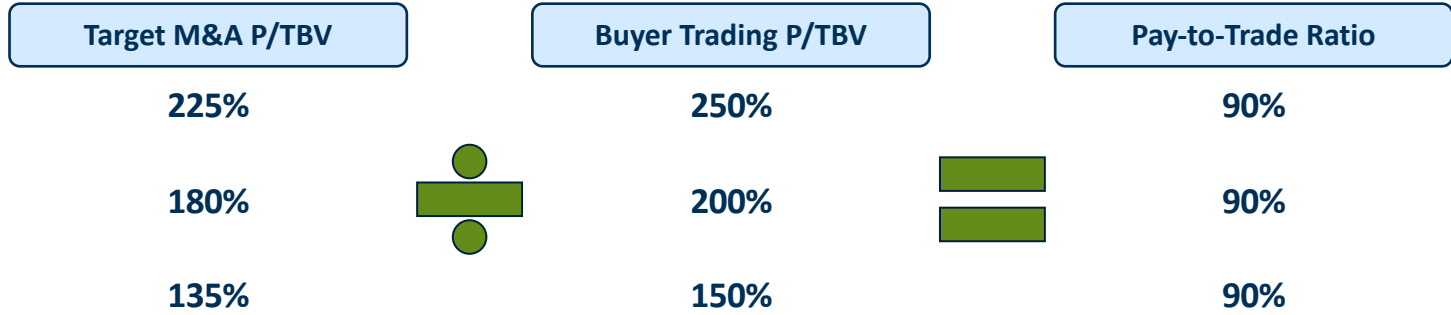


## Key Drivers

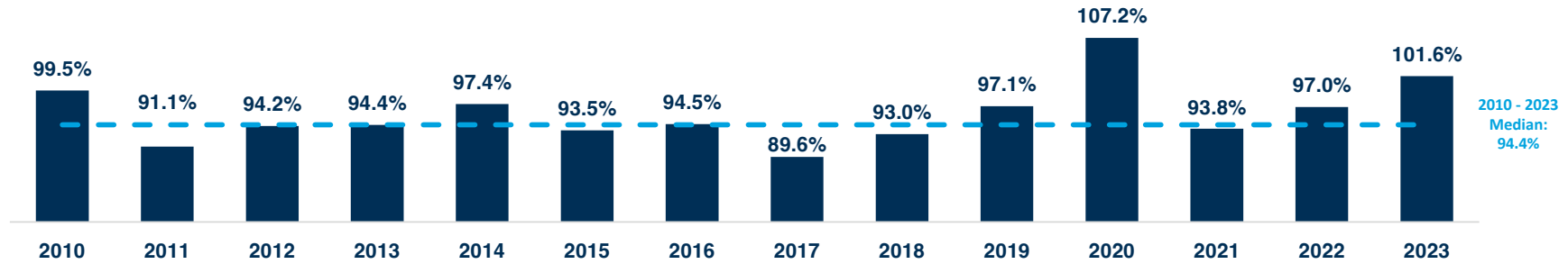


# Absolute vs. Relative Valuation

- Fiduciary responsibility for a Board of Directors is looking at the various alternatives in the current environment



Historical Median Pay-to-Trade Ratios (%) <sup>(1)</sup>



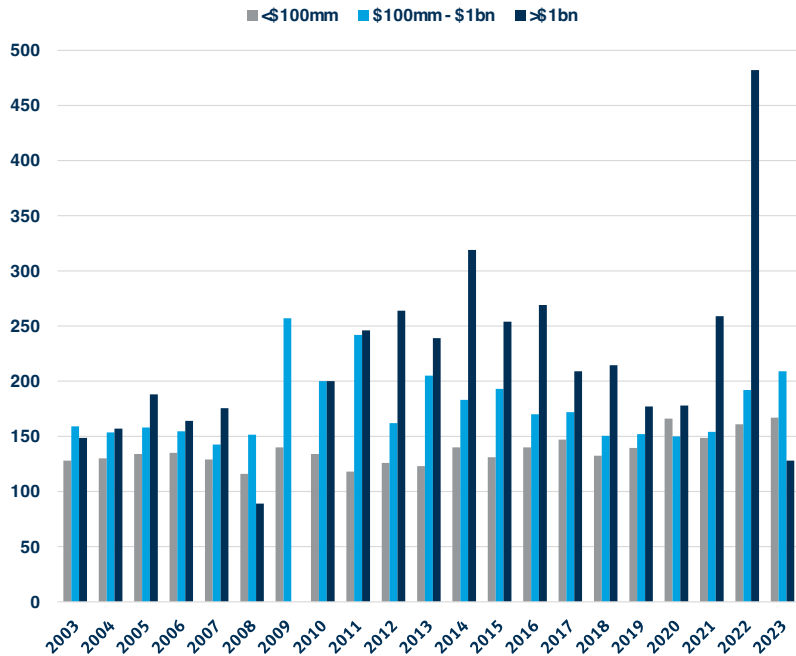
## For Transactions That Are Getting Done...

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- **Due diligence continues to be very comprehensive**
  - Investment portfolio
  - Lending portfolio
  - Key people, agreements, restrictive covenants
  - Shareholder base
- **Developing interested parties**
  - Long-term relationships
  - Close vs. wide auction process
  - Negotiations of letters of intent taking longer and are more specific
- **Pricing terms and interest rate environment**
  - Thoughts on interest rate movements can impact pricing mechanism
  - Consideration/treatment of AOCI
  - Remember price check and walkaway rights
- **Non-core businesses play important role**
  - Desirable vs. nondesirable
  - Spin-off vs. lock-up
- **Capital planning is critical**
  - May need outside capital depending on work-to-market adjustments
  - Market participants and timing can impact

# Whole Bank Transaction Regulatory Approval Time Since 2003

## Number of Days From Deal Announcement to Deal Completion<sup>(1)</sup>

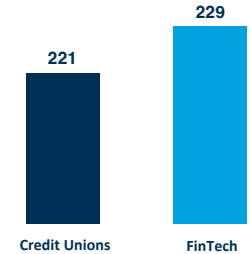


## Transactions have taken longer, especially for non-bank buyers...

Median Days From Announcement to Completion for Bank Deals

Deal Value	2003 - 2020	2021 - 2023
<\$100mm	133	150
\$100mm - \$1bn	161	172
>\$1bn	188	259

Median Days From Announcement to Completion for non-bank buyers <sup>(2)</sup>



### Avoid D.C. if you can – some transactions do not have the benefit of delegated authority with the Fed

- What determines?
  - Size
  - Buyer known to banking
  - Regulatory status of each party
  - Community groups
  - Business plan (growth, complexity, new products)
  - General complexity
- Consultations with D.C. may be unavoidable
- Plan ahead and be proactive

Source: S&P Market Intelligence and FactSet; Data as of 12/31/23

Note: Transactions include bank, savings bank and thrift transactions; Excludes non-full bank transactions, terminated transactions and FDIC transactions. Transactions grouped by announced deal value

Note: Median values shown for number of days from deal announcement to deal completion

(1) M&T Bank Corporation/Hudson City Bancorp, Inc. excluded due to idiosyncratic regulatory issues

(2) Includes completed transactions since 2018 where Credit Unions and FinTech buyers acquired banks

## **S** Shareholder Communication & Regulatory Environment

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# Shareholder Communication

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## One-Off Credit Blips

- Be careful that many banks have described credit losses as one-off but consider in anticipation of a potential recession
- Timing - special releases vs. earnings release



## Long-Term Profitability



## Should Company Engage with Activist Shareholders?

- Consider pros/cons with board of directors
- Pay attention/review governance documents (articles of incorporation, bylaws, etc.)
- Preferred holders vs. common holders



## Stock Price is Undervalued

- Do actions (share repurchase, insiders stock activity) match the message
- Avoid inadvertent “tender offer” announcement

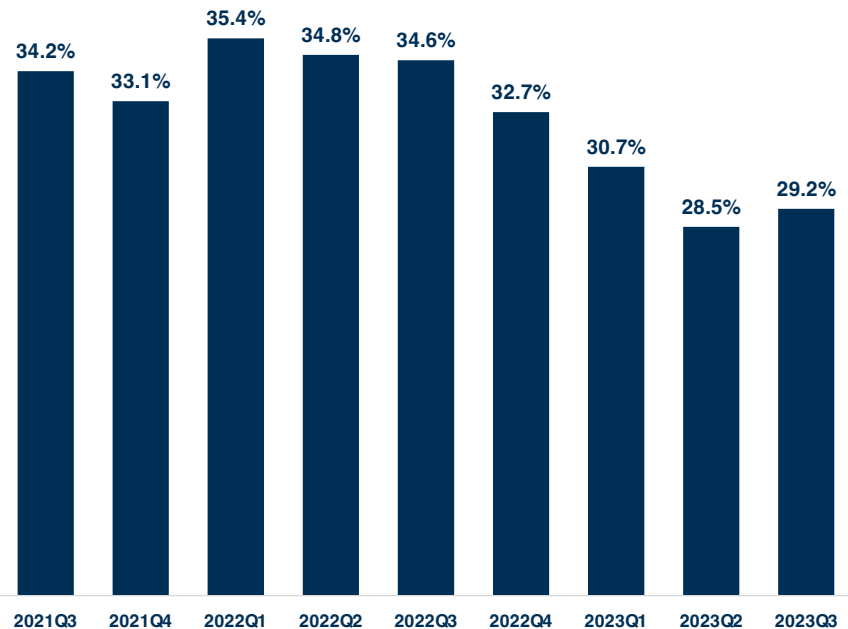
# Key Regulatory Topics/Issues

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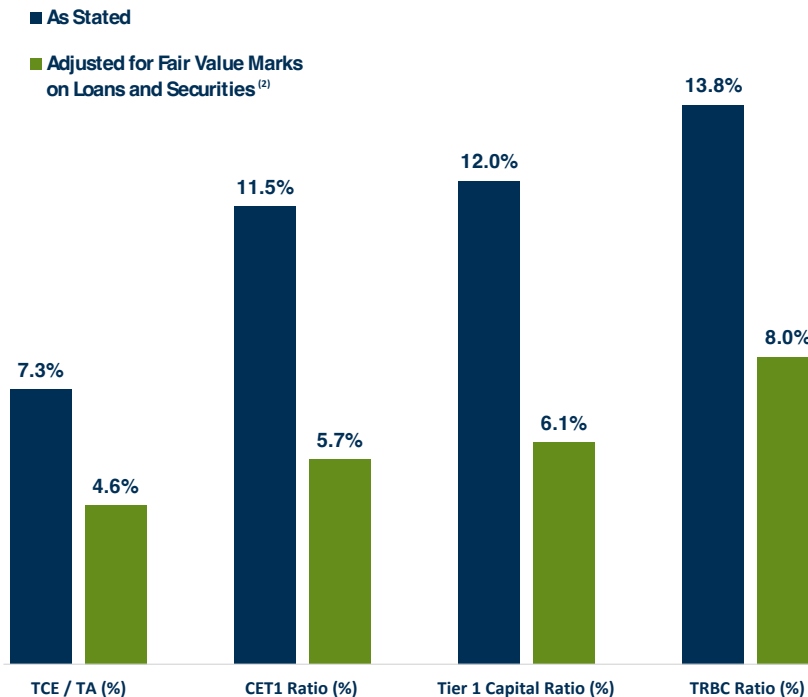
- **Political animal - always tense in an election year**
  - Political crosshairs
  - Inconsistent treatment and communication
  - Turnover cycle and inexperienced examiners
- **Banking nuts-and-bolts**
  - Credit quality - economy and possible “soft landing”
  - Uninsured deposits
  - Capital
  - Lending concentrations (particularly CRE)
- **Third-party risks**
  - Cybersecurity
  - Fintechs
  - Regulators universally following OCC guidance
  - Due diligence
    - Level commensurate with risk
    - Continued oversight and termination rights
- **Emphasis on consumer protections**
  - Active CFPB
  - Limitations on overdraft fees
  - Data processing rights
- **Artificial intelligence**
- **Old-fashioned constitutional law**
  - Chevron and congress vs. regulators
  - Role of administrative court dispute resolution

# Focus is on New Ratios

## KRX Adj. Uninsured Deposits <sup>(1)</sup> / Total Deposits



## KRX MRQ Capital Ratios as Stated and Adjusted



Source: S&P Global Market Intelligence; Data as of 9/30/23

Note: KBW NASDAQ Regional Banking Index (KRX) includes 50 U.S. regional banks or thrifts with assets between \$9 and \$90 billion

(1) Adj. uninsured deposits defined as reported uninsured deposits less total deposits from state & political subdivisions per bank level call reports

(2) Capital ratios adjusted for fair value marks on available-for-sale securities, held-to-maturity securities and loans; TCE ratio adjusted for held-to-maturity securities and loan marks, available-for-sale securities mark already reflected in AOCI

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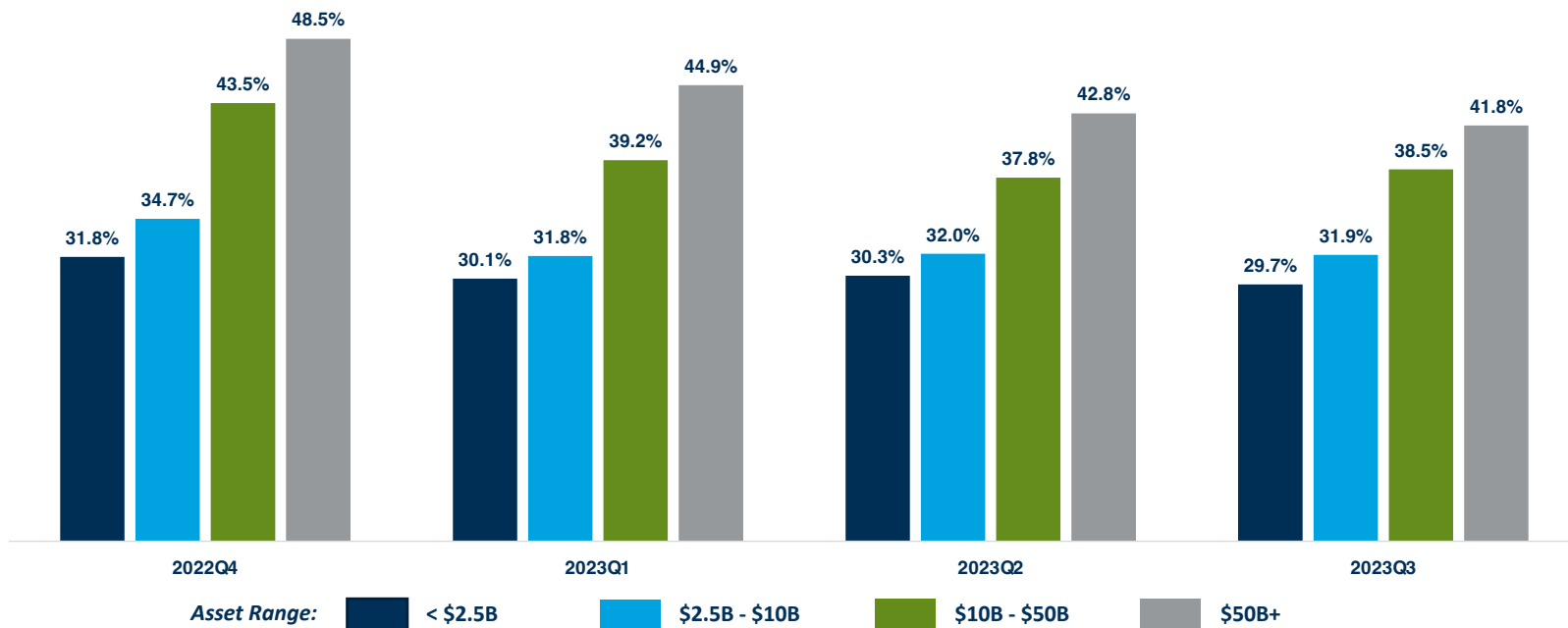


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## Uninsured Deposits In The Banking System: *Stratified By Asset Size*

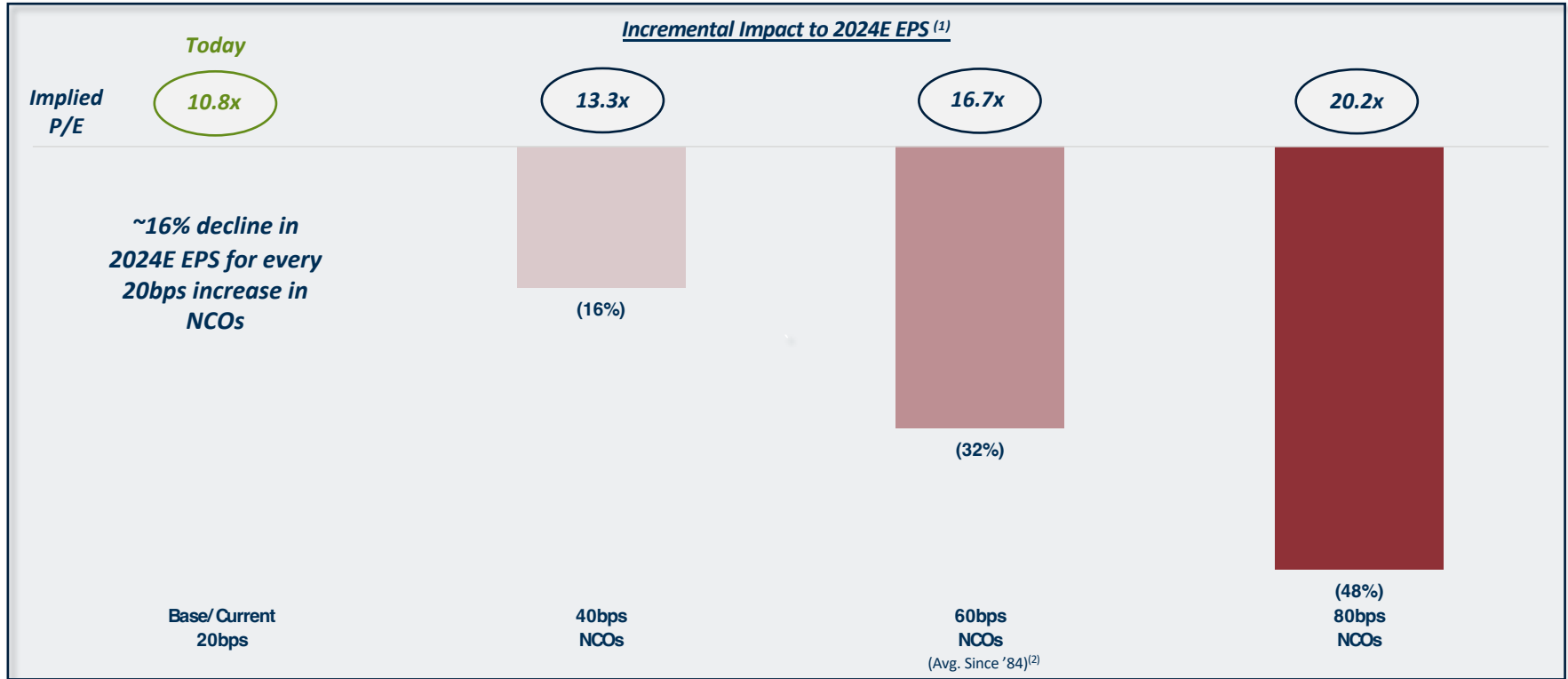
- Uninsured deposits are declining, but larger banks are still more exposed

### Uninsured Deposits / Total Deposits (%)



# Credit Remains A Risk To EPS Estimates

What if the soft landing does not occur?

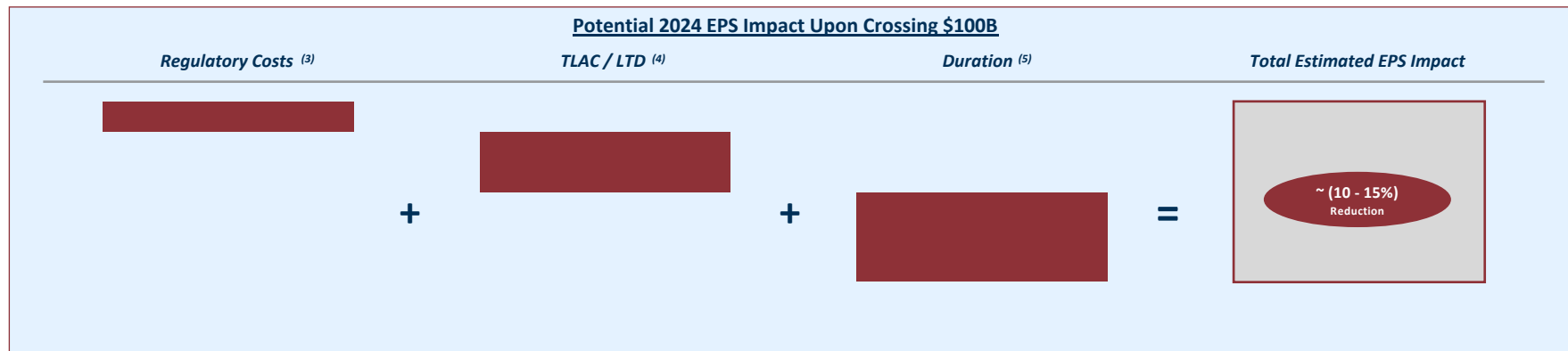
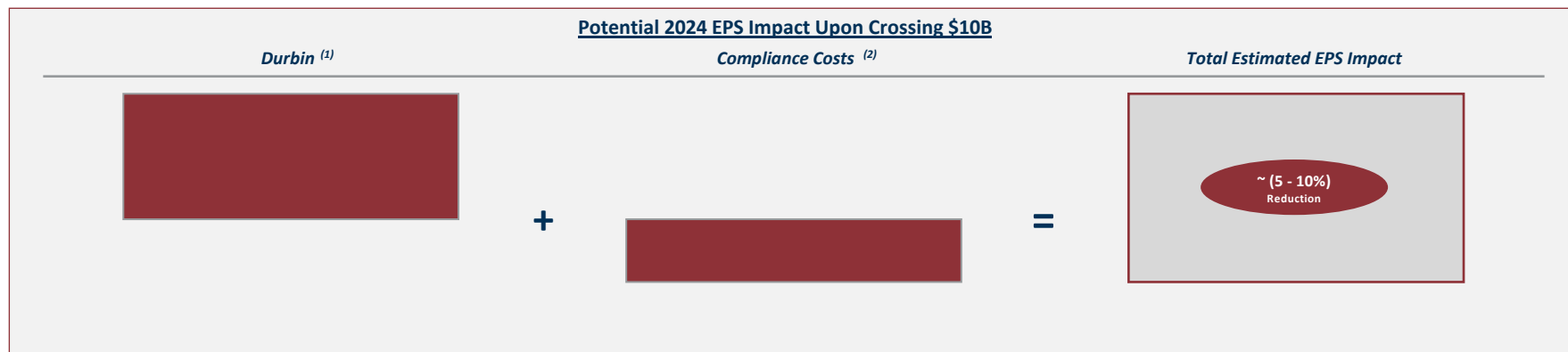


Source: S&P Global Market Intelligence; Wall Street Research, FDIC and FactSet. Data as of 1/22/24

(1) Assumes 2024E ratio of provision to charge-offs for each company is held constant for each incremental increase in assumed NCOs

(2) Based on all FDIC-insured commercial banks excluding credit card charge-offs

## Scale Comes At A Price: *Crossing \$10B vs. \$100B*



Source: S&P Global Market Intelligence and FactSet; Financial data as of or for the most recent quarter available

(1) Assumes lost interchange income due to Durbin in the \$5-15M range

(2) Assumes compliance costs in the \$3-5M range

(3) Assumes regulatory costs in the \$15-25M range

(4) Assumes long-term debt must be taken on based on GSIB TLAC regulatory requirements; Assumes negative impacts accordingly

(5) Assumes duration reduction on securities and loan portfolios, decreasing yields

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## Other Legal Considerations

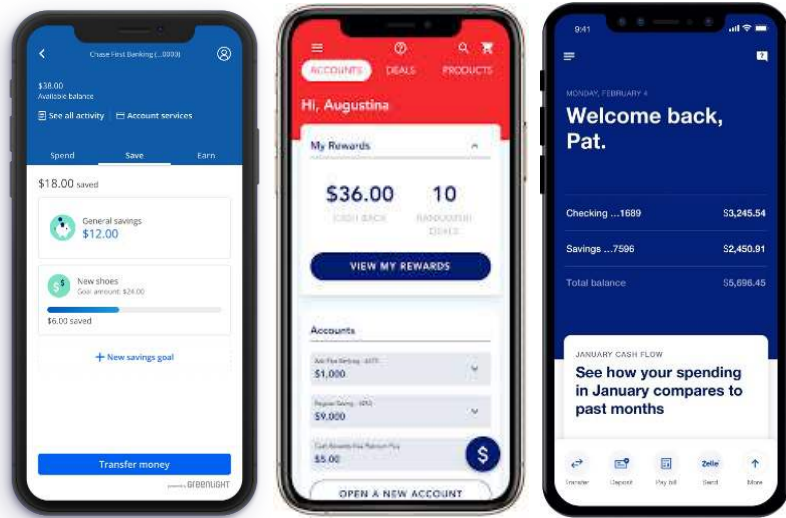
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- **Restrictive covenants**
  - Trend of laws/regs weakening restrictive covenants
  - Issues with non-core businesses (fintech, insurance, etc.)
  - Important to review current agreements
- **Anti-trust**
  - Significant developments in other industries
  - Practical impact on regional/community banks is negligible
- **SEC disclosures**
  - Increased emphasis on cybersecurity issues
  - Trend to enhance disclosure on diversity and ESG matters
    - Important to consider requirements vs. best practices vs. what makes sense for the bank
  - Detailed compensation disclosures
- **Fiduciary duties**

# To Remain Competitive, Banks Have To Act

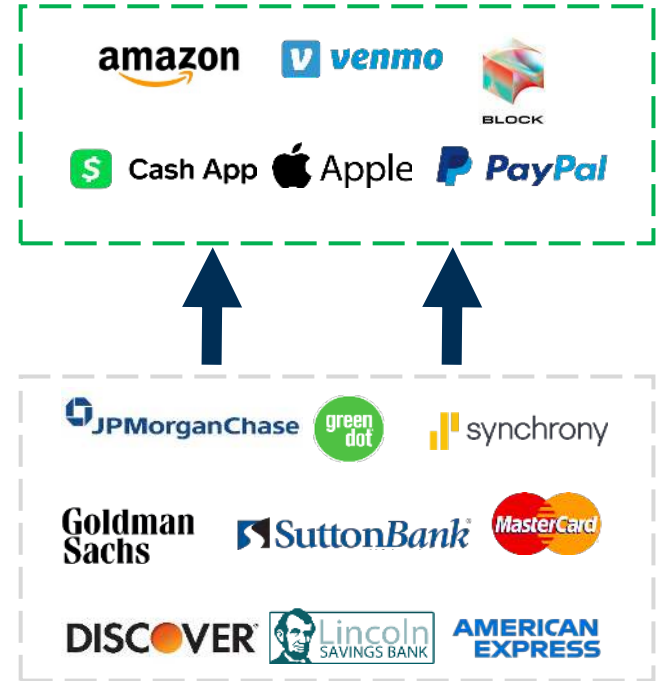
## Invest or ...

*Larger FIs Have Built Solid Digital Offerings ...*



## ... Partner

*Well-established FI Partners Can Enable New FinTechs*



## Presenter Biography



**Robert M. Fleetwood**  
*Co-Chairman,  
Financial Institutions Group*

**Phone:** (312) 629-7329

**Email:** robert.fleetwood@bkfn.com

### Career Background

Robert M. Fleetwood is the co-Chairman of the firm's Financial Institutions Group. He concentrates his practice on advising financial institutions on strategic, securities, and general corporate matters. Rob regularly represents financial institutions on public and private securities offerings, recapitalizations, mergers and acquisitions and contract negotiations. Additionally, Rob works closely with clients on their continued compliance with federal and state securities laws, including reporting under the Securities Exchange Act and with corporate governance.

Rob is an adjunct professor in banking law at the Northwestern University Pritzker School of Law. He was an adjunct professor of securities law in the graduate program in financial services law at the Chicago Kent College of Law for five years. Rob is also a frequent speaker in the financial institutions and securities law areas to trade associations and professionals.

Our 30+ attorney Group has represented more than 250 financial institutions across the country. Our M&A experience is unparalleled—over the past 5 years we were the **#3 legal advisor in the U.S. and #1 in the Midwest** by announced bank and thrift M&A transactions—according to *S&P Global Market Intelligence*.

### Education

B.A., University of Michigan

J.D., Northwestern University Pritzker School of Law

## Presenter Biography



**Al Laufenberg, CFA**  
*Managing Director*

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### Focus at KBW

Al Laufenberg advises board of directors, special committees and senior executive offerings of public and privately-owned financial institutions on a wide range of alternatives including M&A and capital raising. In addition, Al leads the firm's market leading business development companies (BDCs) investment banking initiative.

### Career Background

Al is a Managing Director based in Chicago, focusing on full advisory services to depositories, specialty finance and BDCs, and is a member of the firm's fairness opinion committee.

Al Laufenberg has represented numerous financial institutions (buy and sell side) as well as working with special committees for nearly 30 years. Al has worked on successfully completing over 350 transactions exceeding \$70 billion in transaction value for financial institutions. Mr. Laufenberg has worked with KBW/Stifel or predecessor firms since 2000.

### Select Transaction Experience

- Merchants Manufacturers Bank Corp. sale to First Busey Corp. Corporation
- West Suburban Bancorp, Inc. sale to Old Second Bancorp, Inc.
- Special committee advisor – Blackrock Capital Investment Corporation sale to BlackRock TCP Capital Corp.
- Sole bookrunner – Old Second Bancorp, Inc. subordinated debt
- Special committee advisor - Oaktree Specialty Lending Corporation acquisition of Oaktree Strategic Income Corporation
- Acquisition by Nicolet Bankshares Inc. of County Bancorp, Inc.
- Town and Country Financial Corporation sale to HBT Financial, Inc.
- Acquisition by First Community Financial Partners, Inc. of minority ownership in various subsidiaries
- Advised R&T Deposit Solutions on strategic investment from GTCR
- Golub Capital BDC, Inc. merger with Golub Capital Investment Corporation
- Placement agent – BankFinancial subordinated debt
- Trinity Capital Inc. – Bookrunner or sole agent on 7 separate transactions raising over \$650 million in aggregate over 36 months
- Lead bookrunner – HBT Financial, Inc. IPO
- Sole placement – Nicolet Bankshares subordinated debt
- Private placement agent for Standard Bancshares, Inc. -equity raise

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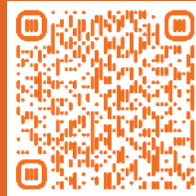
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# Breakout 1: What the Board Needs to Know in 2024

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