Breakout 4:
The Return of Bank M&A: Have the Rules of the Game Changed?

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INVESTMENT BANKING

THE RETURN OF M&A: HAVE THE RULES OF THE GAME CHANGED?

BANK BOARD TRAINING FORUM

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1935 THE STRENGTH OF ADVICE

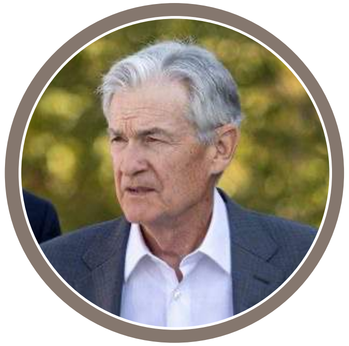
Key Themes in the Banking Industry

Key Themes

- The broader **market continues to experience turbulence** due to several macro events including:
  - Recession uncertainty, uptick in unemployment, upcoming U.S. election and geopolitical tensions in Ukraine and the Middle East/Israel
  - CPI index cooled in July 2024 to 2.9% from its peak of 9.1% in Summer 2022
- Economists have penciled in a **25 basis point interest rate reduction** at the Fed's September 18th meeting with the possibility of an **additional 50 basis points in cuts by year-end**
- Higher rate environment has kept funding costs elevated and has been a drag on NIM
  - Core deposits have been tested and NIMs have declined the last several quarters; however, **NIMs and EPS have likely bottomed**
  - While earnings are expected to be lower in 2024, analysts' earnings expectations have stabilized after a period of downward revisions
- **Bank stocks have rebounded** from the bottom in May 2023 (1), with the NASDAQ Bank Index up 54% since then
  - More recently, the NASDAQ Bank Index has increased 11% since July 1, 2024
- **Credit quality remains clean**, but cracks have begun to show with "one-off" provisions
  - $670 million of potentially troubled commercial real estate debt maturing over next three years
- **M&A activity continues to be slow**, however more parties are coming back to the table as acquirer valuations rebound
- Capital markets activity has been limited although there were a few recent equity offerings in conjunction with mergers

"We do not seek or welcome further cooling in labor market conditions… the time has come for policy to adjust."

– FED CHAIRMAN JEROME POWELL
GRAND TETON NATIONAL PARK, 8/23/2024



"**I WASN'T AFFECTED BY INFLATION, I HAD NOTHING TO INFLATE**"

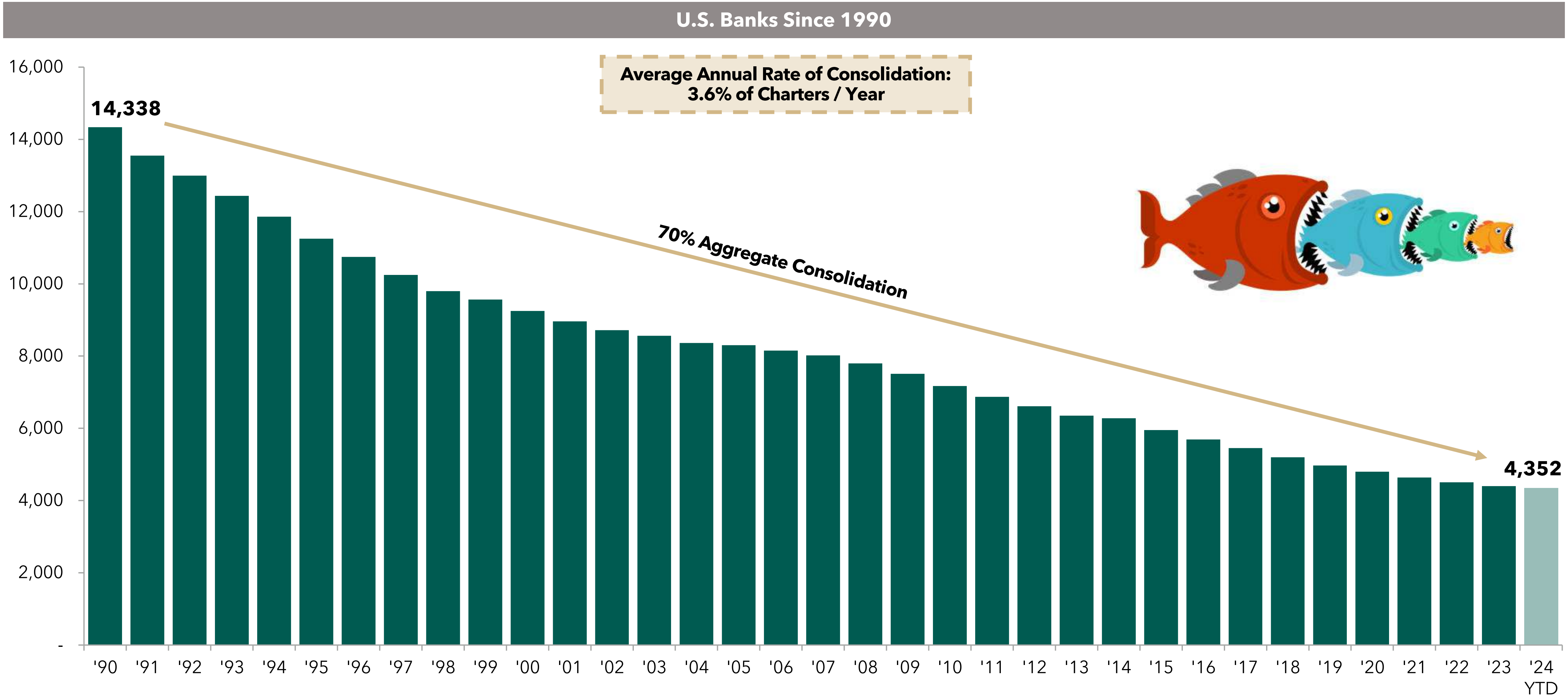
GERALD BARZAN

"**THIS TOO SHALL PASS.**
IT MIGHT PASS LIKE A KIDNEY STONE.
BUT IT WILL PASS."

Source: S&P Capital IQ Pro, market data as of 8/21/2024; Newmark & Goldman Sachs Global Macro Research (loans with estimated sr. debt LTV of 80%+ are considered troubled); U.S. Bureau of Labor Statistics; Wall Street Journal; Reuters poll as of 8/23/2024

(1) NASDAQ Bank Index performance from 05/11/2023 to 08/21/2024

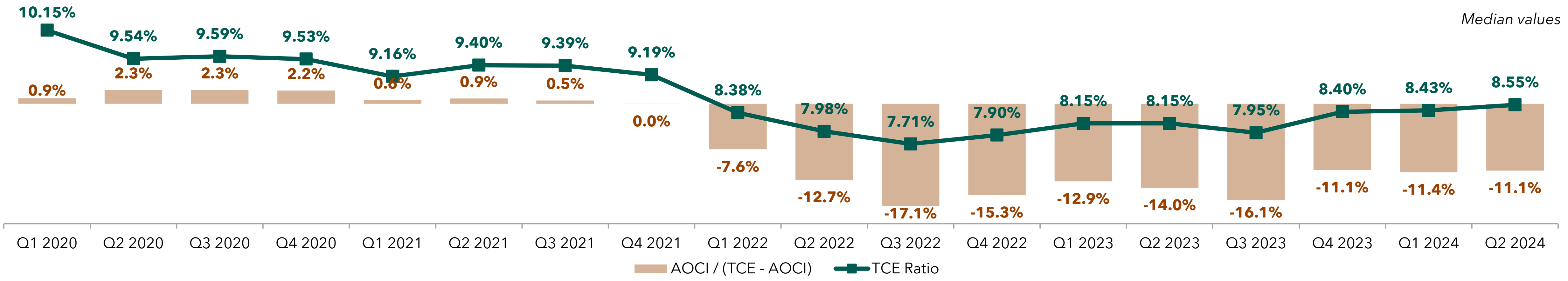
Banking Sector Has Been Consolidating for 25+ Years



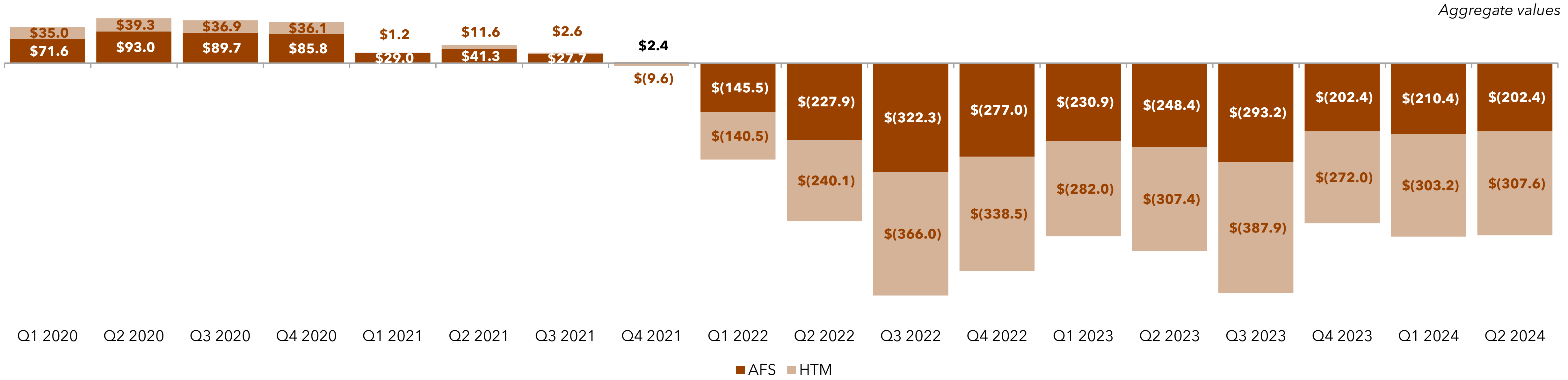
Source: S&P Capital IQ Pro, as of 8/21/2024. Image from iStock
Note: Includes all U.S. regulated depositories, except MHCs and credit unions

Rising Rates Have Crushed Securities Portfolios… But Help is on the Way

AOCI as a % of TCE – Since 2020



AFS & HTM Unrealized Securities Losses at U.S. Banks ($B) – Since 2020



Source: S&P Capital IQ Pro, GAAP and regulatory data as of the quarter ended 6/30/2024
Note: Unrealized losses are pre-tax; accumulated other comprehensive income (AOCI) is after-tax

Impact of Interest Rate Environment on M&A

- The recent rise in interest rates has significantly impacted the reported financial metrics in M&A transactions
- Interest rate marks on the securities and loan portfolios of acquired companies have the following impacts:
  - Increased initial tangible book value dilution
  - Increased earnings accretion
  - Extended tangible book value earnback periods
  - A decrease of pro forma capital ratios at transaction closing

Creates significant "noise" in pro forma financial results

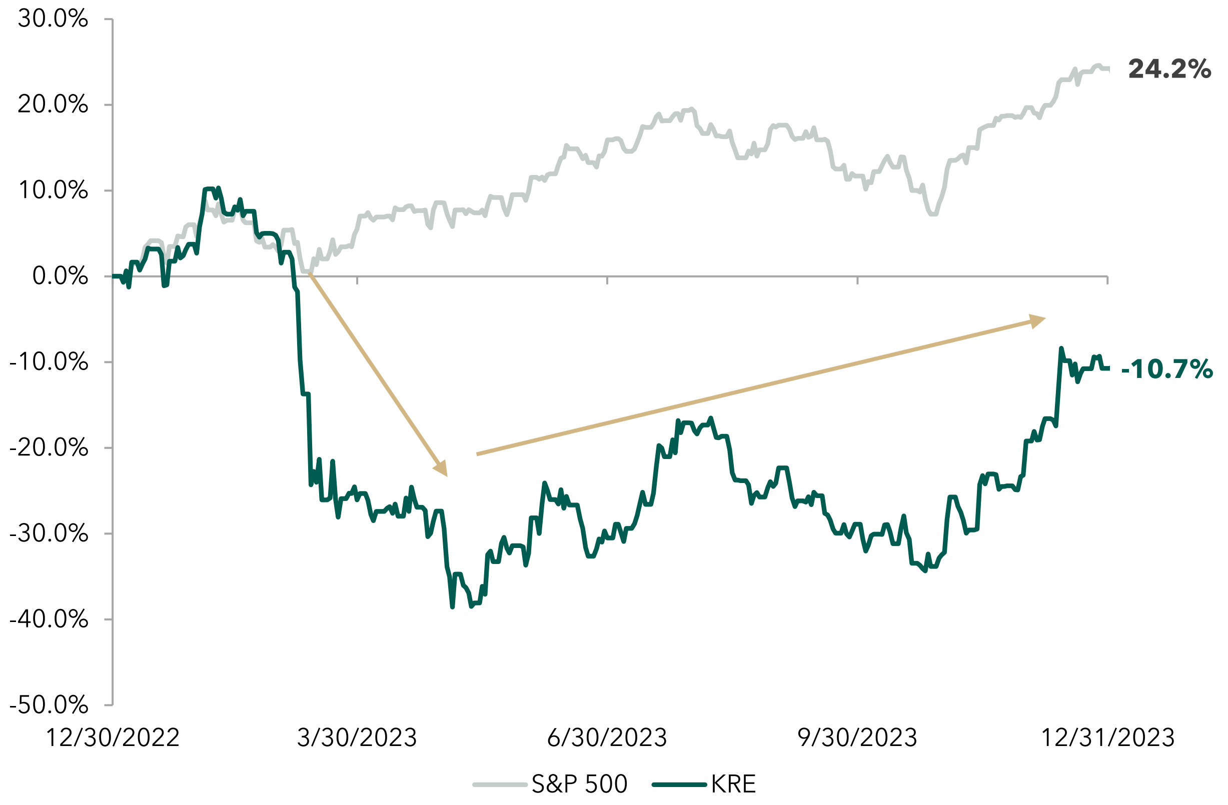
- A significant amount of earnings accretion is generated as a result of purchasing accounting with no execution risk

Merger Model Changes	2019	Now	Impact to Pro Forma Model	Commentary
Loan Portfolio Fair market value ("FMV") interest rate risk	0.50% +/-	1.00% - 8.00%	• Day-1 decrease to TCE, which can be material • Increases earnings, as it is recaptured through earnings as accretable yield	• Example – a fixed rate loan from 2021 is lower than current market rate, so the principal balance is marked down to result in higher yield
Investment Securities Unrealized losses ("AOCI")	< 2% of equity Not a material impact	~15% of equity	• AOCI is eliminated, but no impact to TCE since already accounted for in GAAP Equity • Decrease to regulatory Tier-1 Capital as the add-back is now $0 • Increases earnings, as it is recaptured through accretable yield	• AOCI losses have increased significantly • With M&A accounting, the AOCI effectively becomes a realized loss
Deposits Core deposit intangible asset (CDI)	1.00% to 1.50%	3.00% -3.50%	• Higher amortization expense, which decreases earnings	• Higher CDI due to higher value of core deposits

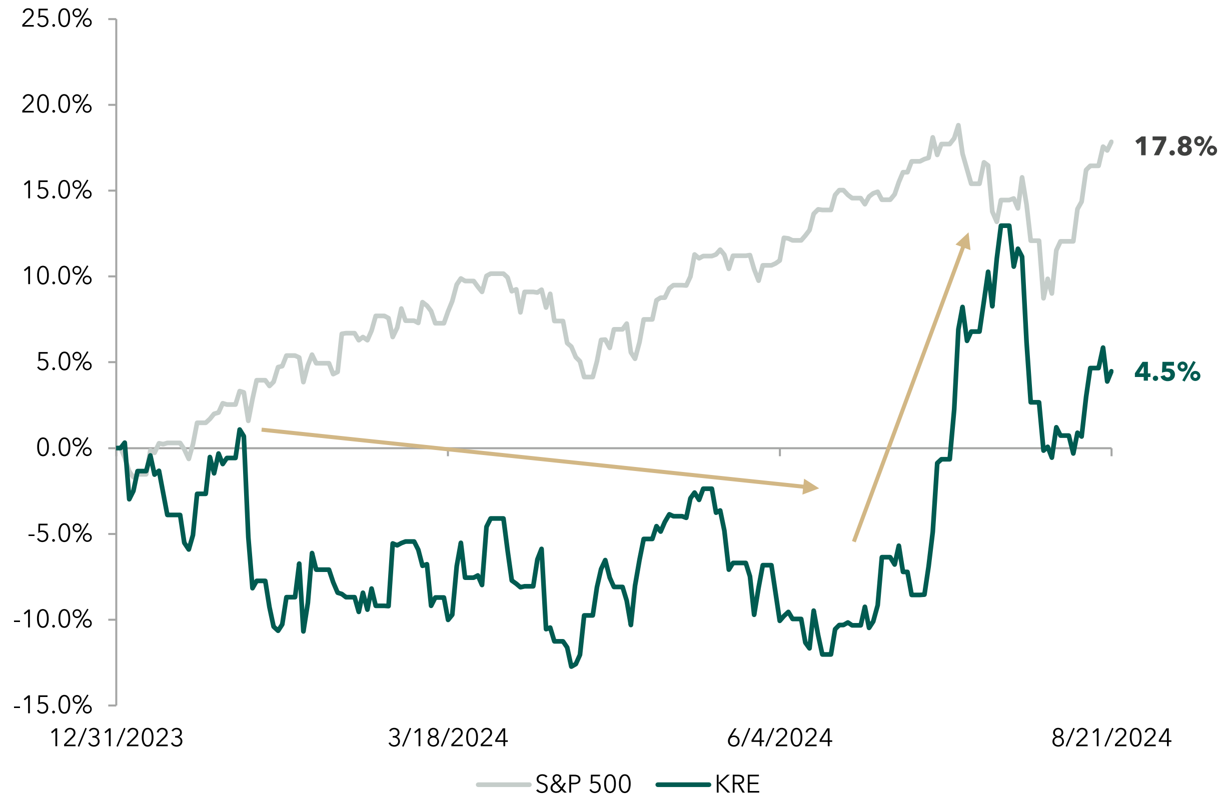
Seeing Light at End of Tunnel for Bank Stocks

- Higher valuations increase acquirers' ability to pay
- Stronger valuations will foster more robust merger discussions

Bank Stock Performance 12/30/2022 - 12/31/2023



Bank Stock Performance 12/31/2023 - 08/21/2024

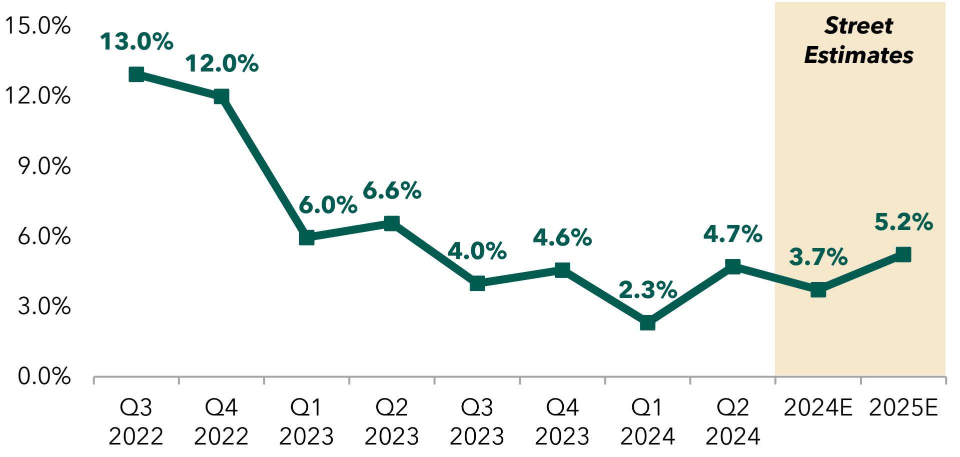


Source: S&P Capital IQ Pro, market data as of 8/21/2024
Note: KRE denotes the SPDR S&P Regional Banking ETF

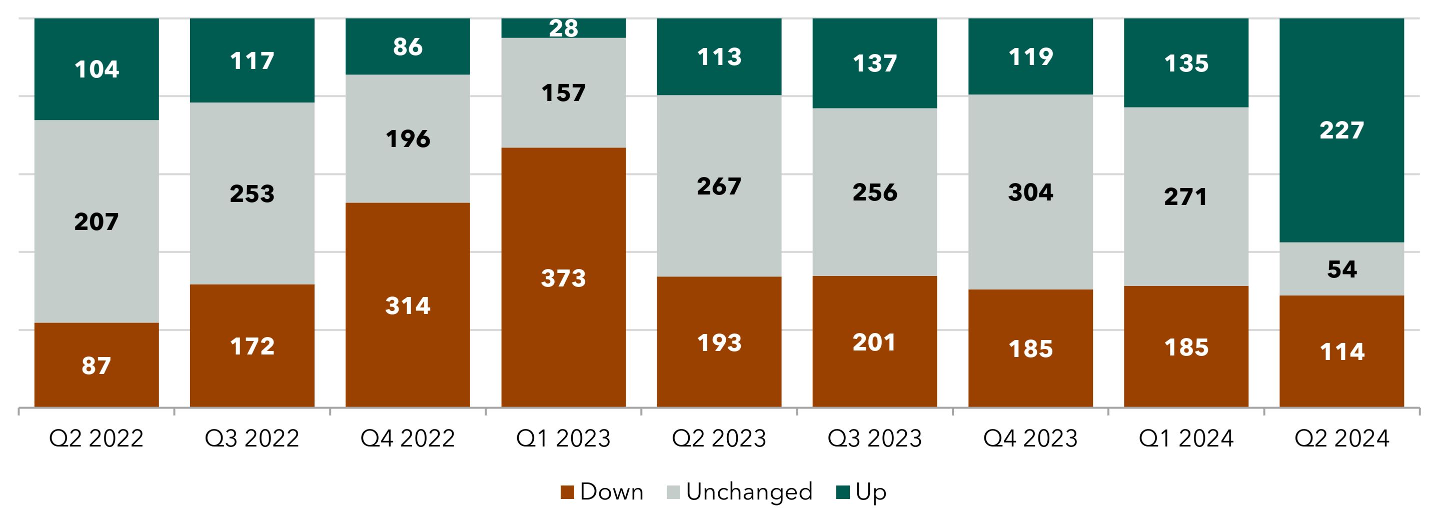
EPS Likely Bottomed, Sentiment Around Bank Stocks Shifting to Positive

- The last several quarters have been a tumultuous time for banks and will likely have long-term ramifications from a capital/funding/regulatory perspective – however, banks are likely through the worst of it and on firm footing to finish off 2024
  - Net interest income appears to have troughed for most banks, according to management teams and Street analyst estimates
  - Sentiment toward banks stocks is shifting as (a) the KRE has largely outperformed the broader market over the last few months and (b) research analysts are issuing significantly more upward revisions vs. downward revisions
- Loan growth rebounded in Q2 2024 after a slowdown that began in Q1 2023, however management teams are still being vigilant of a credit cycle and possible recession
- Improving operating environment will lead to more M&A discussions

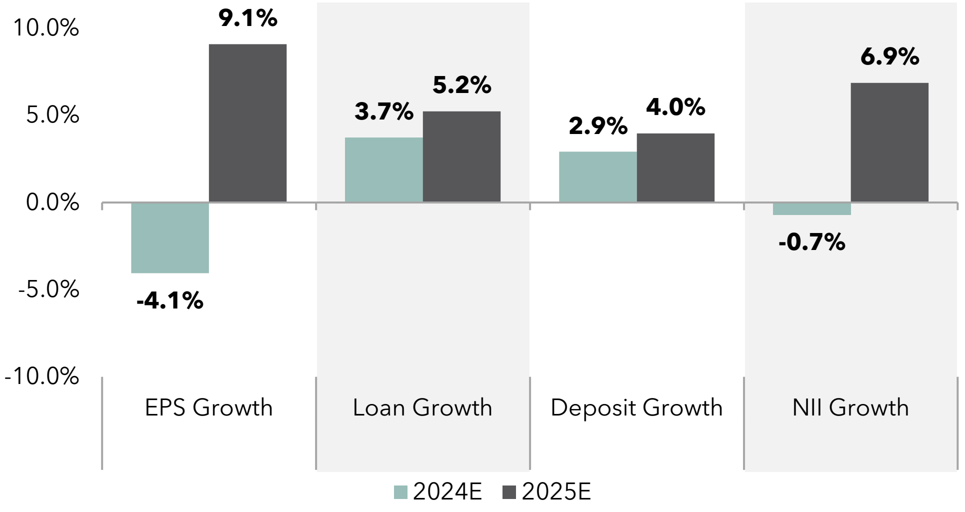
Loan Growth – Last 8 Quarters and 2024E/2025E[2]



Research Analyst 2024E EPS Revisions [1]



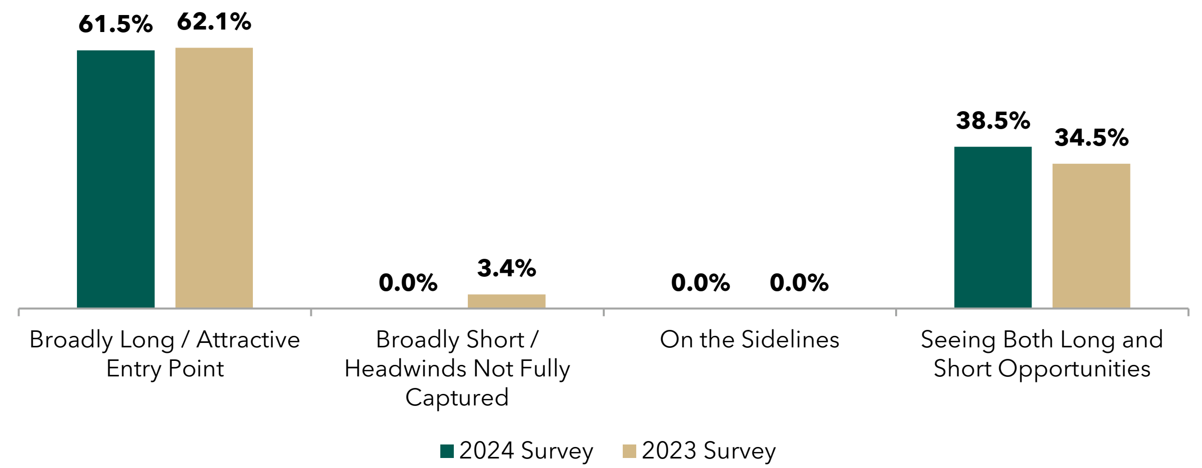
Median 2024E vs. 2025E EPS Growth and Earnings Levers



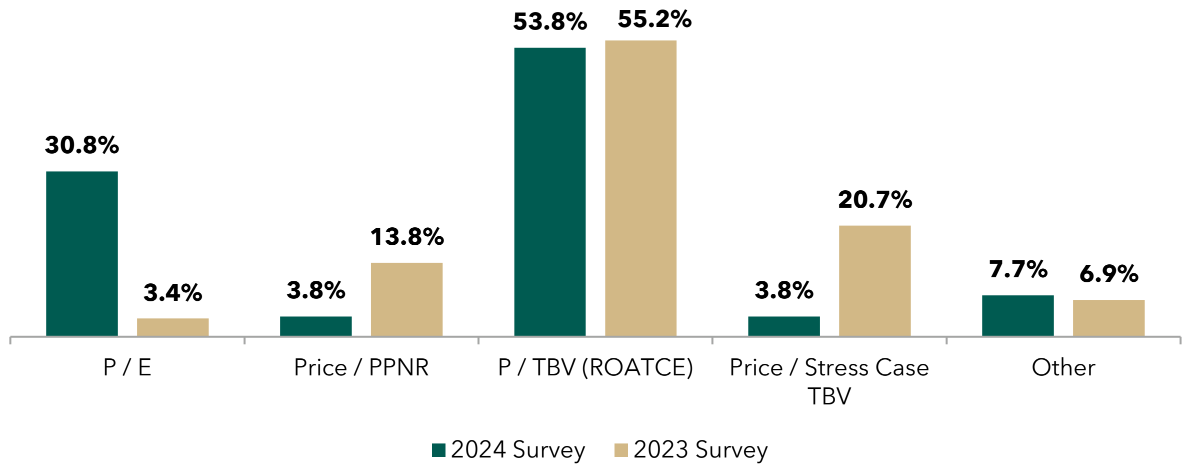
Source: S&P Capital IQ Pro, FactSet, market data as of 8/21/2024
(1) Revisions after each respective quarter-end
(2) Quarterly loan growth data annualized
Note: Median information for all NASDAQ/NYSE U.S. banks with assets less than $250.0 billion

D.A. Davidson 2024 Financial Institutions Conference Survey Results

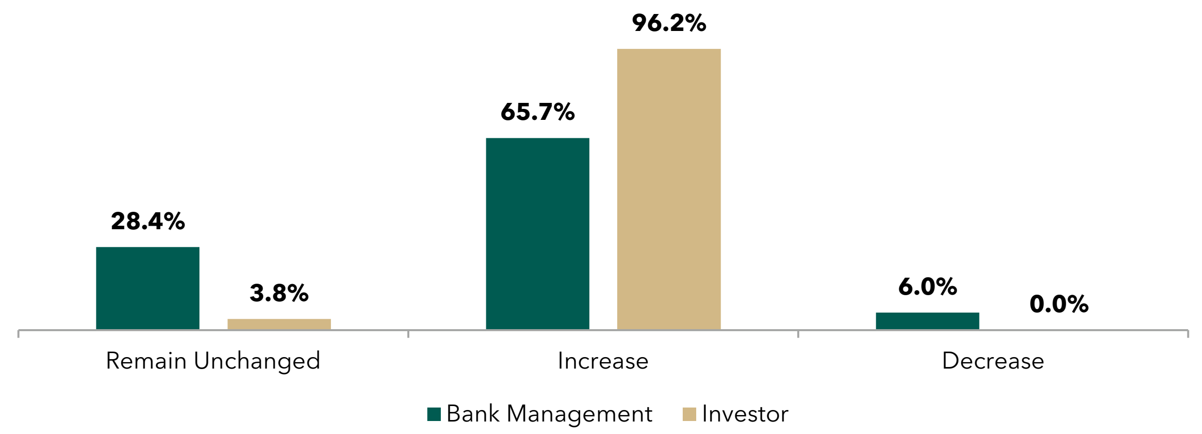
Investor Sentiment



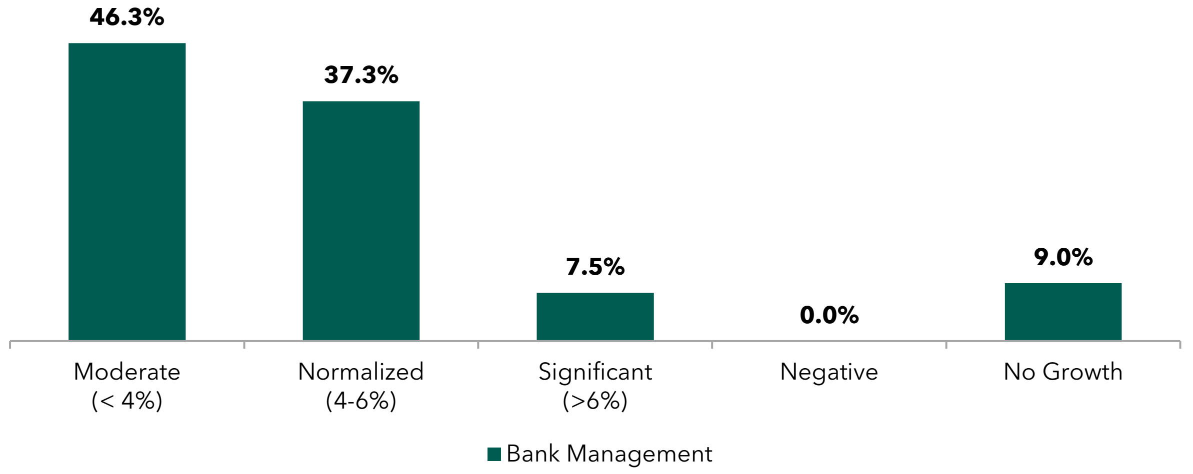
Preferred Valuation Methodology



Forward M&A Expectations



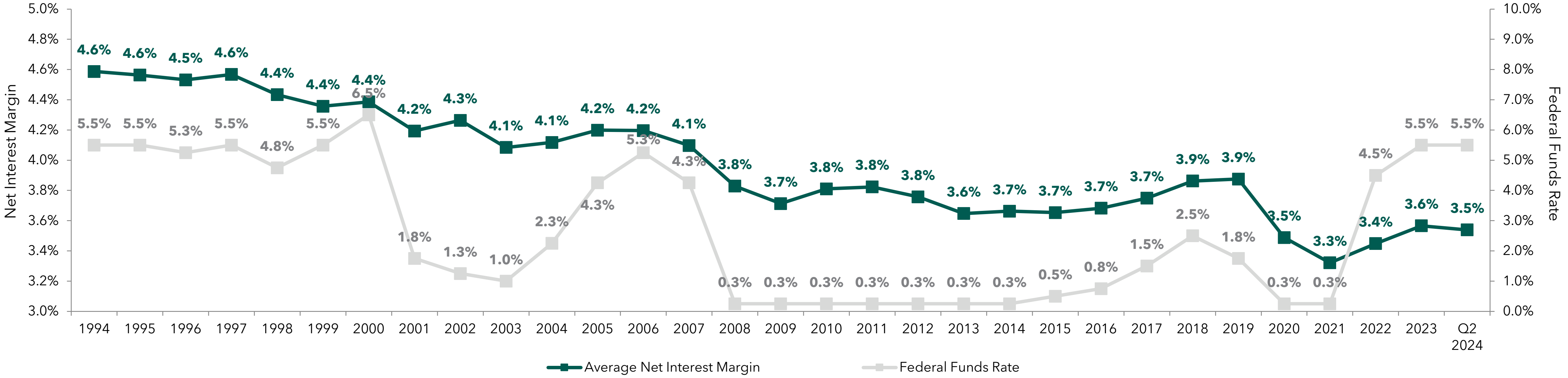
Loan Growth Expectations (2024)



Source: D.A. Davidson Institutional Equity Research 2024 Financial Institutions Conference Survey, as of 5/28/2024
Note: Complete survey is available upon request

Community Banking Headwinds Persist

Average Net Interest Margin of U.S. Banks



Banking Headwinds

- Higher funding/deposit cost
- Margin pressure
- Slowing loan growth
- CRE / office space concerns
- Declining consumer spending
- Possible recession
- Ability to raise equity / debt
- Regulation
- Cybersecurity
- Technology cost
- Future role of branches
- Stiff competition
- Slow M&A activity
- Large M&A loan interest rate marks
- Significant AOCI losses
- Low buyer trading valuations
- Negative, but improving, bank investor sentiment
- Upcoming election
- Continuous geopolitical tensions / war

Source: S&P Capital IQ Pro, as of the quarter ended 6/30/2024
Note: Includes all U.S. regulated depositories, except MHCs and credit unions

Investor Perspectives on Bank Stocks – Bulls vs. Bears

Upside – Case for Bulls

- Expectation of rate cuts may be sooner or larger than current market expectations
- AOCI recovery re-builds tangible book value
- Fed cuts…NIM improvement
- Opportunity for banks to build core deposits
- Strong loan demand
- M&A activity increases
- Bank-friendly administration wins the election
- Credit quality normalizes, but no significant deterioration

✓ **Visibility for Earnings Improvement and TBV Growth**

vs.

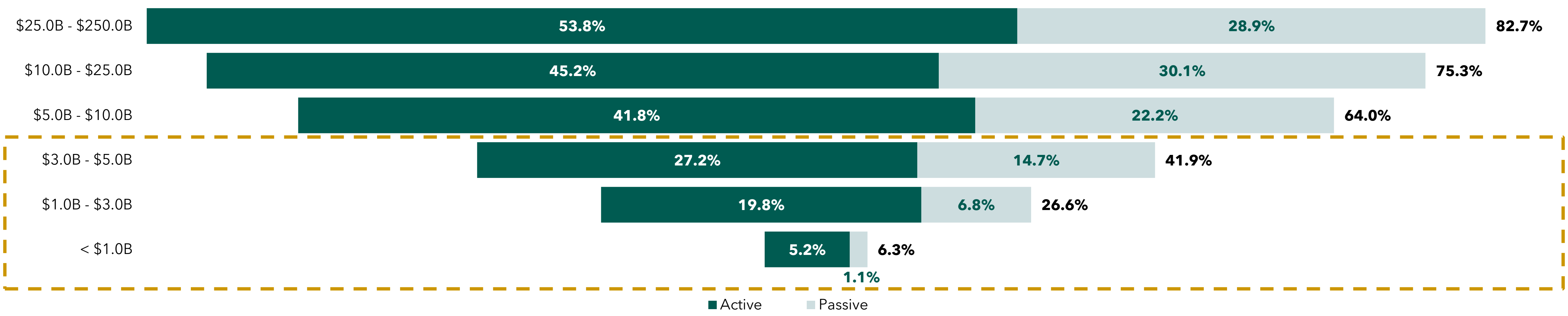
Downside – Case for Bears

- Fed narrative shifts back to inflation concerns and a higher-for-longer rate environment
- Continued declining NIM and increasing AOCI
- Regulatory rule changes in reaction to 2023 bank failures and AOCI losses
- Credit quality deterioration, which leads to charge-offs and elevated provision expense
- Uncertain on what a credit cycle looks like – haven't seen in 15 years
- Distressed, dilutive (i.e., defensive) capital offerings
- Ongoing macro-economic uncertainty
- Geopolitical conflicts abroad intensify

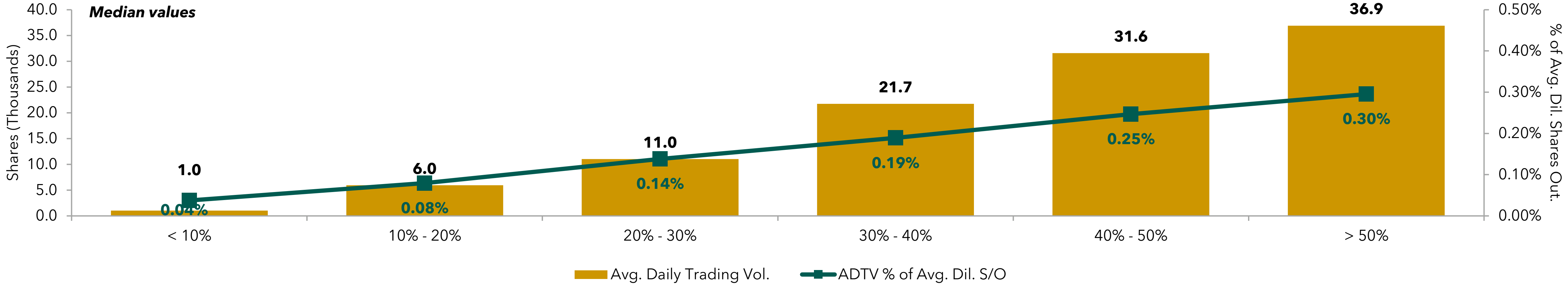
Earnings Pressure Supports Lower Valuation Multiples ✗

Smaller Banks Attract Fewer Institutional Investors… And Thus, Have Lower Trading Volume

Percent Institutional Ownership by Asset Size



3-Mo. Avg. Daily Trading Volume by Percent Institutional Ownership – Banks With Assets < $5.0B



Source: FactSet, as of the quarter ended 6/30/2024, market data as of 8/21/2024
Note: Institutional ownership percentages based on weighted averages

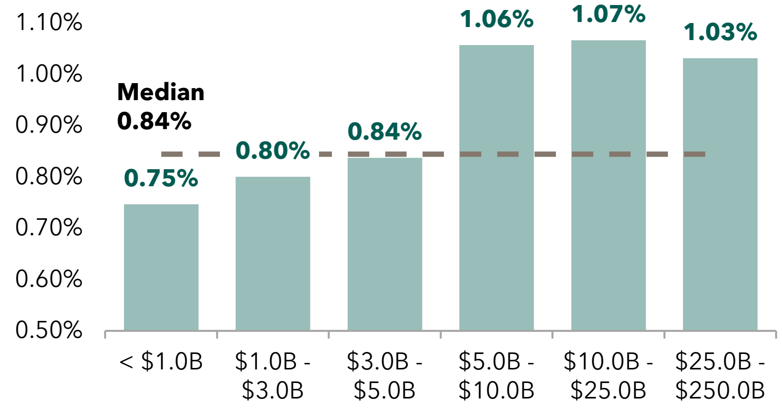
Note: Includes NASDAQ/NYSE/OTC-listed U.S. banks with assets less than $250.0 billion; excludes pending merger targets

Scale Drives Performance

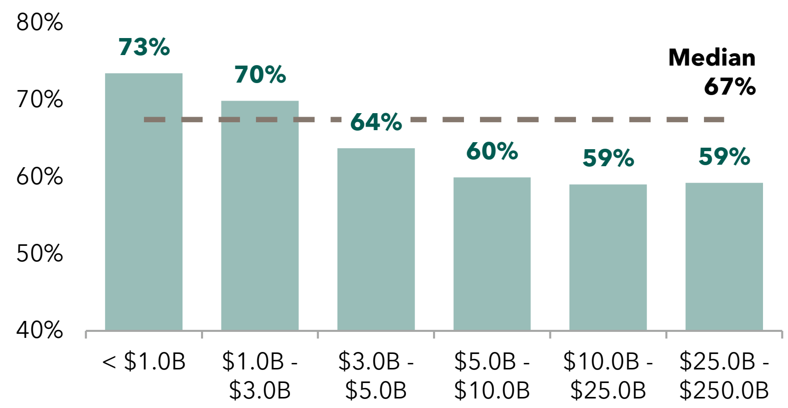
Lower efficiency ratio and net operating expense ratio imply improvement in the metric(s)

Income Statement Metrics

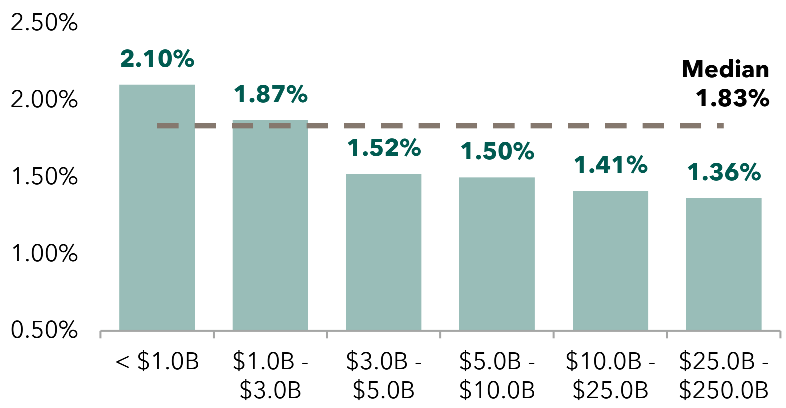
Core ROAA by Asset Size



Efficiency Ratio by Asset Size

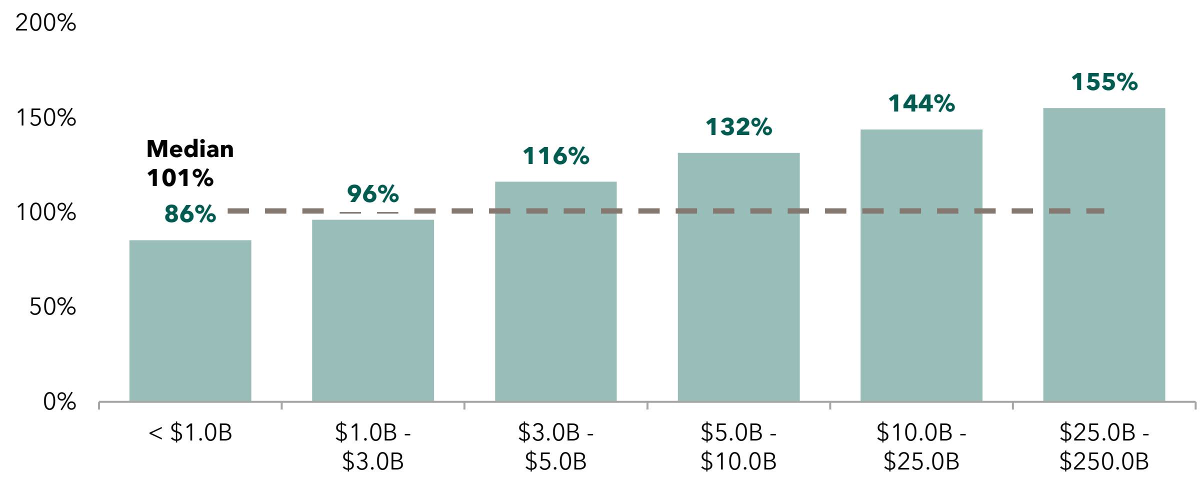


Net Operating Expense Ratio by Asset Size

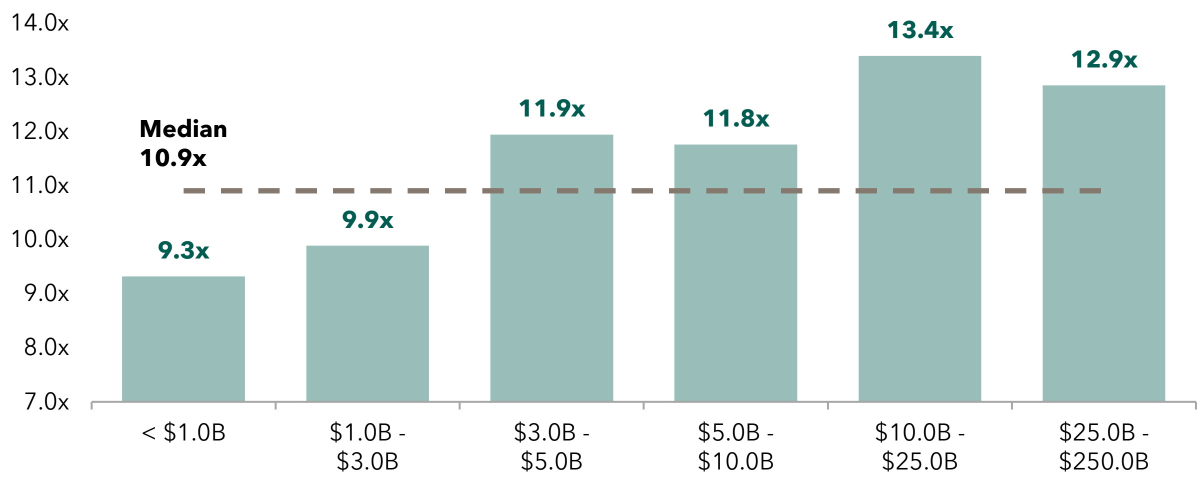


Trading Multiples

P/TBV by Asset Size



P/E (LTM) by Asset Size

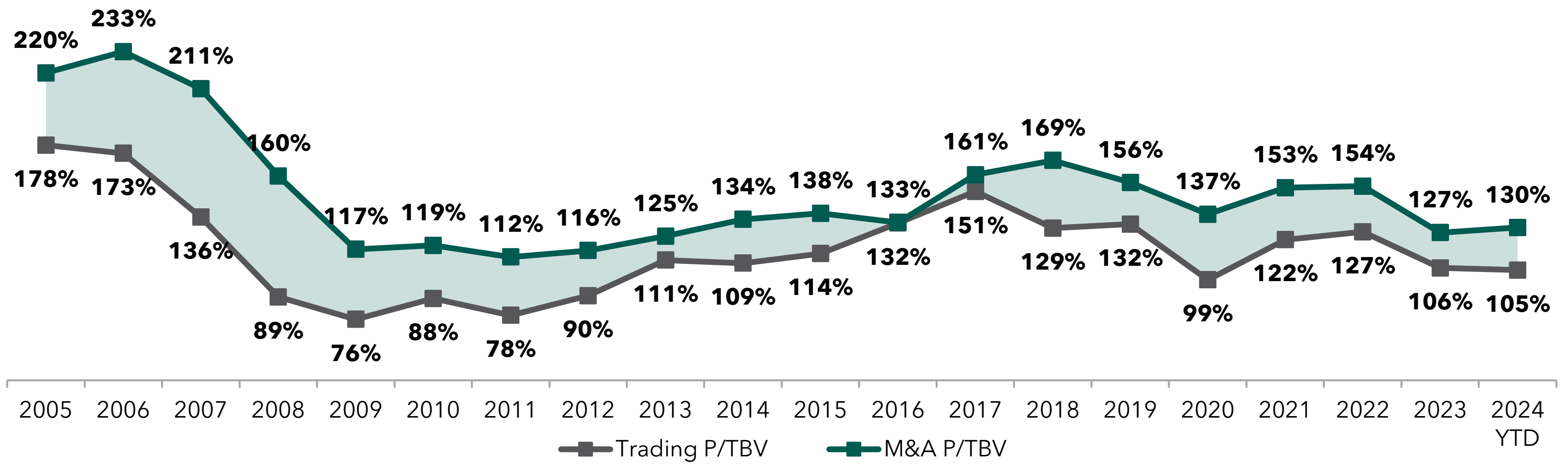


Source: S&P Capital IQ Pro, as of the last twelve months ended 06/30/2024, market data as of 08/21/2024
Note: Includes NASDAQ/NYSE/OTC-listed U.S. banks with assets less than $250.0 billion; excludes pending merger targets
Note: Net operating expense ratio = (non-interest expense – non-interest income) / average assets

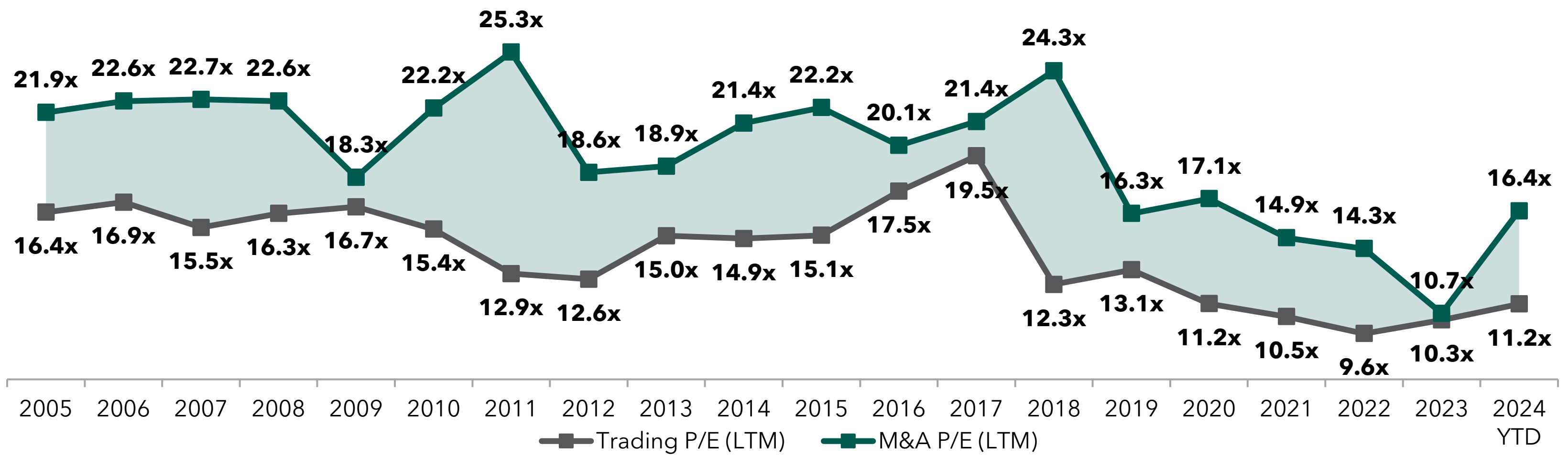
Bank Trading Multiples vs. M&A Multiples

- The prevailing public trading value for banks is an excellent indicator for M&A pricing
- As bank currencies increase in value, M&A values increase as well (the converse is also true)
- Median M&A multiples have been 29% higher on tangible book and 5.6x higher on earnings compared to trading multiples due to the control premium paid in an acquisition

Historical Trading P/TBV vs. M&A P/TBV



Historical Trading P/E vs. M&A P/E



Median Spread

29%

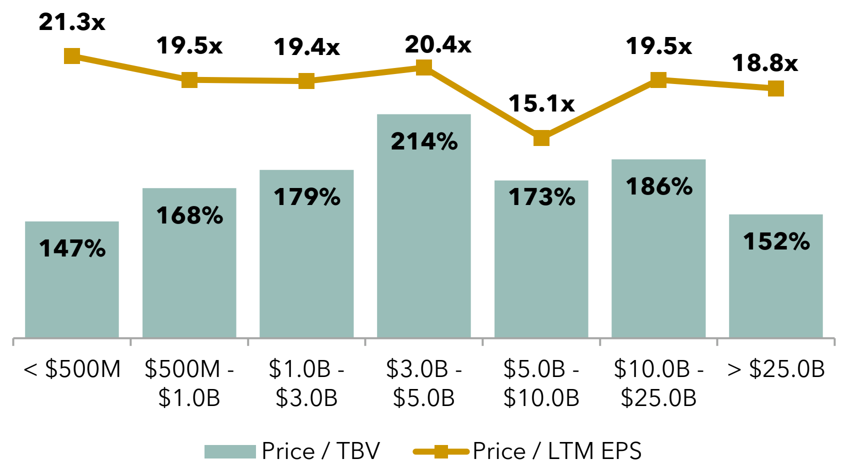
5.6x

Source: S&P Capital IQ Pro, market data as of 8/21/2024
Note: S-corp P/E multiples adjusted to reflect C-corp tax rate
Note: Excludes MHCs

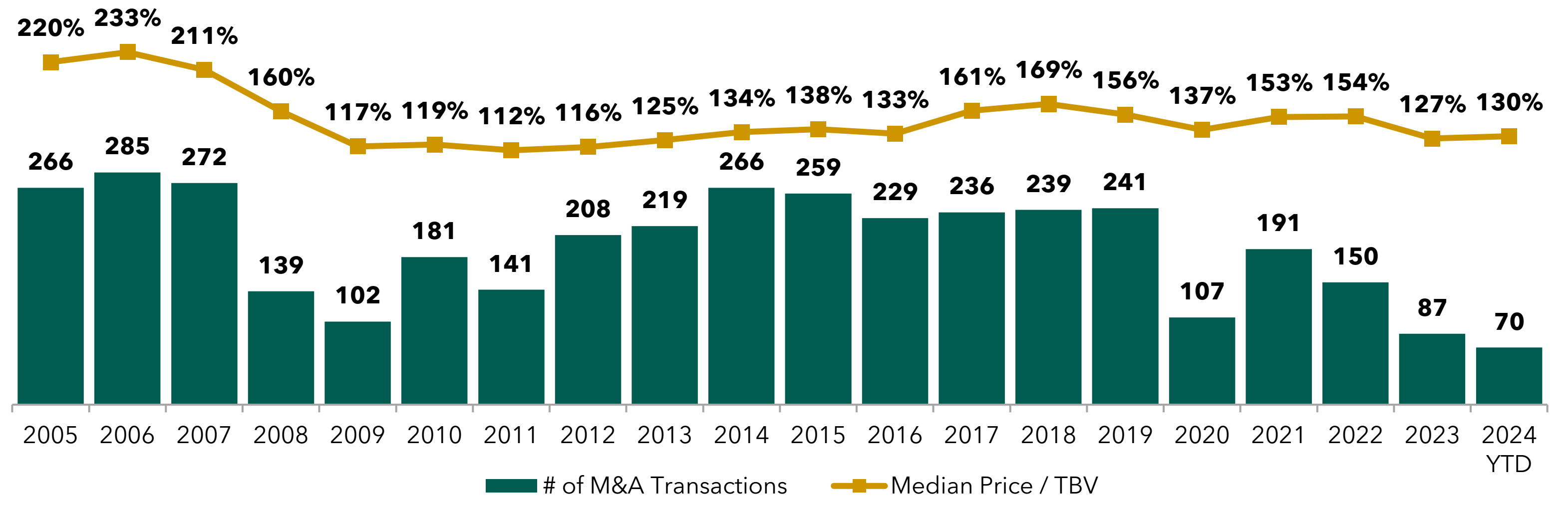
U.S. Bank M&A Environment

- M&A activity in 2023 and 2024 has been down significantly from historical norms
  - Large AOCI losses and loan interest rate marks
  - Lower acquirer trading valuations
  - Difficult capital markets
  - 5 bank failures in 2023, 1 in 2024
- Acquirers are in search of scale and EPS accretion
- EPS accretion and tangible book value dilution earnback period remain key valuation drivers for buyers
- Scarcity value through size, profitability and geography help drive premium valuations for sellers
- Core deposits are valuable again

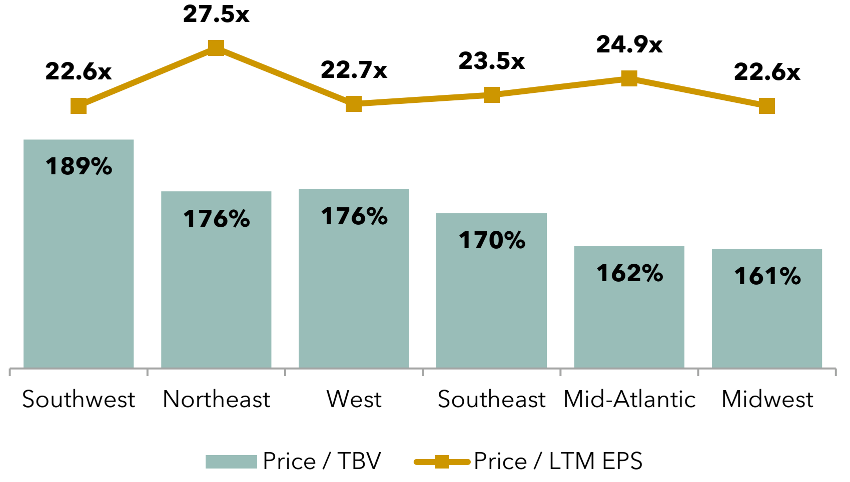
Valuation by Target Size - Since 2005



U.S. Bank M&A Activity & Valuation



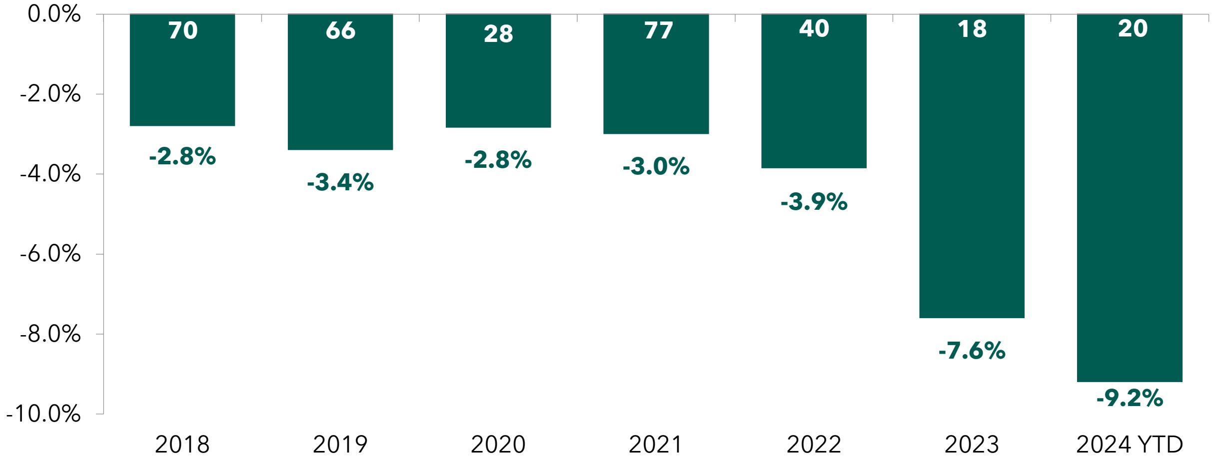
Valuation by Target Region - Since 2005



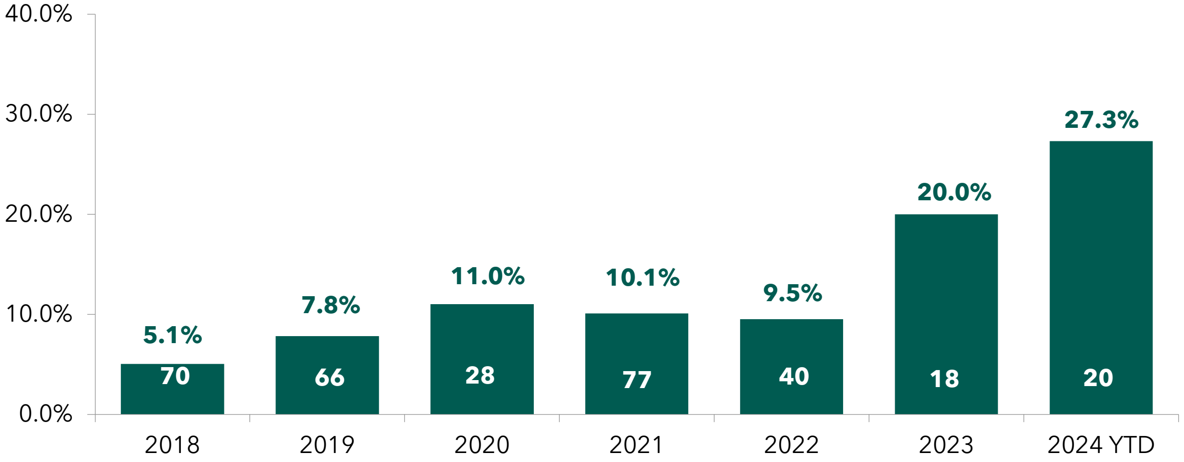
Source: S&P Capital IQ Pro, as of 8/21/2024
Note: S-corp P/E multiples adjusted to reflect C-corp tax rate
Note: Excludes MHCs

Historical Bank M&A Metrics

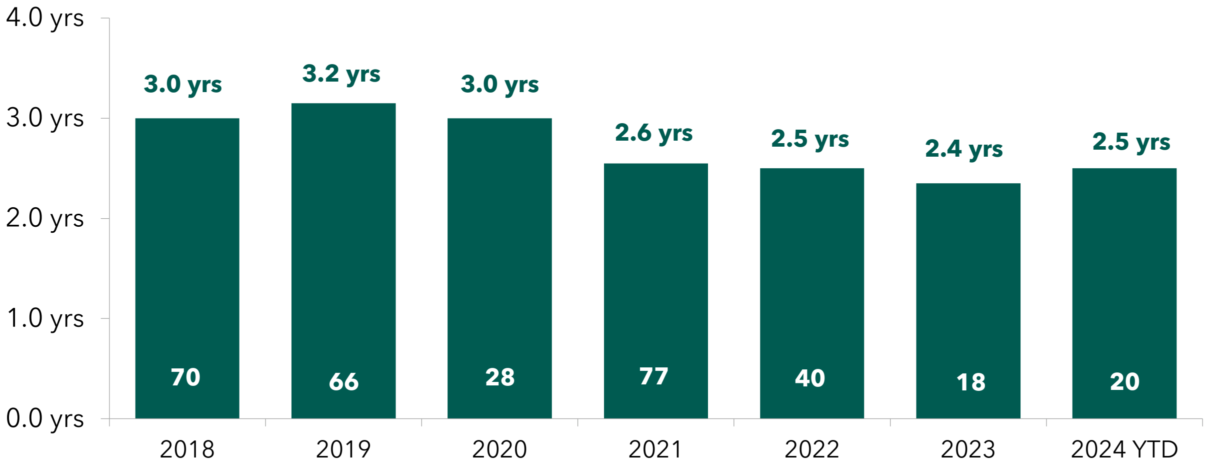
Initial TBV Dilution



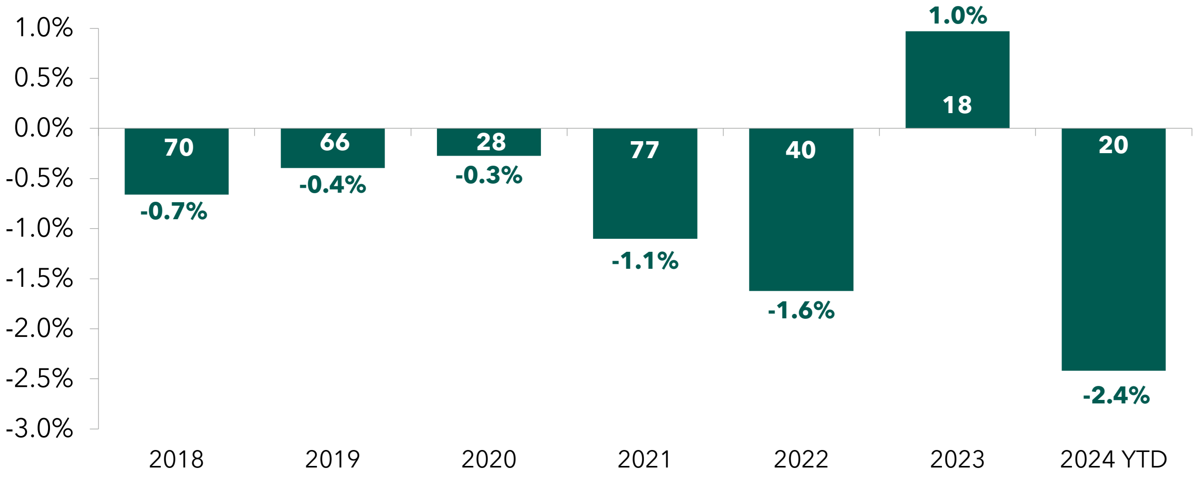
Buyer EPS Accretion



TBV Dilution Earnback Period



Avg. Buyer 1-Day Stock Price Change Post Announcement

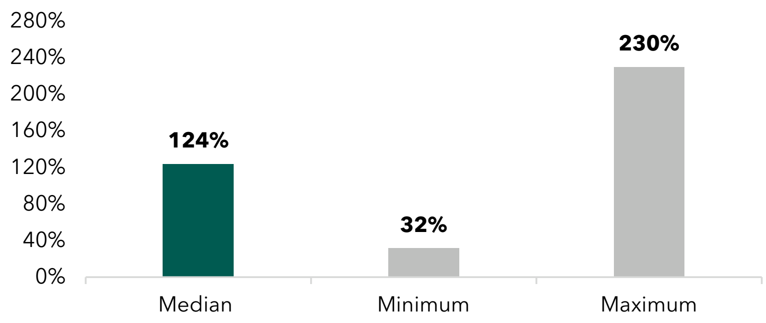


Source: S&P Capital IQ Pro, investor presentations and company press releases, as of 8/21/2024
Note: Number of deals with available data for each corresponding year is shown in white font; includes only instances in which the Buyer has published an investor presentation
Note: Median values, except Avg. Buyer 1-Day Stock Price Change Post Announcement

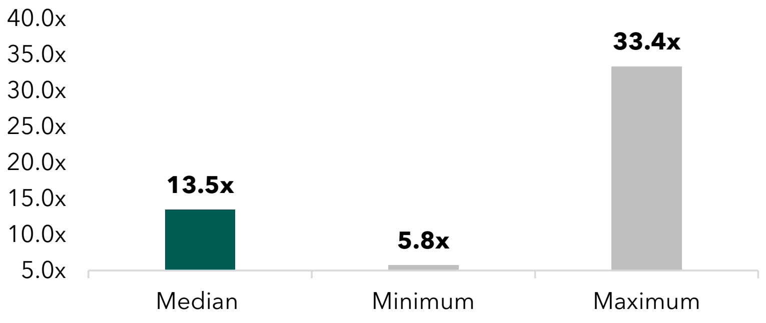
Pro Forma M&A Metrics for 2023 and 2024 YTD

- Includes summary of 38 M&A transactions announced since January 2023 with publicly disclosed information on pro forma metrics
- Key metrics which buyers/investors are focused on – EPS accretion, TBV dilution and TBV earnback period

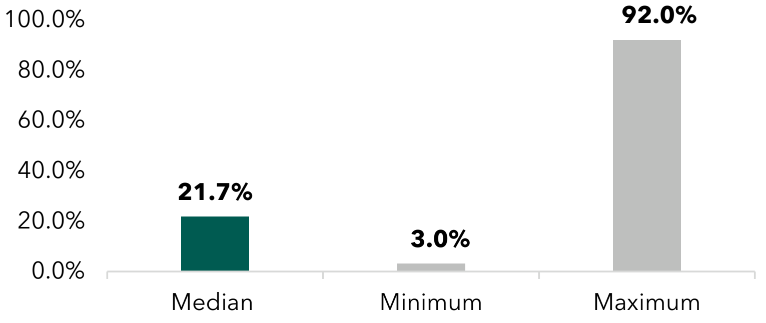
Price / Tangible Book Value for Target



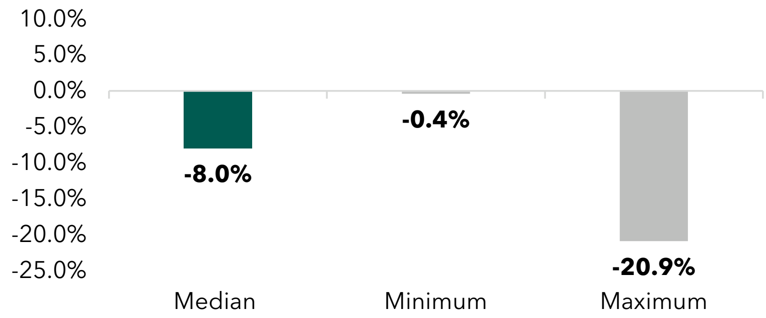
Price / LTM EPS for Target



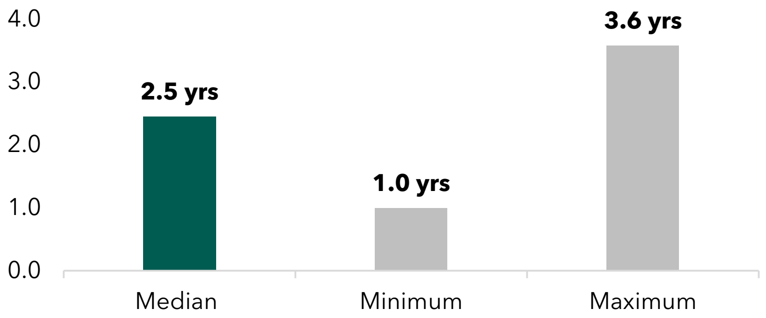
EPS Accretion in Year 1 to Buyer



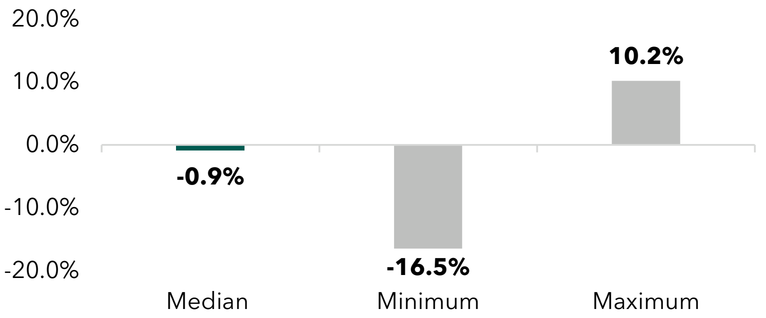
TBV Dilution % to Buyer



TBV Earnback to Buyer



1-Day Market Reaction to Buyer Stock Price(1)

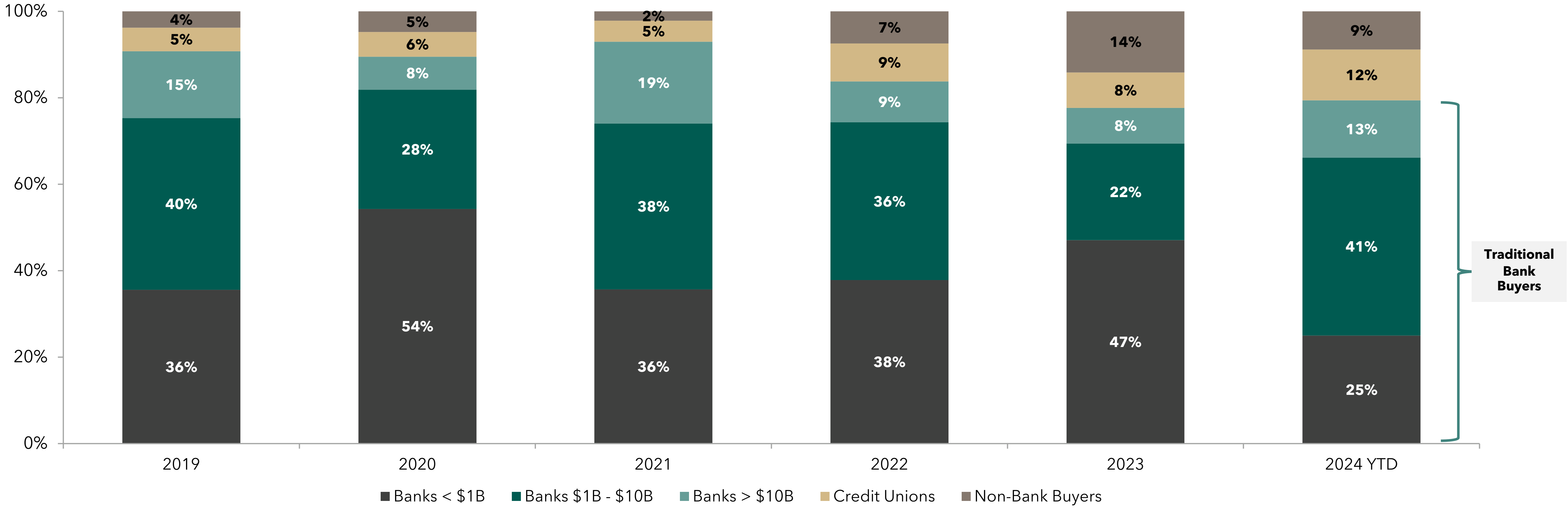


Source: S&P Capital IQ Pro and Company investor presentations, as of 8/21/2024
Note: Transactions included are only instances in which the Buyer has published an investor presentation
(1) Buyer stock price performance vs. KRX Index for day of announcement

Bank M&A by Type of Buyer – Last Five Years

- Most active acquirers have been banks with less than $10 billion in assets
- Credit unions and non-bank buyers (i.e., individuals, private investor groups, fintech companies, etc.) have increased their M&A activity

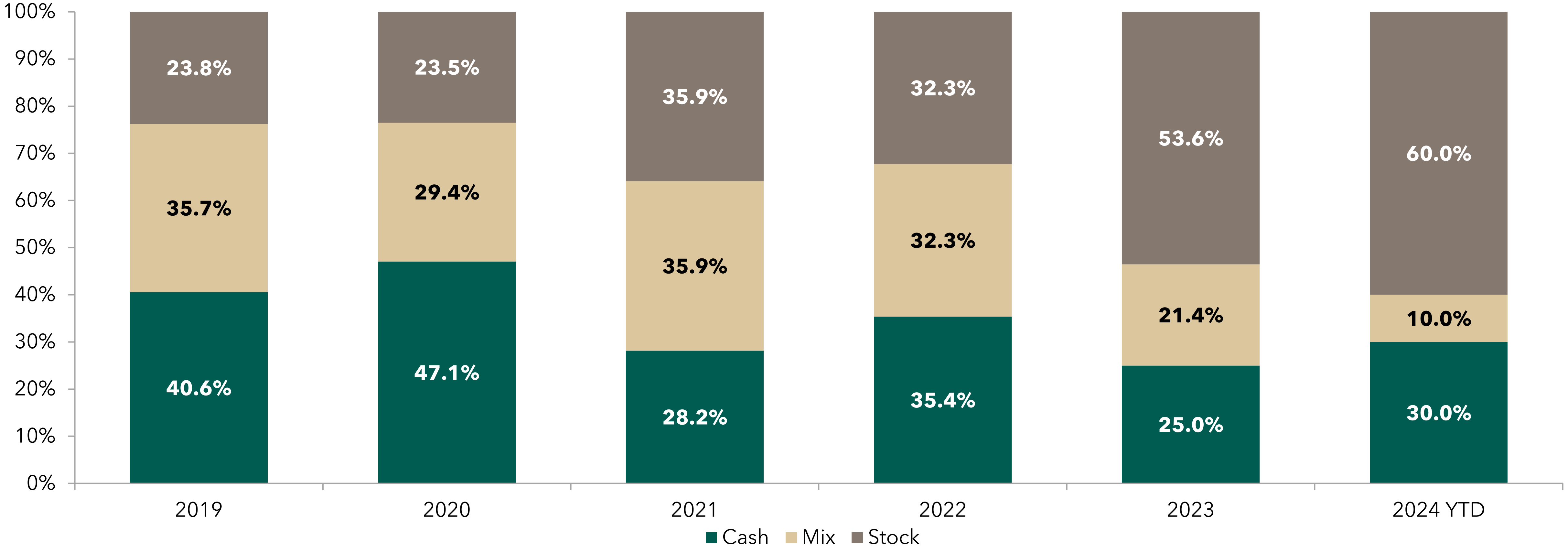
Bank Buyer Landscape – Last Five Years & Year-To-Date



Merger Consideration Analysis – Last Five Years

- Mergers have included less cash consideration in recent years
- Bank buyers without a stock currency are at a disadvantage – 70% of bank mergers YTD have included stock consideration

M&A Consideration Mix – Last Five Years & Year-To-Date

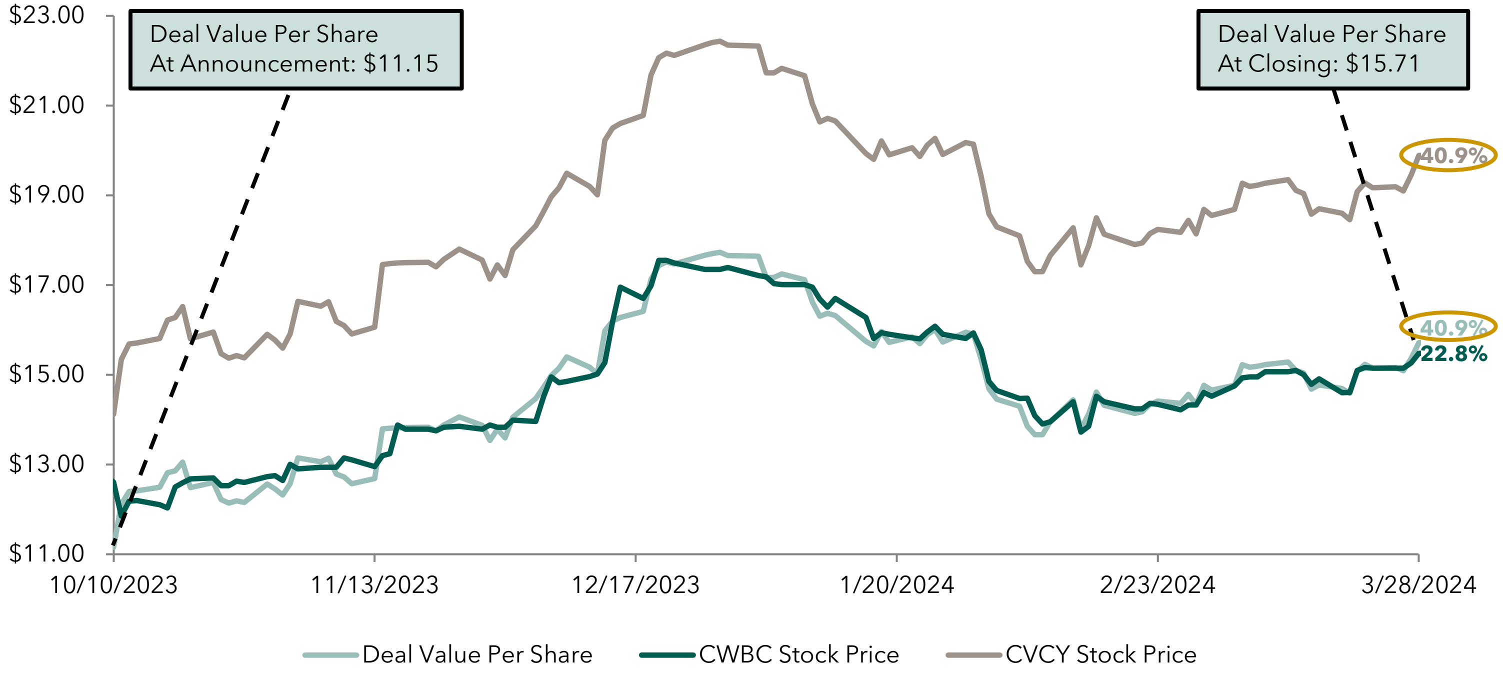


Source: S&P Capital IQ Pro, as of 8/21/2024
Note: Excludes deals with no information on consideration mix and MHCs

Understanding Exchange Ratios – Long-Term Value

- Stock acquisitions typically include a fixed exchange ratio
  - Targets ride buyer's stock up or down
- Find the right merger partner
  - Buyer can only issue so many shares (exchange ratio) whether it's trading at book value or 2.0x book
  - Focus on potential long-term value, not just deal value at announcement

Case Study: Central Valley Community Bancorp (CVCY) Acquires Community West Bancshares (CWBC)



	At Announcement	At Closing
Date	10/10/24 (After Close)	4/1/24 (Before Open)
Deal Value Per Share	$11.15	$15.71
P/TBV (Per Share)	87%	121%
1-Day Prem. / (Disc.)	-11.5%	1.5%
PF Ownership %	63% CVCY / 37% CWBC	
Exchange Ratio	0.79 shares of CVCY stock for each share of CWBC stock	

Source: S&P Capital IQ Pro, Company filings
Note: Central Valley Community Bancorp assumed the name and ticker of Community West Bancshares upon deal completion

Capital Offering Activity Picking Up…In Conjunction With M&A

Commentary

- Banking capital markets have been closed for several quarters, for many of the same reasons M&A has been stagnant
- However, we have seen capital return over the last two quarters – alongside marquee M&A transactions
  - Three deals with announced deal values of ~$1.0B+ have raised $200.0M+ each
  - Investors are increasingly receptive to offerings, especially ones attached to strategically compelling mergers
- Capital can benefit a deal where FMV and CECL accounting otherwise may be too dilutive; important to be ready as valuations recover and capital markets fully open back up

	July 29, 2024	July 26, 2024	July 25, 2024	April 29, 2024	April 29, 2024
Acquirer / Issuer & HQ	**Renasant Corp. (RNST)** Tupelo, MS	**WesBanco, Inc. (WSBC)** Wheeling, WV	**ChoiceOne Fin. (COFS)** Sparta, MI	**UMB Financial (UMBF)** Kansas City, MO	**Fulton Financial (FULT)** Lancaster, PA
Target & HQ	**The First Bancshrs. (FBMS)** Hattiesburg, MS	**Premier Financial (PFC)** Defiance, OH	**Fentura Financial (FETM)** Fenton, MI	**Heartland Financial (HTLF)** Denver, CO	**Republic First (FRBK)** Philadelphia, PA
Merger Consideration	$1,177 MM	$959 MM	$180MM	$1,990 MM	------- FDIC Deal -------
Price / TBV	185%	142%	135%	156%	------- FDIC Deal -------
Pro Forma Ownership %	65% RNST / 35% FBMS[(1)]	62% WSBC / 30% PFC / 8% New Investors	51% COFS / 41% FETM / 8% New Investors	65% UMBF / 31% HTLF / 4% New Investors	------- FDIC Deal -------
Stock / Cash Mix %	100% Stock	100% Stock	100% Stock	100% Stock	------- FDIC Deal -------
TBV Dilution ***(without marks)***	**-14.0%** *-9.0%*	**-13.0%** *Accretive*	**-18.2%** *-5.5%*	**-16.2%** -	**------- FDIC Deal -------** ------- FDIC Deal -------
TBV Earnback	3.4 years	2.8 years	3.0 years	3.1 years	------- FDIC Deal -------
Year 1 EPS Accretion	32%	27%	30%	31%	------- FDIC Deal -------
Capital Offering Type	Follow-On: Confidentially Marketed	Follow-On: PIPE	Follow-On: Confidentially Marketed	Follow-On: Registered Direct	Follow-On: Confidentially Marketed
Offering Size	**$230 MM**	**$200 MM**	**$35MM**	**$242 MM**	**$288MM**
Offer Price vs. 1-Day Prior	-11.0%	-17.5%	-16.0%	-9.8%	-4.0%
Offer Price / TBV (Pre / Post-Deal)	**134%** 130%	**130%** 127%	**124%** 121%	**127%** 126%	**121%** 119%
Offer Price / LTM EPS	12.2x	12.9x	8.4x	10.0x	9.3x
1-Day Perf. vs. Offer Price	7.2%	24.7%	2.3%	3.7%	12.0%

Source: S&P Capital IQ Pro, Dealogic, Investor Presentations as of 8/21/2024
(1) Excludes impact of equity offering

Deals We Are Seeing in Current M&A Environment

100% Cash

- More challenging in today's market due to target's securities losses and purchase accounting marks
- Generally, targets are smaller (sub-$500 million in asset) banks
- Mark-to-market adjustments, in conjunction with cash consideration, create significant initial tangible book value dilution
- Credit Unions can only acquire via cash consideration

Illustrative Examples

- sound credit union / Washington Business Bank
- NexTier Bank / Mars Bank
- Harborstone Credit Union / First Sound Bank

100% Stock Acquisition

- Reinvestment opportunity into larger companies that are more valuable and better suited to compete and manage industry headwinds
- Improves ability to bank customers - Increases lending limit and possibly adds more products
- Potential increase in bank trading prices provides seller with upside in buyer's currency as market improves

Illustrative Examples

- Dogwood State Bank / Community First Bancorporation
- Peoples Financial Services Corp. / FNCB Bank
- United Community / First National Bank of South Miami

Peer Merger

- Depressed stock valuations and low M&A volume have made peer mergers attractive for community banks – easier for bank boards to justify in today's market
- Deals generally done at low-to-no premium
- Potential increase in bank trading valuations provides issuer & partner upside
- 1 +1 = 3

Illustrative Examples

- Orrstown Financial Services, Inc. / Codorus Valley Bancorp, Inc.
- Maine Community Bank / Gorham Savings Bank
- Burke & Herbert Financial Services Corp. / Summit Financial Group

Stressed M&A

- Financial transactions with less focus on traditional metrics
- Potential requirement for outside investment
- Increased likelihood of significant tangible book value per share dilution

Illustrative Examples

- Hope Bancorp / Territorial Bancorp
- FirstSun Capital Bancorp / HomeStreet Bank
- Banc of California, Inc. / PacWest Bancorp

FDIC Transactions

- Low risk transactions with potential for high returns
- Can be very competitive
- The five FDIC assisted transactions in 2023 mark the highest volume since 2017 when seven transactions occurred

Illustrative Examples

- Fulton Bank / Republic Bank
- Citizens Bank / Iowa Trust
- New York Community Bancorp, Inc. / Signature Bank

Branch Transactions

- Can be attractive for both buyers and sellers in the current environment
- Low-cost core deposits and liquidity are valuable
- Pricing for branches with a good deposit base and strong market has been high
- Increased emphasis on pro forma capital and dilution

Illustrative Examples

- Glacier Bank / HTLF Bank
- MidFirst Bank / Amerant
- dfcu Financial / MidWestOne Bank

Revised Merger Guidelines Could Create M&A Headwinds

- On December 18, 2023, the **Department of Justice and the Federal Trade Commission** issued updated Merger Guidelines identifying the procedures and enforcement practices the agencies most often use to investigate whether mergers violate the antitrust laws
  - The most notable changes in the updated guidelines were:
    - Lowering the HHI increase threshold in concentrated markets (HHI above 1,800) from +200 points to +100 points
    - Adding a new indicator allowing the agencies to examine pro forma market share as a gauge for market competition
      - Under the new market share indicator, a merger where the buyer has 30%+ market share on a pro forma basis, and the market HHI increases by more than 100 points, could be presumed to substantially lessen competition or create a monopoly
- On January 29, 2024, the **Office of the Comptroller of Currency ("OCC")** issued a proposed rule that would make changes to the current process of assessing bank mergers, following a speech by OCC's Acting Comptroller, Michael Hsu
  - Among the proposed changes is a change that suggests removing the expedited review procedures, which until now meant that certain qualifying transactions are approved as of the 15th day of the public comment period
  - The OCC would also examine the merger for risk of stability of the U.S. banking or financial system, and as a result, the OCC could impose additional conditions during the approval process, two of them being asset divestitures and higher capital requirements
    - The OCC also outlined 13 indicators that are featured in merger applications "consistent with approval" – see below to list a few
- On March 21, 2024, the **Federal Deposit Insurance Corporation ("FDIC")** published a proposal to its Statement of Policy ("SOP") on bank merger transactions, with the intent to garner a more discretionary approach to its application review process; key highlights from the proposal include:
  - Assessing competitive factors of products other than deposits and market HHI thresholds
  - Reiterating FDIC's stance that pro forma company should not create a financially weaker institution than standalone company and should be better equipped to serve the community / consumers

Old HHI Guidelines

Indicator	Threshold for Structural Presumption
Post-merger HHI	Market HHI greater than 1,800 AND **Change in HHI greater than 200**

Updated HHI Guidelines (12/18/2023)

Indicator	Threshold for Structural Presumption
Post-merger HHI	Market HHI greater than 1,800 AND **Change in HHI greater than 100**
Merged Firm's Market Share	**Market share greater than 30%** **AND** **Change in HHI greater than 100**

Indicators "Consistent With Approval" (1/29/2024)

- ✓ Well capitalized acquirer and pro forma company
- ✓ Pro forma company has less than $50B in total assets
- ✓ No open or pending fair lending, BSA or AML enforcement actions against acquirer
- ✓ Acquirer has CRA rating of "Outstanding" or "Satisfactory"
- ✓ Acquirer has composite and management ratings of 1 or 2 under UFIRS or ROCA rating system
- ✓ Target's combined total assets are less than or equal to 50% of acquirer's total assets
- ✓ Proposed transaction clearly would not have a significant adverse effect on competition
- ✓ OCC has not identified significant legal or policy issue
- ✓ No adverse comment has raised a significant CRA / consumer compliance concern

Source: U.S. Department of Justice and the Federal Trade Commission Merger Guidelines, issued 12/18/2023; Office of the Comptroller of Currency, Luse Gorman PC, as of 1/29/2024; Federal Deposit Insurance Corporation, as of 3/21/2024
Note: Indicators "consistent with approval" list condensed / combined for brevity

How Can Buyers and Sellers Best Position Themselves for M&A?

Buyers Should Make Sure to Have…

- Excellent regulatory standing
- Strong currency
  - Liquid stock
  - Consistent, attractive dividends
- Historically strong financial performance
- Experienced leadership with a history of executing M&A
- Strong capital
- Good relationship with community groups
- In attractive growth markets

Sellers Should Make Sure to Have…

- Strong financial performance
- Presence in attractive, high-growth markets
- Clean asset quality / no credit issues
- Sticky core deposits
- No heavy concentrations in deposit / loan portfolios
- No regulatory issues / orders / CRA issues
- Diverse lines of business

All Parties Should Remain In Constant Dialogue With Your Management, Your Board, Potential Partners/Buyers/Targets As Well As With Your Regulators

Be ready to move when the M&A window reopens

Concluding Thoughts

- Bank M&A activity remains slow, but merger discussions continue to increase
- We believe more bank M&A activity is coming for several reasons:
  - Higher buyer stock prices will increase ability to pay
  - Less economic uncertainty with declining interest rates and an expected soft landing
  - Loan and core deposit competition is stiff
  - Target's inability to grow EPS standalone…And acquirer's need to grow EPS through accretive acquisitions
  - Bank investors have become more comfortable with purchase accounting marks and tangible book value dilution
  - Boards that considered selling during the previous M&A window will be ready to go this time around
  - Banks must get bigger, but many need additional capital to support future growth
    - Capital markets are slowly re-opening, even welcoming deals in conjunction with M&A
  - Wave of sub-debt repricing in next couple of years
    - In 2025, ~100 notes will reprice at SOFR + 400 bps or more and ~60 will reprice at SOFR + 500 bps or more (implied 9% to 10%+ coupon)
  - Lack of succession planning
  - Increasing regulation
- The biggest headwinds to an uptick in M&A in the next two years is a possible recession and regulatory uncertainty / greater scrutiny on every deal

Source: S&P Capital IQ Pro, FactSet as of 8/21/2024

D|A|DAVIDSON