



# Bank Valuations

*What are the Influential Factors?*

**Ed Usalis**

*United Bankers' Bank*

*BankValue Advisory Services*

# Agenda

- Economic Context
- Public Bank Performance
- Regional Transactions
- Valuation Basics
- Looking Forward

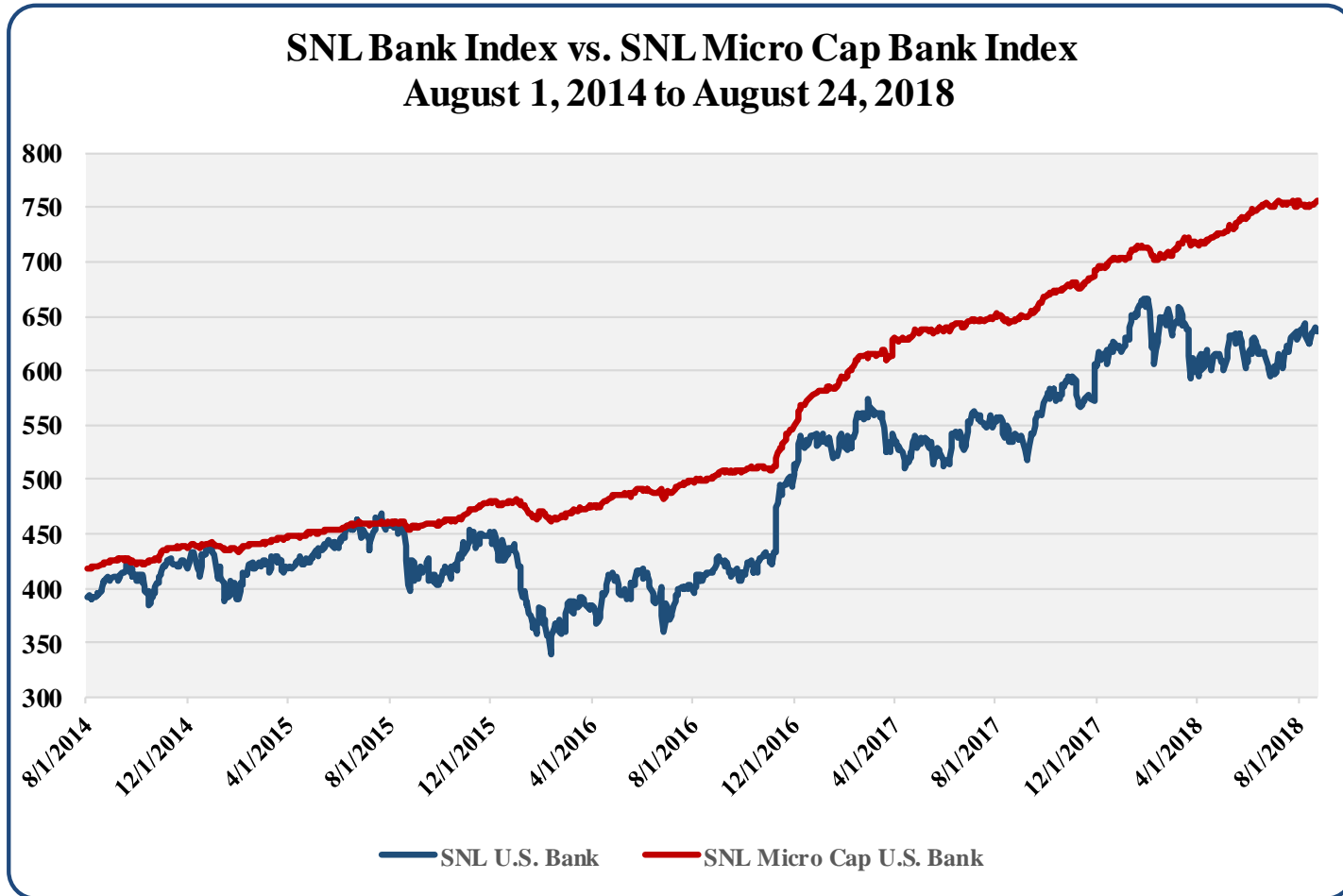


# Economic Context

- The economy keeps on going!
  - 2<sup>nd</sup> Longest expansion in U.S. history.
  - 2<sup>nd</sup> Quarter GDP growth exceeded 4.0% for the first time since 2014.
- Interest Rates
  - The yield curve has inverted prior to each of the past seven recessions.
  - The first inversion occurred between 4 and 24 months prior to the start of a recession.
- Recession 2020?
  - Unemployment rates hit a low on average of 9 months before a recession.
  - Trade tensions will dampen further economic growth.
  - Mid-term elections may impact business and consumer confidence.

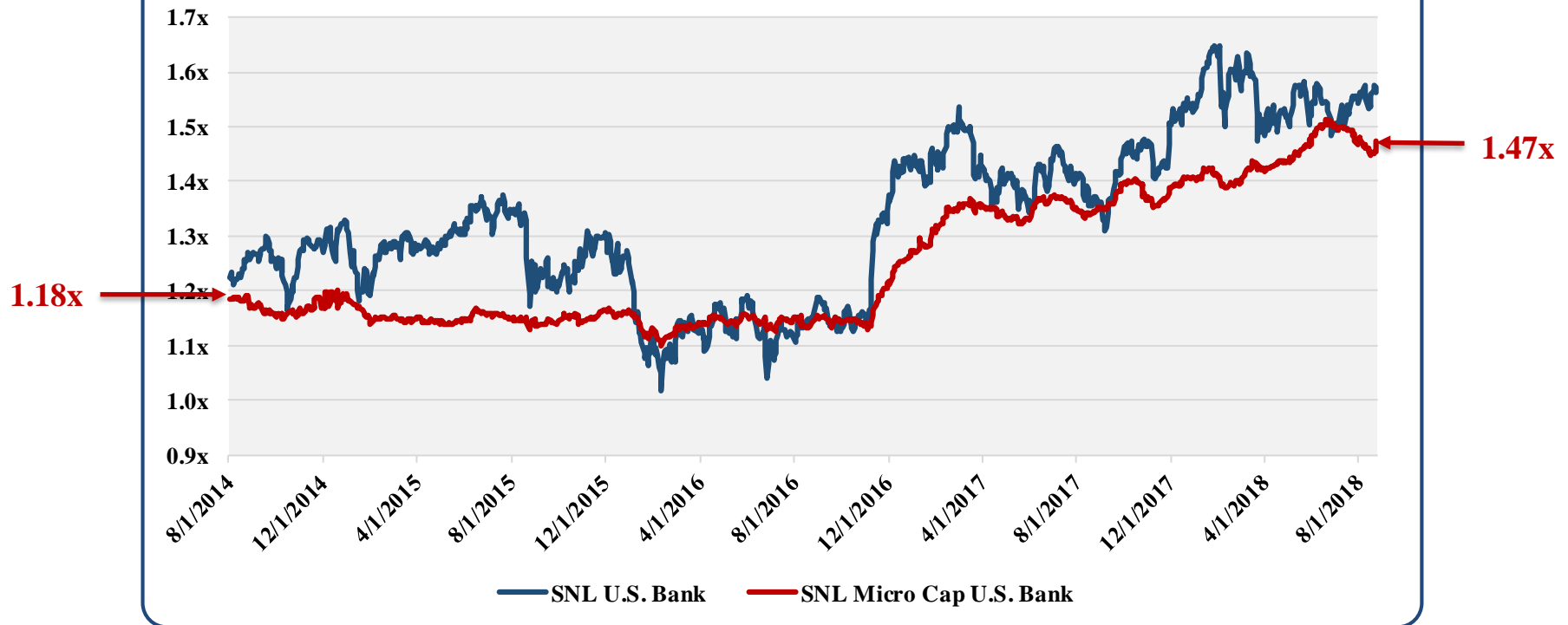


# Public Bank Performance



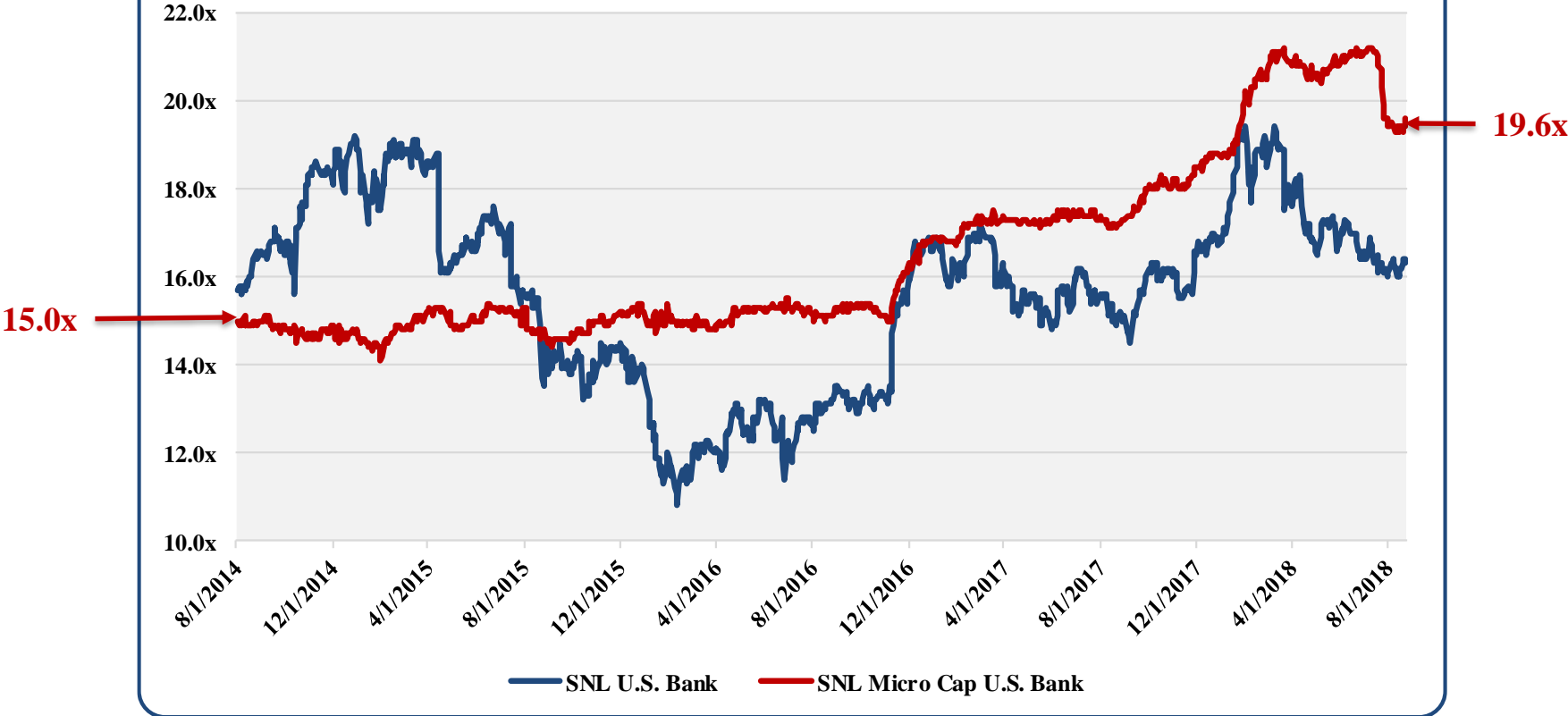
# Public Bank Performance *(continued)*

Price to Book Value (Equity)  
August 1, 2014 to August 24, 2018



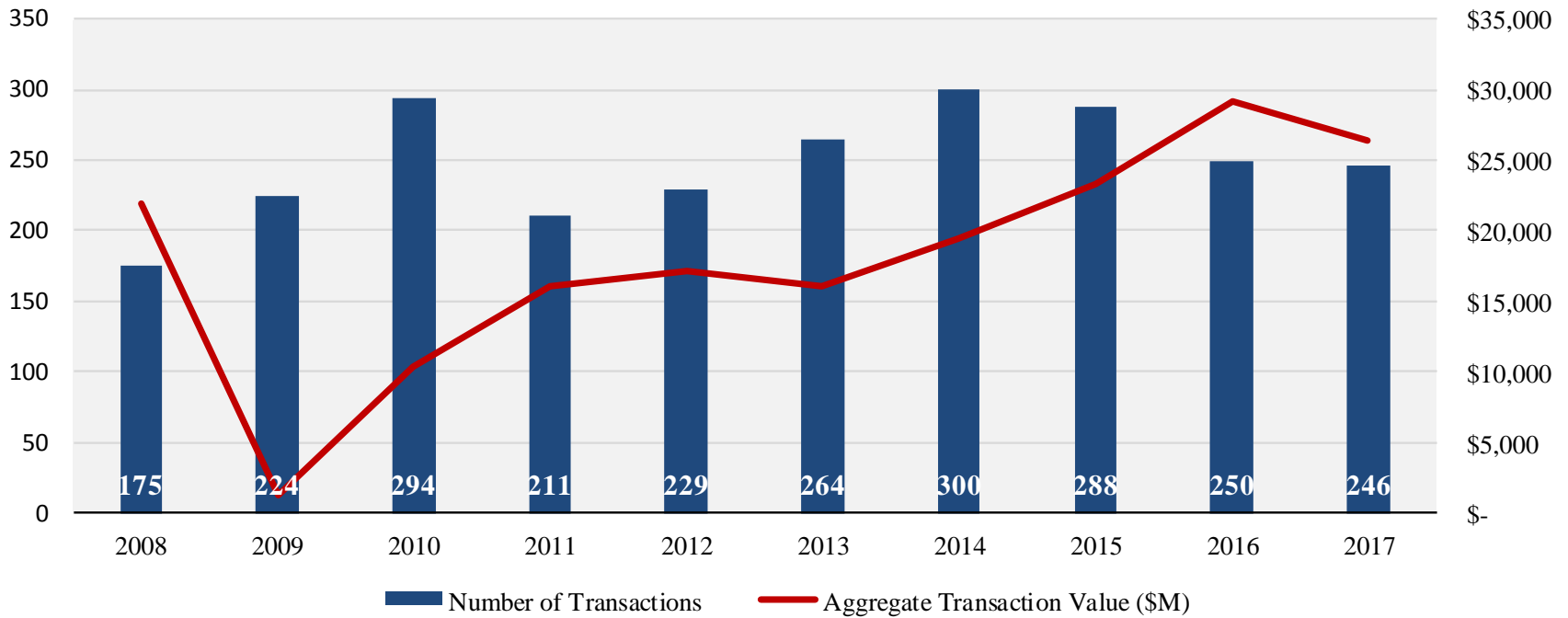
# Public Bank Performance *(continued)*

**Price to LTM Earnings (After-Tax)  
August 1, 2014 to August 24, 2018**

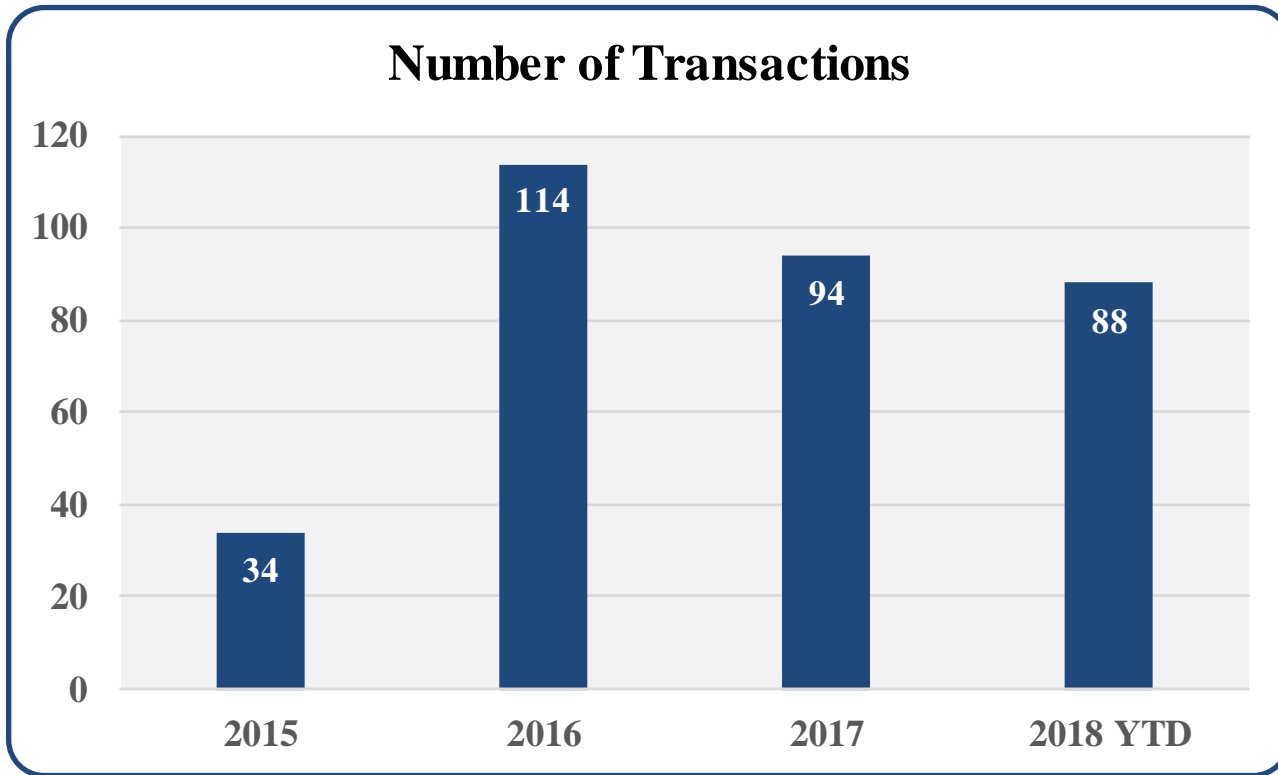


# Consolidation

## Completed Mergers & Acquisitions Banking Industry



# Regional (Midwest) Transactions

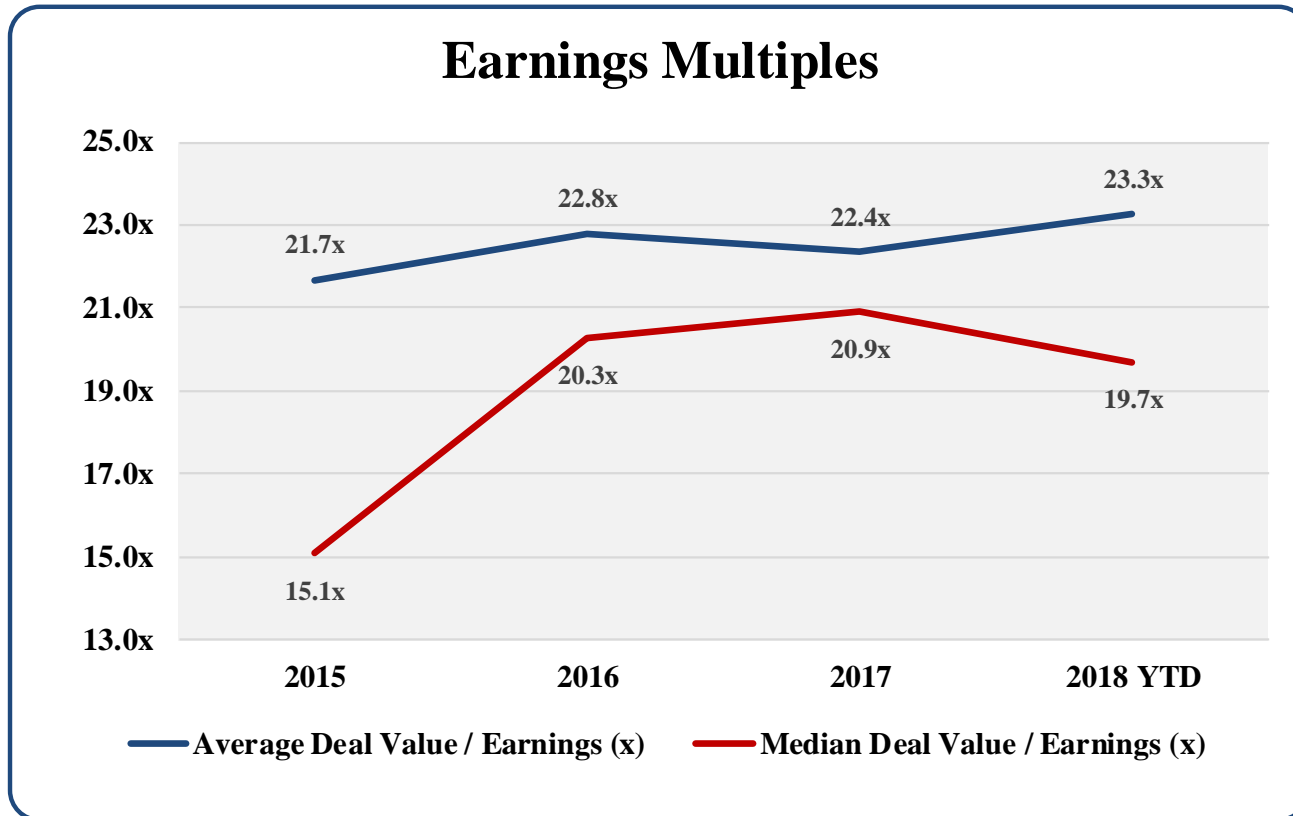


Transactions in Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin.





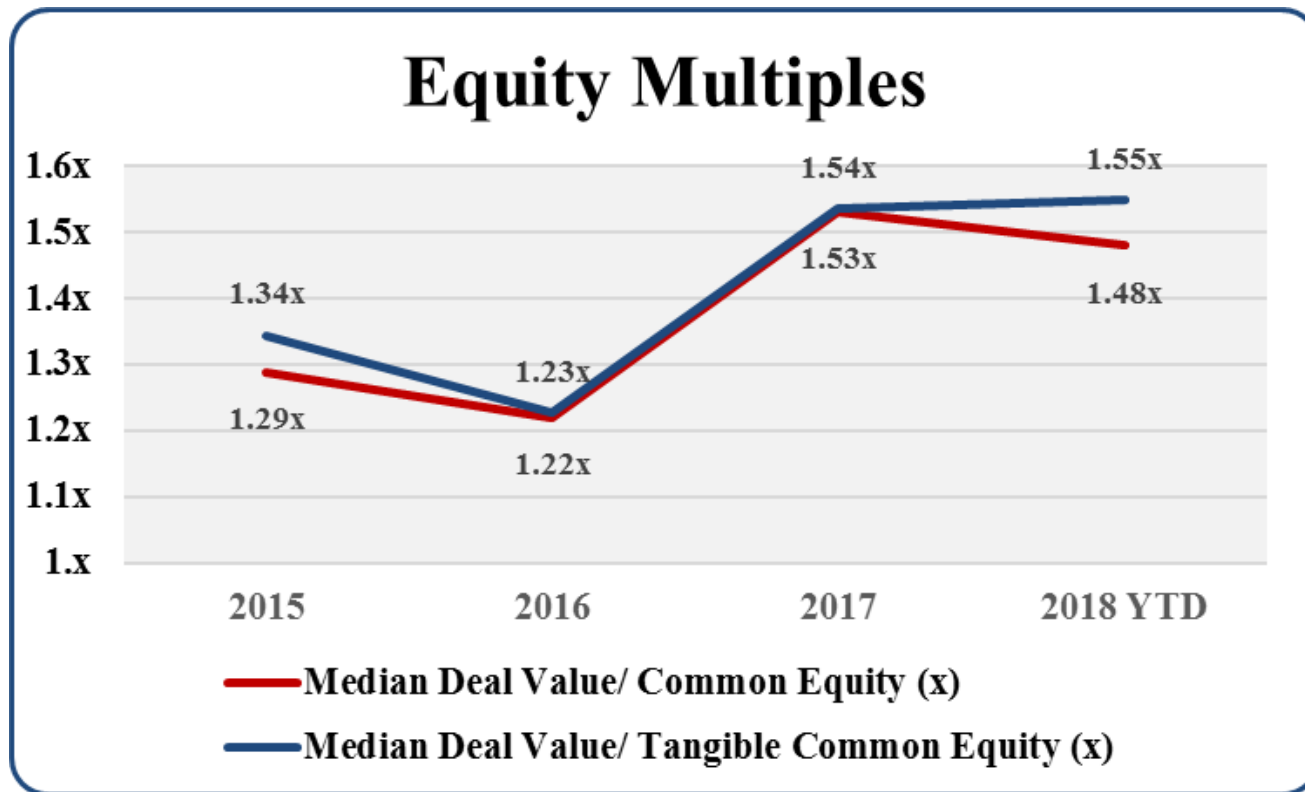
# Regional (Midwest) Transactions *(continued)*



Transactions in Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin.



# Regional (Midwest) Transactions *(continued)*



Transactions in Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin.



# Valuation Basics

- The Seller's Perspective
  - What can I get for my Bank?
- The Buyer's Perspective
  - Price is what you pay. Value is what you get.
    - *Warren Buffett*
- The Reality...
  - Deal Context Matters

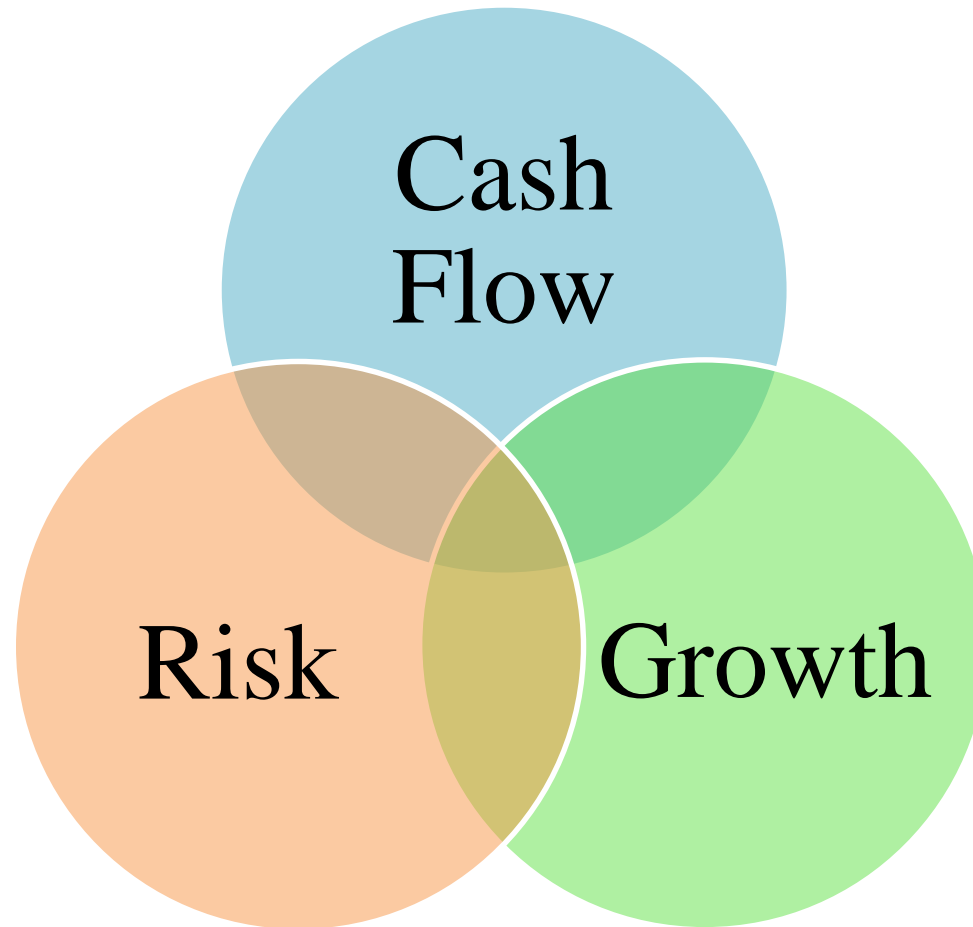


# Valuation Basics *(continued)*

- Valuation is a forward looking concept.
  - Past performance may or may not be indicative of future performance.
  - However, historical measures can often help predict (or confirm estimates of future performance.
  - Any prediction of future performance depends on the quality of the inputs!
  - Value is a function of estimates of expected future cash flows, risk and growth.



# Valuation Basics *(continued)*



# Valuation Basics *(continued)*

- Valuation is a range concept.
  - There is an interaction between cash flow, risk, and growth.
  - Example:
    - Short-term cash flows and growth can be enhanced by taking on more risk.
    - Earning power is a long-term concept, not necessarily a prediction of next quarter or next year.
    - Impact of taking an inappropriate level of risk is usually not immediately apparent.



# Key Deal Influencers

- Acquirers
  - Growth Oriented Banks
    - Deposits are key!
    - Grow at a reasonable price
  - Well-Established Niche Banks
  - Mergers of Equals
    - Costs of technology and regulation



# Key Deal Influencers *(continued)*

- Recent Transactions
  - Unique Motivations
  - Facts and Circumstances Matter
    - Financial
    - Operational
    - Shareholder Pressure
    - Surrender





# Key Deal Influencers *(continued)*

- Best Practices
  - Financial Discipline
    - Deposit Growth
    - Credit Quality
    - Projections
  - Operational
    - Cultural Fit
    - Bench Strength



# Key Deal Influencers *(continued)*

- Opportunities
  - Baby Boomers – Generational Wealth Transfer
  - Regulatory Reform
  - First Mover Advantage
  - Management Depth



# Questions



# United Bankers' Bank

## *Bank Value Advisory Services*

Ed Usalis

Vice President

952-886-9525

[ed.usalis@ubb.com](mailto:ed.usalis@ubb.com)

