



## **The Bank M&A Wave Is Here – So What Are the Implications?**

*Presentation to the Federal Home Loan Bank of New York*

*March 25, 2021*

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Vice Chairman, Stifel Financial Corp.*



**KEEFE, BRUYETTE & WOODS**  
*A Stifel Company*

# M&A Slowed Through COVID-19 in 2020; 2021 Showing Signs of a Rebound

Annual Deal Count (Deal Values > 50M<sup>(1)</sup>)

- COVID and the current operating environment have **accelerated structural forces driving consolidation**

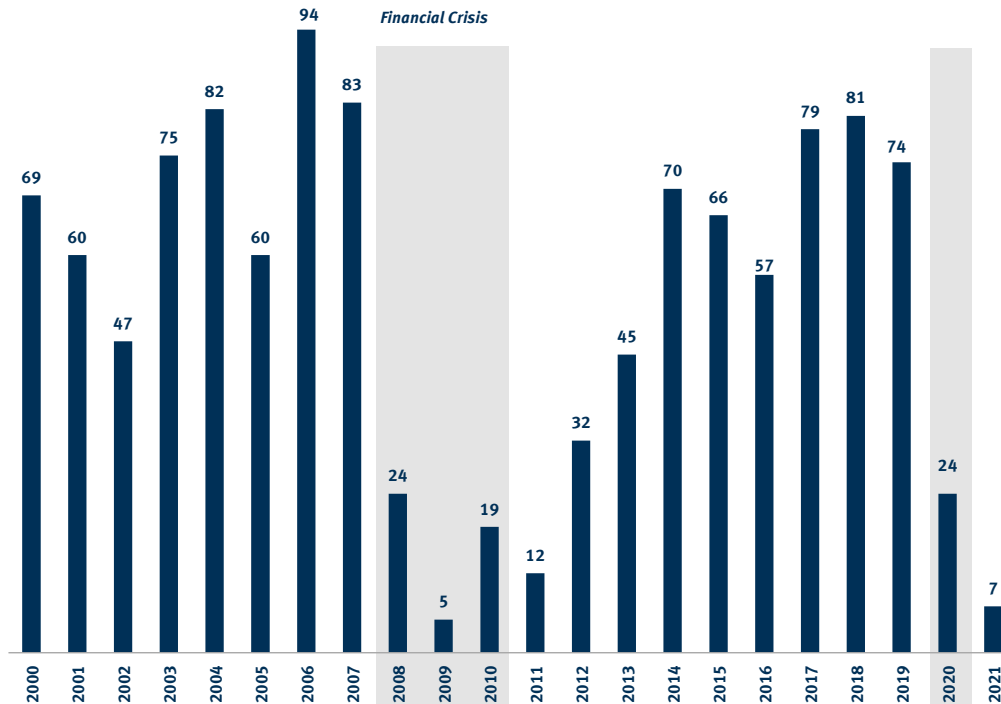
- Margin pressure
- Digital (r)evolution
- Branch consolidation
- Need for scale
- Succession planning
- Earning acceptable returns for shareholders

- Challenges** exist but are **not insurmountable** and require a **thoughtful approach**

- Valuation
- Credit Risk
- Logistics of interpersonal communication

- The rationale for M&A has strengthened, dialogues are beginning...** expect to see consolidation reach Pre-COVID levels in 2021 and beyond

- The **dynamics** of **deal planning** and **structures** are evolving



Source: S&P Global Market Intelligence

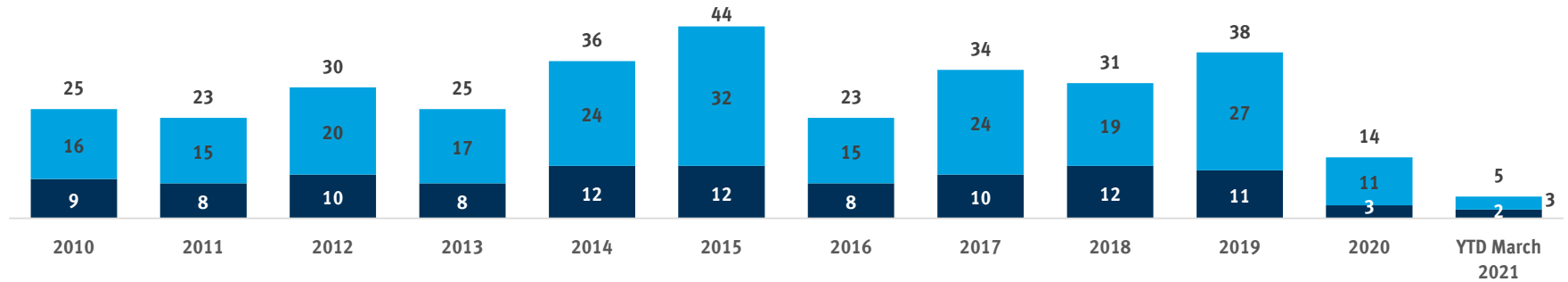
Data as of 3/12/21

(1) Includes all publicly announced bank transactions with announced deal values greater than \$50 million

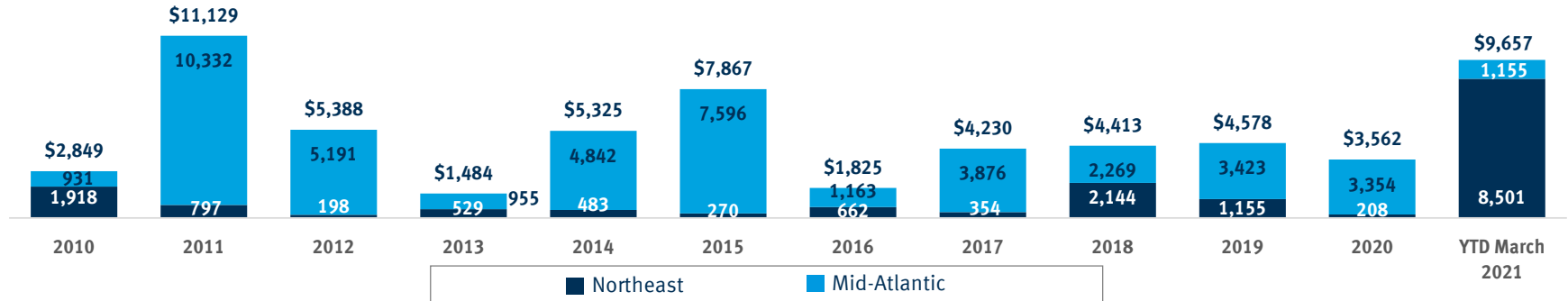


# Bank M&A in the Northeast and Mid-Atlantic Since 2010: Deal Activity

## Number of Bank M&A Deals:

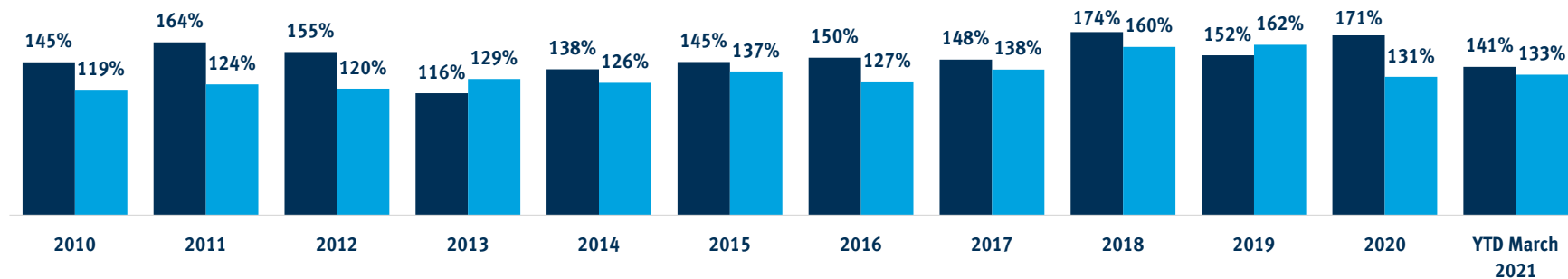


## Aggregate Bank M&A Deal Value (\$mm):

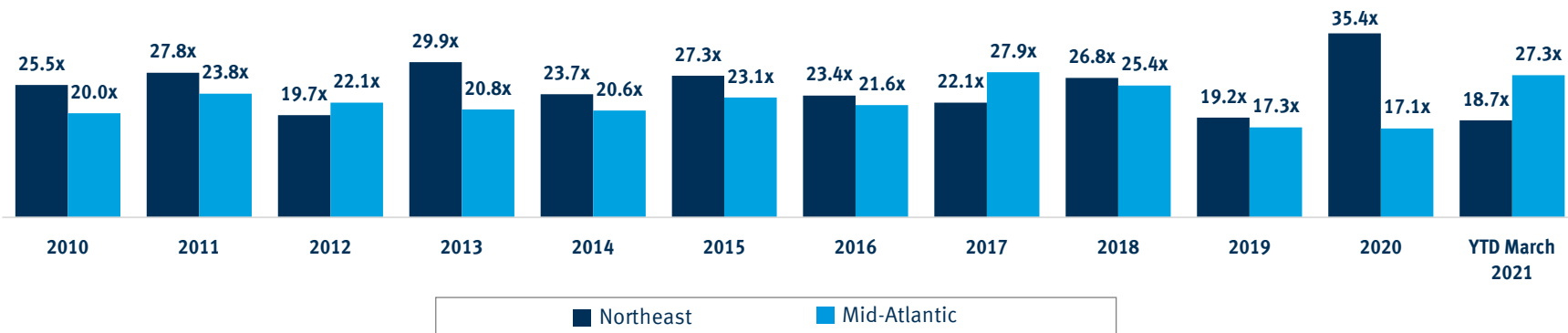


# Bank M&A in the Northeast and Mid-Atlantic Since 2010: Pricing Multiples

## Median Price / Tangible Book Value of Bank Deals (%):



## Median Price / LTM Earnings of Bank Deals (x):



■ Northeast

■ Mid-Atlantic

## 2020: The COVID Cycle

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**Pre-COVID**



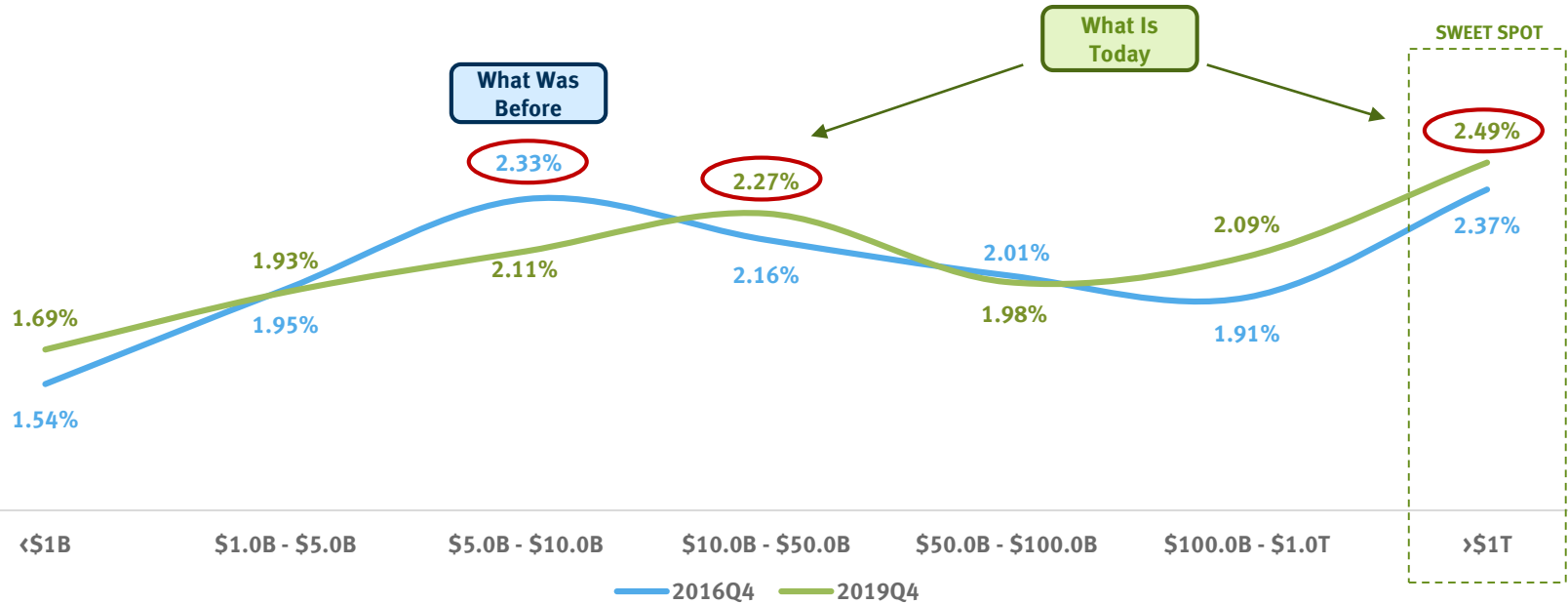
**COVID**



**Post-COVID**

# Pre-COVID: Scale Thesis Was Working

## Pre-Tax, Pre-Provision Income / Risk-Weighted Assets by Asset Size



Source: S&P Global Market Intelligence  
 Note: Data excludes trust banks, Puerto Rico headquartered banks and Capital One Financial Corporation



## Pre-COVID: Limited Appetite for Large Scale M&A

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*Before COVID-19 there was limited to no large bank interest in depository M&A*



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“The strategic risk of taking a time-out to integrate something that actually doesn't change the viability of your long-term plan just doesn't make sense.”

“As of now, we think we have a really strong hand to play just pursuing organic growth...”

– **PNC CEO Bill Demchak; *September & April 2019***

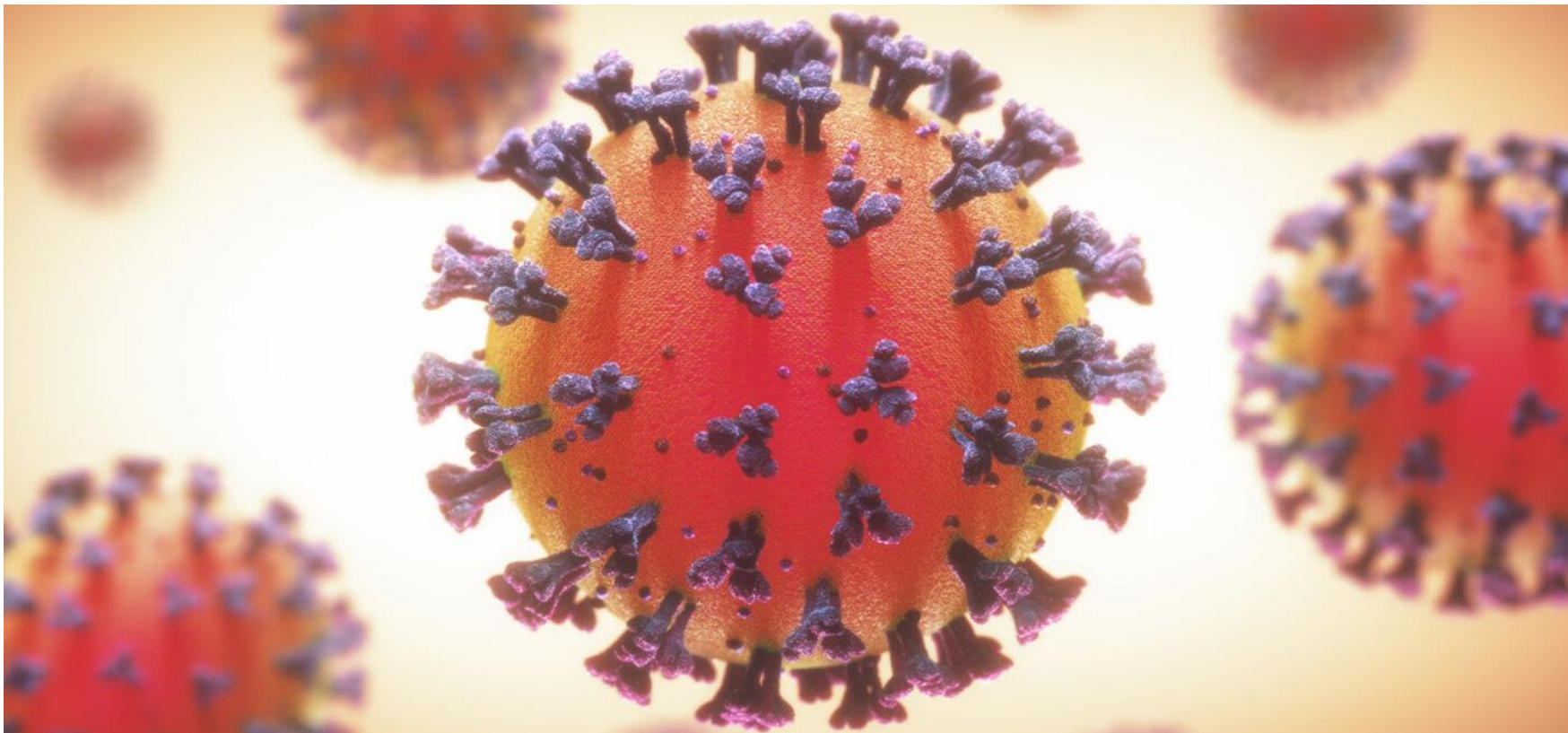


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“Our near-term focus will likely be on the key businesses, the merchant processing and trust businesses that we're focusing on...”

– **USB CEO Andy Cecere; *April 2019***

## Then COVID Hit





# Hangover From COVID Has Left a **Difficult Environment For Banks to Navigate**



**Pre-COVID World: 12/31/2019 - 2/21/20**

## ECONOMIC ENVIRONMENT

**1.92%**

10-Year Treasury Yield <sup>(1)</sup>

**3.4%**

2022E / 2019A Real GDP CAGR <sup>(2)</sup>

**Benign**

Credit Environment

**Linear**

Technological Adoption

## KRX METRICS

**6.0%**

2021E / 2019A PPNR Growth <sup>(3)</sup>

**0.17%**

2021E NCOs / Avg. Loans <sup>(3)</sup>

**1.16%**

2021E ROAA <sup>(3)</sup>

**13.1%**

2021E ROATCE <sup>(3)</sup>



**Post-COVID World: 2/21/2020 - Today**

## ECONOMIC ENVIRONMENT

**1.64%**

10-Year Treasury Yield <sup>(1)</sup>

**2.5%**

2022E / 2019A Real GDP CAGR <sup>(2)</sup>

**Evolving**

Credit Environment

**Exponential**

Technological Adoption

## KRX METRICS

**(0.6%)**

2021E / 2019A PPNR Growth <sup>(3)</sup>

**0.38%**

2021E NCOs / Avg. Loans <sup>(3)</sup>

**0.99%**

2021E ROAA <sup>(3)</sup>

**12.0%**

2021E ROATCE <sup>(3)</sup>

Source: S&P Global Market Intelligence, FactSet Research, KBW Research, Bureau of Economic Analysis, World Bank and Federal Open Market Committee Meeting Minutes

Note: Market data as of 3/12/2021

1) Represents 10-year treasury yields; "Pre-COVID World" data as of 12/31/2019; "Post-COVID World" data as of 3/12/2021

2) Data per Moody's Analytics; "Pre-COVID World" projections represents projections published in January 2020; "Post-COVID World" represents projections on September 2020

3) Projected figures per mean FactSet Consensus estimates



# Hurdles Banks Are Facing in 2021

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COVID-19

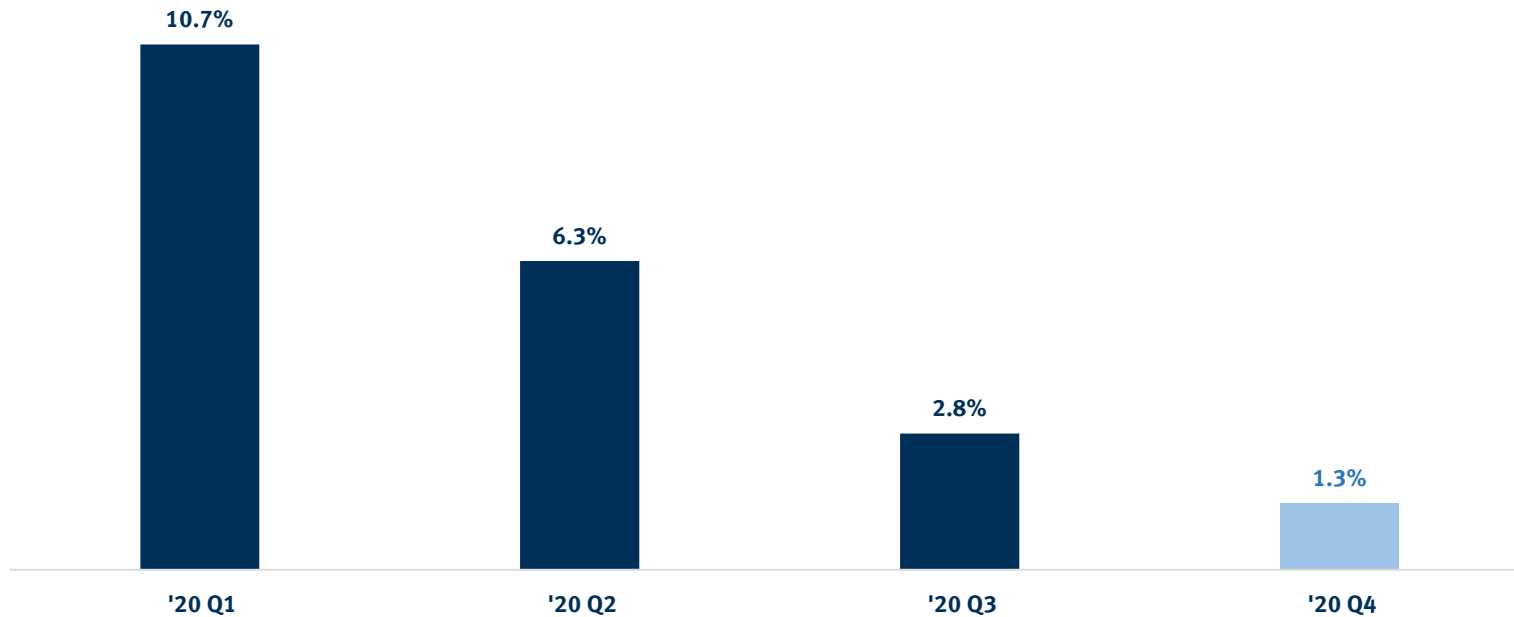
Managing credit costs of impacted industries

Learning to manage business in remote world



# The KRX Has Seen a Decrease in Loan Deferrals

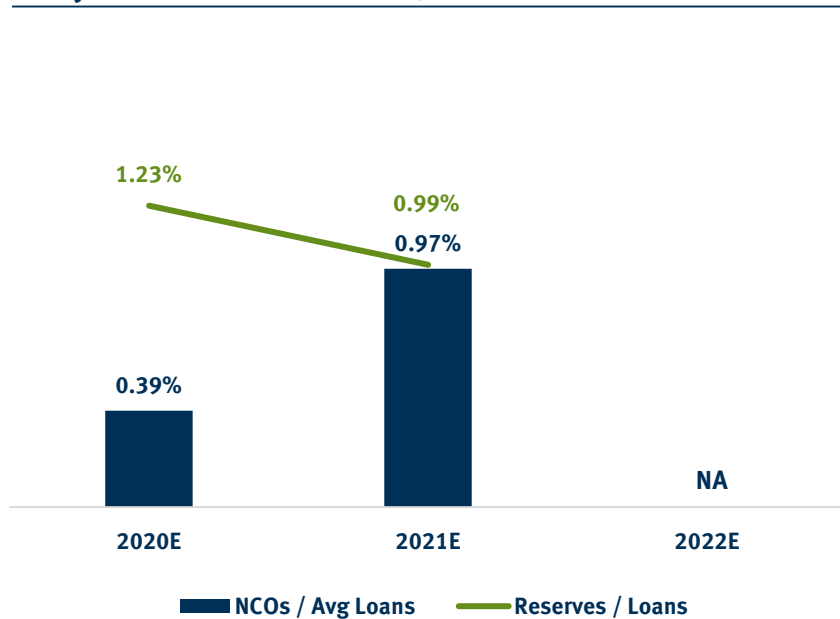
*Median deferral / loan rates have been improving...*



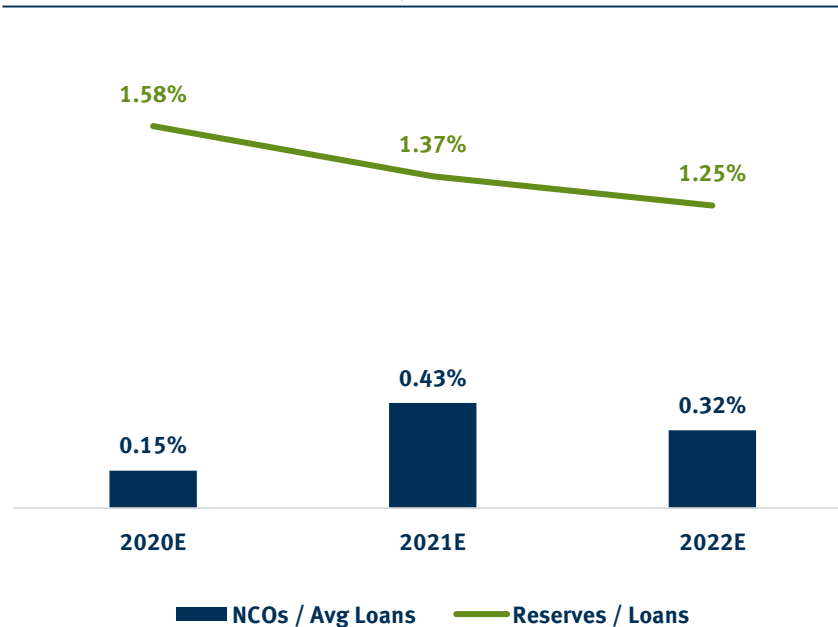
# Asset Quality Outlook is Resetting

*Asset quality expected to stabilize*

Early COVID World: *March 31, 2020*



Post-COVID World: *March 12, 2021*

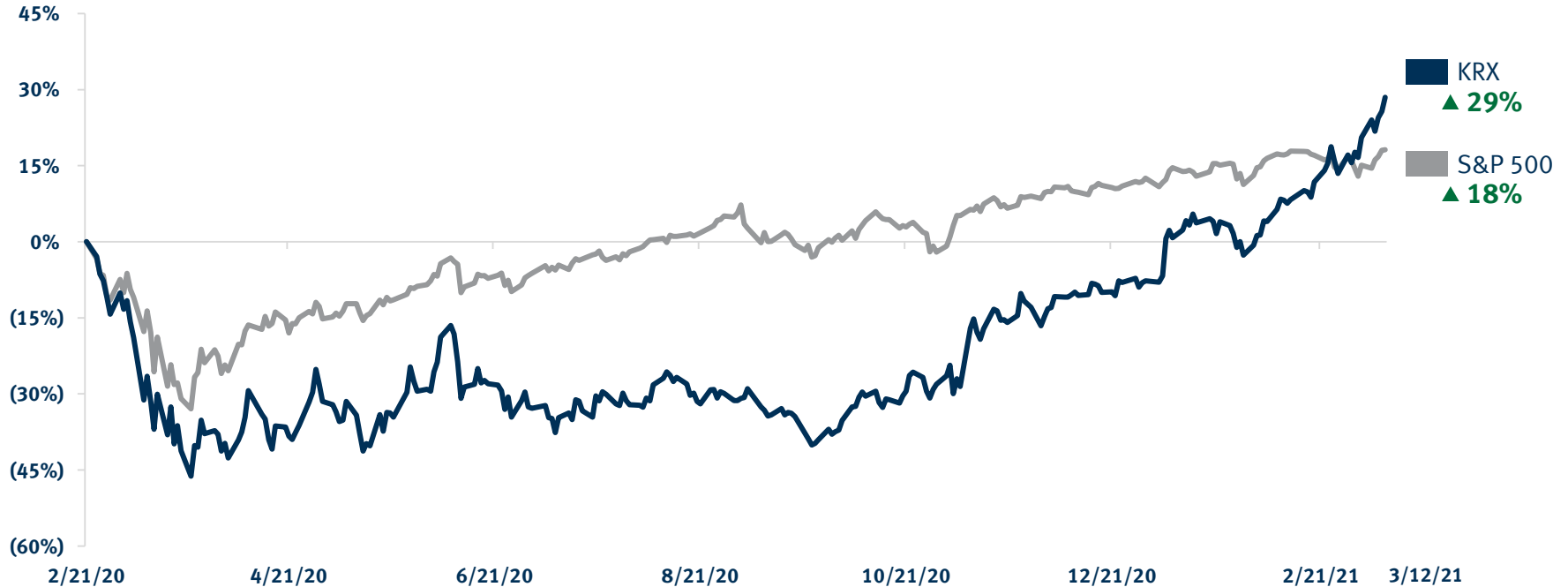


Source: KBW Research  
Note: Represents KBW Research estimates for banks within the KRX; Excludes PPP loans



# Market Now Exceeds Pre-COVID levels...

*Growth to Value Rotation is Underway*



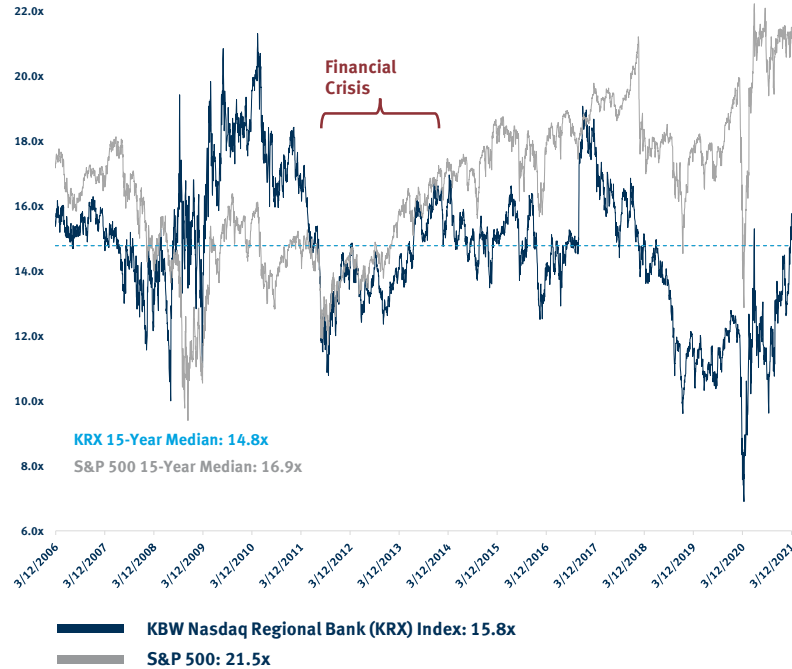
Source: S&P Global Market Intelligence; Market data as of 3/12/2021



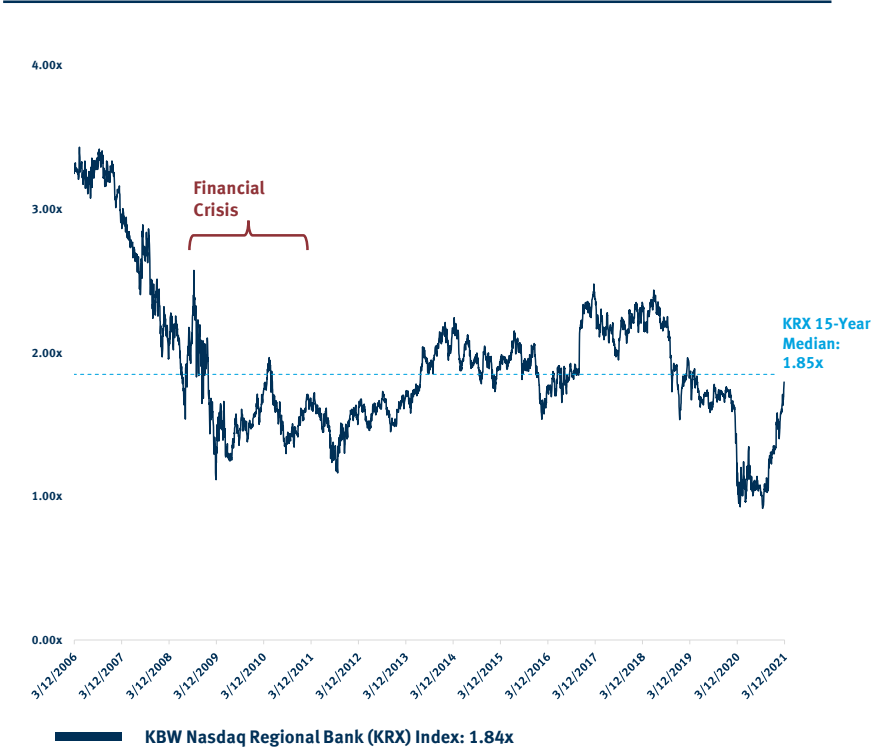
# ...Though Banks Continue to Trade at a Relative Discount

## Price / NTM Earnings (x)

	15 Year Median	Current
KRX	14.8x	15.8x
S&P 500	16.9x	21.5x
KRX as a % of S&P 500	87.7%	73.3%



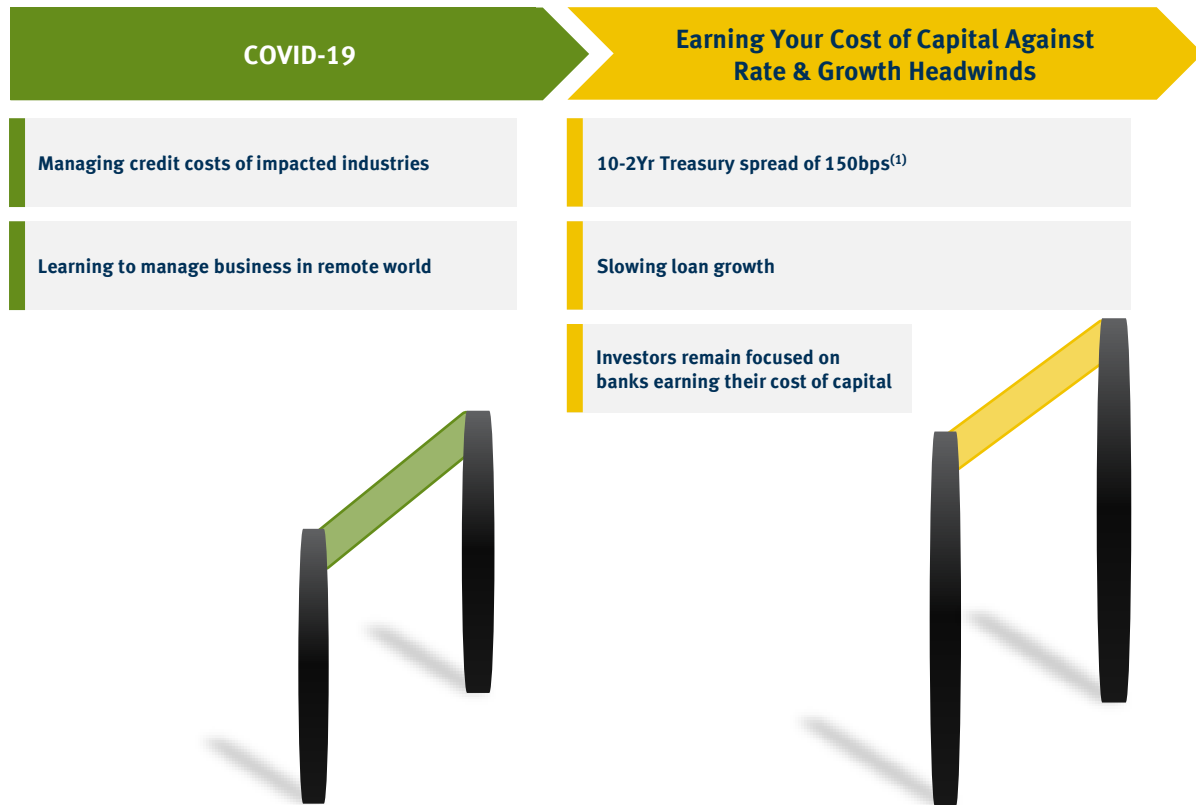
## Price / TBV (x)



Sources: S&P Global Market Intelligence and FactSet Research Systems. Market data as of 3/12/21



# Hurdles Banks Face Heading into 2021

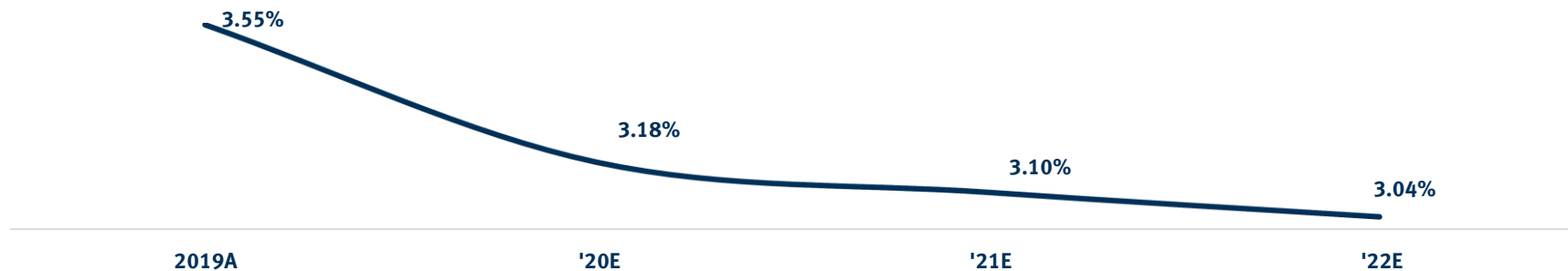


<sup>(1)</sup> As of 3/12/2021

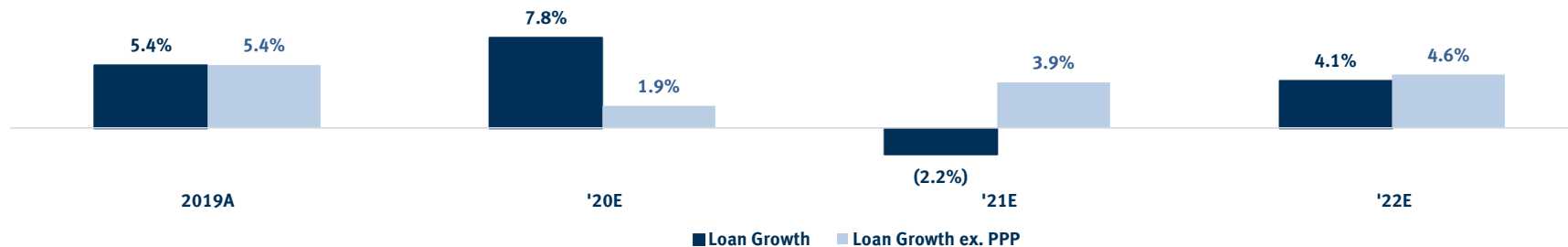


# KRX Outlook: Margin Decline and Loan Growth

## Net Interest Margin



## Loan Growth<sup>(1)</sup>



Source: S&P Global Market Intelligence, FactSet and KBW Research; Estimate data as of 3/12/2021

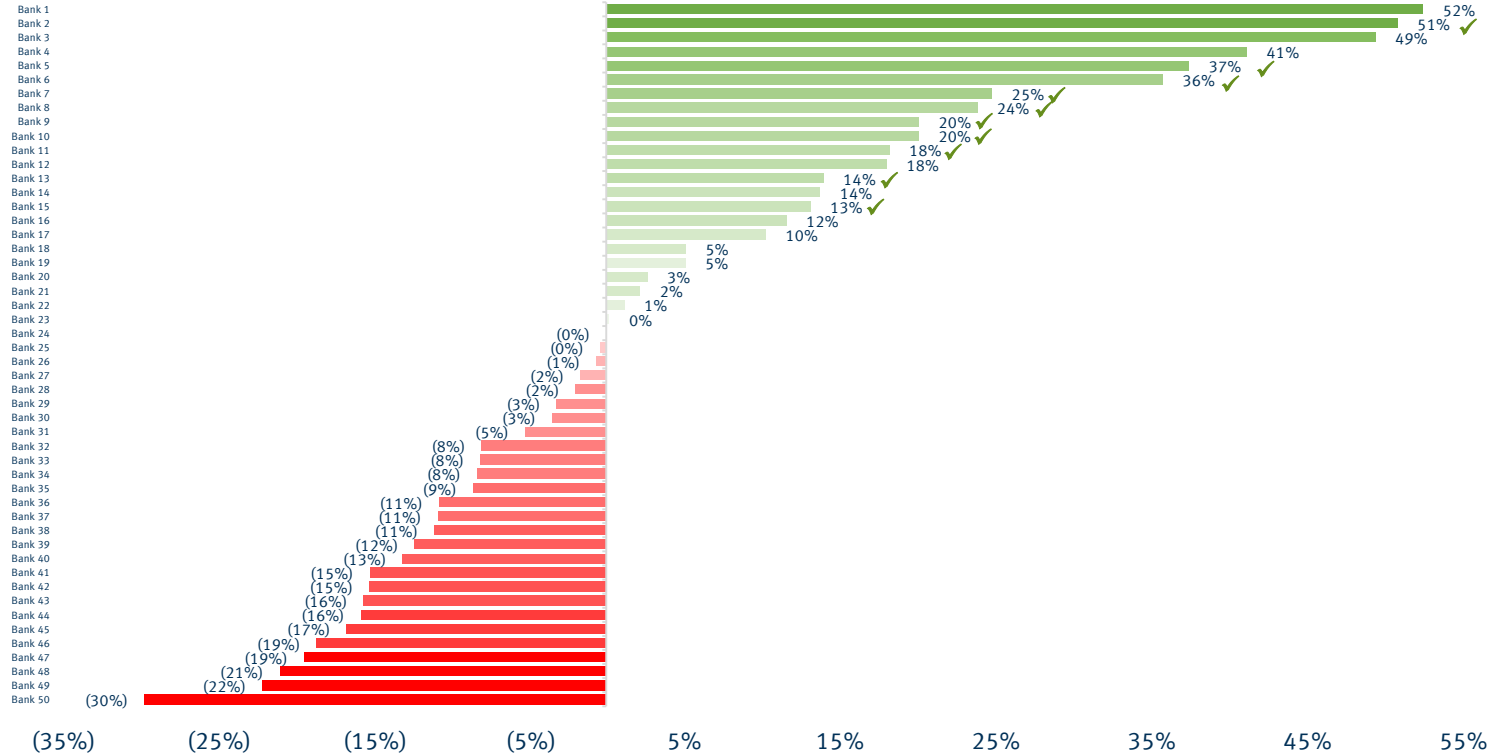
(1) Represents KBW Research estimates for banks within the KRX





# KRX '19 – '21 PPNR Growth

Over half of the KRX will see negative PPNR growth from 2019 to 2021



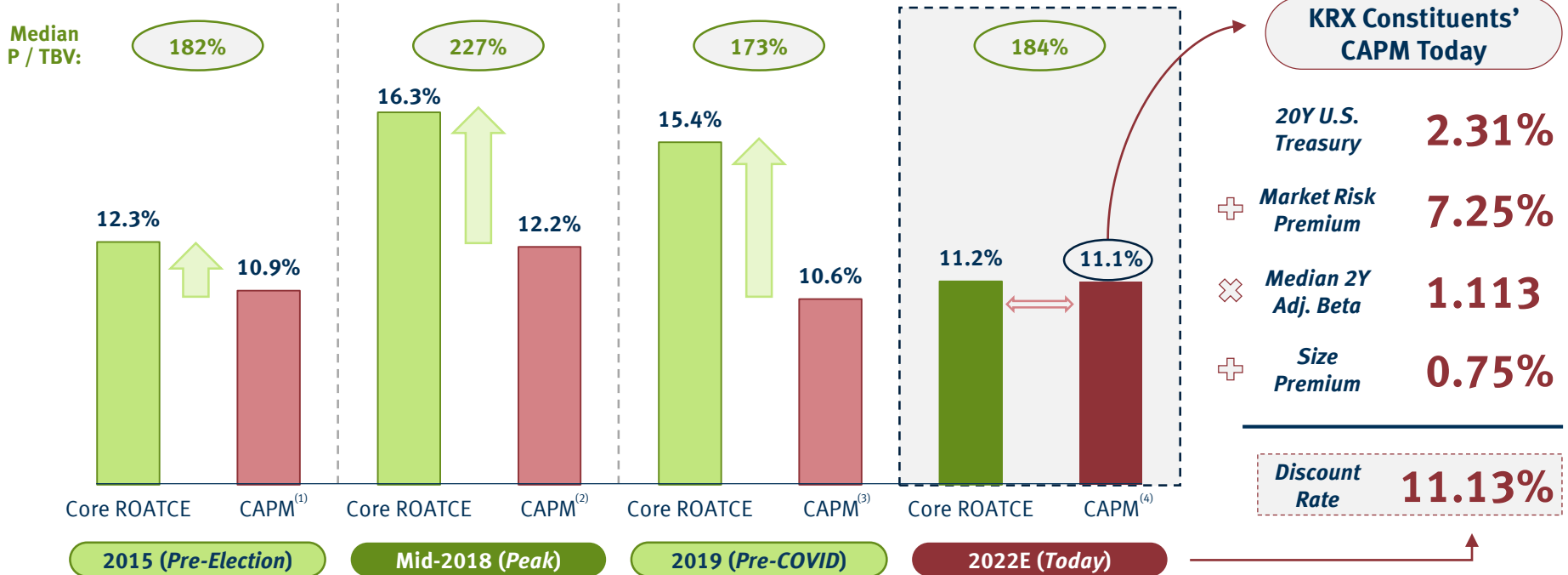
Source: S&P Global Market Intelligence, FactSet Research and KBW Research  
 Note: Estimates as of 3/12/2021; Pro forma for recently completed or pending acquisitions

✓ Denotes participation in M&A since 2019



# Banks May Struggle to Earn Their Cost of Capital

## KRX Constituents Expected to Marginally Earn Their Cost of Capital Against Rate & Growth Headwinds

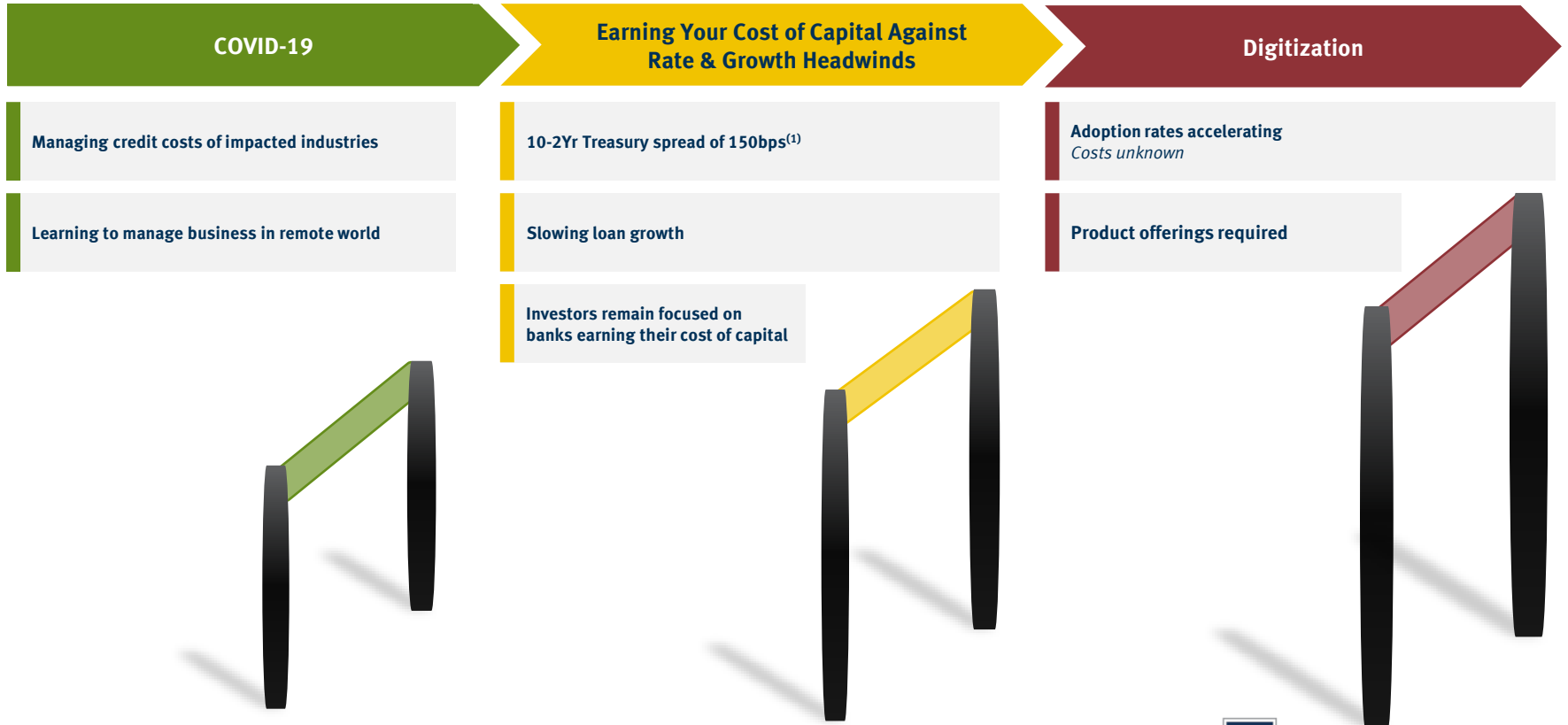


Source: S&P Global Market Intelligence, FactSet and the latest Duff & Phelps Valuation Handbook – Guide to Cost of Capital as of 12/31/20  
 Note: Long-horizon expected market risk premium and size premium methodology provided by Duff & Phelps (in accordance with previous Ibbotson Associates methodology); Size premium reflects the median market cap of all KRX bank constituents as of 3/8/21 (excludes merger targets); 2022 Core ROATCE consensus estimates normalized to back-out forecasted reserve release across all included KRX constituents

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 (1) CAPM reflects 20-Year U.S. Treasury rate and 2 year daily adjusted beta relative to the S&P 500 Index per Bloomberg as of 12/31/15  
 (2) CAPM reflects 20-Year U.S. Treasury rate and 2 year daily adjusted beta relative to the S&P 500 Index per Bloomberg as of 6/30/18  
 (3) CAPM reflects 20-Year U.S. Treasury rate and 2 year daily adjusted beta relative to the S&P 500 Index per Bloomberg as of 12/31/19  
 (4) CAPM reflects 20-Year U.S. Treasury rate and 2 year daily adjusted beta relative to the S&P 500 Index per FactSet as of 3/12/21



# Hurdles Banks Face Heading into 2021



<sup>(1)</sup> As of 3/12/2021

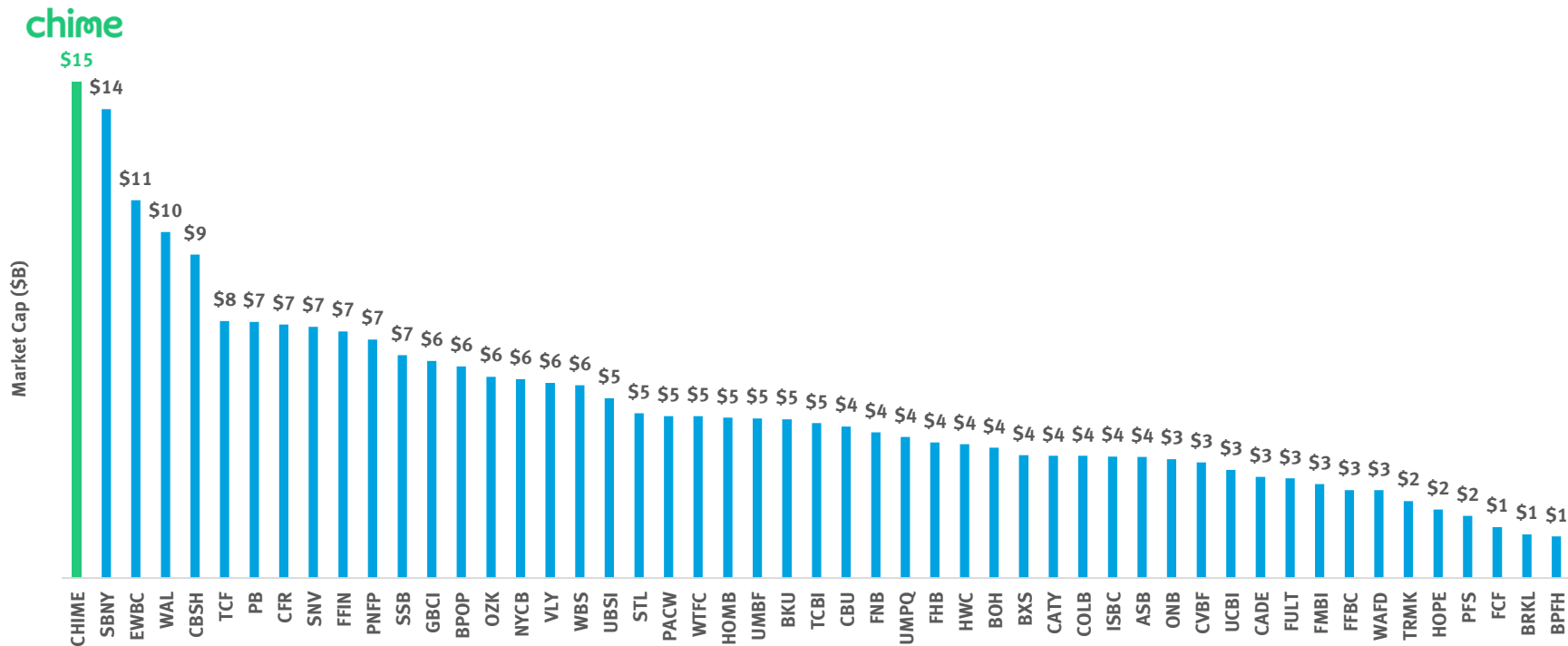
## Today's Champions, Yesterday's Visionaries (cont'd.)



Note: Dollars represent market capitalization; Market data as of 3/12/2021, 3/12/2020, 3/12/2018 and 3/12/2016 (1-year, 3-year, and 5-year)

# The Landscape Has Changed

## KRX Market Capitalization (as of 3/12/2021)



























Source: S&P Global Market Intelligence; Market data as of 3/12/2021

Note: Chime Financial, Inc. valued at approximately \$14.5 billion per last round of funding 9/18/2020



# FinTech Challenging the Traditional Competitors

## PayPal and Chime Compared to Top 25 Publicly Traded Banks' Market Caps

Market Cap Rank	Institution Name	Market Cap (\$B)
1	 JPMorgan Chase	\$476.5
2	 BANK OF AMERICA	327.3
	 PayPal	293.2
3	 WELLS FARGO	165.2
4	 citi	156.9
5	 us bancorp	82.1
6	 TRUIST	80.7
7	 PNC	76.9
8	 Capital One	60.9
9	FIRST REPUBLIC BANK	30.6
10	 FIFTH THIRD BANK	28.5
11	 REGIONS	27.8
12	 KeyBank	21.0
13	 M&T Bank	20.6
14	 Citizens Bank	20.3
15	 Huntington	19.3
16	 chime	14.5 <sup>(1)</sup>
17	 SIGNATURE BANK	13.7
18	 EAST WEST BANCORP	11.0
19	 Western Alliance Bancorporation	10.1
20	 Comerica	9.9
21	 FIRST HORIZON NATIONAL CORPORATION	9.8
22	ZIONS BANCORPORATION	9.7
23	 Commerce Bancshares, Inc.	9.5
24	 First Citizens Bank	8.3
25	 Peoples United	7.7

Source: S&P Global Market Intelligence; Market data as of 3/12/2021

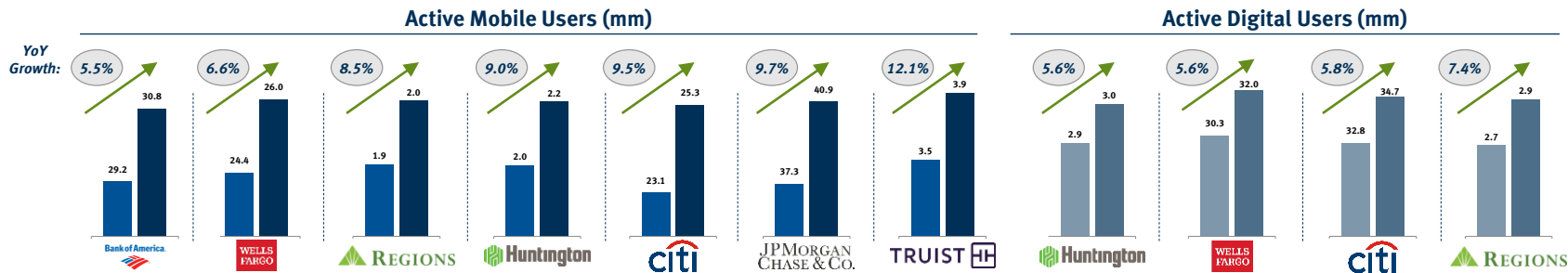
Note: Excludes BK, STI, NTRS and TCF (merger target)

(1) Chime Financial, Inc. valued at approximately \$14.5 billion per last round of funding 9/18/2020

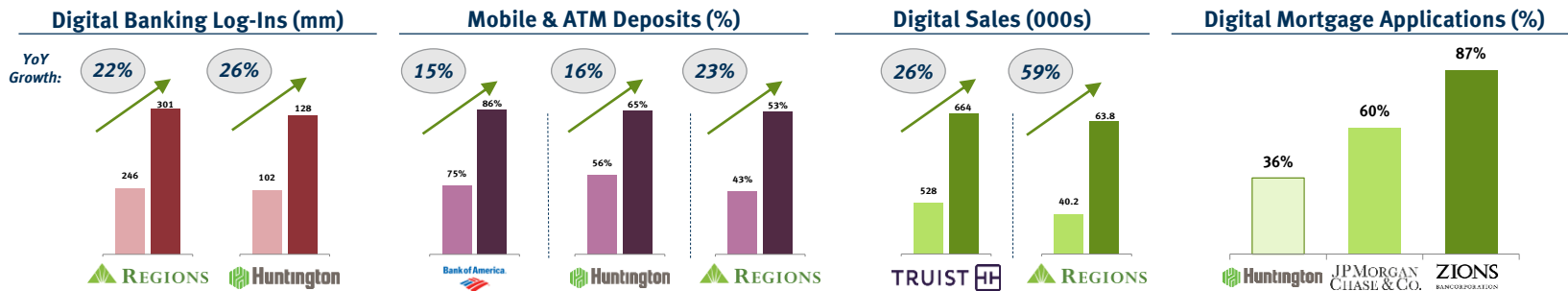


# Banks Respond: Digital & Mobile Adoption

While BKX Constituents Largely Experienced Single-Digit YoY Active Mobile & Digital User Growth...



... Most Saw Mobile/Digital Engagement Levels Explode, Helping Drive Revenues



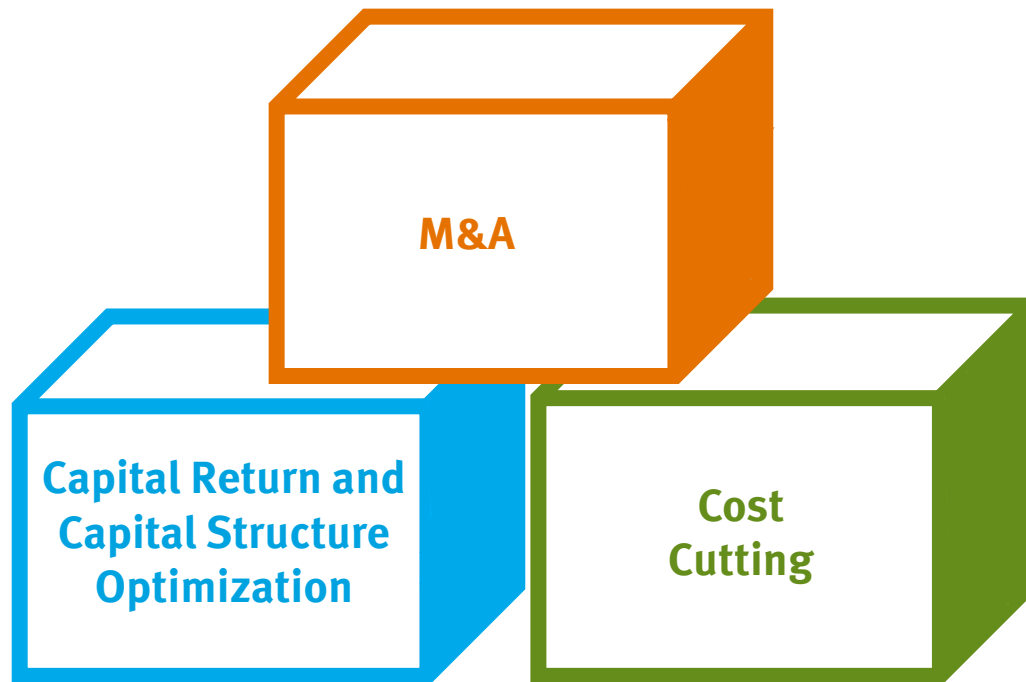
# What Now?





## What Now? The Building Blocks to Success

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# What Now? Implications for Industry Participants

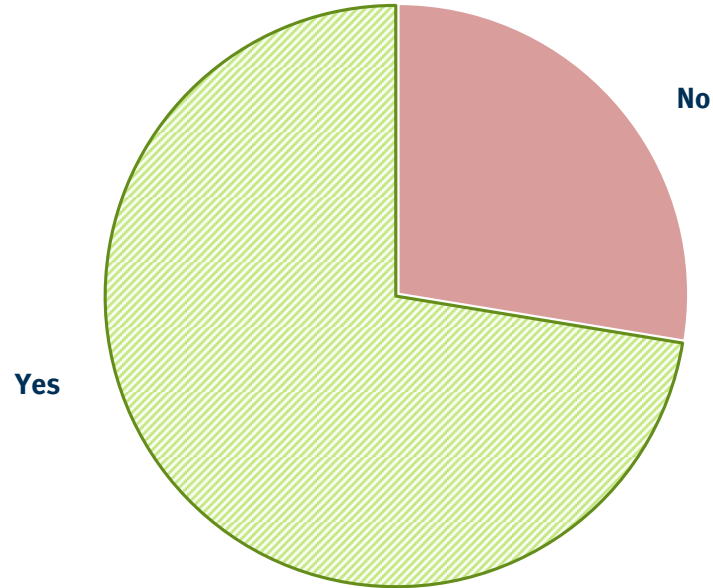
	Consolidators	Independent Banks
M&A	<ul style="list-style-type: none"><li>• Continue to execute on value accretive acquisitions<ul style="list-style-type: none"><li>– Build scale through transformative mergers with like-sized institutions and through acquisitions of smaller banks struggling to earn their cost of capital</li></ul></li><li>• Respect M&amp;A guardrails<ul style="list-style-type: none"><li>– Migration towards lower premium transactions; ~40% of transactions in 2020 with deal value greater than \$100mm had a 1-day premium at announcement of less than 10%</li><li>– Manageable TBV earnback periods; No transactions with deal value greater than \$100mm announced an earnback period greater than 4 years in 2020</li><li>– As transactions become more transformative they are expected to yield greater value creation and more manageable book dilution</li></ul></li></ul>	<ul style="list-style-type: none"><li>• In-market disruption due to M&amp;A represents an opportunity for non-acquisitive banks to acquire disaffected customers and employees from merged entities</li></ul>
Capital Return and Capital Structure Optimization	<ul style="list-style-type: none"><li>• Opportunistically deploy excess capital through M&amp;A</li></ul>	<ul style="list-style-type: none"><li>• Evaluate current capital position in light of credit loss expectations and prospects for future growth</li><li>• Deploy excess capital through share repurchases and dividends</li><li>• Manage to optimal capital structure by capitalizing off of robust debt new issue environment</li></ul>
Cost Cutting	<ul style="list-style-type: none"><li>• Continue to accrue cost synergies and build scale through acquisitions</li></ul>	<ul style="list-style-type: none"><li>• Continue to execute on efficiency opportunities through branch / back-office rationalization, particularly as customer preferences shift towards digital</li></ul>

# Return of M&A

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U.S. Banks: ~\$20B - \$600B<sup>(1)</sup>

M&A Interest?



<sup>(1)</sup> Current M&A interest gauged amongst 58 U.S. banks with assets between ~\$20B and \$600B

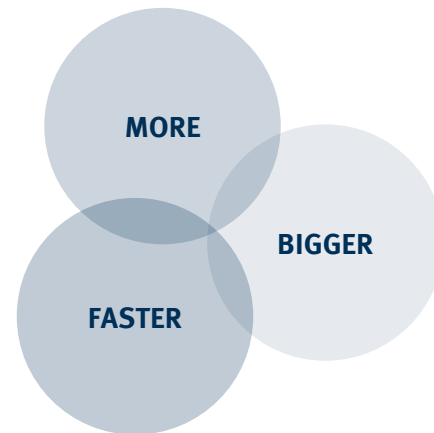


# A Review of 2020 M&A Activity...And What to Expect in 2021

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- 2020 M&A activity slowed dramatically as the COVID-19 pandemic brought uncertainty and volatility to the market
- 113 deals were announced in 2020, compared to ~250 deals annually in each of the last four years, reflecting deal counts down ~55%
- While the number of deals declined, the total dollar volume of \$27.7B was consistent with recent annual dollar volume, following two of the largest transactions completed since the financial crisis (PNC/BBVA for \$11.6B and HBAN/TCF for \$6B)
- Activity and conversations are ramping up across the industry and KBW expects M&A volumes to return to historical levels in mid-2021, following broad vaccine roll-out and line-of-sight on future credit losses
- COVID-19 has only reinforced secular consolidation drivers, particularly as it relates to scale & technology, and KBW expects buyers to focus on larger, more transformational transactions in 2021

## EXPECTATIONS FOR 2021 M&A ACTIVITY



# Rethinking M&A Valuation: It's All Relative

- M&A is **governed by valuation**

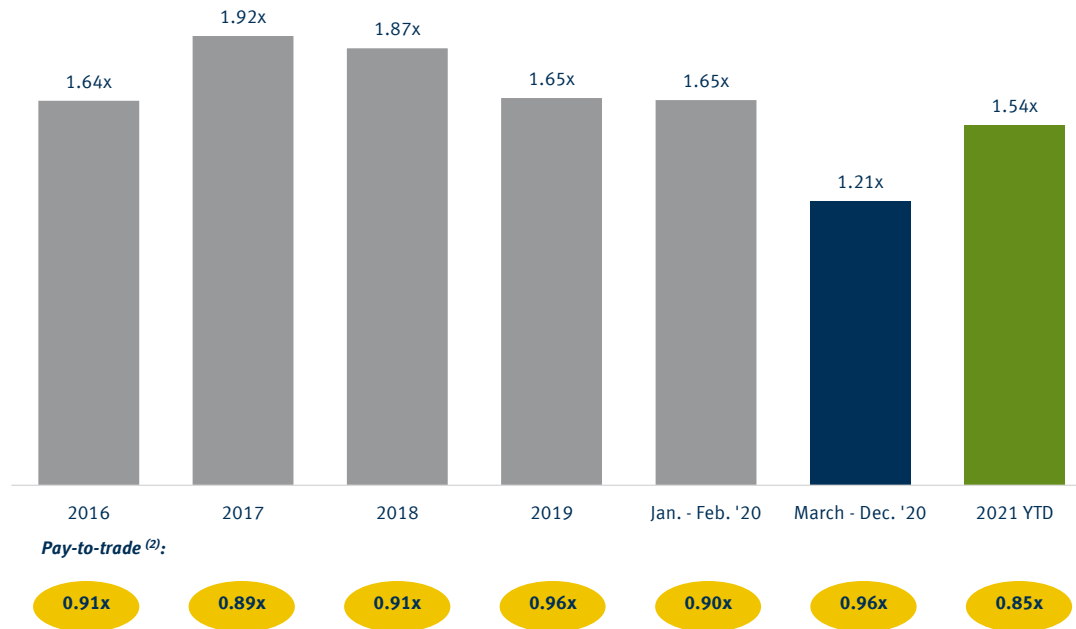
- There is natural resistance of sellers to accept lower price and buyers to issue stock at depressed valuations

- In today's environment, **M&A valuation needs to be viewed through the lens of relative ownership**

- What % of the pro forma company are you getting relative to contribution or historical valuation

- Valuations today are down uniformly across the board maintaining the **parity among buyers and sellers**

## Historical Tangible Book Value Multiples <sup>(1)</sup>



Source: S&P Global Market Intelligence, FactSet and Company documents; Data as of 3/12/21

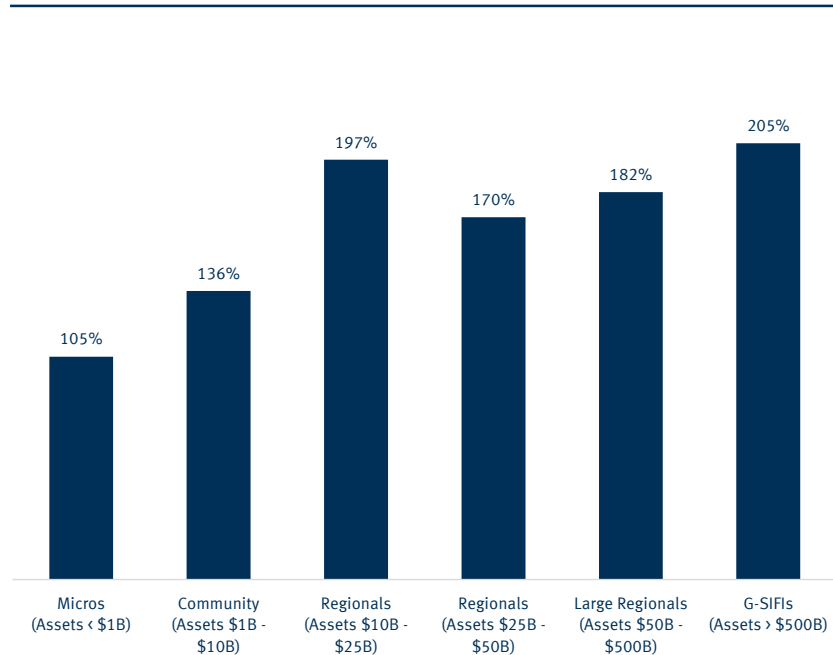
(1) Includes nationwide transactions since 1/1/16 with announced deal values \$50M+.

(2) "Pay-to-Trade" Ratio defined as the P/TBV multiple paid in the transaction divided by the buyer's P/TBV multiple at the time of announcement.



# Wider P/TBV Dispersion... Supports More M&A Activity

Current P/TBV for Banks by Asset Size



P/TBV Premium Widening Between Regionals & Community Banks



Source: S&P Global Market Intelligence and KBW Research. Market data as of 3/12/21.  
Note: G-SIFI stands for Global Systematically Important Financial Institutions.



# Consolidation Expectations

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Expect to See **Consolidation** Reach Pre-COVID Record Levels



Expect the **Top End** of the Industry to Join in **Deal Making** with Each Other



**Competition** is Not Just the Bank Across the Street, But the **Tech** Industry as Well



Expect More **Non-banks** to Buy Banks and **Become Banks**

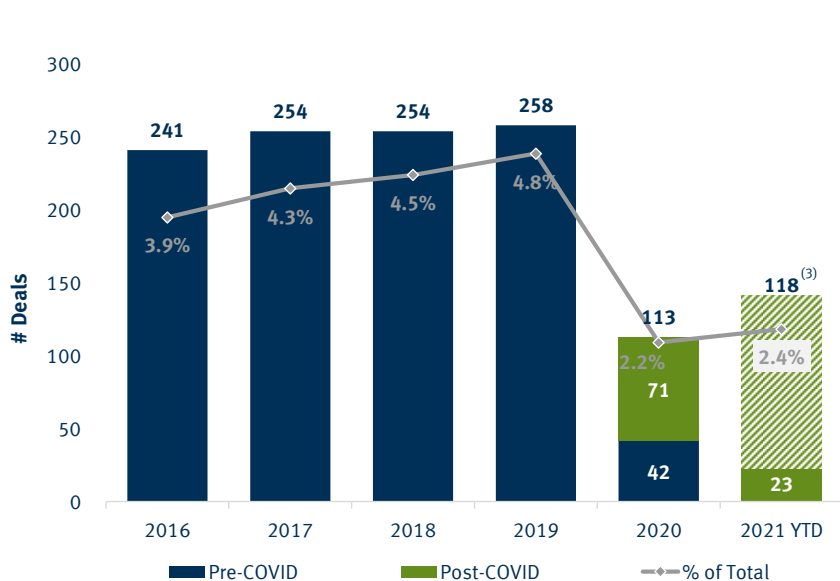


Expect the **Efficiency Ratio** to be a **Key Success Variable**

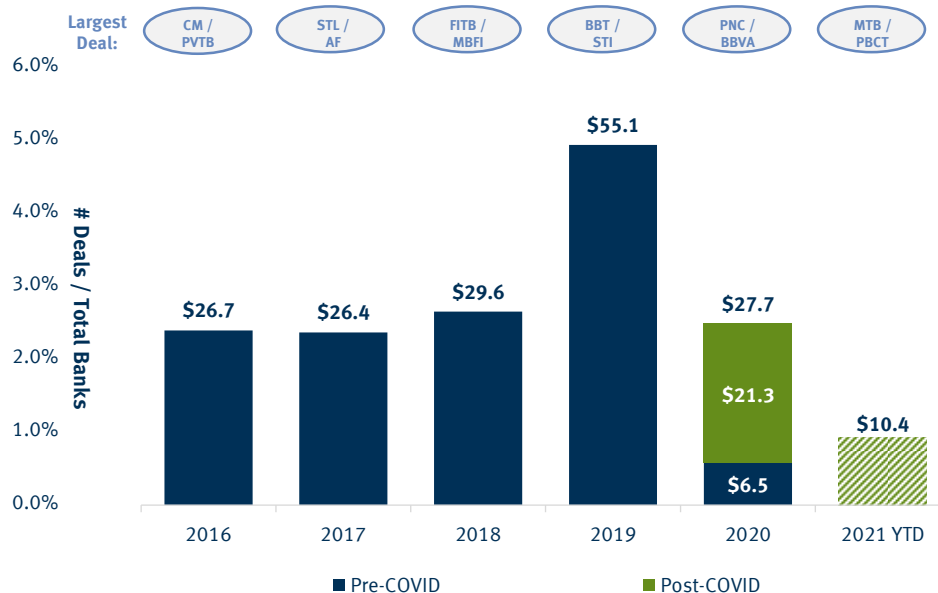
# 2020 M&A Activity Was Impacted By COVID-19

Number of Announced Deals in 2020 was Down ~55%...Although the \$ Volume Was Consistent

## Number of Deals<sup>(1)(2)</sup>



## Deal Volume (\$B)<sup>(2)</sup>



Source: S&P Global Market Intelligence, FDIC and Company documents. Data as of 3/12/21.

(1) Includes all announced bank and thrift transactions since 1/1/16 where target was headquartered in the United States.

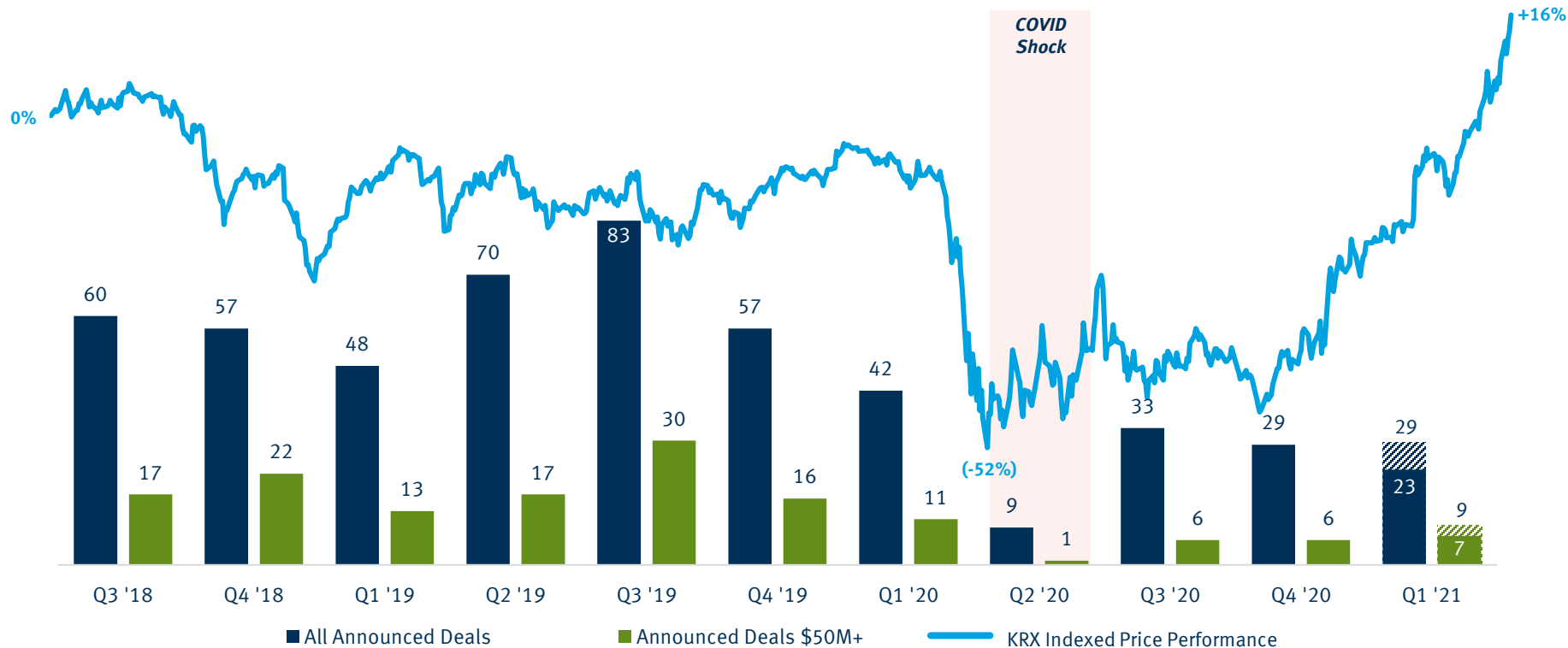
(2) Pre-COVID defined as 1/1/20 to 3/31/20. Post-COVID defined as 4/1/20 onward.

(3) Represents annualized data.





# COVID Paused M&A in Q2 '20...But Activity is Building in 2021



Source: S&P Global Market Intelligence. Data as of 3/12/21.

Note: Includes all announced bank and thrift transactions where target was headquartered in the United States.

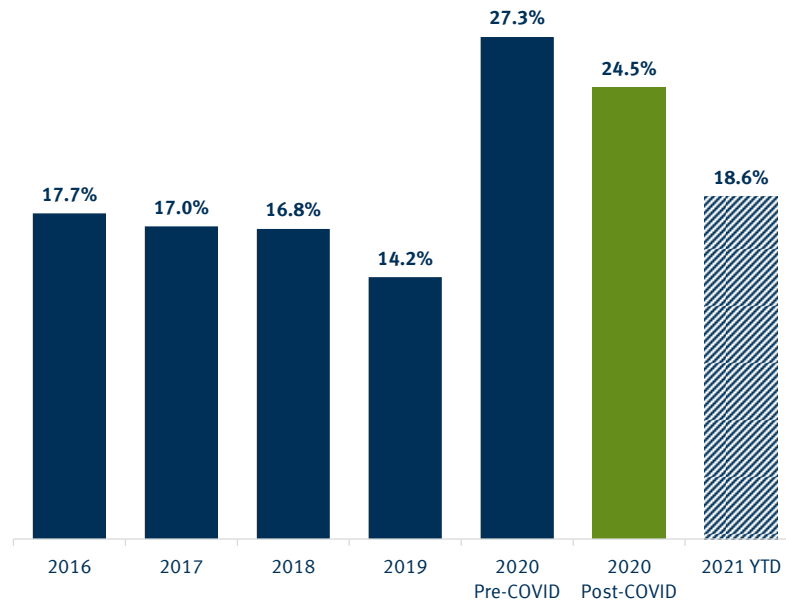


# Today's Buyers are Seeking Larger, More Impactful Targets

## Median Deal Size (\$M)<sup>(1)</sup>



## Median Seller / Buyer Assets<sup>(1)</sup>



Source: S&P Global Market Intelligence, FDIC and Company documents. Data as of 3/12/2021.

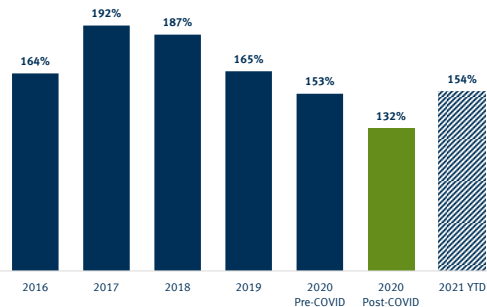
Note: Includes all bank and thrift transactions with disclosed deal values where target was headquartered in the United States.

(1) Pre-COVID defined as 1/1/20 to 3/31/20. Post-COVID defined as 4/1/20 onward.

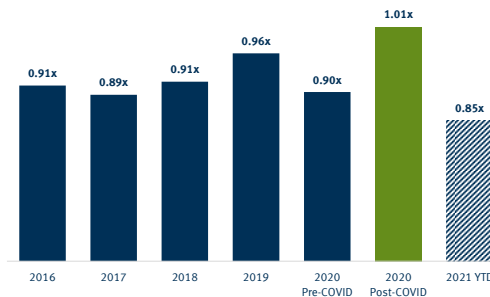


# Multiples Paid Remain Consistent with Buyers' Trading Valuations

## Price / TBV

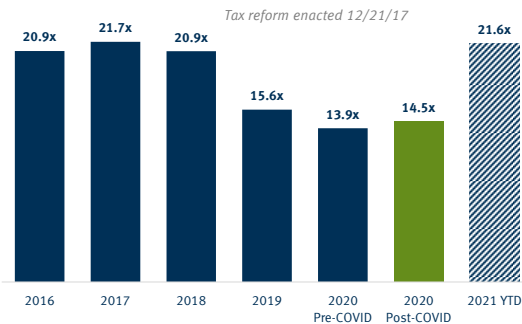


## Pay-to-Trade<sup>(1)</sup>

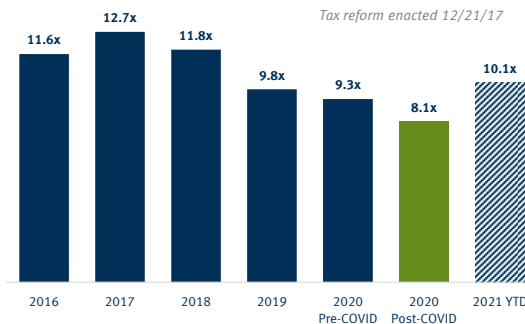


Valuation is  
Relative...  
Pay-to-Trade  
Remains  
Consistent

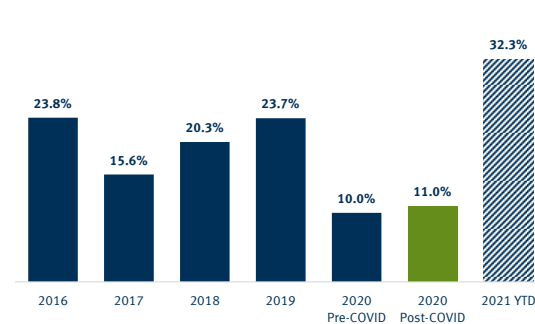
## Price / LTM EPS



## Price / LTM EPS + Saves



## 1-Day Market Premium



Source: S&P Global Market Intelligence and Company documents. Data as of 3/12/21. Includes transactions with announced deal values >\$50M.

Note: Figures represent medians. Earnings multiples greater than 40.0x or less than 0.0x are designated "NM" (not meaningful).

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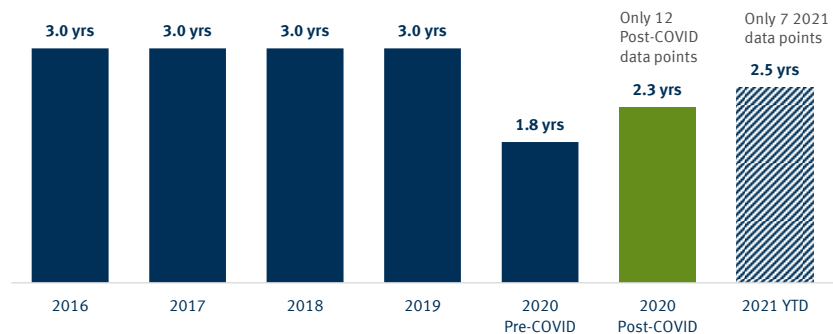
(1) Pay-to-Trade defined as the P/TBV multiple paid in the transaction divided by the buyer's TBV multiple the day prior to announcement.



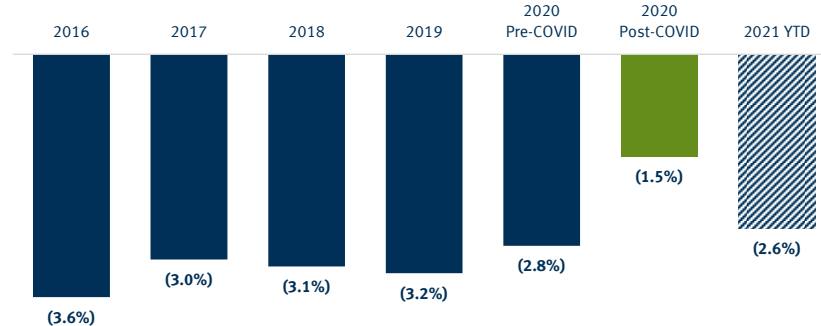
KEEFE, BRUYETTE & WOODS  
A Stifel Company

# Buyers Remained Conservative on Earnback... ...With Larger Deals Bringing More EPS Accretion

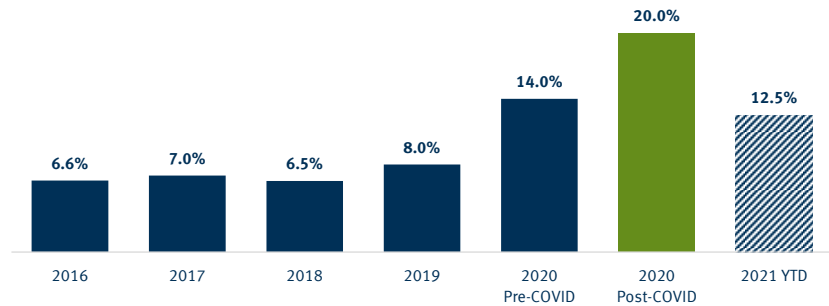
## TBV Earnback (Years)



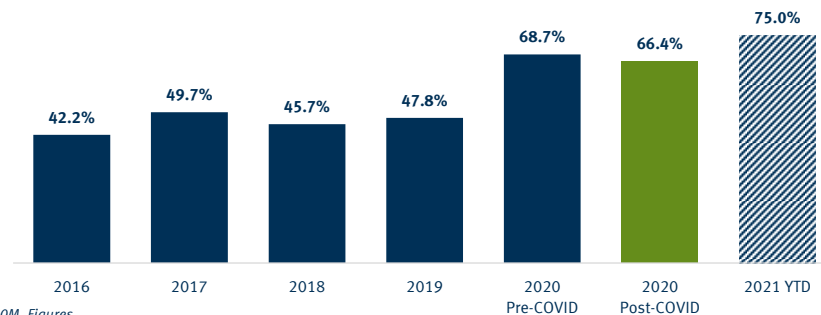
## TBV Dilution (%)



## Buyer EPS Accretion (%)



## Buyer Incremental EPS Accretion (%)<sup>(1)</sup>

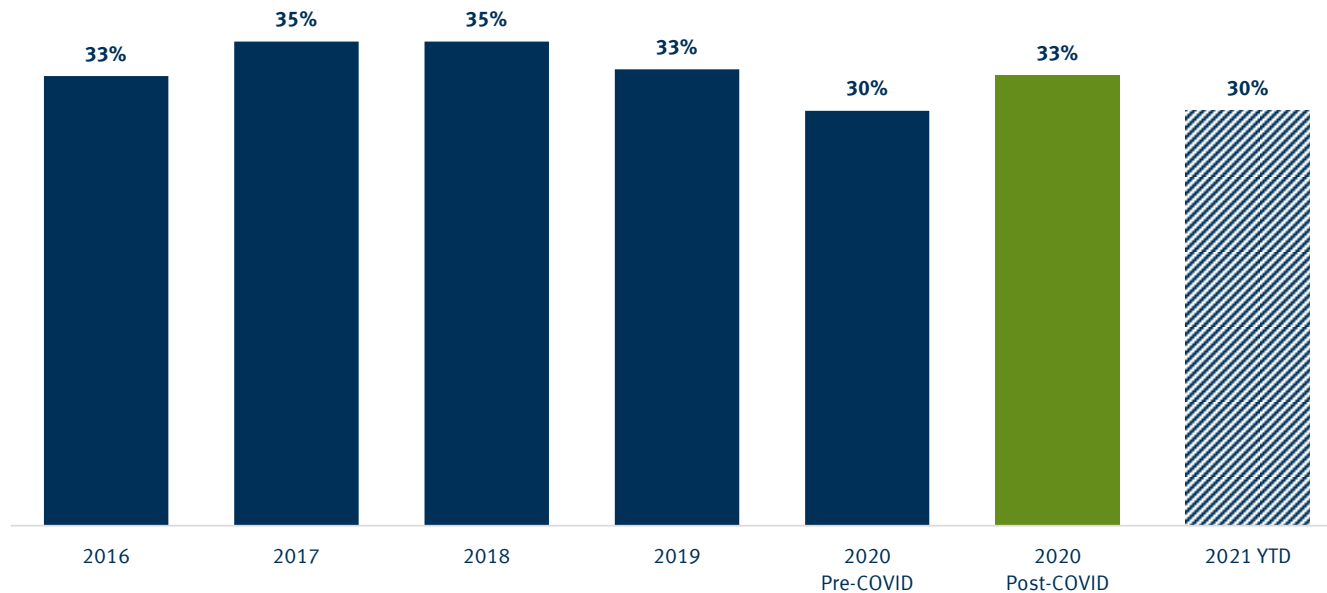


Source: S&P Global Market Intelligence and Company documents. Data as of 3/12/21. Includes transactions with announced deal values >\$50M. Figures represent medians.

<sup>(1)</sup> Incremental EPS accretion defined as buyer EPS accretion percentage divided by target pro forma ownership percentage.

# Cost Savings Assumptions Remain Generally Consistent

## Announced Cost Savings (%)

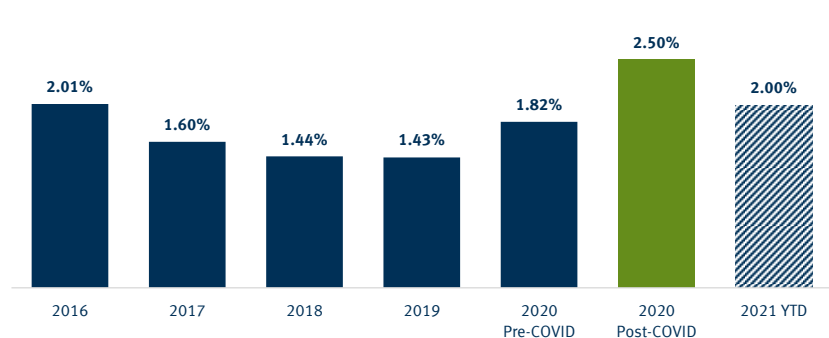


Source: S&P Global Market Intelligence and Company documents. Data as of 3/12/21. Includes transactions with announced deal values >\$50M. Figures represent medians.

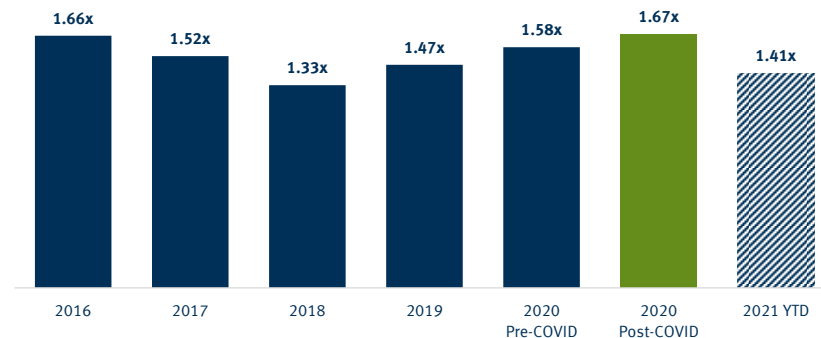


# Credit Marks Remain Correlated to Reserve Levels...With Larger PCD Allocations

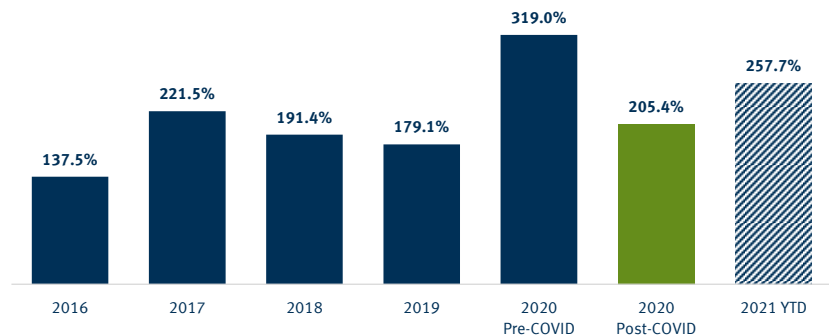
## Credit Mark / Loans



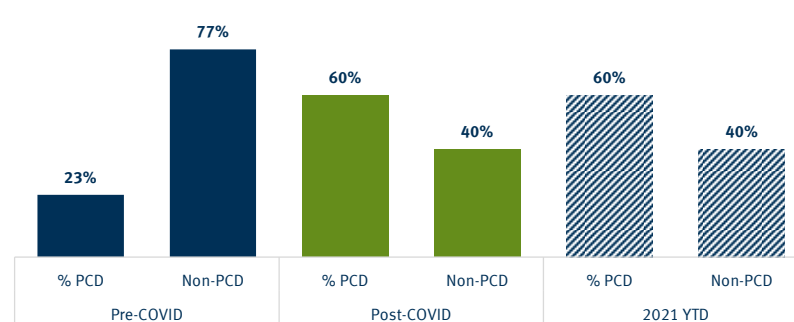
## Credit Mark / Reserves



## Credit Mark / NPLs<sup>(1)</sup>



## Credit Mark Bifurcation<sup>(2)</sup>



Source: S&P Global Market Intelligence and Company documents. Data as of 3/12/21. Includes transactions with announced deal values >\$50M. Figures represent medians.

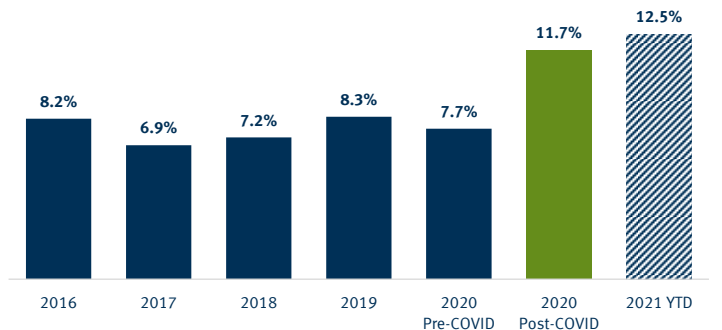
(1) NPLs include nonaccrual loans, loans 90+ days past due and TDRs.

(2) Includes transactions >\$100M with defined credit mark components of PCD and non-PCD loans.

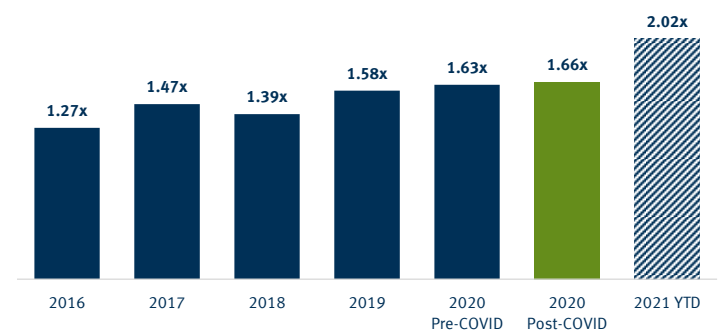


# Pre-Tax One-Time Costs Remain Generally Consistent

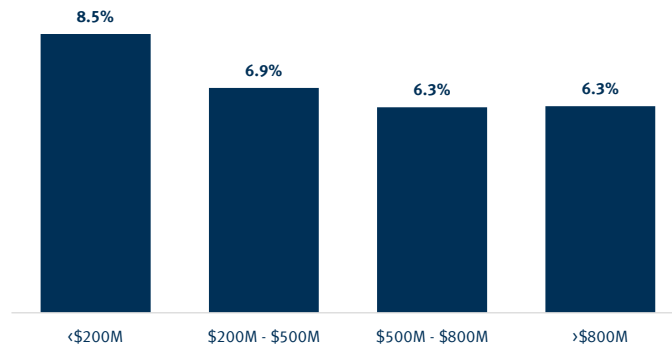
## Pre-Tax One-Time Costs / Deal Value



## Pre-Tax One-Time Costs / Cost Savings



## Pre-Tax One-Time Costs / Deal Value by Deal Size



## Potential Impact Dependent on Relative Size of Opportunity

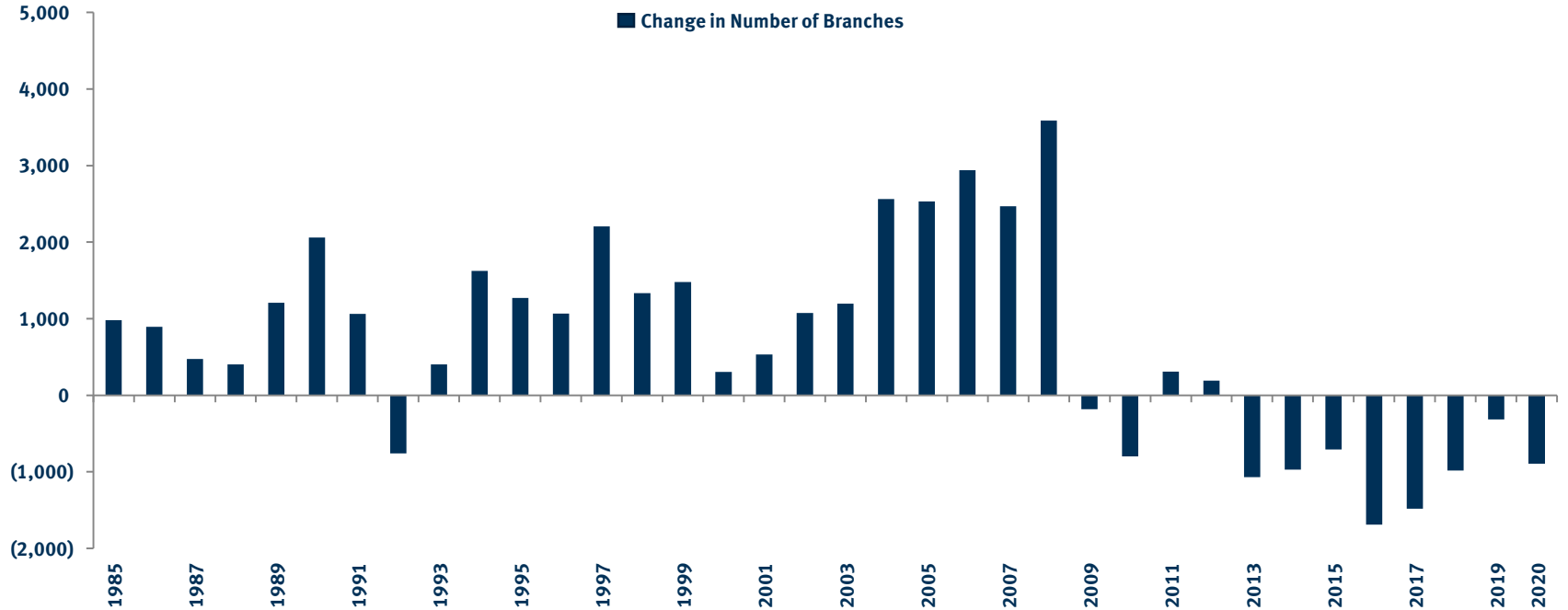
	<i>Premium</i>	<i>EPS Accretion</i>	<i>TBV Dilution</i>	<i>Year Earnback</i>
<b>Small Acquisition</b>	<b>25%</b>	<b>2% - 10%</b>	<b>(2%) - (3%)</b>	<b>3</b>
<b>Transformational Acquisition</b>	<b>15% - 20%</b>	<b>5% - 10%</b>	<b>(3%) - (5%)</b>	<b>3</b>
<b>Merger of Equals</b>	<b>0% - 10%</b>	<b>20% - 30%</b>	<b>0% - (5%)</b>	<b>0 - 2</b>

Greater Impact & Greater Social Issues



# What Now? Efficiency Programs

As branch traffic declines, footprint & staffing reductions are “low-hanging fruit” that will improve profitability

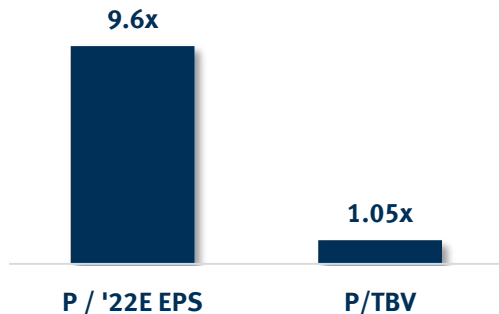


Source: KBW Research and FDIC



# What Now? Buybacks

## KRX Valuations: October 2020<sup>(1)</sup>

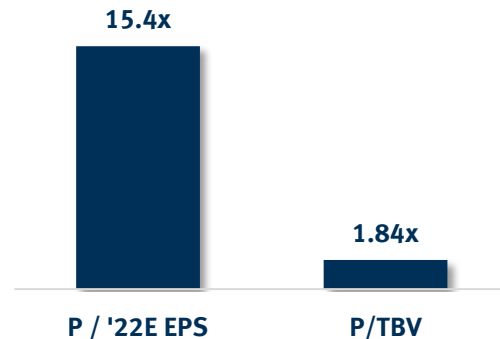


**(0.3%)** TBV Dilution

**4.9%** EPS Accretion

**0.5** Year Earnback

## KRX Valuations: Today<sup>(2)</sup>



**(4.4%)** TBV Dilution

**4.6%** EPS Accretion

**6.5** Year Earnback

Source: S&P Global Market Intelligence and FactSet Research Systems

(1) As of 10/29/2020

(2) As of 3/12/2020



## Implications of the M&A Wave – For Potential Buyers

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- Continue to drive operating leverage by executing on value accretive acquisitions of smaller banks
  - Retain significant control of pro forma company without “social” concessions
  - Offset margin compression
  - Opportunity to deploy excess liquidity position as cash consideration in a merger
- Pursue transformative mergers to expedite growth, increase scale, broaden footprint and expand product offerings
  - Opportunity to accrue significant efficiencies
  - Supports ability to invest in contemporary technology
  - Transformative transactions have seen strong initial reactions in the market
- Coming out of the recent economic downturn, respecting M&A “guardrails” is more important than ever:
  - Lower premium transactions mitigate risk
  - Earnback TBV periods must be manageable (no transactions >\$100mm announced an earnback greater than 4 years in 2020)
  - Credit marks should be conservative and provide appropriate cushion for future loss content
  - Shareholders expect larger transactions to yield more favorable economics to compensate for increased risk



## Implications of the M&A Wave – For Potential Sellers

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- Continue to evaluate strategic alternatives in light of market changes
  - Analyze standalone valuation and growth / return potential in light of digital transformation of business
  - Compare standalone growth prospects to potential share of value creation in a sale to a larger bank or merger with a like-sized institution
  - A sale eliminates execution risk associated with achieving strategic plan
  - Consider impact to community and employees
- A sale can represent an opportunity to create significant value in today's environment:
  - Upside if transaction is well received in stock transactions (particularly if both parties are undervalued)
  - Potential to receive a significant take-out premium
  - Share of pro forma synergies
- Evaluate attractiveness of potential buyer / partner currencies and their ability to transact on an ongoing basis
  - M&A should be evaluated through the lens of relative valuation, contribution and pro forma ownership
- An institution interested in a sale can take several actions to position itself for a transaction:
  - Establish dialogue with potential partners
  - Recognize days of broad auctions are past; most recent deals have been negotiated or very limited auctions



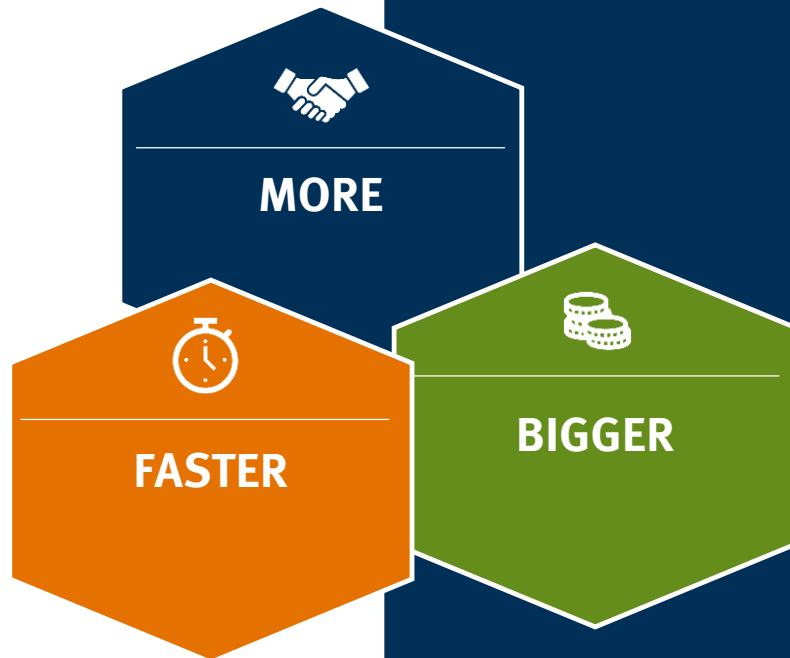
# Implications of the M&A Wave – For Independently Focused Institutions

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- Retain control and continue to execute on strategic plan
  - Manage for independence by resetting stakeholder expectations; nothing wrong with being a low premium, low risk franchise with a dividend payout – if that's what stakeholders expect!
- Institutions that choose to remain independent are in a position to capitalize off of in-market disruption created as a result of M&A
  - Acquire customers that have been impacted by post-merger activity (branch consolidations or employee disruption)
  - Hire lenders and relationship managers away from impacted institutions
  - Realize that technology levels the playing field for community based institutions
- Evaluate opportunities to achieve standalone efficiencies / return targets
  - Consider effectiveness of current branch network and opportunity to remix delivery channels
  - Identify systems / technology investments required to keep pace with industry change
  - Position balance sheet to effectively manage the current and projected rate environment
- Evaluate capital structure and execute on any required optimization
  - Share repurchases are returning as a means of capital return
  - 2020 was a record year for Tier 2 debt issuance due to record low coupon rates, record high new issuance (over \$10Bn subdebt and \$3.5Bn of preferred), and significant investor demand



# KBW's Outlook



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