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The Bank Shot

Information for Community Banks

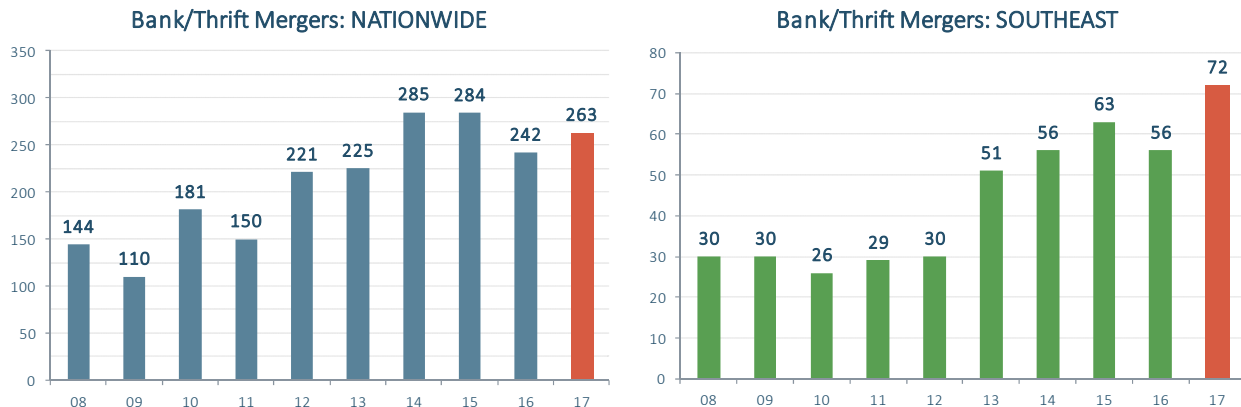
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Trump “Bump” or “Jump”?...2017 Bank M&A Scorecard

The election of Donald Trump in November 2016 was heralded by many as a positive for the banking industry and for bank M&A in particular. During 2017 the bank M&A arena saw an increase in both deal activity and pricing after several years of stagnation. In the early part of 2017 this uptick was referred to as the “Trump Bump.” With the rise in activity and pricing proving sustained over the entire year and not ephemeral, some pundits are now calling this phenomenon the “Trump Jump.”

Deal Flow is Up

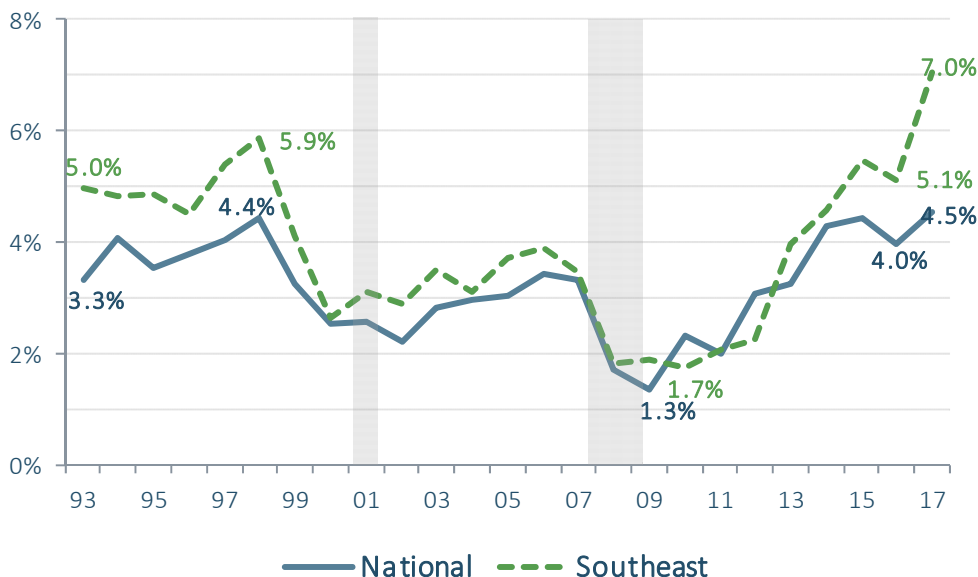
Nationally there were 263 bank M&A deals announced in 2017, which represents a 9% increase over the 242 deals announced in 2016. Deal activity in the Southeast was up even more with 72 deals announced in the region compared to 56 announced in 2016 (a 29% increase).



Note: All chart data courtesy of SNL Financial.
Southeast: AL, AR, FL, GA, MS, NC, SC, TN, VA and WV.

Not only did deal activity rise from 2016 to 2017 in absolute terms, it rose in relative terms as well. The following chart shows that M&A deals as a percentage of total banks spiked noticeably from 2016 to 2017 (coincident with Trump’s inauguration) and that 2017 was the most active year for bank M&A on a relative basis over the last quarter century. For instance, in the Southeast (dotted green line) slightly over 7% of all banks in the region sold during 2017. Put another way, roughly 1 out of every 14 Southeastern banks were sold during 2017. The next most active year for bank M&A in the Southeast was all the way back in 1998 when 5.9% of Southeastern banks were sold.

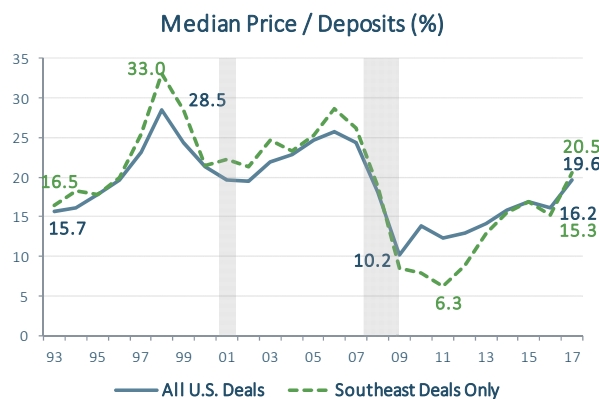
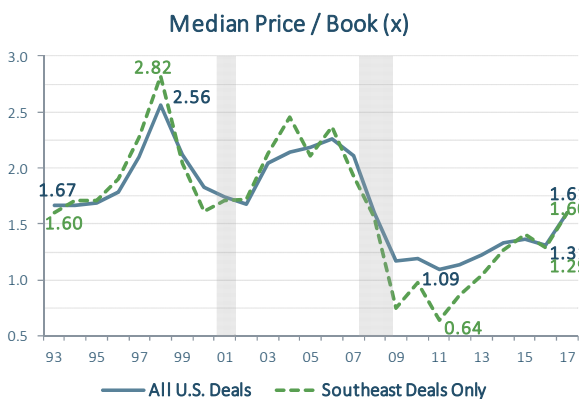
Mergers as a Percentage of Total Institutions



Grey bars represent recessions (Mar01-Nov01; and Dec07-Mar09). Percentages were calculated by dividing mergers in a given year by total institutions at Dec. 31 of the prior year. Southeast: AL, AR, FL, GA, MS, NC, SC, TN, VA and WV.

Deal Pricing Rises Too

The right edges of the following two charts graphically show the “Trump Jump” manifesting itself in noticeably higher deal pricing in 2017 compared to 2016. In the first chart which shows the Price/Book median by year, the national median (solid blue line) jumped from 1.31x in 2016 to 1.61x in 2017 (a 23% increase). In the second chart which shows the Price/Deposits median by year, the same was true: the national median (solid blue line) rose from 16.2% in 2016 to 19.6% in 2017 (a 21% increase).



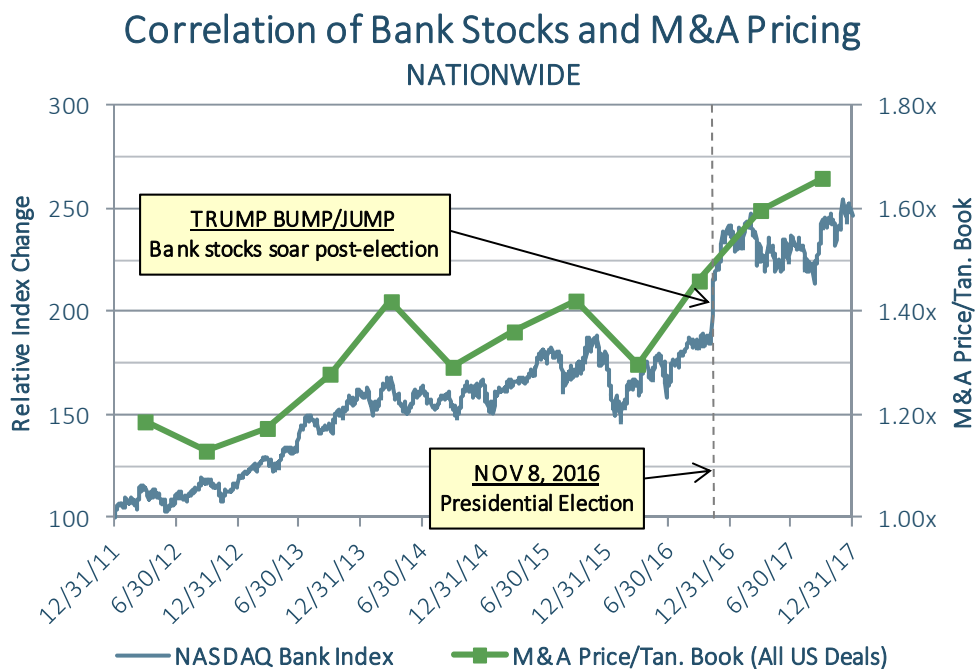
Grey bars represent recessions (Mar01-Nov01; and Dec07-Mar09). Southeast: AL, AR, FL, GA, MS, NC, SC, TN, VA and WV. Note: Price-Earnings multiples not shown due to the abnormally high preponderance of sellers with little or negative earnings in the 2009-11 period.

Another interesting observation from these charts is the almost flat trajectory in pricing during the Obama administration and the spike in 2017 upon Trump's inauguration. Perhaps this speaks to the severity of the Great Recession. Unlike the sharp rebounds in pricing following the 1990-91 and 2001 recessions, the recovery in pricing after the Great Recession was tepid at best. While pricing is not currently like the halcyon days of the late 90's, it clearly has improved (at least for sellers) since the Great Recession.

Will the Trump Bump/Jump Continue to Lift M&A Pricing?

Something to keep an eye on as we move through 2018 is where banks stocks trade. One school of thought in the bank M&A world is that bank M&A pricing "tags along" with bank stock prices: as stocks rise, M&A multiples rise and vice versa.

Beginning on the day immediately following the election (November 9, 2016), bank stocks took off like a rocket ship in what was initially referred to as the "Trump Bump." The explanation behind this phenomenon was that the newly elected candidate was viewed as far-friendlier to the banking industry than his opponent, and market participants reflected this thinking in their trading of bank stocks. The chart below shows the almost vertical rise of bank stocks (blue line) from November 9, 2016 into early 2017. After some up's and down's in 2017 bank stocks ended the year even higher on a relative basis than they were at year-end 2016.



If the school of thought regarding the stocks-M&A multiples relationship holds, and if bank stocks are experiencing a sustained "Trump Jump" (and not just a fleeting "Bump"), M&A pricing in 2018 could push even higher.

Please contact Michael Stone, CFA (205.458.9137; michael@pwco.com) for more information on the bank M&A marketplace.

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