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Blog:
Strong stocks and inaction in DC could fuel more M&A momentum

By Kevin Dobbs **August 28, 2017**

Bank and thrift M&A activity accelerated during the summer months thanks in large part to the strong stocks of publicly traded buyers, putting 2017 on pace to surpass the year prior in terms of both the number of deals announced and their collective value.

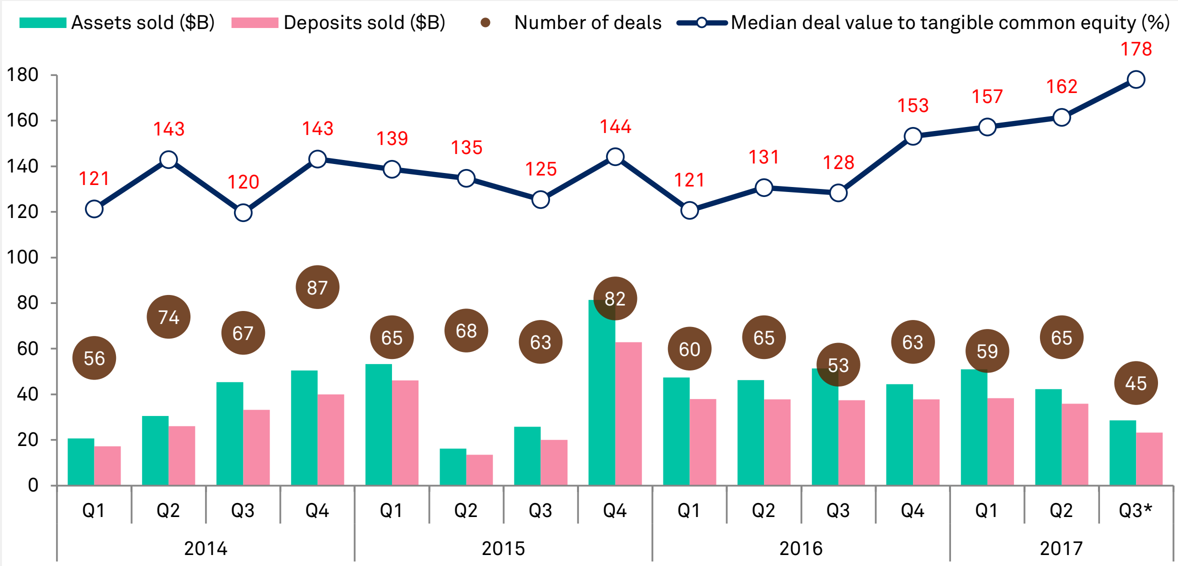
Should bank stocks hold up, investment bankers expect M&A momentum to continue through the remainder of the year, as buyers capitalize on the strength of their shares to meet seller pricing expectations to seal stock-driven deals.

"The longer the buyers have a strong stock, the longer the trend" continues, Curtis Carpenter, principal and head of investment banking for Sheshunoff & Co., said in an interview.

He noted that it often takes several months to negotiate deals. That means many of the flurry of transactions announced in July and August were the results of discussions that commenced last spring or even earlier, following a rally in bank stocks late in 2016.

US bank and thrift deal statistics

	2013	2014	2015	2016	2017
Number of deals	226	284	278	241	169
Total deal value ($B)	14.39	19.00	24.15	26.79	21.91
Assets sold ($B)	111.19	147.01	176.64	189.56	121.81
Deposits sold ($B)	88.91	116.38	142.59	150.95	97.54
Median deal value to tangible common equity (%)	121.88	133.26	136.62	130.61	161.50



Data compiled Aug. 25, 2017.
Includes thrift merger conversions. Excludes branch, government-assisted and terminated deals.
All metrics are as of announcement date.
* Quarter-to-date through Aug. 24, 2017.
Deal value to tangible common equity = Deal value as a percentage of tangible common equity acquired; derived from per share values when all ratio components are available, otherwise aggregate values are used.
Source: S&P Global Market Intelligence

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At midyear, 2017's deal count trailed the previous year slightly, but it moved ahead with several acquisitions announced in July and August.

Through Aug. 25, there were 169 deal announcements in the U.S. banking industry with an aggregate disclosed deal value of about $21.9 billion. Those figures were up from 159 deals and an aggregate value of about $20.6 billion in the same period of 2016, according to an S&P Global Market Intelligence analysis.

The vast majority of these deals have involved community banks as the targets.

There were 241 deal announcements in all of 2016. With more than four months to go this year, the banking sector is on pace to easily exceed that total before the end of 2017.

The SNL U.S. Bank index is up nearly 30% over the past 52 weeks. Most of the gains were made in the weeks following the presidential election last November.

Buyers with strong stocks have been able to go after larger targets that often command higher prices. This helps explains why the aggregate deal value is climbing.

All five of the most expensive deals announced across all of 2016 and to date in 2017, based on the ratio of price to tangible book value, have been announced this year. The most recent of them was Cincinnati-based First Financial Bancorp.'s deal to acquire Greensburg, Ind.-based MainSource Financial Group Inc., announced July 25. SNL valued the $1 billion deal at 266.4% of the target's tangible book value.

The pace of deals this year could even accelerate amid inaction on legislative fronts important to the banking industry, including deregulation and tax reform. Analysts note that community banks have struggled in recent years under the weight of heavy regulation and lofty cost burdens, motivating many to sell.

President Donald Trump's promise of fewer regulations and lower taxes persuaded some would-be sellers to hold off on deals earlier this year amid hopes that a shift in the cost landscape would enable them to remain independent. But with no major federal legislation passed under Trump to date, more small banks are again considering options to sell while buyers' stocks are still strong, observers say.

"Relative to where things were right after the election, there's more doubt now that things will be as good as promised," Rick Weiss, chief banking strategist at Ambassador Financial Group, said in an interview.

"I think it's disappointing" for a lot of banks, he added. "I thought we would have something concrete by now. I thought we'd have a game plan for deregulation, for tax reform. But we really don't. And that makes it really hard for a lot of these banks to plan for the long term. So selling in the near will make sense for more of them."

Of course, with the lack of legislative movement, it remains to be seen if investors remain positive on the banking sector. Weiss said that strength in buyer stocks remains an important piece of the 2017 M&A puzzle.

Also important is buyers' collective appetite for deals.

Buyers of community banks have for years been hungry for scale to more easily absorb regulatory costs and to better compete with large regional and national banks. Many also have used M&A to enter growth markets. Those elements remain in place, Weiss said.

Now, with interest rates rising and deposit costs creeping up in 2017, more buyers also are hunting for targets that have relatively low-cost deposit bases, he added. That is "increasingly important," Weiss said.

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