Bank Strategy Briefing

Ideas and analysis for community bank executives

M&A book value multiples

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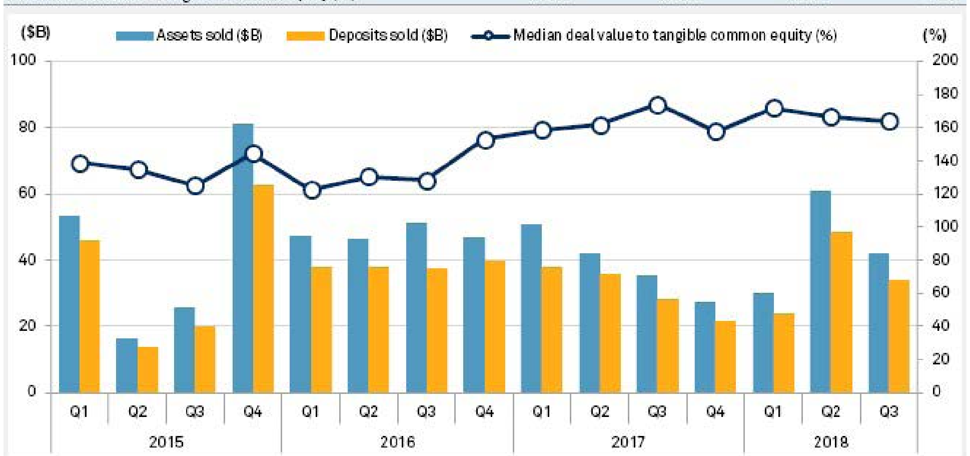
One common question we get from community bankers is: What are banks selling for these days? Most of the time the person asking the question is looking for some multiple of tangible book value. This "Price/TBV" multiple is a seemingly simple metric that many in the industry use to identify pricing trends on a macro-level. Here are the current trends on this data:

US bank deal pricing roughly flat in Q3

	2015	2016	2017	2018
Number of deals	279	242	258	199
Total deal value ($B)	24.51	26.80	26.43	24.97
Assets sold ($B)	176.52	191.96	155.36	132.92
Deposits sold ($B)	142.49	153.00	123.89	106.44
Median deal value to tangible common equity (%)	136.6	130.6	159.5	169.7



Data compiled Oct. 2, 2018.
Analysis includes thrift merger conversions, but excludes branch, government-assisted and terminated deals.
All metrics are as of announcement date.
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

There is a tendency in the industry for some institutions to casually use Price/TBV multiples as a benchmark to gauge whether a particular seller received an attractive premium or whether a particular buyer struck a good deal on an acquisition. The problem is that Price/TBV data can be a misleading metric. This is because reported Price/TBV multiples are often applied in a non-uniform manner based on deal structure and the amount of tangible equity on a particular seller's balance sheet. Those relying on Price/TBV as an apples-to-apples comparison of deal valuations run the risk of being misled by these nuances. This can lead to unrealistic expectations when exploring M&A opportunities on both the buy- and sell-side.

To illustrate this point, consider the following (overly simplistic) illustrations of three identical banks that each sell for a 1.50x Price/TBV multiple, yet deliver significantly different purchase prices to their shareholders:

Transaction #1	Transaction #2	Transaction #3
Total Capital Example	**Core Capital Example**	**Accrued Expense Example**
Buyer pays 1.50x multiple on total tangible equity	Buyer pays 1.50x multiple on 8% "core" tangible equity. Excess capital paid out on dollar-for-dollar basis.	Buyer pays 1.50x total tangible equity after seller accrues for core processor early termination and deconversion charges
Total Assets: $100 million	Total Assets: $100 million	Total Assets: $100 million
Tangible Equity: $11 million	Tangible Equity: $11 million	Tangible Equity: $11 million
		Accrual for $1.5 million core processor charges immediately prior to closing
	"Core" Equity: $8 million	Adjusted Tangible Equity: $9.5 million
Multiple: 1.50x	Multiple: 1.50x	Multiple: 1.50x
	Core Equity Price: $12 million	
	Add Excess Capital: $3 million	
Purchase Price: **$16.5 million**	Purchase Price: **$15 million**	Purchase Price: **$14.25 million**

Here are a few takeaways that we think are helpful:

1. Deal valuations are nuanced and institution specific. Be skeptical of conclusions drawn based largely on reported or rumored Price/TBV multiples.
2. There are many factors beyond Price/TBV that inform proper bank valuations including Price/earnings, comparable transactions, expected cost savings and earn-back period.
3. Do not pursue or abandon an M&A strategy based on what you believe to be "market pricing", unless you have done your homework.
4. Speak with a good investment banker, attorney, accountant or other trusted advisor who can educate you on market-specific valuation information or connect you with the right expert.

Of course, our Financial Institutions team at Godfrey & Kahn, S.C. is always here to assist either directly or by connecting your bank with other helpful resources.

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