



Bison Banking Brief January 2024 | U.S. Banking Insights

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Key Themes in U.S. Banking

Rate Cuts Delayed as Macro Data Dampens Powell’s Dovish Presser

Takeaways from Q4 Earnings

Regional Banks Selling Off, but M&A Off to a Promising Start in 2024

Payrolls and Wages Beat Expectations

- The January nonfarm payroll number significantly outpaced expectations, with 353k jobs added (prediction was just 185k)
- Wages increased 0.6% for the month (0.3% predicted), putting year over year wage growth at 4.5%
- Unemployment remained 3.7%, the lowest it's been since the 1960s
- Core inflation fell to 2.9%, down from 4.4% in January 2023, but still a good bit away from the Fed's target of 2.0%

Impact to Fed's Decision on Rate Cuts

- This macro data doesn't point to a slow down in growth, meaning that rates will likely stay higher for longer given that curtailing inflation remains the Fed's mandate of focus
- As a result, Fed Funds futures are predicting fewer rate cuts this year, though 5 cuts are still being targeted by year end

Fed Funds Futures ⁽¹⁾

Meeting	# Rate Cuts	% Chance of	
		Rate Cut	Implied Rate
03/20/24	0.222	22.2%	5.263%
05/01/24	0.887	66.5%	5.097%
06/12/24	1.758	87.1%	4.879%
07/31/24	2.585	82.7%	4.673%
09/18/24	3.530	94.5%	4.436%
11/07/24	4.203	67.3%	4.268%
12/18/24	4.945	74.2%	4.083%
01/29/25	5.595	65.0%	3.920%

Lower Rates Aid AOCI and TCE

- The bond rally late last year helped cut unrealized losses in banks' securities portfolios to the lowest level in a year and a half, opening a window for banks to restructure securities portfolios
- AOCI losses narrowed by 28% in Q4, leading to a 51 basis point improvement in TCE ratios⁽²⁾

Credit Metrics Stable, But Expect Volatility and Rising NPAs and NCOs in 2024

- Credit quality for the industry overall remains sound as NCOs increased only 4 bp over linked-quarter
- The Senior Loan Officer's Survey⁽³⁾ in January showed tightening underwriting standards moderated for the second quarter in a row (lowest in 1.5 years). Historically, when banks start to moderate the level of tightening, this has been a leading indicator for a turn in credit cycles
- With the shift in the Senior Loan Officer's Survey, and the number of "one-off" credit issues increasing, we expect credit to be volatile in 2024 and for NCOs to peak in 2025

Loan Growth Holds Steady

- Loan growth held steady at 7.5% linked-quarter annualized in 4Q '23, compared to 7.6% in 3Q '23. Banks expect stable to slightly improving loan demand in 2024

New York Community Bancorp, Inc. Struggling to Absorb Signature Bank's Assets

- NYCB's dismal Q4 earnings report revealed a provision expense 10x the consensus estimate as the company builds its reserve amid growing concerns around Signature's CRE portfolio
- The S&P U.S. BMI Bank Index has traded down 5.1% since NYCB's earnings release⁽⁴⁾

2024 Bank M&A off to a Promising Start

- 10 transactions were announced in January, putting 2024 on track for 120 deals, a 22% increase from 2023
- Credit union buyers accounted for 4 of the 10 deals announced in January, including the largest ever credit-union bank deal by assets, Global FCU's acquisition of First Financial (\$1.5 billion in assets)

Market Warming Up to M&A

- Investors are reacting more positively to recent M&A announcements compared to late 2022 and early 2023 with 3 of 4 public acquirers outperforming the NASDAQ Bank index in the 5 days following their transaction announcement

Acquirers in Search of EPS Accretion

- The operating environment remains tough amid heightened funding competition and slower loan growth, leaving acquirers looking for deals that garner core deposits and earnings accretion



Source: S&P Capital IQ Pro, Bloomberg
 (1) Based Fed Funds futures as of 2/2/2024
 (2) Based on the 460 public banks that had reported Q4 earnings as of 2/1/2024
 (3) Released 2/5/2024
 (4) Market data as of 2/8/2024



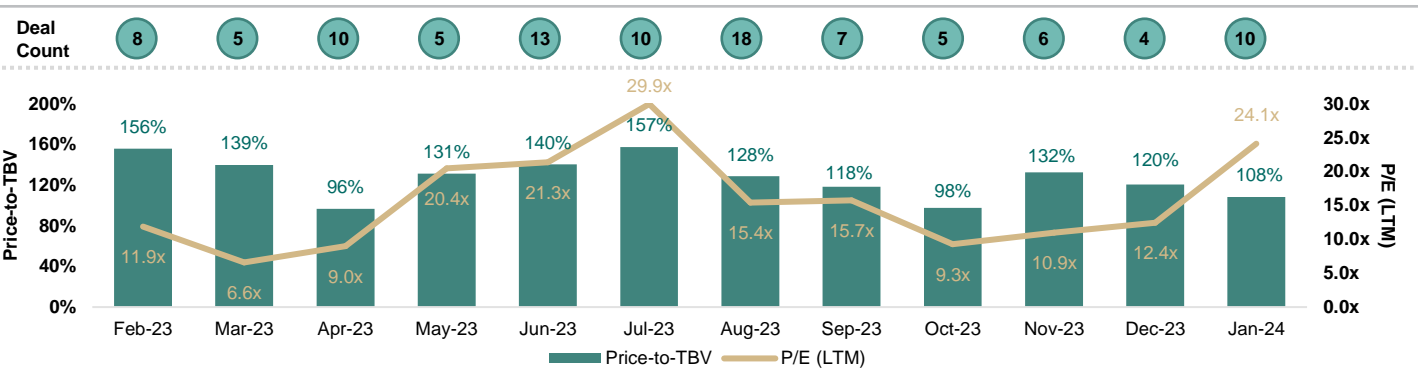
U.S. Bank M&A Activity

- M&A activity is picking up
 - 10 bank M&A transactions were announced in January, putting 2024 on track for 120 deals, a 22% increase from 98 deals in 2023
- Investors are beginning to react favorably to recent M&A transactions
- The thawing of bank M&A activity and positive market reactions have buyers/sellers returning to the negotiating table
- Banks now have a healthier understanding of unrealized losses in their bond portfolios and how that impacts M&A
- Long term catalysts for bank M&A have not gone away
 - Quality operating scale to create efficiencies for stronger earnings – impacts both buyers and sellers
 - Management succession planning & liquidity event for shareholders

M & A By Region – Last Twelve Months ⁽¹⁾

Region	Deal Value (\$MM)	Deal Count	Price-to-TBV	P/E (LTM)
Midwest	\$384	42	139%	15.6x
Southeast	\$1,382	21	124%	11.9x
Southwest	\$72	13	134%	34.4x
Mid Atlantic	\$633	8	118%	11.2x
West	\$2,036	13	96%	9.2x
Northeast	\$527	4	116%	11.1x
Total	\$5,035	101	127%	12.9x

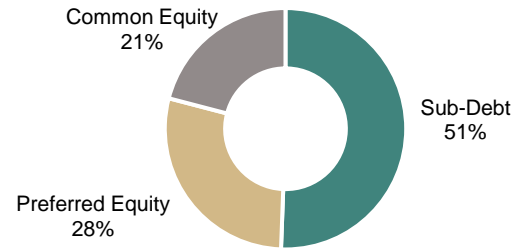
M & A Activity and Valuation Multiples – Last Twelve Months ⁽¹⁾



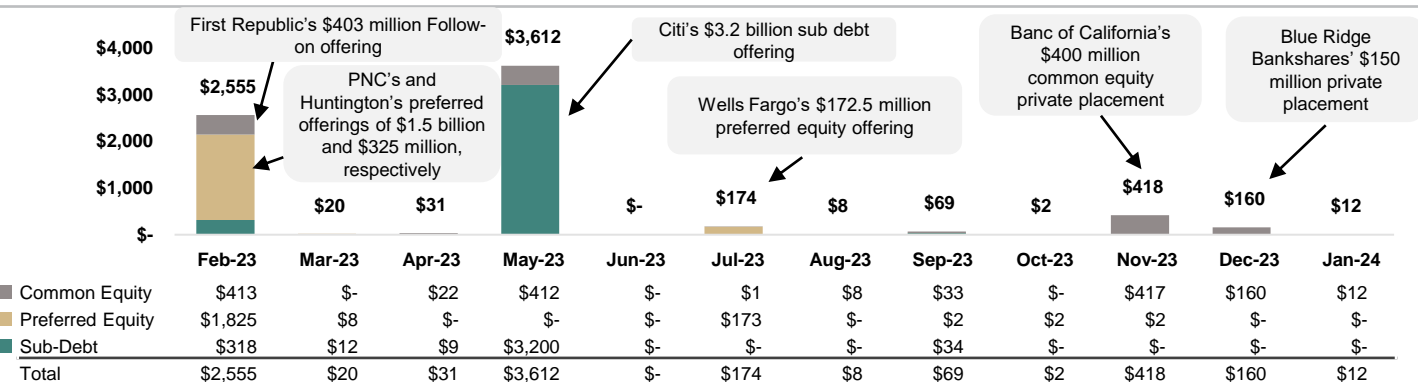
U.S. Bank Capital Offerings

- Sub-debt offerings were non-existent for most banks relative to the record levels in 2021 and early 2022 due to the higher rate environment – average coupon in 2021 was 3.73% for 203 deals vs. 7.11% for the 10 deals in Q4 2022 and 7.90% for the 10 deals in 2023
- Equity issuances were basically non-existent in 2023. Since SVB's failure in March '23, there were only 15 common equity offerings for U.S. banks⁽³⁾ – 13 private placements of common stock aggregating \$263 million in addition to NYCB's ~\$400 million offering completed in conjunction with the Signature Bank acquisition and BANC's \$400 million offering in conjunction with the PACW merger

Capital Offering Mix – LTM ⁽²⁾



Capital Offering Activity – Last Twelve Months (in millions) ⁽²⁾



Source: S&P Capital IQ Pro; M&A and offering data as of 1/31/2024; Note: All dollars in millions, unless otherwise noted

(1) Median data for M&A transactions. Excludes terminated deals and FDIC-assisted transactions

(2) Excludes mutual conversions

(3) Excludes money center banks



D. A. Davidson Bank M & A Transactions

 has agreed to be acquired by SELL-SIDE ADVISOR	 has agreed to merge with FINANCIAL ADVISOR	 has agreed to acquire FINANCIAL ADVISOR
 has agreed to be acquired by SELL-SIDE ADVISOR	 has agreed to merge with FINANCIAL ADVISOR	 has agreed to be acquired by SELL-SIDE ADVISOR

D. A. Davidson Bank Capital Offerings

 has agreed to partner with new investor \$48,000,000 FINANCIAL ADVISOR	 has completed a follow-on offering of common stock \$50,000,000 CO-MANAGER	 has completed a private placement of perpetual preferred stock \$80,750,000 LEAD PLACEMENT AGENT
 has completed an initial public offering of common stock \$38,259,038 CO-MANAGER	 has completed a private placement of subordinated notes \$92,000,000 LEAD PLACEMENT AGENT	 has completed a public offering of perpetual preferred stock \$115,000,000 CO-MANAGER

U.S. Bank M&A League Table - Last Twelve Months ⁽¹⁾			
Rank	Advisor	# of Deals	Deal Value (\$MM)
1	Stifel Financial Corp.	8	\$ 1,903.7
2	Piper Sandler & Co.	14	\$ 898.9
3	D.A. Davidson & Co.	7	\$ 611.9
4	BofA Securities, Inc.	1	\$ 527.1
4	J.P. Morgan Securities LLC	1	\$ 527.1
6	Stephens Inc.	3	\$ 457.2
7	Janney Montgomery Scott LLC	7	\$ 429.9
8	Raymond James & Associates, Inc.	5	\$ 390.4
9	Morgan Stanley	1	\$ 319.1
10	MJC Partners, LLC	2	\$ 259.6
11	McQueen Financial Advisors II, Inc.	2	\$ 253.6
12	Cedar Hill Advisors, LLC	1	\$ 128.1
13	Donnelly Penman & Partners Inc.	1	\$ 45.2
14	The Capital Corporation, LLC	3	\$ 44.3
15	Hovde Group, LLC	2	\$ 36.8
16	Olsen Palmer LLC	7	\$ 32.6
17	Performance Trust Capital Partners, LLC	5	\$ 30.0
18	National Capital, L.L.C.	2	\$ 26.6
19	Burke Stelling Group, LLC	1	\$ 24.0
20	Bank Advisors Limited	1	\$ 12.1

Note: Ranked by transaction value

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Equity Capital Markets

FIG Equity Research

Wealth Management – Community Bank Group

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