

LIVESTREAM

LET'S MAKE A DEAL: M&A TRENDS AND HOW TO INCORPORATE TECHNOLOGY INTO YOUR ONGOING STRATEGY

November 18th, 2021

Hosted by:



Speakers



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Agenda

-  Banking Latest M&A Trends
-  M&A Deals: Strategic Rationale and Outlook
-  Interest Rates Outlook
-  Executive Order on Promoting Competition
-  Technology Demo
-  Q&A
-  Top Takeaways

Let's Make a Deal – Pick a Door!



In Your Opinion
What is the State of
M&A in Financial
Services?



What types of
diversification
opportunities are you
seeing that M&A
transactions can bring?

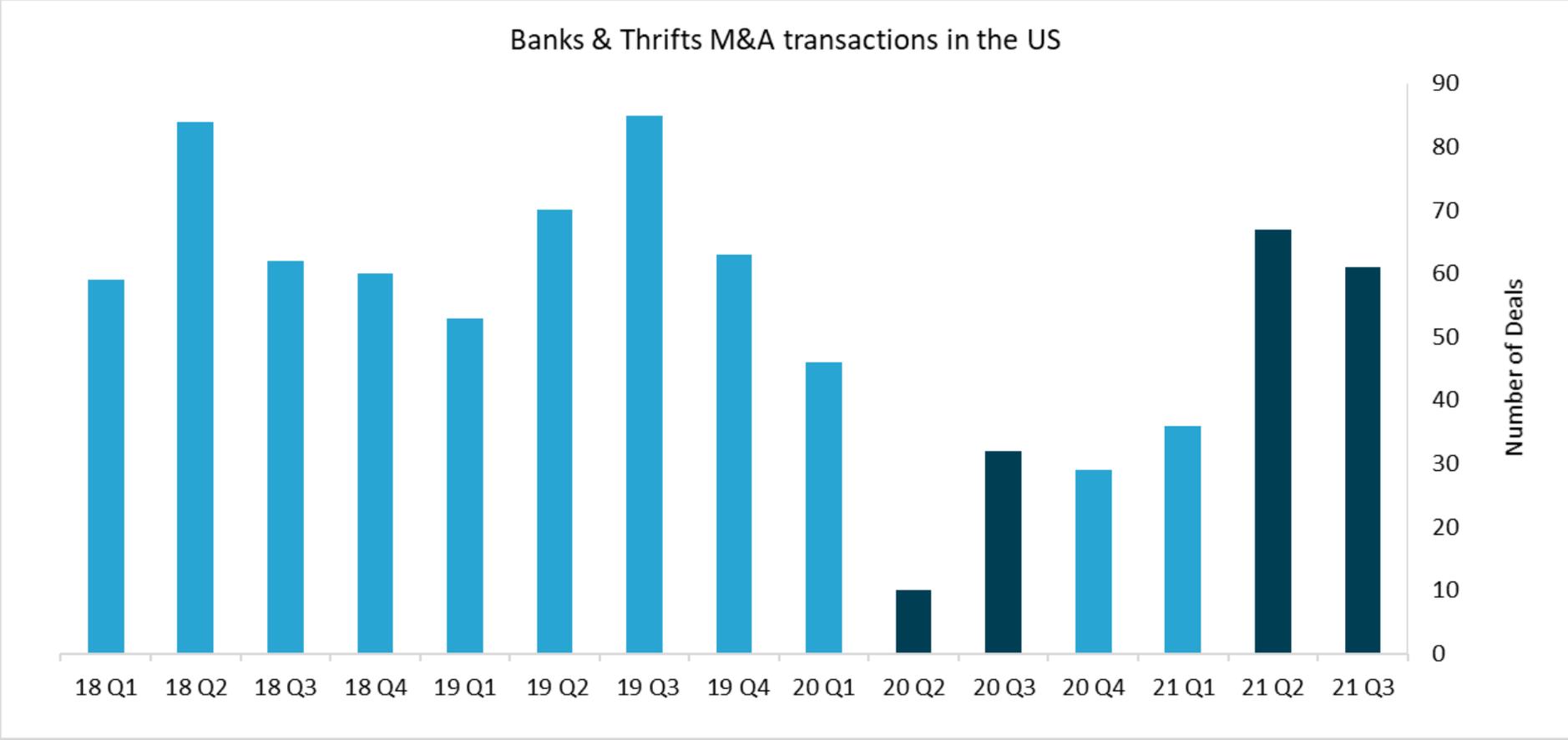


What are the latest
M&A trends for
banks in the US?



Banking Latest M&A Trends

M&A Activity Back to Pre-pandemic Levels



6.7x

Q2 YoY change

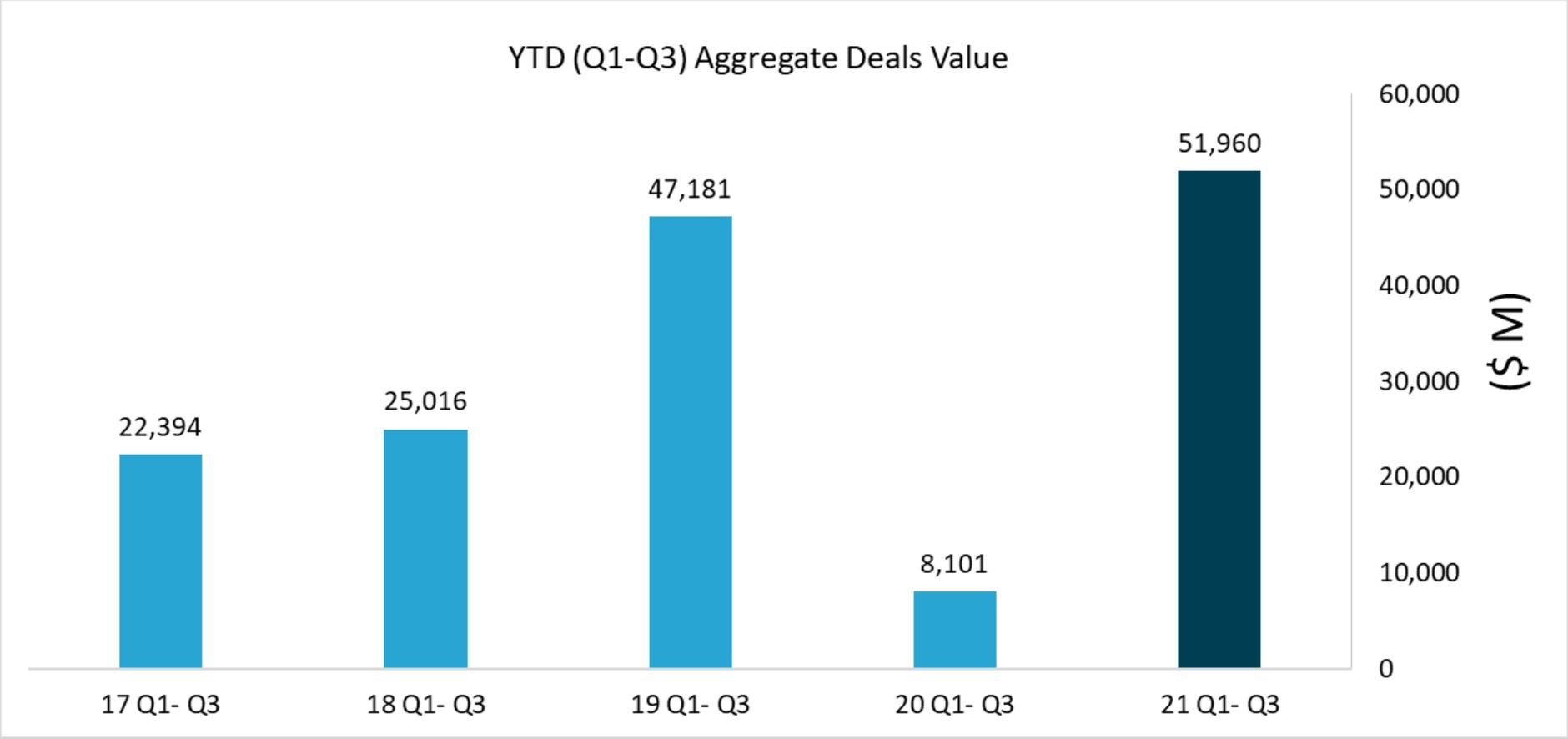
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2021 Q2-Q3
avg. number of deals

vs. 67 in 2018-2019
and 21 in 2020 Q1-Q2

Source: Bloomberg and S&P Capital IQ Pro

Aggregate Deals Value at a 5-year High



\$52 B

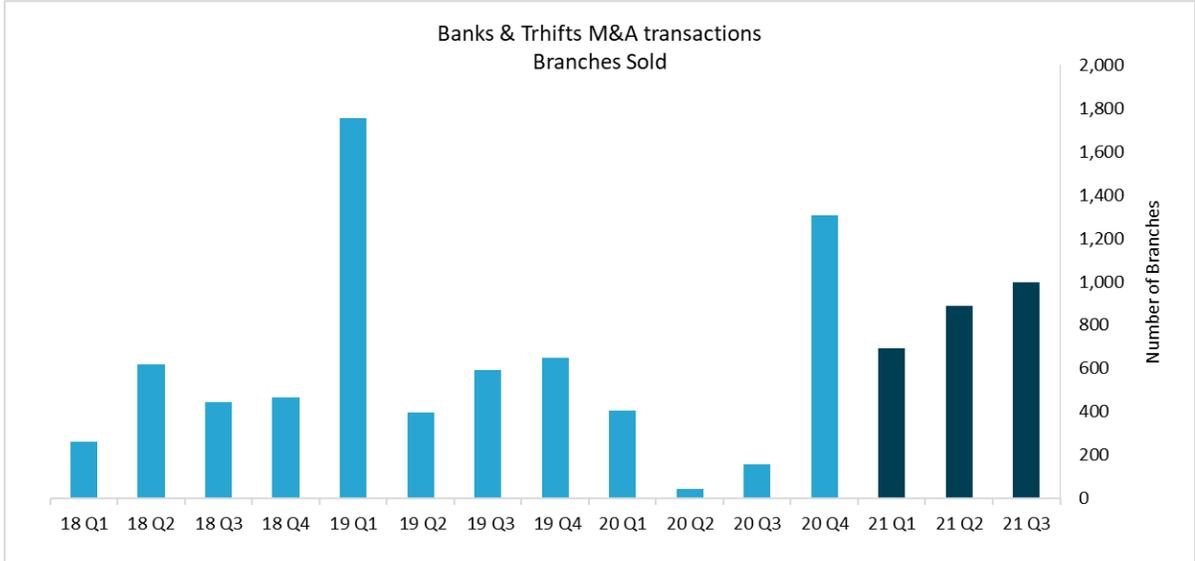
YTD Agg deals value

6.4x

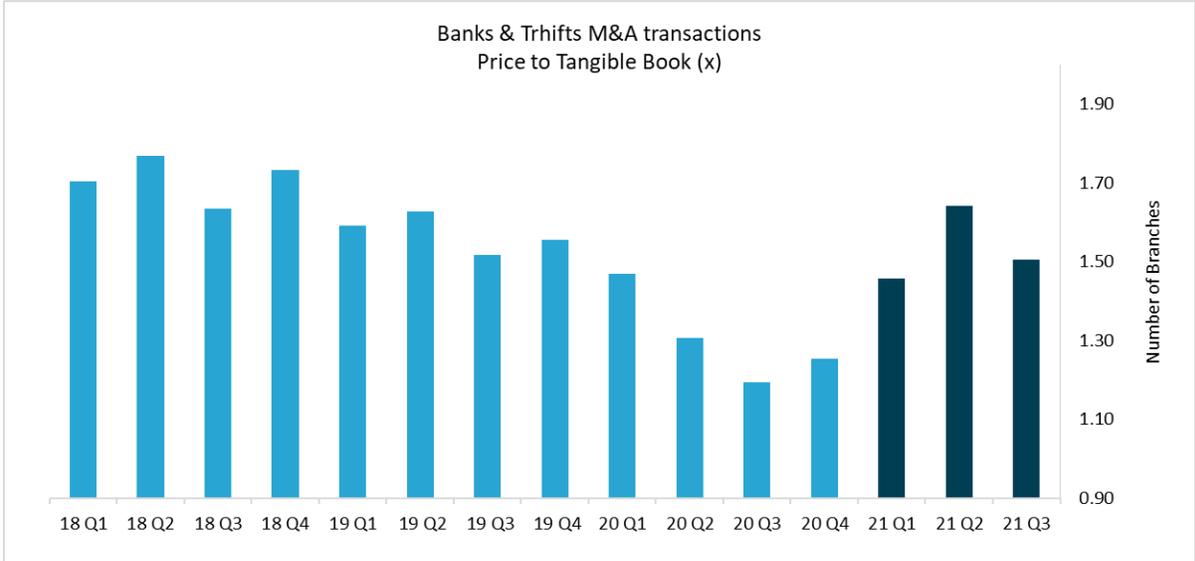
2021 YoY change

Source: Bloomberg and S&P Capital IQ Pro

Banks & Thrifts M&A Transactions



2,500+ YTD Branches Sold



1.5 x Price to Tangible Book

Source: Bloomberg and S&P Capital IQ Pro

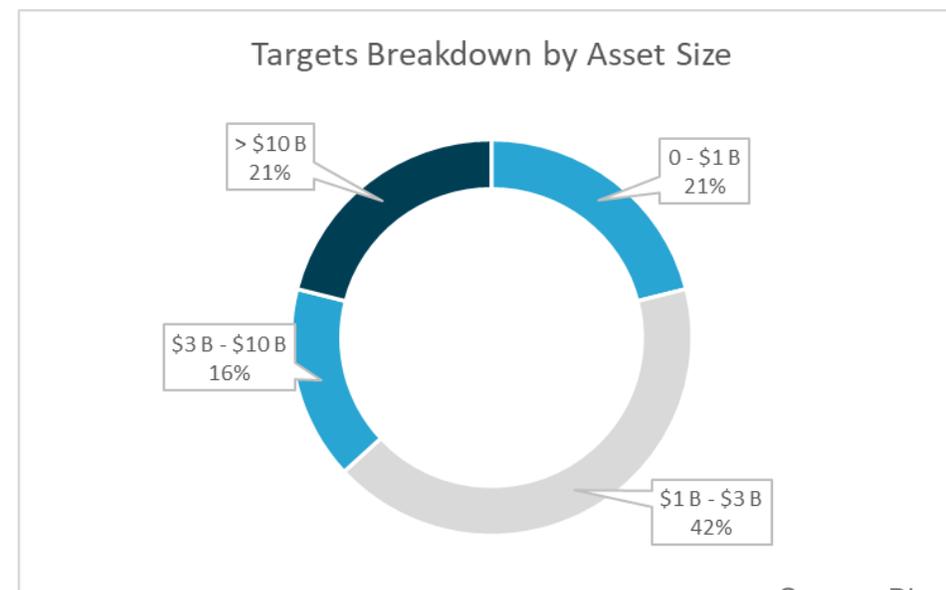
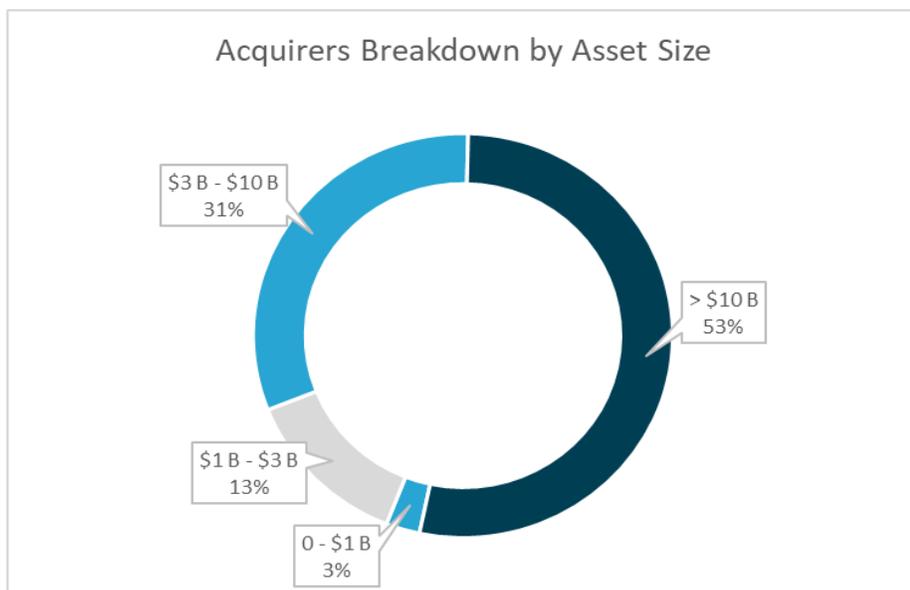
YTD Banks & Thrifts M&A Transactions

- ✓ Most deals were paid with Cash
- ✓ By volume (deal size), Mergers got the largest share

- ✓ The majority of deals were under \$500 M

Payment Type Summary	# Deals	Volume	% of Volume
Stock	30	29.44B	57.3
Cash & Stock	18	13.46B	26.2
Cash	55	7.32B	14.3
Other / Undisclosed	36	778 M	2.2

Deal size breakdown	# Deals	Volume	% of # Deals
5,000 - 10,000M	3	19.12B	3.66
1,000 - 5,000M	8	18.6B	9.76
500 - 1,000M	8	5.91B	9.76
0-500M	63	7.73B	76.83



Source: Bloomberg

Q & A

Do you forecast revenue growth in the business case for M&A transactions or is your rationale conservatively based on cost saving and efficiencies only?

What are buyers and sellers saying about the strategic rationale of the deals and the outlook?



M&A Deals: Strategic Rationale & Outlook

Deals rationale: scale, regional footprint and branches network optimization



June 2021

"Our acquisition of BBVA USA **accelerates our national expansion** and positions us to increase shareholder value over time **by bringing our industry-leading technology and innovative products and services to new markets** and clients," said William S. Demchak, PNC's chairman

September 2021

PNC President and CEO said **there are likely opportunities to buy** banks but that **prices seemed high** and **regulatory pressure could be intense for larger deals.**

"I continue to think that **smaller institutions will struggle to remain relevant, and therefore, are going to be for sale,** or simply the share is going to be absorbed," he said.



September 2021

U.S. Bancorp announced an \$8 billion deal for MUFG Union Bank

"**The acquisition** of Union Bank meaningfully **increases our scale at a time when scale is as important as it's ever been for the industry,**" said Chairman, President and CEO Andy Cecere

The acquisition "underscores our **commitment to strengthen and grow our business on the West Coast**"

Deals rationale: scale, regional footprint and branches network optimization



September 2021

“**The acquisition of Investors**, following on the heels of the acquisition of HSBC’s East Coast branches, **further strengthens our formidable franchise in the northeast**, together adding roughly one million customers and boosting our near and long-term growth potential,”

(The acquisition) **Fills branch gap**, connecting New England to the Mid-Atlantic market and adding to our leadership position in the Philadelphia MSA

“Citizens Financial Group Inc. **plans to steadily close branches** over the next few years **as a result of the increasingly digital environment** that has only accelerated during the COVID-19 pandemic.



September 2021

HSBC Holdings Plc said it has **exited or downsized its presence in 77 buildings since January last year** as the pandemic has prompted businesses to rethink office footprints.

“We are moving to a hybrid working model wherever possible,” Chief Executive Officer Noel Quinn said

“We will need less office space as a result, and **we have plans to reduce our global office footprint by more than 3.6 million square feet.**”

Deals rationale: scale, regional footprint and branches network optimization



Feb 2021

Unique strategic position and enhanced platform for growth: The **merger will create the leading community-focused commercial bank in the Northeast and Mid-Atlantic regions, with the scale and share to compete effectively.** The two companies have a complementary top-tier deposit share in core markets with a top three share in most of their respective top 10 markets. The footprint of the combined company spans an economically diverse region.



July 2021

(Bloomberg) Huntington Bancshares Inc. Chief Executive Officer Steve Steinour said Citizens Financial Group Inc.'s \$3.5 billion agreement to buy Investors Bancorp Inc. would probably be one of the last major financial-sector deals as smaller firms step into the spotlight.

“There’s more bank consolidation that will occur, not necessarily of significant sizes ... You’ll see more smaller banks getting together because there is a scale to this business.”

Q & A

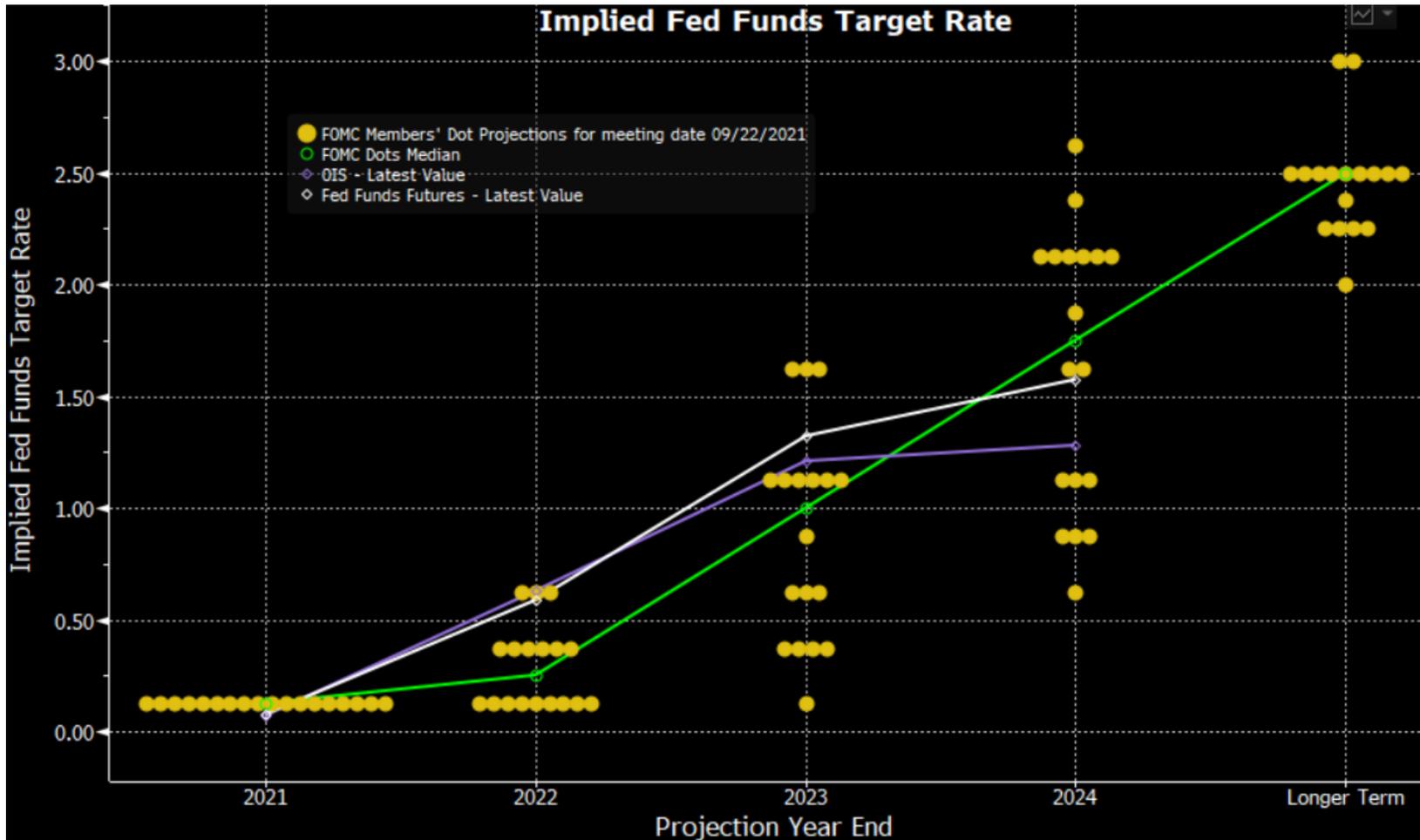
How has COVID-19-influenced
M&A?



Interest Rates Outlook

Interest Rates Outlook

FOMC “dot plot” and market-implied expectations indicate that the Fed Funds Target Rate could remain below 1% until 2023.



Interest Rates Outlook

Professional forecasters believe that interest rates will gradually increase during 2022 and 2023

- 10y UST yield could reach 2% until 2022 Q4
- The FED would maintain the funds target rate unchanged during the first half of 2022

Rate	Market Yld	Q4 21	Q1 22	Q2 22	Q3 22	Q4 22	Q1 23	Q2 23	Q3 23	Q4 23
United States										
US 30-Year	1.85	2.24	2.36	2.47	2.54	2.60	2.71	2.77	2.89	2.91
US 10-Year	1.48	1.69	1.79	1.89	1.97	2.04	2.17	2.24	2.35	2.44
US 5-Year	1.11	1.09	1.18	1.29	1.38	1.48	1.60	1.69	1.82	1.89
US 2-Year	0.45	0.38	0.46	0.56	0.67	0.80	0.98	1.12	1.29	1.40
US 3-Month Libor	0.15	0.18	0.21	0.26	0.33	0.43	0.67	0.80	0.97	1.08
Fed Funds Rate - Upper Bound	0.25	0.25	0.25	0.25	0.30	0.40	0.55	0.70	0.90	1.05
Fed Funds Rate - Lower Bound	0.00	0.00	0.01	0.02	0.04	0.15	0.30	0.46	0.63	0.80
2 Year - 10 Year Spread	1.03	1.31	1.33	1.33	1.30	1.24	1.19	1.12	1.07	1.04

Source: Bloomberg

Q & A

Can you speak about the importance of portfolio diversification, improving digital capabilities and scale?

What does the executive order on promoting competition include, and how can banks assess the competitive effects of their M&A transactions and Business Units optimization/divestiture?



Executive Order on Promoting Competition

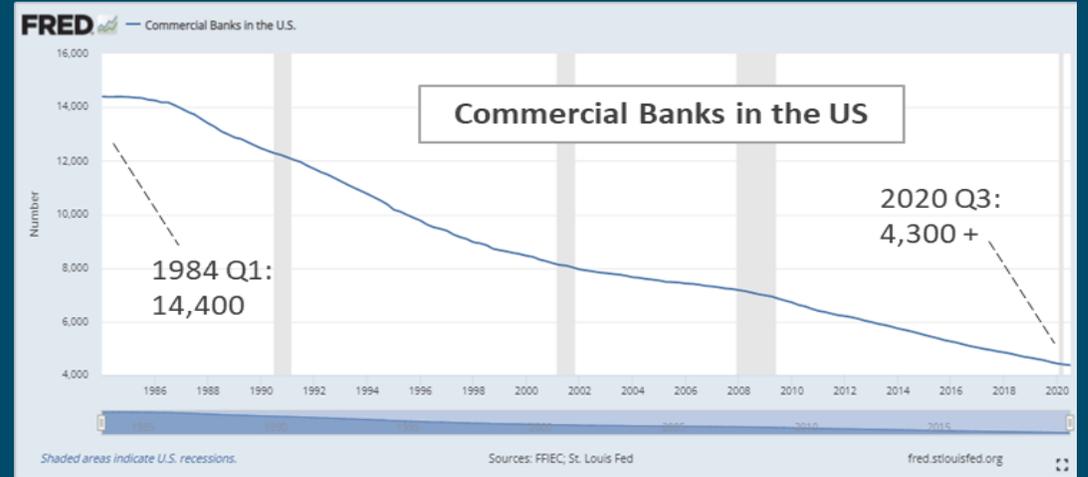


“To ensure Americans have choices among financial institutions and **to guard against excessive market power, the Attorney General**, in consultation with the Chairman of the Board of Governors of the Federal Reserve System, the Chairperson of the Board of Directors of the Federal Deposit Insurance Corporation, and the Comptroller of the Currency, **is encouraged to review current practices** and adopt a plan, not later than 180 days after the date of this order, **for the revitalization of merger oversight** under the Bank Merger Act and the Bank Holding Company Act of 1956”...

... **the President: Encourages DOJ** and the agencies responsible for banking... **to update guidelines on banking mergers to provide more robust scrutiny of mergers.**

July 09, 2021

“Over the past four decades, the United States has lost 70% of the banks it once had”



“Many of these closures are the product of mergers and acquisitions.. Federal agencies have not formally denied a bank merger application in more than 15 years”

Yale Journal on Regulation

Vol. 37:435, 2020

Table 1: Federal Reserve Merger and Acquisition Applications (2011-2018)

	2011	2012	2013	2014	2015	2016	2017	2018
Approved	194	226	190	248	279	245	238	190
Withdrawn	43	43	40	25	21	28	15	10
% Approved	82%	84%	83%	91%	93%	90%	94%	95%

How do the Federal Reserve and the DOJ analyze the competitive effects of mergers and acquisitions?



Board of Governors of the Federal Reserve System



THE UNITED STATES
DEPARTMENT OF JUSTICE

- **Initial screen based on market shares** and market concentration for the local banking markets in which the parties to a transaction have overlapping operations.
- The Herfindahl-Hirschman index, **HHI**, is the usual measure of **market concentration** and is calculated as the sum of squared market shares in a local banking market.
- **Board of Governors delegation criteria for competition**

- If the calculation ... does not result in a **post-merger HHI over 1800** and **an increase of more than 200**, the banking agencies are unlikely to further review the competitive effects of the merger.

Based on their experience, the Agencies generally classify markets into three types:

- **Unconcentrated Markets:** HHI below 1500
- **Moderately Concentrated Markets:** HHI between 1500 and 2500
- **Highly Concentrated Markets:** HHI above 2500



HHI



+200



>1800



**Acquiring firm
post-transaction share**

>35%

Potential changes to merger oversight practices and guidelines



THE UNITED STATES
DEPARTMENT OF JUSTICE

Re: 1995 Bank Merger Competitive Review guidelines
September 2020

The (Antitrust) Division seeks specific public comments on:

- Should the Division include **non-traditional banks (e.g., online) in its competitive effects?**
- Does the Division give **appropriate weight to credit unions and thrifts?**
- Should the Division apply different **screening criteria and HHI thresholds** for urban vs rural markets?
- Should there be **other geographic market definitions** used in the screening process?
- Does the Division give appropriate weight to **credit unions and thrifts?**

✓ **Reflect competition from technology and non-bank financial companies**



Board of Governors of the Federal Reserve System

Perspective on Bank Regulation and Supervision
by Governor Michelle W. Bowman
February 2021

Technological developments and financial market evolution are quickly escalating competition in the banking industry, and our approach to analyzing the competitive effects of mergers and acquisitions needs to keep pace.

The Board's framework for banking antitrust analysis hasn't changed substantially over the past couple of decades. I believe we should consider revisions to that framework that would better reflect the competition that smaller banks face in an industry quickly being transformed by technology and non-bank financial companies.

- ✓ **Include the competitive effects of non-traditional banks**
- ✓ **HHI thresholds for rural markets**
- ✓ **Geographic market definitions**
- ✓ **HHI weights for credit unions and thrifts**

Potential changes to merger oversight practices and guidelines



Board of Governors of the Federal Reserve System

Statement on PNC/BBVA Application by Governor Lael Brainard May 2021

The increases in **banking concentration** in the \$250 to \$700 billion asset size **category**, where common-sense safeguards have been weakened, raise some concerns, and it might be helpful to **undertake a broader review of our framework**, since we know from experience **even noncomplex banks in this size range can pose risk to the financial system** when they encounter financial distress.

✓ **Increased focus on banks size**



Bank Policy Institute's Statement on Competition Executive Order July 2021

"By any analysis, banking is among the most competitive, least concentrated industries in America, as anyone who has shopped for a credit card, mortgage or deposit account knows. Moreover, **banks continue to lose business to unregulated FinTechs or government-sponsored enterprises**, whose presence in the market current DoJ guidelines inexplicably ignore in assessing market competition. Those guidelines should be amended to reflect the underlying law."

✓ **Include competition from unregulated FinTechs or government-sponsored enterprises**

Potential changes to merger oversight practices and guidelines



THE WHITE HOUSE

FACT SHEET

Modernizing Bank Merger Review (Yale Journal on Regulation):

“the confidential pre-screening of proposals and the absence of formal denials decrease transparency in the application process”

“A voluntary withdrawal shields the bank from bad publicity and the negative market reaction a public denial might cause. This informal process, however, leaves no publicly available, written record of the deficiencies in the merger proposal.”

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	2011	2012	2013	2014	2015	2016	2017	2018
Approved	194	226	190	248	279	245	238	190
Withdrawn	43	43	40	25	21	28	15	10
% Approved	82%	84%	83%	91%	93%	90%	94%	95%
Average Processing Time of Proposals Receiving Adverse Public Comment (Days)	212	283	203	209	297	159	173	113

✓ Better public understanding of the application process and more transparency on the merger proposals

✓ Processing Time

“First Citizens BancShares and CIT Group jointly announced that the two companies have agreed to extend the merger agreement from October 15, 2021, to March 1, 2022. Action by the Federal Reserve Board is the remaining regulatory approval required to complete the merger, and both parties are committed to continuing to seek such approval.” In October 2020 the Merger of Equals was announced, with an expected closing in 1H 2021.

Potential changes to merger oversight practices and guidelines



THE WHITE HOUSE

FACT SHEET

Modernizing Bank Merger Review (Yale Journal on Regulation):

“several commenters have suggested that the Bank Merger Guidelines’ **1,800/200 HHI threshold is too high** and permits some mergers that could result in anticompetitive effects...

regulators often make exceptions to the Bank Merger Guidelines and approve transactions that exceed the 1,800/200 threshold in one or more geographic markets”

“The bank merger statutes’ antitrust factor focuses on preserving competition within local banking markets—**not on limiting a bank’s overall size** even if the agencies were to take into account nationwide HHI in an effort to alleviate the “too big to fail” problem, this simple size metric ignores other important contributors to a **firm’s systemic risk”**

The President: Encourages the Consumer Financial Protection Bureau (CFPB) to issue **rules allowing customers to download their banking data and take it with them.**



- ✓ **HHI thresholds**
- ✓ **Review of exceptions to one or more geographic markets**
- ✓ **Firm size and its contribution to systemic risk**

Executive Order May Pump the Brakes on Bank M&A:

“The Consumer Financial Protection Bureau has already issued a set of 100 questions for comment and that the executive order instructs the CFPB to adopt regulations aimed at facilitating the portability of consumer financial transaction data.”

Pending Mergers

Top 10 out of the Top 50 Deals by Asset Size Still Pending

 <p>▼</p>  <p>A member of MUFG, a global financial group</p>	 <p>▼</p> 	 <p>▼</p> 	 <p>▼</p> 	 <p>Member FDIC</p> <p>▼</p> 
 <p>▼</p>  <p>Member FDIC</p>	 <p>▼</p> 	 <p>▼</p> 	 <p>▼</p> 	 <p>▼</p> 

Q & A

How can SRA's and IQB's services/
platforms help banks with their M&A
transactions and ongoing strategy?



How to leverage Technology for M&A transactions

IQ banker - Branches Analytics

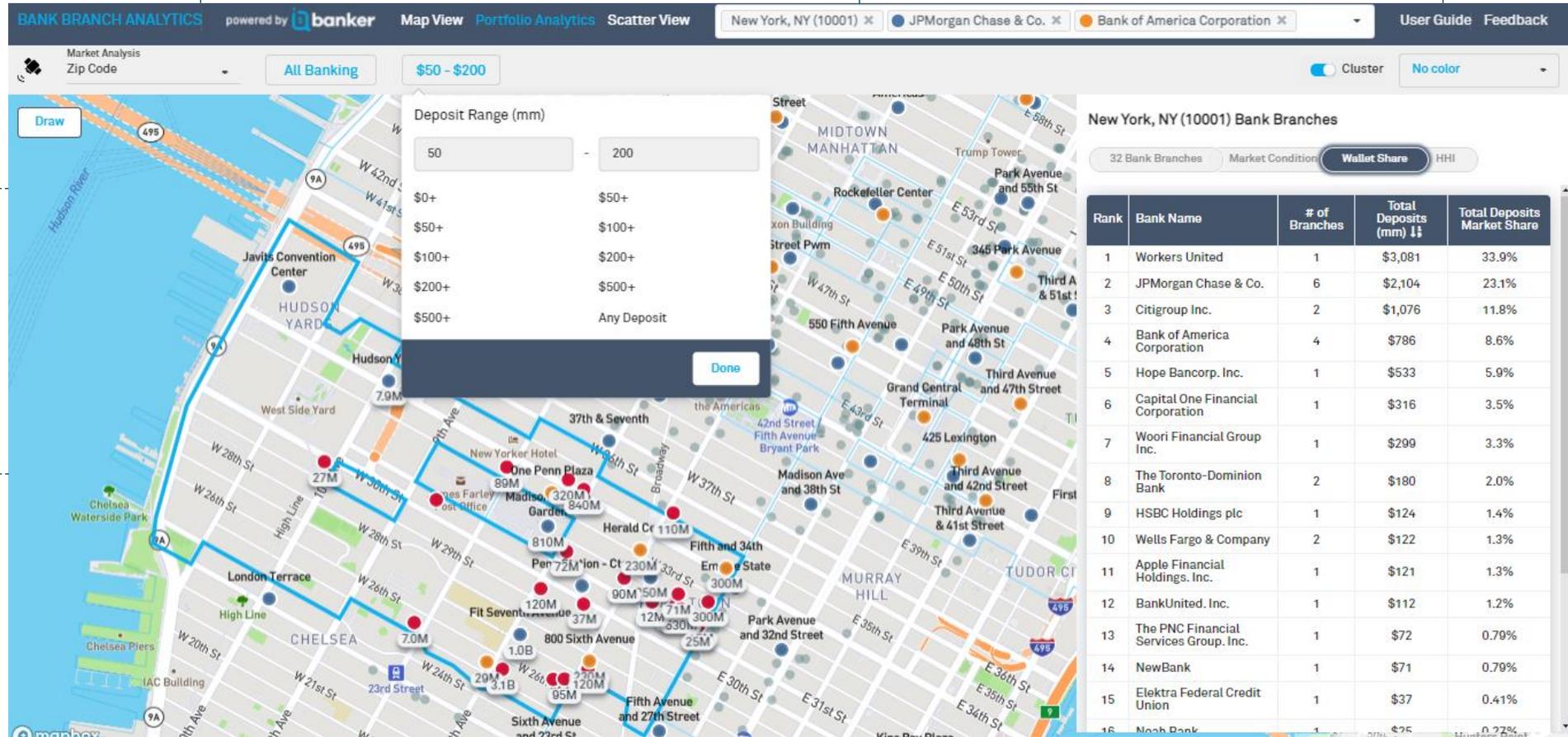
Analyze the location, proximity and branches deposits by Zip Codes, Counties, MSAs and

Visualize and understand market shares and market concentration

Understand the size, market conditions and competitive landscape of a geographical

Discover growth opportunities

Optimize the branches



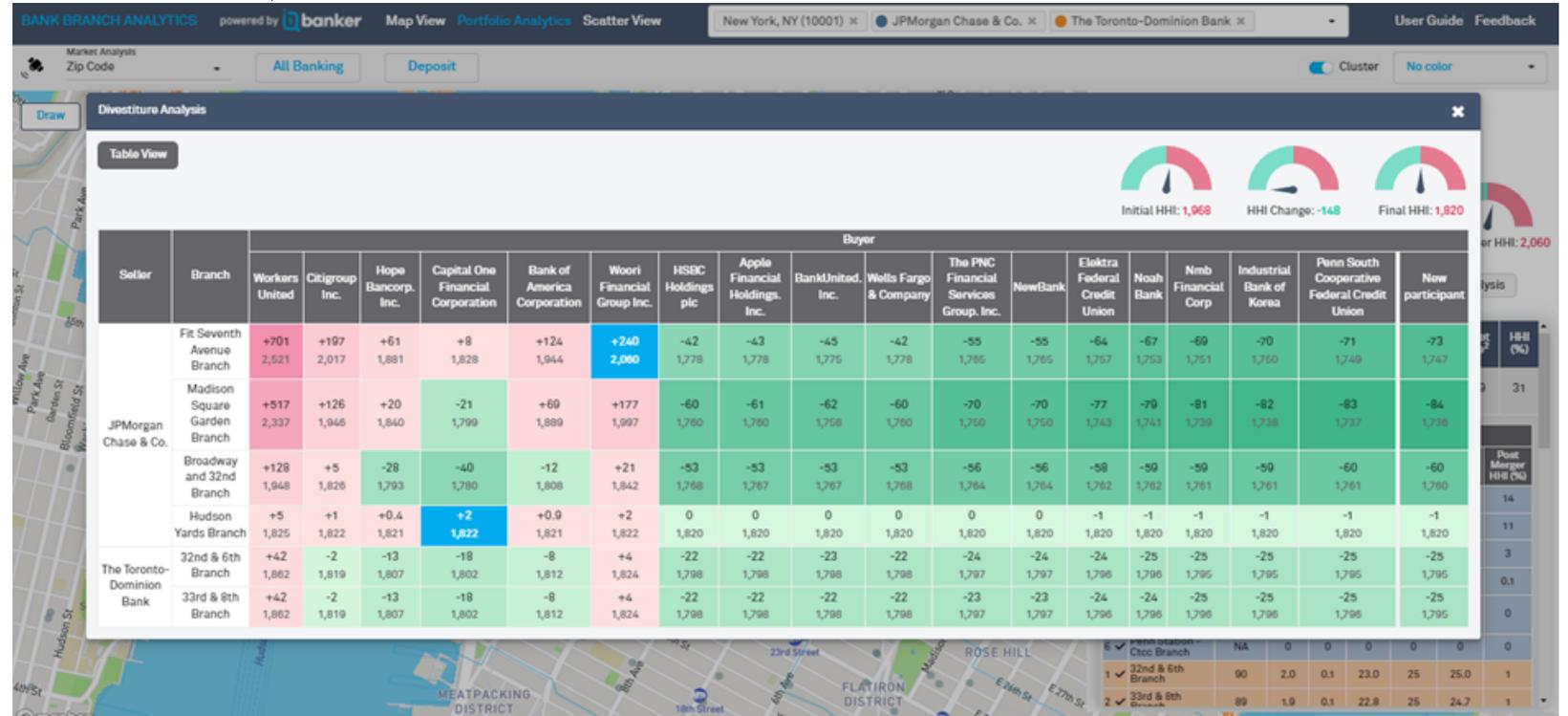
IQ banker - Branches Analytics

HHI analyzer for M&A and ongoing network growth/optimization strategy



Understand each bank and branch contribution to the market HHI

Scenario analyzer for multiple branches divestiture



Mitigate the impact of M&A transactions on the market HHI by selling the right branches to the most appropriate buyers

Q & A



Top Takeaways

1. COVID-19–influenced M&A Catalysts
2. Diversification
3. Digital / Technology Investment
4. Scale
5. Regulatory Environment Considerations

LIVESTREAM

THANK YOU FOR ATTENDING!

Please fill out the exit survey

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