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EVALUATING YOUR BANK'S WORTH

INSIGHTS

Bank Director

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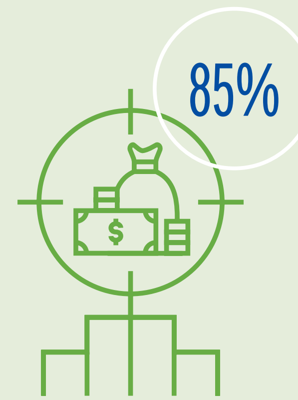
The second Trump administration has taken steps to expedite the bank merger approval process, but at the same time, market volatility has impacted buyers' stock currency. But ownership in a combined organization with strong staying power can also be a good long-term value for sellers.

KEY METRICS



85% of bank leaders say an attractive deposit base is a top attribute in a potential target.

Source: Bank Director's 2025 Bank M&A Survey

KEY TAKEAWAYS

- It's widely expected that the regulatory approval process should be smoother in the near term. But market volatility can effect deal pricing.
- Though deals may be completed at lower nominal prices, stock ownership in the combined organization can be a great value for sellers if the pro forma bank has long-term staying power.
- A well-diversified, low-cost deposit base and complementary business lines can be valuable attributes to bring to the table in M&A discussions.
- In some cases, a bank merger may help to solve questions around management succession planning.
- Consider the timing of integration and how that may impact financial metrics.

Like many of its peers, FNCB Bancorp of Dunmore, Pennsylvania, was flush with cheap deposits in the years immediately following the Covid-19 pandemic and facing the prospect of another prolonged low-interest rate environment. That's when leadership began to entertain the idea of M&A.

Management and the board were confident in the company's growth strategy, but knew the bank, then around $1.7 billion in assets, needed scale if it was going to survive in the long term. "We weren't looking to just liquidate the franchise," says Jerry Champi, who was CEO of FNCB.

He cites a number of reasons that FNCB ultimately merged with Peoples Financial Services Corp., which is based in nearby Scranton and had about $3.7 billion in assets at the time. Complementary geographies would vault the combined institution to a larger share of the greater Scranton market and also provide for some easy cost savings post-closing.

The all-stock transaction was valued around $129 million, and FNCB shareholders received 0.12460 of common stock in the combined organization for each share they owned. Peoples Financial Services was the surviving institution, but the two organizations viewed the deal as a merger of equals.

"Because we treated it as an MOE, there wasn't a negotiation of premium," says Champi, now the CEO of Peoples Financial, with about $5.5 billion of assets.

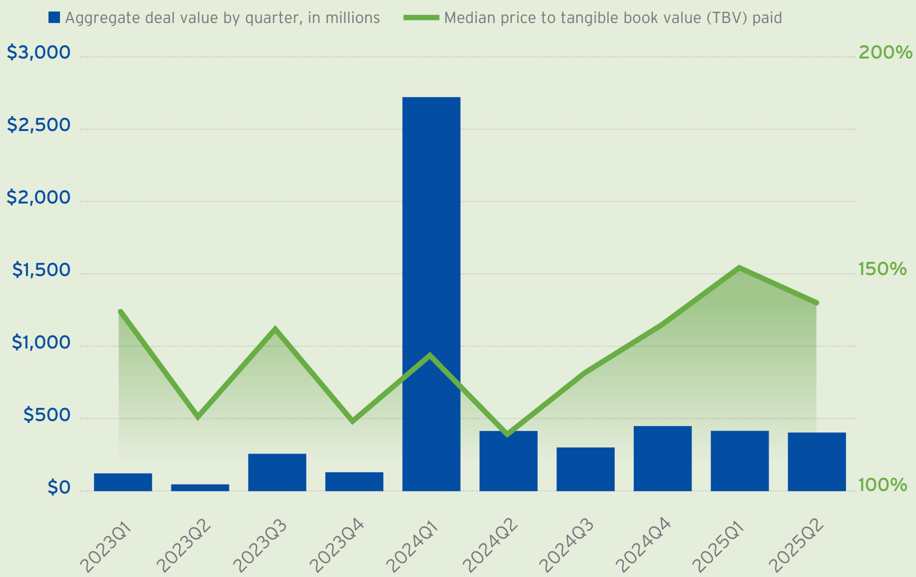
Going Beyond the Price Tag

The second Trump administration has taken steps to expedite the approval process for bank mergers, which spurred optimism that more deals would be announced. In the first quarter, 35 deals were announced, up from 29 in the prior quarter and higher than the quarterly average going back to 2022, according to

The Value of a Deal

Pricing was ticking up until earlier this year while aggregate deal value has remained relatively stable.

Source: Janney Montgomery Scott



data from Janney Montgomery Scott.

At the same time, 2025 has been characterized by market volatility, with bank stocks in particular taking a beating. Since the beginning of this year, the KBW Nasdaq bank stock index has had a roughly 39% swing from a low in April to a high in July. Volatility such as this can mute activity as a deal may need to be completed at a lower nominal price, something that can be difficult for a board and management team to swallow.

However, banks need to remember that the long-term value of a deal goes beyond the price tag. Stock ownership in an organization that is well capitalized, efficient and has high growth potential can also represent a great value for shareholders of both banks. Asset quality, liquidity and longer term business strategy are key factors that affect the combined bank's stock price.

A strong deposit base is a good start. That deposit base should be not only low-cost, but also diversified across product types and customer segments, and a prospective seller should have good insight into its core depositor base.

However, the funding base is still a starting point. "Having deposits is table stakes for a bank," says Chris Marinac, director of research at Janney Montgomery Scott. "What you do with the deposits is ultimately going to drive the value of the bank."

A core business that's demonstrated growth, profitability and solid credit quality over time, is valuable in a deal, particularly if it's complementary to the acquiring bank's loan mix. Prior to the merger, Peoples Financial had a little over a quarter of its loan portfolio concentrated in non-owner occupied commercial real estate; FNCB brought a commercial and industrial lending franchise to the table that helped to diversify the combined bank's business.

Succession and Other Considerations

Joining forces with another bank can sometimes solve questions around management succession, as it did in the case of Peoples Financial's merger with FNCB. Craig Best, who was CEO of Peoples Financial at the time, had been looking to retire and the board had to figure out C-suite succession. In January, the board elevated Champi to succeed Best as CEO of the combined bank.

Though efficiency is often a hallmark of a successful bank deal, that doesn't mean that prospective sellers should slim down prior to seeking out a buyer. "In a lot of cases, the first thing [the buyer is] going to do is reevaluate costs," Marinac says. "While it's great to be efficient and maximize your profit margins, having some fat to trim is probably healthy. It gives the buyer some room to trim costs and get extra profit."

Post-merger Peoples Financial selected one core operating system to use and enlisted an outside adviser to exit its contract with the other, Champi says. Peoples also found some cost savings by consolidating five locations in overlapping markets. He adds that the combined bank was able to mostly achieve staff reductions via attrition among bankers who were already contemplating retirement.

Integration is one area where Champi would do things differently, if he could have a do-over. FNCB and Peoples closed their deal on July 1, 2024, but didn't begin integrating the two organizations until mid-October. That meant that the combined organization carried the full costs of running two banks through the third quarter and into part of the fourth quarter.

"You're operating two banks, but you're one, and you have to report that all through on an interim basis," he says. "It worked out really well, but still, you just can't get there fast enough."

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