



## Bison Banking Brief February 2024 | U.S. Banking Insights

*This presentation, and any oral or video presentation that supplements it, have been developed by and are proprietary to D.A. Davidson & Co., member SIPC, and were prepared exclusively for the benefit and use of the recipient. Neither the printed presentation nor any oral or video presentation that supplements it, nor any of their contents, may be reproduced, distributed or used for any other purpose without the prior written consent of D.A. Davidson & Co.*

*The analyses contained herein rely upon information obtained from the recipient or from public sources, the accuracy of which has not been verified, and cannot be assured, by D.A. Davidson & Co. Moreover, many of the projections and financial analyses herein are based on estimated financial performance prepared by or in consultation with the recipient and are intended only to suggest reasonable ranges of results. Finally, the printed presentation is incomplete without any oral or video presentation that supplements it.*

*This material is protected under applicable copyright laws and does not carry any rights of publication or disclosure.*



## Key Themes in U.S. Banking

### Mixed Inflation Data / Resilient Economy Pushes Market Expectation of First Rate Cuts to 2H 2024

### Office / Multi-family Risks in the Spotlight Following NYCB Turmoil

### Volatile Month For Bank Stocks; M&A Market Continues to Thaw

#### Inflation Data Mixed in February

- In mid-February, the market sold-off after a hotter than expected CPI reading, rising 0.3% in January vs. FactSet's 0.2% consensus estimate, and was an acceleration from 0.2% in December
- However, in late February the personal consumption expenditures price index (excluding food and energy costs), showed an increase of 0.4% for the month and 2.8% from a year ago, in-line with Dow Jones consensus estimates
- Employment remains resilient as the economy added 275,000 new jobs in February vs. the expected 198,000, offsetting the Fed's confidence in the ebbing of inflation
- The mixed inflation data indicates the road to the Fed's 2% inflation target is going to be bumpy, but the trend is heading in the right direction

#### Powell Confident Rate Cuts Will Come This Year, But Waiting For the Right Time

- In recent meetings Federal Reserve Chair Jerome Powell has reiterated that he expects interest rates to start coming down at some point this year
- Appearing before the House Committee on Financial Services, Powell stated, "We want to see a little bit more data so that we can become confident. We're not looking for better inflation readings than we've had, we're just looking for more of them"

#### New York Community Bancorp, Inc. Receives \$1 Billion Cash Infusion

- The investor group is led by a \$450 million investment from former Treasury Secretary Steven Mnuchin's investment company, Liberty Strategic Capital
- The capital infusion came on the heels of NYCB revealing material weakness in internal controls in February, as well as increased reserve building associated with office and multi-family CRE exposure noted in Q4 earnings in late January
- Concerns over NYCB becoming the next failed regional bank seem to have eased as management noted it started winning back deposits the week the capital raise was announced

#### Credit Remains Benign, But All Eyes on CRE / Multifamily

- While NCOs and NPAs have increased slightly in recent quarters, credit metrics are still near historical lows.
- Analysts and investors remain hyper-focused on office and multifamily CRE, particularly in large metros and heavy rent-controlled markets
- Nearly 50% of rent regulated apartments are experiencing operating losses, with many properties already seeing foreclosures, loan extensions, etc.

#### Bank Stock Volatility Driven by Mixed Inflation Data and Market Adjusting Expectation of First Rate Cut Timing

- Despite the noise from NYCB to start the month and the mixed inflation data readings, the S&P U.S. BMI Banks Index rose 2.4% in February, although the S&P 500 and Russell 3000 rose 5.2% and 5.3%, respectively
- The S&P 500 trades at 22.9x P/LTM Earnings, compared to the S&P U.S. BMI Banks Index's 11.3x, which remains well below the historical average
- It was a volatile month for bank stocks with investors digesting NYCB news and attempting to extrapolate relevant components to the broader group. We are not out of the woods by any means, in terms of CRE risks, but NYCB's capital infusion eased uncertainty and its overhang on the industry

#### Positive Bank M&A Momentum Continued in February

- 10 transactions were announced in February (along with 10 transactions in Jan. 2024), putting 2024 on track for 120 deals, a 22% increase from 2023
- M&A conversations continue to pick up with the tailwind of less AOCI overhang expected to materialize over the next year, while headwinds from NIM and loan growth persist





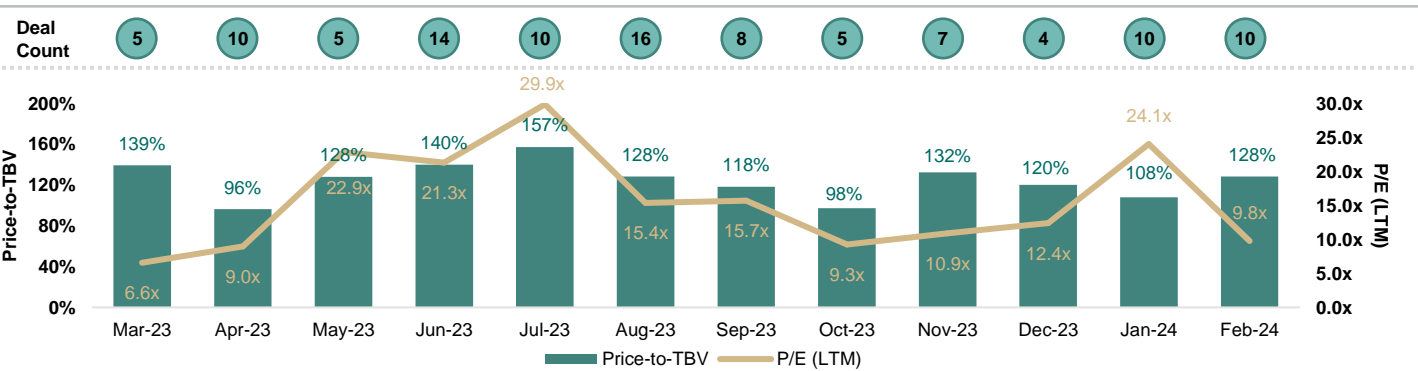
## U.S. Bank M&A Activity

- M&A activity is picking up
  - 10 bank M&A transactions were announced in February, putting 2024 on track for 120 deals, a 22% increase from 98 deals in 2023
- Investors are beginning to react favorably to M&A transactions
- The thawing of bank M&A activity and positive market reactions have buyers/sellers returning to the negotiating table
- The bond rally has reduced unrealized losses in banks' bond portfolios, improving the math for M&A purchase accounting
- 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 <sup>(1)</sup>

Region	Deal Value (\$MM)	Deal Count	Price-to-TBV	P/E (LTM)
Midwest	\$317	45	133%	17.4x
Southeast	\$1,352	22	122%	10.6x
Southwest	\$72	12	134%	34.4x
Mid Atlantic	\$472	7	114%	10.5x
West	\$2,036	13	96%	9.2x
Northeast	\$527	5	116%	11.1x
<b>Total</b>	<b>\$4,777</b>	<b>104</b>	<b>122%</b>	<b>13.1x</b>

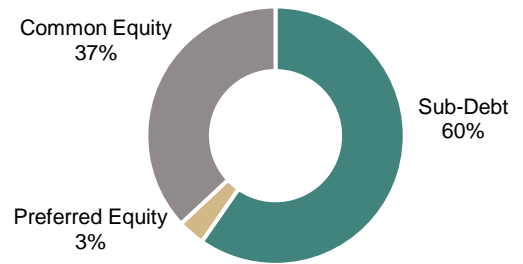
M & A Activity and Valuation Multiples – Last Twelve Months <sup>(1)</sup>



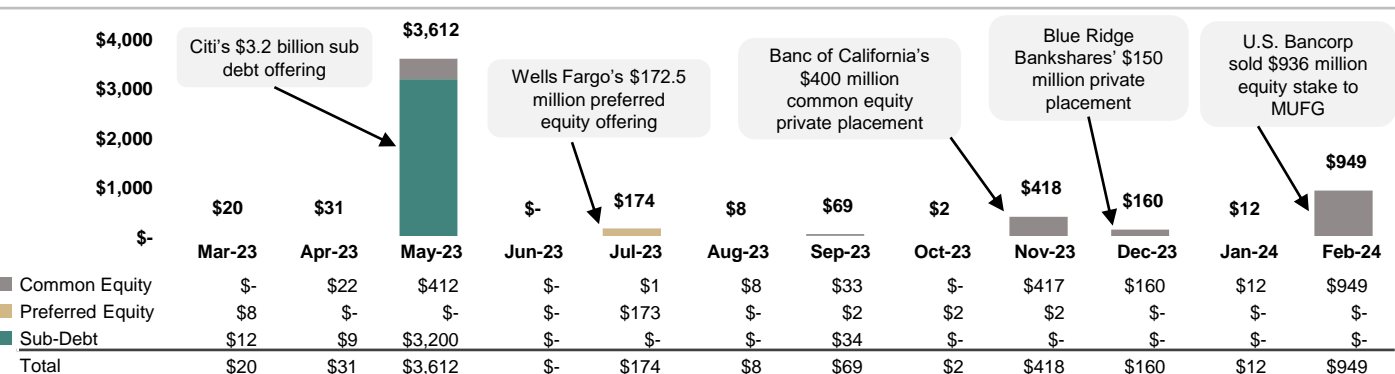
## U.S. Bank Capital Offerings

- 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% (203 deals) vs. 7.11% (10 deals) in Q4 2022, and 7.90% (10 deals) in 2023
- Equity issuances were basically non-existent in 2023 following SVB's failure in March '23, but equity markets began to reopen in Q4 2023 with BANC's \$400 million offering in conjunction with the PACW merger and Blue Ridge's \$150 million offering as part of an ongoing work-out strategy, followed by MUFG taking a \$936 million stake in U.S. Bancorp in February and NYCB's \$1 billion private placement in March

Capital Offering Mix – LTM <sup>(2)</sup>



Capital Offering Activity – Last Twelve Months (in millions) <sup>(2)</sup>



Source: S&P Capital IQ Pro; M&A and offering data as of 2/29/2024. 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

### U.S. Bank M&A League Table - Last Twelve Months <sup>(1)</sup>

Rank	Advisor	# of Deals	Value (\$MM)
1	Stifel Financial Corp.	9	\$ 1,930.6
2	Piper Sandler & Co.	13	\$ 799.4
3	<b>D.A. Davidson &amp; Co.</b>	<b>6</b>	<b>\$ 579.9</b>
4	BofA Securities, Inc.	1	\$ 527.1
4	J.P. Morgan Securities LLC	1	\$ 527.1
6	Stephens Inc.	2	\$ 412.9
7	Janney Montgomery Scott LLC	6	\$ 397.9
8	Raymond James & Associates, Inc.	4	\$ 323.4
9	Morgan Stanley	1	\$ 319.1
10	MJC Partners, LLC	2	\$ 259.6
11	McQueen Financial Advisors II, Inc.	3	\$ 253.6
12	Cedar Hill Advisors, LLC	1	\$ 128.1
13	Performance Trust Capital Partners, LLC	5	\$ 56.9
14	Donnelly Penman & Partners Inc.	2	\$ 45.2
15	Hovde Group, LLC	3	\$ 36.8
16	National Capital, L.L.C.	2	\$ 26.6
17	Burke Stelling Group, LLC	1	\$ 24.0
18	Bank Advisors Limited	1	\$ 12.1

Note: Ranked by transaction value

 has agreed to be acquired by  SELL-SIDE ADVISOR	 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

## 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

## Financial Institutions Investment Banking

<b>Ramsey Gregg</b> Co-Head Managing Director (714) 850-8349 rgregg@dadco.com	<b>Tom Hayes</b> Co-Head Managing Director (406) 268-3084 thayes@dadco.com	<b>Chuck Stubbs</b> Co-Head Managing Director (919) 740-4671 cstubbs@dadco.com	<b>Bill Herrell</b> Managing Director (404) 964-3267 bherrell@dadco.com	<b>Jay Junior</b> Managing Director (410) 369-1177 jjunior@dadco.com	<b>Eugene Katz</b> Managing Director (312) 525-2768 gkatz@dadco.com	<b>Edward Losty</b> Managing Director (303) 764-6030 elosty@dadco.com
<b>Stephen Nelson</b> Managing Director (312) 525-2769 snelson@dadco.com	<b>Nathan Ail</b> Director (310) 500-3859 nail@dadco.com	<b>Peter Losty</b> Director (212) 882-3904 plosty@dadco.com	<b>Michael Engellant</b> Vice President (406) 268-3088 mengellant@dadco.com	<b>Peter Ruiz</b> Vice President (404) 790-0063 prui@dadco.com	<b>Brett Theriault</b> Vice President (312) 525-2773 btheriault@dadco.com	

### Equity Capital Markets

### FIG Equity Research

### Community Bank Group

<b>Rory McKinney</b> President, Equity Capital Markets (310) 500-3865 rmckinney@dadco.com	<b>Liam Healy</b> Head of Institutional Equities (312) 934-2688 lhealy@dadco.com	<b>Jeffrey Rulis</b> Managing Director, Sr. Research Analyst (503) 603-3025 jrulis@dadco.com	<b>Gary Tenner</b> Managing Director, Sr. Research Analyst (503) 603-3026 gtenner@dadco.com	<b>Mike Acampora</b> Sr. Vice President (904) 456-6153 macampora@dadco.com	<b>Nick Bicking</b> Sr. Vice President (614) 710-7060 nbicking@dadco.com
<b>John Backus</b> Managing Director, Institutional FIG Trading (212) 257-6051 jbackus@dadco.com	<b>Tom Diffely</b> Director of Institutional Research (503) 603-3049 tdiffely@dadco.com	<b>Peter Winter</b> Managing Director, Sr. Research Analyst (212) 882-3917 pwinter@dadco.com	<b>Manuel Navas</b> Vice President, Research Analyst (212) 223-5405 mnavas@dadco.com	<b>Troy Carlson</b> Sr. Vice President (856) 994-6056 tncarlson@dadco.com	<b>Tom Dooley</b> Sr. Vice President (614) 710-7061 tdooley@dadco.com
<b>Josh Nolan</b> Managing Director, Equity Capital Markets (212) 882-3914 jnolan@dadco.com	<b>Joseph Pattison</b> Managing Director, Institutional FIG Sales (503) 603-3008 jpattison@dadco.com				