



# The Deal Landscape for Banks

May 7, 2013

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# Overview of M&A Activity and Valuation

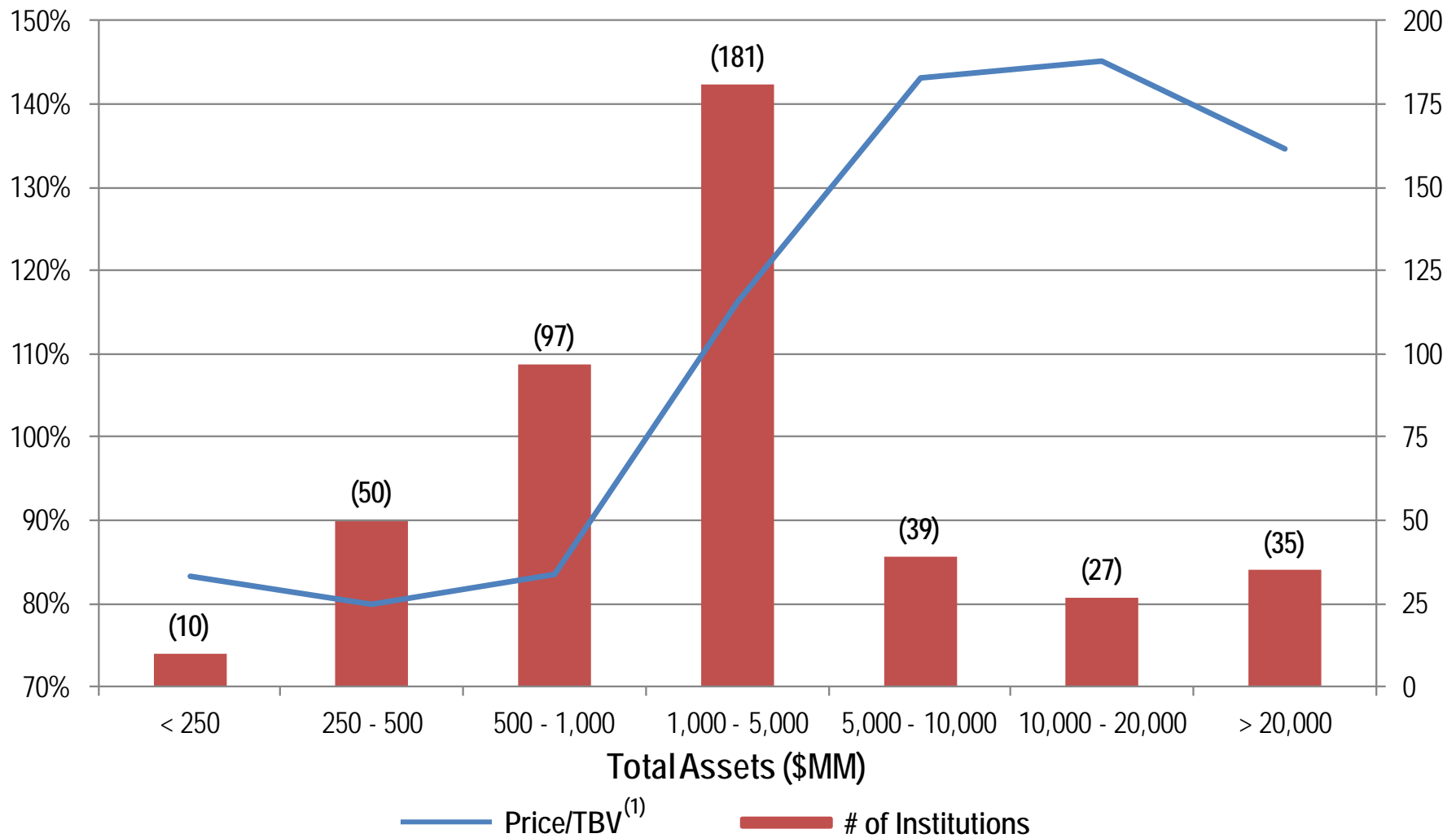
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## *Factors Impacting the Current Whole Bank M&A Market*

- Increased regulatory restrictions
- General consolidation trend – decreasing number of banks...too small to survive concept
- Competition with FDIC – Failed Bank Assisted Deals
- Bifurcation in the market based primarily on asset quality
- Compression of purchase price multiples
- Uncertainty in public markets and asset quality issues impacting whole bank M&A volume

# Overview of M&A Activity and Valuation

*Too Small to Survive...Larger Publicly Traded Banks (Up to a Certain Size) Command a Premium Valuation*



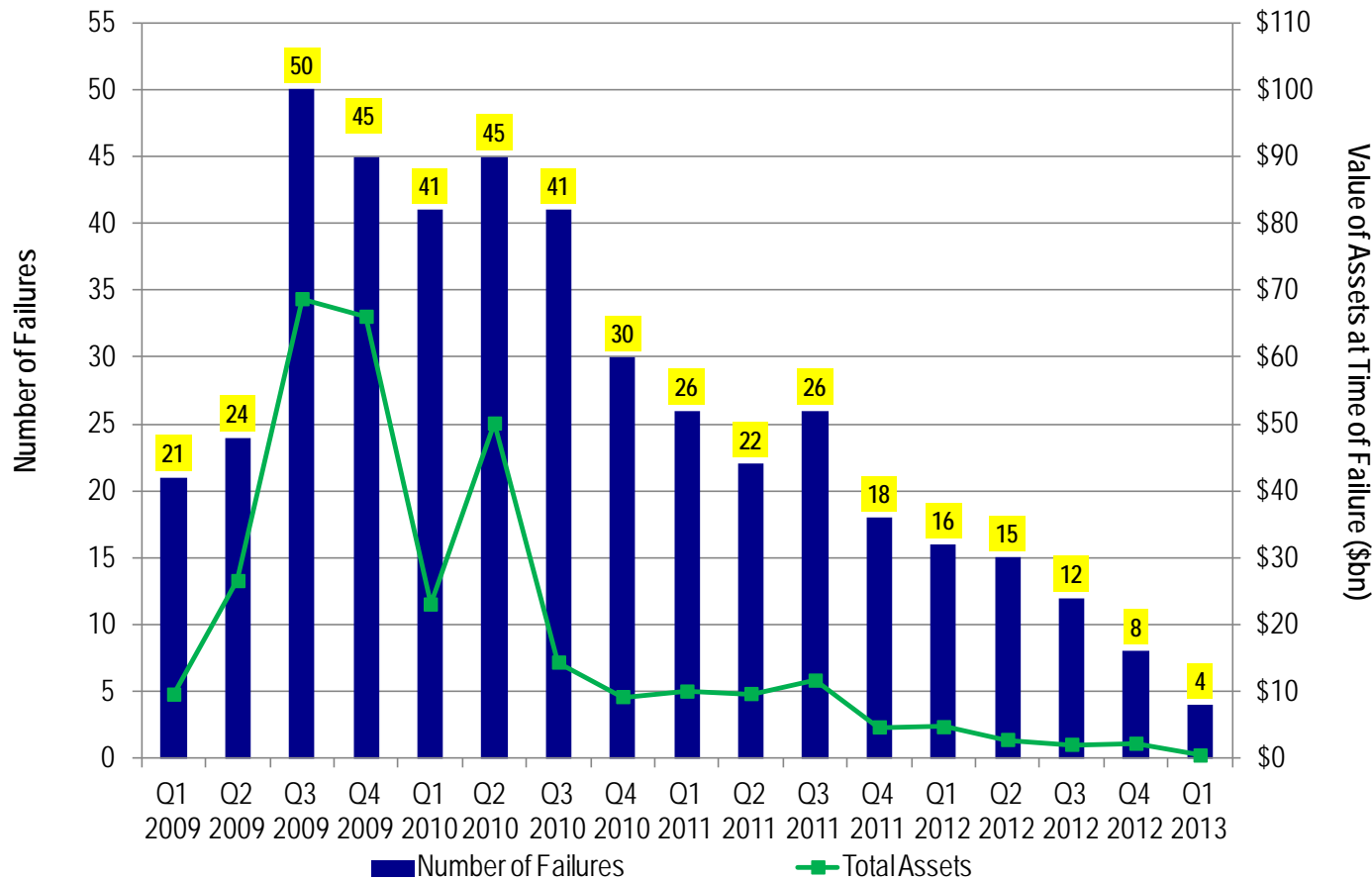
Source: SNL Financial

Note: Pricing and financial data as of December 31, 2012.

(1): Median values used for price-to-tangible book value.

# Overview of M&A Activity and Valuation

## Bank Failures 2009 – YTD 2013

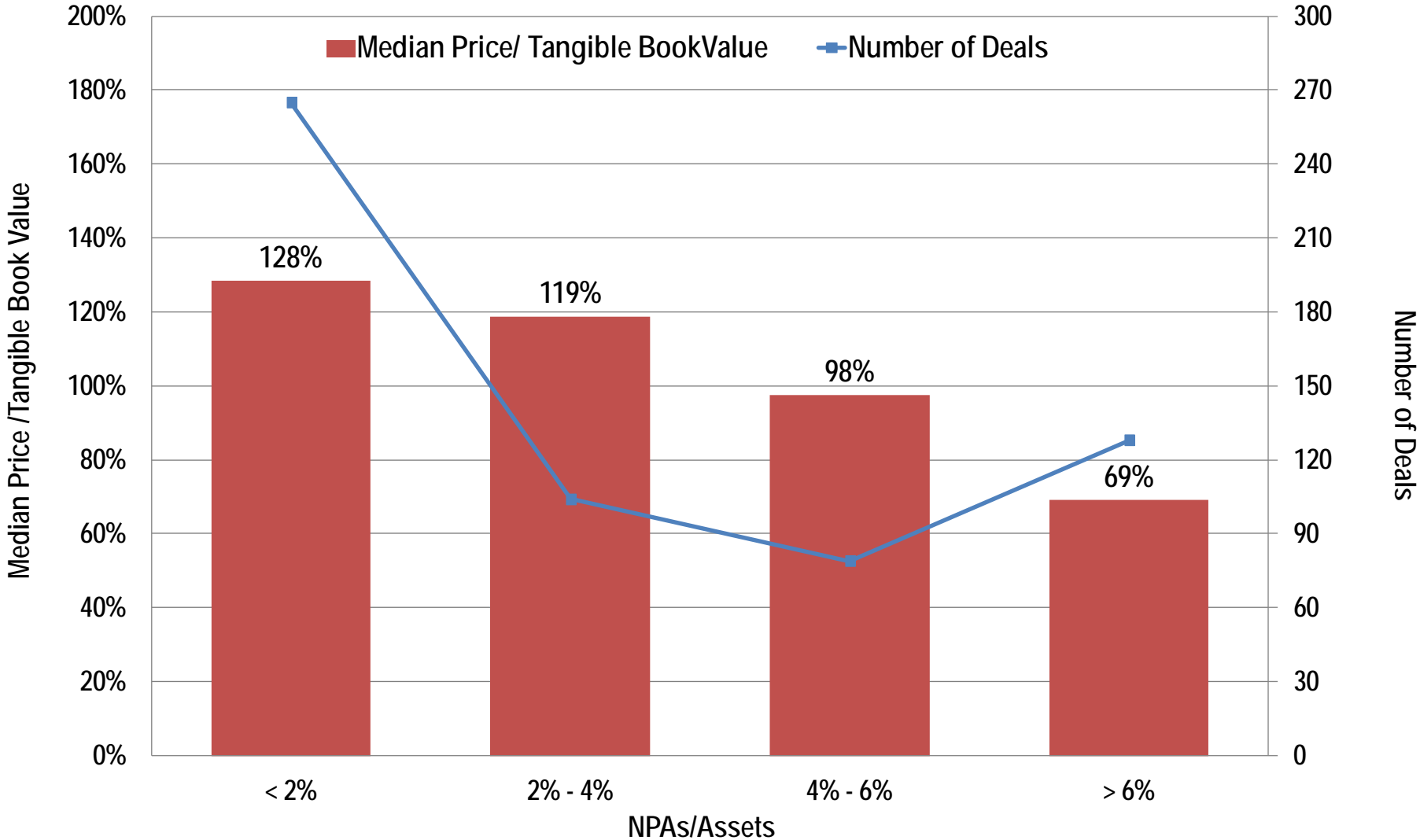


- 475 banks have failed since the beginning of 2008 with ten banks failing YTD in 2013
- In 2012, 51 institutions failed representing \$12.1 billion in assets, a significant decline from 2011 when 92 institutions failed representing \$36.0 billion in assets and 2010 when 157 institutions failed representing \$96.5 billion in assets
- Relatively low number of failures in AL (7 bank failures, or 8 if include Frontier Bank whose HC was HQ in AL)

Source: FDIC  
Note: YTD 2013 as of April 30, 2013.

# Overview of M&A Activity and Valuation

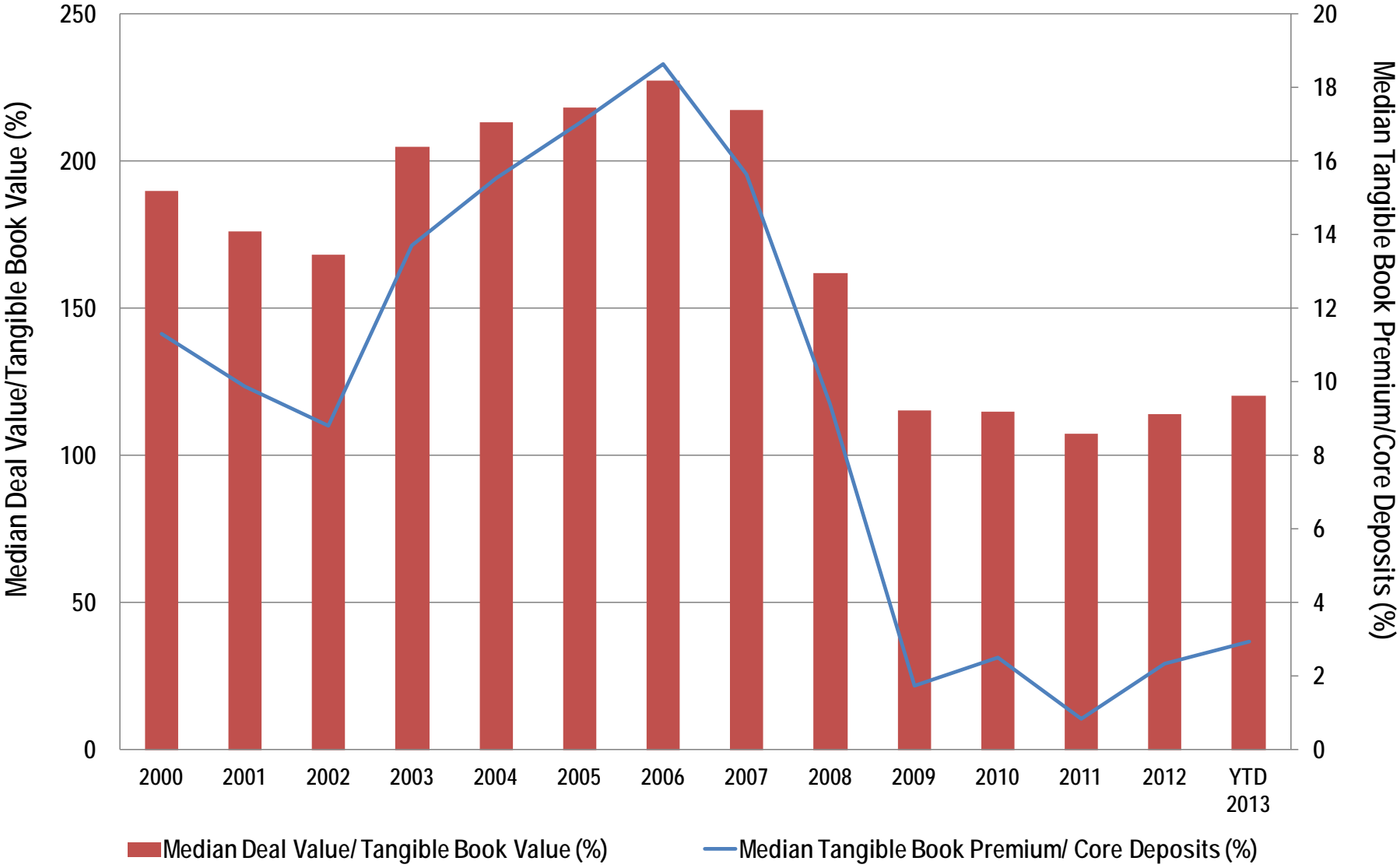
## Price to Tangible Book by Asset Quality 2010 – YTD 2013



Source: SNL Financial  
 Note: YTD as of April 30, 2013. NPAs include restructured loans.

# Overview of M&A Activity and Valuation

## Bank and Thrift Whole Bank M&A Transaction Multiples 2000 – YTD 2013



Source: SNL Financial  
 Note: YTD as of April 30, 2013.



# Overview of M&A Activity and Valuation

*Whole bank transactions announced between 1/1/2010 and YTD 2013 in which the target was headquartered in AL-AR-LA-MS*

ALABAMA-ARKANSAS-LOUISIANA-MISSISSIPPI WHOLE BANK TRANSACTIONS															
Buyer	Buyer		Target State	Announce Date	Complete Date	Deal Value (\$000)	SELLER ANNOUNCEMENT FINANCIALS							TBP/ Core Deposits	
	State	Target					Total Assets (\$000)	TE/TA	LTM ROAA	LTM ROAE	NPAs/ Assets	Price/ TBV	Price/ Assets		P/E
Investar Bank	LA	First Community Bank	LA	1/25/2013	Pending	4,600	106,623	12.20%	0.28%	2.41%	6.55%	35.37%	4.31%	15.0x	(12.98%)
Renasant Corporation	MS	First M&F Corporation	MS	2/6/2013	Pending	150,975	1,601,683	7.15%	0.44%	6.12%	3.49%	121.70%	9.43%	23.3x	3.03%
First Bancshares, Inc.	MS	First National Bank of Baldwin County	AL	1/31/2013	4/30/2013	3,300	186,770	2.16%	(0.54%)	(23.69%)	3.94%	66.90%	1.77%	NM	(0.52%)
Bank of the Ozarks, Inc.	AR	Genala Banc, Inc.	AL	10/4/2012	12/31/2012	27,300	170,422	16.53%	0.98%	6.02%	1.16%	95.40%	16.02%	16.7x	(1.28%)
MidSouth Bancorp, Inc.	LA	PSB Financial Corporation	LA	8/3/2012	12/28/2012	39,953	495,113	9.57%	0.74%	7.76%	1.59%	156.71%	8.07%	13.7x	4.06%
Trustmark Corporation	MS	BancTrust Financial Group, Inc.	AL	5/28/2012	2/15/2013	55,384	2,008,767	5.45%	(2.30%)	(32.51%)	8.31%	91.50%	2.76%	NM	(3.96%)
MidSouth Bancorp, Inc.	LA	First Louisiana National Bank	LA	8/29/2011	12/1/2011	19,091	116,160	10.33%	1.03%	10.19%	0.03%	159.10%	16.44%	25.3x	8.25%
Home Bancorp, Inc.	LA	GS Financial Corp.	LA	3/30/2011	7/15/2011	26,417	263,811	10.50%	0.15%	1.43%	4.82%	95.41%	10.01%	NM	(0.83%)
IBERIABANK Corporation	LA	Cameron Bancshares, Inc.	LA	3/10/2011	5/31/2011	134,755	705,735	10.96%	1.29%	12.37%	1.34%	174.25%	19.09%	14.6x	11.94%
IBERIABANK Corporation	LA	Omni Bancshares, Inc.	LA	2/21/2011	5/31/2011	39,957	745,884	4.42%	(0.44%)	(9.89%)	8.71%	121.34%	8.57%	NM	1.41%
Hancock Holding Company	MS	Whitney Holding Corporation	LA	12/21/2010	6/4/2011	1,768,409	11,517,194	10.78%	(0.46%)	(3.18%)	4.51%	163.73%	15.35%	NM	7.42%
First Guaranty Bancshares, Inc.	LA	Greensburg Bancshares, Inc.	LA	10/21/2010	7/1/2011	5,309	94,703	9.98%	(0.21%)	(2.37%)	6.36%	89.39%	9.30%	NM	(1.03%)
Community Bancorp, LLC	TX	Cadence Financial Corporation	MS	10/6/2010	3/4/2011	68,773	1,886,445	6.27%	(0.78%)	(12.00%)	5.67%	39.25%	3.65%	NM	(4.42%)
Allcorp, Inc.	AR	Community State Bancshares, Inc.	AR	5/12/2010	8/16/2010	3,127	20,549	10.22%	1.07%	9.97%	1.11%	167.67%	15.22%	17.7x	8.85%
						Median	379,462	10.10%	0.22%	1.92%	4.23%	108.38%	9.37%	16.7x	0.45%
						Average <sup>(1)</sup>	1,422,847	9.04%	0.09%	(1.95%)	4.11%	88.21%	6.10%	17.2x	1.42%

Source: SNL Financial

Note: Year to date as of April 30, 2013.

(1) Harmonic Mean used for all pricing multiples other than Tangible Book Premium/ Core Deposits.

# Overview of M&A Activity and Valuation

*Branch transactions announced between 1/1/2010 and YTD 2013 in which the target was headquartered in AL-AR-LA-MS*

ALABAMA-ARKANSAS-LOUISIANA-MISSISSIPPI BRANCH SALE TRANSACTIONS									
Buyer	State	Target	Target State	Announce Date	Complete Date	Franchise Premium (\$000)	Total Assets (\$000)	Total Deposits (\$000)	Deposit Premium
<b>ALABAMA</b>									
State Capital Corporation	MS	SunSouth Bancshares, Inc.	AL	6/29/2012	9/21/2012	540	18,356	18,896	3.00%
Heritage Financial Group, Inc.	GA	Community Capital Bancshares, Inc.	AL	4/6/2012	6/29/2012	200	19,800	20,000	1.00%
<b>MISSISSIPPI</b>									
Bancorp of Okolona, Inc.	MS	OmniBank	MS	7/27/2012	12/7/2012	201	19,896	20,097	1.00%
First Bancshares, Inc.	MS	Hancock Holding Company	LA, MS	5/17/2011	9/16/2011	9,100	185,900	195,000	4.67%

Source: SNL Financial

Note: Year to date as of April 30, 2013.

# Overview of M&A Activity and Valuation

## *Whole bank transactions announced between 1/1/2010 and YTD 2013 in which the target was headquartered in AL-AR-LA-MS*

ALABAMA-ARKANSAS-LOUISIANA-MISSISSIPPI WHOLE BANK TRANSACTIONS												
Buyer	Buyer State Target		Target State	Announce Date	Complete Date	SELLER ANNOUNCEMENT FINANCIALS						
						Total Assets (\$000)	TE/TA	LTM ROAA	LTM ROAE	NPAs/ Assets	LTM Efficiency Ratio	
						Chambers Bancshares, Inc.	AR	Peterson Holding Company	AR	12/7/2012	12/7/2012	127,305
Red River Bancshares, Inc.	LA	Fidelity Bancorp, Inc.	LA	11/15/2012	4/1/2013	125,681	11.69%	(0.15%)	(1.42%)	6.17%	93.53%	
Jeff Davis Bancshares, Inc.	LA	Guaranty Capital Corporation	LA	10/12/2012	12/31/2012	143,371	11.05%	0.73%	6.85%	1.03%	70.84%	
Investor group	AL	FEB Bancshares, Inc.	AL	7/27/2012	9/28/2012	178,708	1.89%	(3.47%)	(77.08%)	7.39%	103.10%	
FBT Bancshares, Inc.	AR	Bank of Rison	AR	2/25/2012	10/5/2012	30,120	18.01%	1.08%	5.97%	1.37%	70.72%	
Merchants & Marine Bancorp, Inc.	MS	Heritage First Bank	AL	8/3/2011	12/9/2011	55,000	6.55%	(3.08%)	(52.90%)	8.09%	117.55%	
USAmeriBancorp <sup>(1)</sup>	FL	Aliant Financial Corporation	AL	7/22/2011	12/30/2011	960,862	10.01%	(0.90%)	(8.54%)	5.68%	84.46%	
Investar Bank	LA	South Louisiana Business Bank	LA	6/1/2011	10/1/2011	50,086	24.51%	(0.63%)	(2.33%)	0.61%	133.75%	
Investor group <sup>(2)</sup>	NA	North Alabama Bancshares, Inc.	AL	2/23/2011	5/18/2011	124,793	9.44%	(2.02%)	(25.03%)	11.43%	112.90%	
Bear State Financial Holdings, LLC	AR	First Federal Bancshares of Arkansas, Inc.	AR	1/27/2011	5/3/2011	632,340	6.24%	(3.37%)	(51.12%)	15.74%	74.82%	
Southwest Security, Inc.	MS	Merchants & Farmers Bank	LA	1/24/2011	8/26/2011	7,961	12.01%	(0.98%)	(8.70%)	1.48%	120.10%	
Citizens National Bancshares of Bossier, Inc.	LA	Citizens Bankshares of Springhill, Inc.	LA	12/16/2010	3/31/2011	153,809	8.82%	1.01%	12.73%	0.65%	73.04%	
Charles Investment Group, LLC	AL	Americus Financial Services, Inc.	AL	6/18/2010	10/29/2010	351,648	8.71%	(0.50%)	(6.19%)	3.02%	71.58%	
USAmeriBancorp Inc.	FL	Aliant Financial Corporation	AL	6/15/2010	12/31/2010	1,026,794	6.36%	(2.47%)	(41.95%)	6.26%	107.02%	
						<b>Median</b>	<b>135,338</b>	<b>9.13%</b>	<b>(0.94%)</b>	<b>(8.62%)</b>	<b>5.93%</b>	<b>98.32%</b>
						<b>Average</b>	<b>283,463</b>	<b>9.84%</b>	<b>(1.34%)</b>	<b>(28.62%)</b>	<b>6.94%</b>	<b>96.83%</b>

Source: SNL Financial

Note: Year to date as of April 30, 2013.

(1) Clearwater, FL – based USAmeriBancorp Inc. acquired the remaining 38.3% stake in Alexander City, AL – based Aliant Financial Corp. that it did not own previously announced on July 22, 2011 and completed on December 30, 2011 (after increasing stake in the bank in 2010).

(2) An investor group consisting of certain directors of Hazel Green, AL – based North Alabama Bancshares Inc. agreed to acquire a majority stake in the bank announced on February 23, 2011 and completed on May 18, 2011.

# Overview of M&A Activity and Valuation

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Buyer	State	Target	Target State	Announce Date	Complete Date	Total Deposits (\$000)
<b>ALABAMA</b>						
Trustmark Corporation	MS	Commonwealth Savingsshares Corporation	MS	3/29/2013	Pending	11,800
Metro City Bank	GA	Synovus Financial Corp.	AL	10/28/2011	3/16/2012	12,057
<b>ARKANSAS</b>						
First Carroll Bankshares, Inc.	AR	First Arkansas Bancshares, Inc.	AR	8/30/2011	12/3/2011	6,604
State Holding Company	AR	First Arkansas Bancshares, Inc.	AR	8/17/2011	11/8/2011	5,135
First Security Bancorp	AR	First Arkansas Bancshares, Inc.	AR	8/11/2011	3/6/2012	4,464
Harrell Bancshares, Incorporated	AR	Community First Bancshares, Inc.	AR	6/17/2010	11/5/2010	113,950
Washco Bancshares, Inc.	MO	DBT Financial Corporation	AR	5/13/2010	7/30/2010	977
<b>LOUISIANA</b>						
FSB Bancshares, Inc.	LA	First Bankshares of St. Martin, Ltd.	LA	2/3/2010	6/30/2010	7,451

Source: SNL Financial

Note: Year to date as of April 30, 2013.

# Strategy and Factors To Be Considered in Pursuing An M&A Transaction

## *Strategy for Buyers*

- Transactions are not a strategy in and of themselves... they are a means of executing a strategy; also, make sure your own house is in order before attempting to execute on an acquisition strategy
- If growth by acquisitions is part of your strategy, it is imperative to include in the bank's strategic plan and make discussions of potential targets part of Board-level strategic planning sessions and regular Board meetings
- Can be a marathon or a sprint but typically finding the right partnership/acquisition target takes time; however, when the right opportunity presents itself, a well-prepared Board/Executive Management Team will be able to take advantage and execute quickly
- A financial advisor can be helpful in the strategic planning process and is critical in deal execution especially when a bank lacks an internal corporate development department devoted to M&A

## *Strategy for Buyers*

- Be selective... do not just acquire for the sake of acquiring
- Ensure you have the capital structure in place or have avenues to access capital that may be necessary to effect an acquisition/merger
- Strong regulatory relationships are important; keep primary regulator informed
- It is not as easy as saying, "I want to buy X bank" and going out and doing it
- Key areas of focus for a buyer in any acquisition:
  - Earnings accretion/dilution (focus on impact to cash EPS)
  - TBV per share dilution and earnback period (typical earnback period is two-five years)
  - Internal rate of return (should be above the acquiring bank's cost of equity)

# Strategy and Factors To Be Considered In Pursuing M&A

## Strategy for Buyers

Phase I: Strategize	Phase II: Assess	Phase III: Execute	Phase IV: Realize
<ul style="list-style-type: none"> <li>■ Including M&amp;A into business strategy</li> </ul>	<ul style="list-style-type: none"> <li>■ Determining incremental value/ synergies of potential transaction</li> </ul>	<ul style="list-style-type: none"> <li>■ Aligning deal structure with strategic objectives</li> </ul>	<ul style="list-style-type: none"> <li>■ Achieving strategic objectives post-acquisition</li> </ul>
<ul style="list-style-type: none"> <li>■ Identifying potential acquisition targets</li> </ul>	<ul style="list-style-type: none"> <li>■ Assessing tax risks/exposures</li> </ul>	<ul style="list-style-type: none"> <li>■ Managing implications to risk profile post-transaction</li> </ul>	<ul style="list-style-type: none"> <li>■ Setting integration priorities (e.g., centralized/ decentralized)</li> </ul>
<ul style="list-style-type: none"> <li>■ Reviewing regulatory issues and approvals</li> </ul>	<ul style="list-style-type: none"> <li>■ Preparing for integration hurdles, such as need for additional resources/ infrastructure changes</li> </ul>	<ul style="list-style-type: none"> <li>■ Determining valuation and purchase price allocations</li> </ul>	<ul style="list-style-type: none"> <li>■ Managing communication with all stakeholders</li> </ul>
<ul style="list-style-type: none"> <li>■ Preparing organization; deal team selection</li> </ul>	<ul style="list-style-type: none"> <li>■ Incorporating due diligence findings into integration plan</li> </ul>	<ul style="list-style-type: none"> <li>■ Implementing measures to minimize tax exposure/risk</li> </ul>	<ul style="list-style-type: none"> <li>■ Maintaining efficient operations during integration</li> </ul>
<ul style="list-style-type: none"> <li>■ Recognizing and controlling primary risks</li> </ul>	<ul style="list-style-type: none"> <li>■ Identifying tax and regulatory issues in transaction structure</li> </ul>	<ul style="list-style-type: none"> <li>■ Retaining employees/aligning compensation post-transaction</li> </ul>	<ul style="list-style-type: none"> <li>■ Supplementing staffing in order to update policies, procedures and processes</li> </ul>
<ul style="list-style-type: none"> <li>■ Evaluating deal's impact on financial performance</li> </ul>	<ul style="list-style-type: none"> <li>■ Assessing impact of financing alternatives on business, financials, and risk profile</li> </ul>	<ul style="list-style-type: none"> <li>■ Developing merger integration plan, possibly through PMO<sup>(1)</sup></li> </ul>	

Source: Grant Thornton "Post-Deal: Valuating and Consolidating Your Portfolio"

(1): Program Management Office



## *Strategy for Sellers*

- Many factors are driving bank consolidation, including: (i) increasing regulatory costs; (ii) asset quality issues; (iii) difficulty raising capital/limited access to capital; (iv) economies of scale; and (v) succession planning → These strategic issues should be discussed at the Board-level at least annually at a formal strategic planning session
- Is your bank a buyer, a candidate to find a similarly sized merger partner or a seller? If a seller, at what price? Do you want to partner with a similarly sized bank or slightly larger bank (potential retention of at least some senior management) or sell outright to another bank for cash/liquid stock?

## *Strategy for Sellers*

- Many transactions are negotiated processes initiated by a potential buyer; others are auction processes initiated by the seller → In either case, it is important for a target bank to understand its strengths and weaknesses and key selling points so that it can best position the bank to potential buyers and maximize shareholder value; an organized due diligence process is also key → Engaging a financial advisor with extensive relationships with potential buyers is highly recommended for a sell-side process and even beneficial in a negotiated process
- Always be prepared... even if you have no plans of selling, an offer can come out of nowhere and it may be an offer you cannot refuse

# Strategy and Factors To Be Considered In Pursuing M&A

## Strategy for Sellers

	NEGOTIATED PROCESS	TARGETED AUCTION	BROAD AUCTION
<b>Number of Investors/Buyers</b>	<ul style="list-style-type: none"> <li>■ Direct negotiations with one to two potential buyers</li> </ul>	<ul style="list-style-type: none"> <li>■ Market to select group of targeted potential buyers</li> </ul>	<ul style="list-style-type: none"> <li>■ Market to broad range of potential buyers</li> </ul>
<b>Confidentiality</b>	<ul style="list-style-type: none"> <li>■ High</li> </ul>	<ul style="list-style-type: none"> <li>■ Moderately contained</li> </ul>	<ul style="list-style-type: none"> <li>■ Limited</li> </ul>
<b>Structure/Process</b>	<ul style="list-style-type: none"> <li>■ Accelerated one-phase process</li> <li>■ Limited marketing information prepared specifically for process                             <ul style="list-style-type: none"> <li>■ Financial data</li> <li>■ Existing business plan</li> </ul> </li> <li>■ Due diligence followed by negotiated Merger Agreement</li> <li>■ Definitive bids submitted</li> </ul>	<ul style="list-style-type: none"> <li>■ Generally a two-phase process but probably less than a formal auction</li> <li>■ Preliminary bids submitted with general transaction terms</li> <li>■ Small group of potential buyers selected, conduct detailed due diligence:                             <ul style="list-style-type: none"> <li>■ Online Data Room access</li> <li>■ Onsite due diligence</li> <li>■ Management presentations</li> </ul> </li> <li>■ Definitive bids submitted</li> </ul>	<ul style="list-style-type: none"> <li>■ Formal two-phase auction process</li> <li>■ Confidential Information Memorandum distributed to targeted buyers</li> <li>■ Preliminary bids submitted with general transaction terms</li> <li>■ No access to Bank in Stage One</li> <li>■ Manageable group of buyers/investors selected to conduct detailed due diligence:                             <ul style="list-style-type: none"> <li>■ Data room visits</li> <li>■ Onsite due diligence</li> <li>■ Management presentations</li> </ul> </li> <li>■ Definitive bids submitted</li> </ul>
<b>Recommendation</b>	<ul style="list-style-type: none"> <li>■ Assures speed and confidentiality but may not maximize value</li> </ul>	<ul style="list-style-type: none"> <li>■ Likely to achieve full value of the Bank in most expedient manner</li> </ul>	<ul style="list-style-type: none"> <li>■ Creates maximum competition but not usually most efficient process</li> </ul>

## *What to Look for In a Potential Target/Merger Partner*

### ➤ From Seller's Perspective

- If pursuing an outright sale and the seller's objective is to cash out with a sale to a buyer for cash and/or liquid stock, the primary goal will be maximizing price for which the bank is sold
- If transaction is more of a merger of equals/merger partner situation (e.g., stock transaction and stock is illiquid), then price/exchange ratio/pro forma ownership percentage is important but not necessarily the only consideration; other key things to look for include:
  - ✓ Compatible cultures
  - ✓ Pro forma projected financial performance → potential value of combined entity's stock, not necessarily current value of buyer stock, especially if thinly traded or privately held
  - ✓ Strategic plan/goals of the pro forma institution
  - ✓ Management succession → who will run the combined entity; will certain members of the target's executive management team be retained?
  - ✓ Employee retention
  - ✓ Mutual due diligence is key

### ➤ From Buyer's Perspective

- Whether outright purchase for cash/liquid stock or more a merger of equals, successful integration of cultures is key to a merger's success; therefore, it usually isn't a good idea to acquire a bank with a totally different culture than that of your institution
- Don't just acquire for the sake of acquiring... make sure the target enhances to your franchise's value:
  - ✓ Perform extensive demographic analysis of target bank's markets especially if acquisition will result in geographic expansion → is it a high growth market where you can grow loans or a stable market where you can take advantage of a strong core deposit base?
  - ✓ Make sure you understand the target bank's asset quality issues → due diligence is key; asset quality issues should not necessarily be a deal killer but must be known so the buyer does not overpay (even if buyer doesn't want to keep the bad assets on books, it can still consider troubled banks by selling bad assets to a third party asset buyer)
  - ✓ Focus on pro forma asset concentration, deposit concentration (any DOJ issues/HHI), other transaction costs (e.g., employee/DP contracts), and other fair value issues
  - ✓ Systems conversions → begin preparations early and assign task to an internal team to ensure a smooth process

## *Accounting Issues to Consider*

- Fair Value Accounting (FAS 157/ASC 820; ASC 310-30 for acquisition of distressed assets):
  - Experts generally use income-based and market-based approaches to determine fair value → values derived using multiple methods must be reconciled to reach an overall fair value conclusion
  - Credit marks on loans and OREO
  - Rate marks on loans, HTM securities, debt and deposits
  - Other fair value marks (e.g., branches)
  - Net operating loss, if any, at the target and the ability to utilize
  - Core deposit intangible created in all transactions even those that create a bargain purchase gain
  - Day 1/Day 2 accounting issues; requires adequate systems
  - Merger related expenses must be expensed
  - Restructuring costs of acquiror are recorded as “post-transaction” expenses

## *Accounting Issues to Consider*

### ➤ **Capital Impact:**

- Goodwill or bargain purchase gain created
- Maintaining a strong pro forma leverage ratio → although not officially changed, the “new normal” required pro forma leverage ratio to obtain regulatory approval is well above the well-capitalized threshold of 5.0% (in the 8.0% - 9.0% range)
- No longer able to carry over the seller’s loan loss reserve, which negatively impacts pro forma Tier 2 capital and pro forma Total Risk-Based Capital Ratio

# Potential Transaction Structures

## *M&A Financing Structure Alternatives*

### ➤ Traditional Structures:

- 100% Cash
- 100% Common Stock
- Combination of Cash/Common Stock – for stock portion to be considered non-taxable event, percentage stock consideration must be at least 40%

### ➤ Alternative Structures:

- Preferred Stock as component; provides target shareholders with yielding security, which can be compelling given current low rate environment (see MSL/Peoples State Bank case study)
- Contingent Payments; usually related to resolution of certain identified problem assets for a certain amount by a certain date → provides credit protection for the buyer/potential upside for the seller:
  - ❖ Typical structure is consistent with earn-out clauses you might see in an acquisition of an asset manager or insurance brokerage (can also establish a cash escrow at transaction close that will be released to either party depending on loan/problem asset outcomes)
  - ❖ Contingent payments typically based on established threshold of loan/problem asset performance and can include milestones for partial payments
  - ❖ At date of acquisition, the fair value of the contingent payment is calculated and included as part of total consideration



## *M&A Financing Structure Alternatives*

### ➤ Alternative Structures Continued:

- Good Bank/Bad Bank – good structure to use when buyer/seller differ significantly on what problem assets are worth; can be accomplished in number of ways (see Merchants & Marine Bancorp/Heritage First Bank Case Study):
  - ❖ P&A by buyer of certain assets/liabilities from the target bank → leaves the bad assets with the selling bank, which post transaction has no deposits and thus is no longer a regulated entity
  - ❖ Bank dividends bad assets to target holding company and holding company sells stock of now “clean” bank
  - ❖ Selling shareholders required to use cash paid in transaction to purchase bad assets into a new LLC established by the selling shareholders for this purpose
  - ❖ Distribute bad assets to selling shareholders often accomplished by transferring bad assets to sister HC subsidiary and distributing the shares to the shareholders

## *M&A Financing Structure Alternatives*

### ➤ **Alternative Structures Continued:**

- Deals Completed Under Section 363 of Bankruptcy Code (see FBMS/First National Bank of Baldwin County Case Study):
  - ❖ Typically go bankruptcy route if target institution is a troubled institution with leverage at the holding company → buy bank stock from the holding company or execute a P&A of target bank's assets/liabilities for consideration that is typically less than what holding company owes creditors/preferred stockholders (creditors taking haircut on principal owed; preferred stockholders taking haircut or being wiped out; common shareholders usually completely wiped out)
  - ❖ Can conduct auction process where buyer is considered stalking horse bidder (route typically taken when creditors are numerous or uncooperative; auction procedures determined by bankruptcy judge but usually break-up fee awarded to stalking horse buyer if outbid and bids must exceed stalking horse bid by an overbid amount, which establishes bidding increments)
  - ❖ Other alternative is an organized bankruptcy plan (route taken when have limited number of creditors who are cooperative and will agree to a Plan Support Agreement supporting the Bankruptcy Plan)

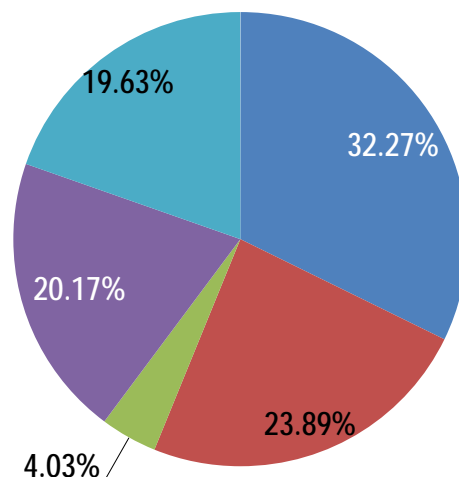
# Potential Transaction Structures

## Case Study – MidSouth Bancorp, Inc.'s Acquisition of PSB Financial Corporation



- **Announce Date: 9/26/2012**
- **Complete Date: 12/28/2012**
- **Deal Value<sup>(1)</sup>: \$48.7 million**

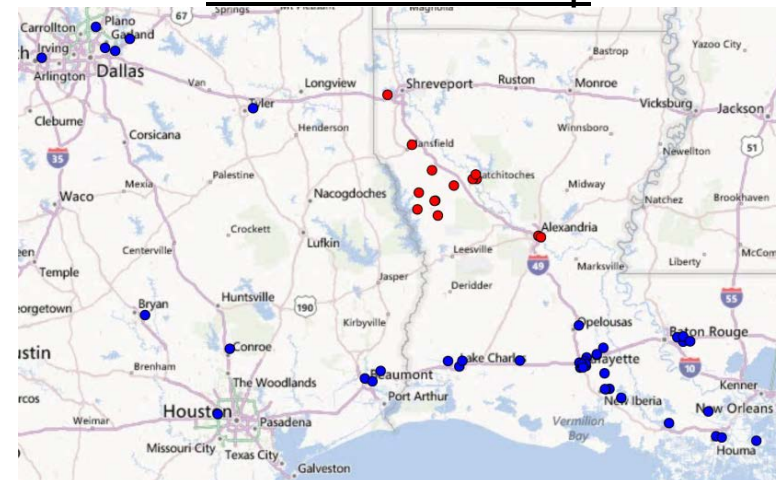
### Form of Consideration



### Deal Pricing Ratios

Price/ Book Value	138.8%
Price/ TBV	157.3%
Price/ Earnings	14.7x
Price/ Deposits <sup>(1)</sup>	11.90%
Price/ Assets <sup>(1)</sup>	9.92%
TBP/ Core Deposits <sup>(1)</sup>	14.78%
Total Assets	499,960
NPAs <sup>(2)</sup> / Assets	0.57%
TE/ TA	5.10%

### Pro Forma Branch Map



- MidSouth Bancorp, Inc. (43 branches)
- PSB Financial Corp. (15 branches)
- Cash - \$16 million
- Common Stock - \$11 million based on fixed exchange ratio of 10.3411 and MSL 9/25/2012 adjusted close price of \$15.66
- Contingent Payments - \$2 million based on resolution of certain identified loans over a 3-year period following the transaction
- Convertible Preferred - \$10 million with 4% noncumulative dividend and MSL \$18.00 strike (15% above MSL's 9/25/2012 adjusted close)
- CDCI Redeemed - \$9.7 million

Source: SNL Financial and MidSouth Bancorp, Inc.'s 8-K filed 9/26/2012

Note: Core deposits exclude CDs greater than \$100,000 and all brokered deposits.

(1): Deal value calculation includes \$9.7 million of PSB Financial Corporation's CDCI preferred stock, which MidSouth Bancorp, Inc. agreed to redeem as a form of consideration pursuant to this transaction. Where noted in the deal pricing ratios, the deal value was calculated as \$48.7 (including the \$9.7 million redeemed); elsewhere, the deal value was calculated as \$39.0 million.

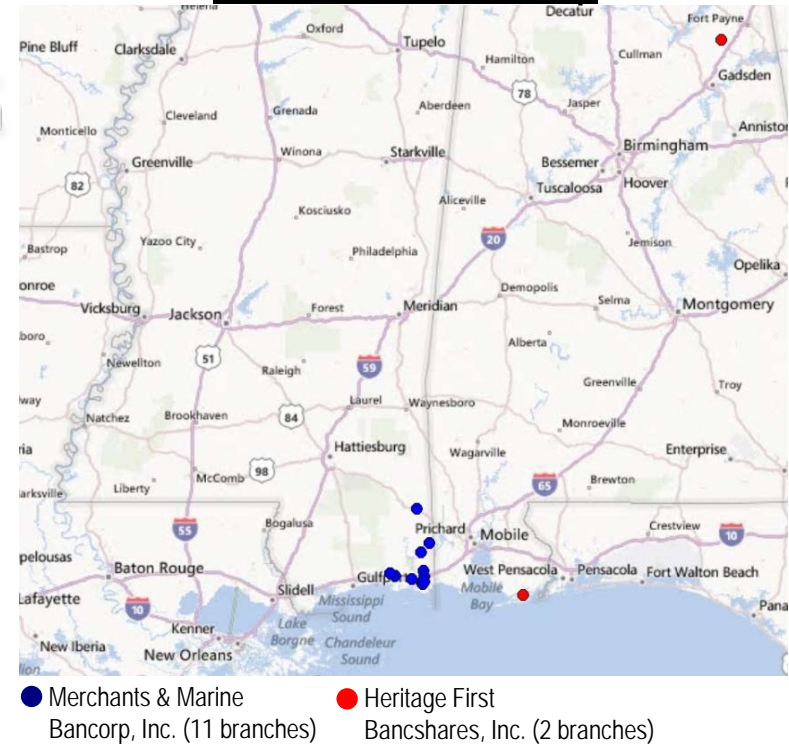
(2): NPAs exclude restructured loans, which were \$4.9 million as of June 30, 2012.

# Potential Transaction Structures

## Case Study – Merchants & Marine Bancorp’s Acquisition of Heritage First Bank



Pro Forma Branch Map



- Announce Date: 8/3/2011
- Complete Date: 12/9/2011
- Total Deal Value: NA
- Target Bank Assets: \$55 million
- Deal Terms:
  - Merchants & Marine Bancorp acquired all of the assets and assumed all of the deposits and liabilities of Heritage First Bank, excluding approximately \$3.0 million of assets retained by Heritage First Bancshares, Inc.
  - No premium was paid on the acquired assets and deposits in this transaction.
  - Heritage First Bank was one of two bank subsidiaries owned by Rome, Georgia-based holding company, Heritage First Bancshares, Inc.

# Potential Transaction Structures

## Case Study – The First Bancshares, Inc.'s Acquisition of First National Bank of Baldwin County



- Announce Date: 1/31/2013
- Complete Date: 4/30/2013
- Deal Value: \$3.3 million
- Organized Bankruptcy Plan vs. Auction w/ Stalking Horse Bidder

### Deal Pricing Ratios/ Target Profile

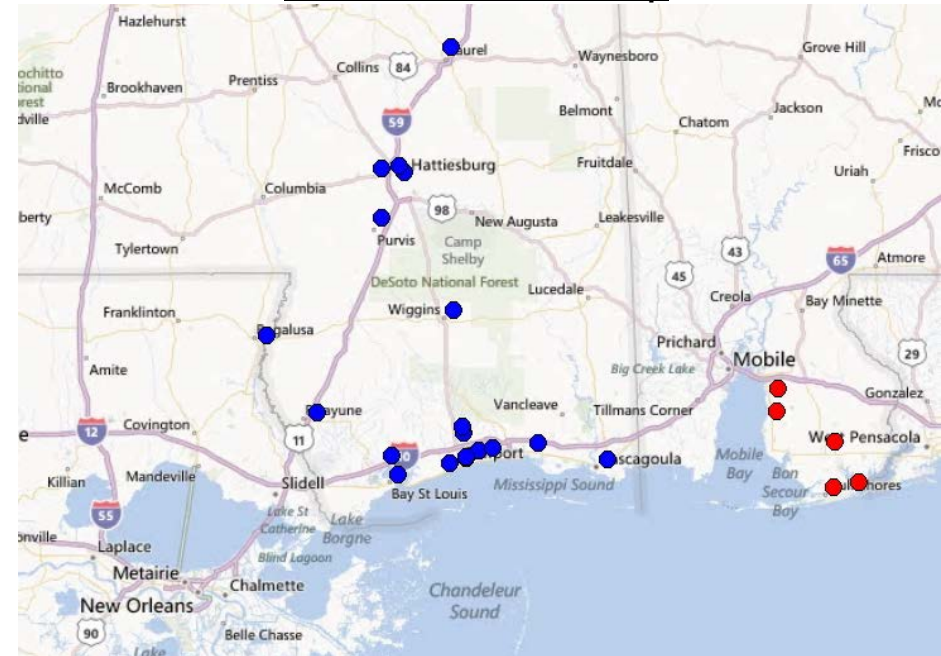
Price/ Bank TBV	81.8%
Price/ Bank Earnings	NM
Price/ Bank Deposits	1.81%
Price/ Bank Assets	1.77%
TBP/ Bank Core Deposits	(0.52%)
Total Bank Assets (\$000s)	186,770
Bank NPAs <sup>(1)</sup> / Assets	1.59%
Bank TE/ TA	2.16%

Source: SNL Financial

Note: Core deposits exclude CDs greater than \$100,000 and all brokered deposits.

(1): NPAs exclude restructured loans, which were \$4.4 million as of December 31, 2012.

### Pro Forma Branch Map



● The First Bancshares, Inc.  
(19 branches)

● First National Bank of Baldwin County  
(5 branches)

### Target/ Target's Holding Co. Capital Structure

Tier 1 Leverage Ratio (Bank)	2.16%
Holding Co. Equity (\$000s)	(5,468)
Holding Co. Preferred Equity (\$000s)	2,014
Holding Co. TruPS (\$000s)	8,116

## *Branch Acquisitions/Divestitures*

### ➤ Buyer's Perspective:

- Potential to enter new markets at lower cost than de novo branching
- Deposit premiums paid for branch acquisitions have declined in recent years
- Provides opportunity to deploy excess capital quickly and profitably
- Issues to consider:
  - ❖ Determining TBV dilution and earnback period
  - ❖ Assuming just deposits or also acquiring loans associated with branch; if acquiring loans, asset quality due diligence is key
  - ❖ Making realistic assumptions about deposit runoff (will selling franchise still have other branches in the market area?)

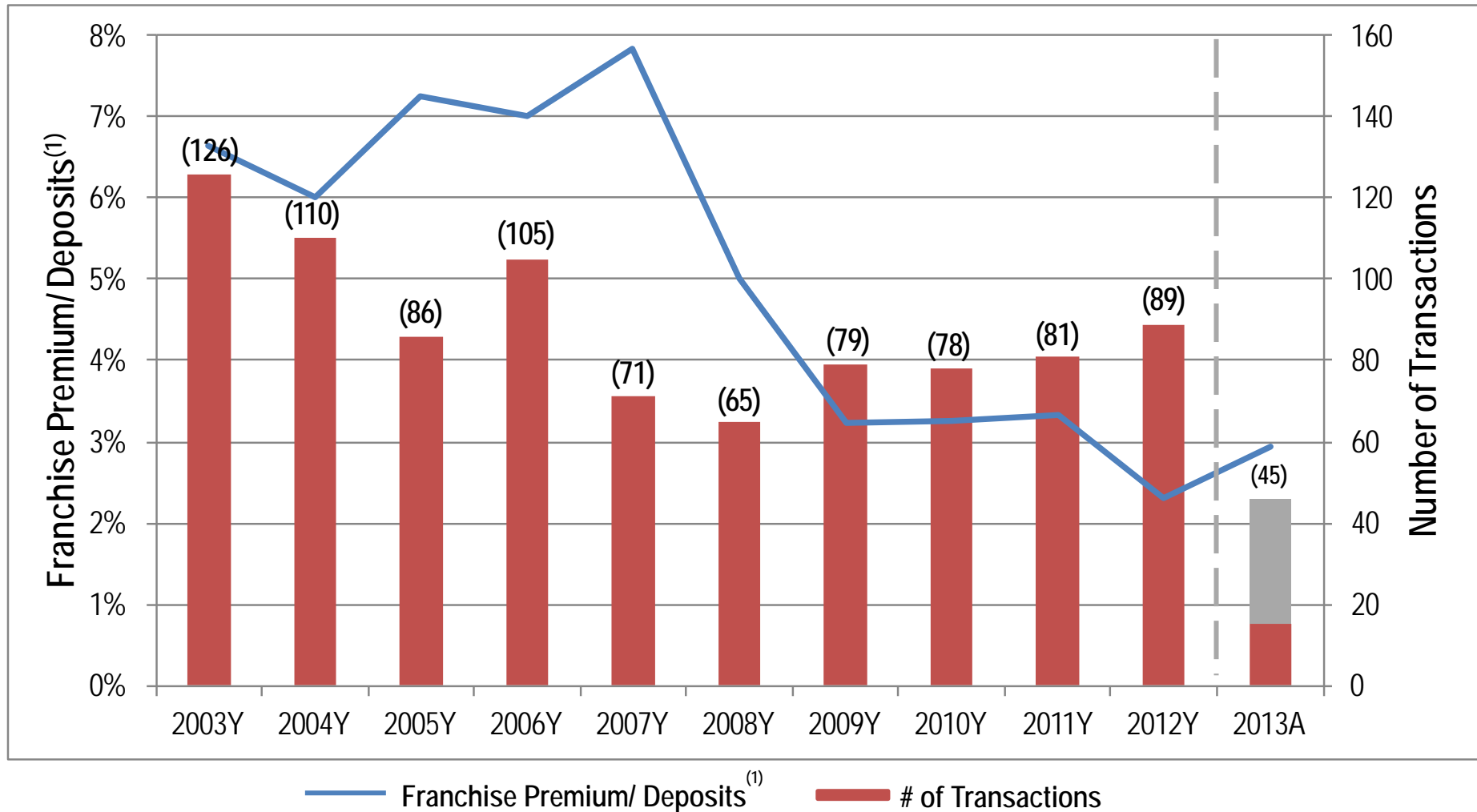
## *Branch Acquisitions/Divestitures*

### ➤ Seller's Perspective:

- Determine if any branches are non-core to franchise and consider selling (may be worth more to potential acquiror than to your institution)
- Frees up capital, improving capital ratios or allowing bank to redeploy into better opportunities
- Issues to consider:
  - ❖ Prices paid in branch sales are depressed given current rate environment
  - ❖ Impact on franchise/perception in community

# Potential Transaction Structures

## Branch Acquisitions/Divestitures



Source: SNL Financial

Note: 2013A indicates 2013 annualized based on 15 year-to-date branch transactions through April 30, 2013.

(1): Median values used for franchise premium-to-deposits.



## *Recapitalization vs. Sale of Bank*

- New investors typically invest at lower P/TBV than could be achieved in outright sale
- Ideal for Banks where bank needs capital to grow/ survive and existing investors are not yet ready to fully exit their investments
- Strong, healthy bank needing growth capital vs. undercapitalized, troubled bank with potential to grow once asset quality issues are resolved
- Existing investors typically face significant dilution (ability to offset somewhat by investing in recap)
- Attracting outside capital more successful for banks in growing markets with strong demographics
- Potential for existing investors to enhance value by remaining as part of a larger, healthy, well-capitalized institution positioned for growth

# Appendix

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# M&A Process Overview

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*Chaffe works closely with its clients on either the buy-side or sell-side to provide thoughtful input and analysis throughout the process as well as assist in the negotiations*

- As the Bank's advisor on the buy-side/MOE transaction, Chaffe's responsibilities include, but are not limited to:
  - Prioritize the list of potential targets/merger partners to approach through detailed analysis (e.g., financials, culture, goals, regulatory, preliminary merger analysis)
  - Set up meetings with potential targets/merger partners to determine interest
  - Allow mutual due diligence to take place and perform detailed merger analysis (pro forma financials, earnings estimates, etc.)
  - If continued mutual interest is expressed, begin negotiating definitive merger agreement
  - Execute definitive merger agreement and announce transaction
  - Perform closing due diligence and obtain regulatory approval prior to closing, including assisting with all regulatory merger applications to ensure information is presented in a clear, concise way to ensure speedy transaction approval

## *On the Sell-side, Chaffe Works Closely with Bank Management and the Board to Ensure Shareholder Value Is Maximized*

### Maximize Value

- Analyze strategic alternatives and various structures (e.g., whole bank transaction, earn-out, good bank/bad bank) and determine appropriate type of sell-side process: negotiated process, targeted auction, broad auction
- Perform thorough due diligence
- Create effective and compelling “story” in Confidential Memorandum
- Thoroughly evaluate universe of potential buyers/investors

### Maintain Control of the Process

- Confidentiality of transaction is accorded the highest priority
- Distribution of information limited to qualified parties

### Manage the Marketing Process

- Determine universe and prioritize potential merger partners
- Assess type, extent and timing of information to be provided
- Maintain competitive dynamic at all stages (prices and terms)
- Assure that merger partners accurately value the Bank
- Shift procedural tactics if and when appropriate
- Manage unforeseen events and changing conditions

### Minimize Time and Disruption

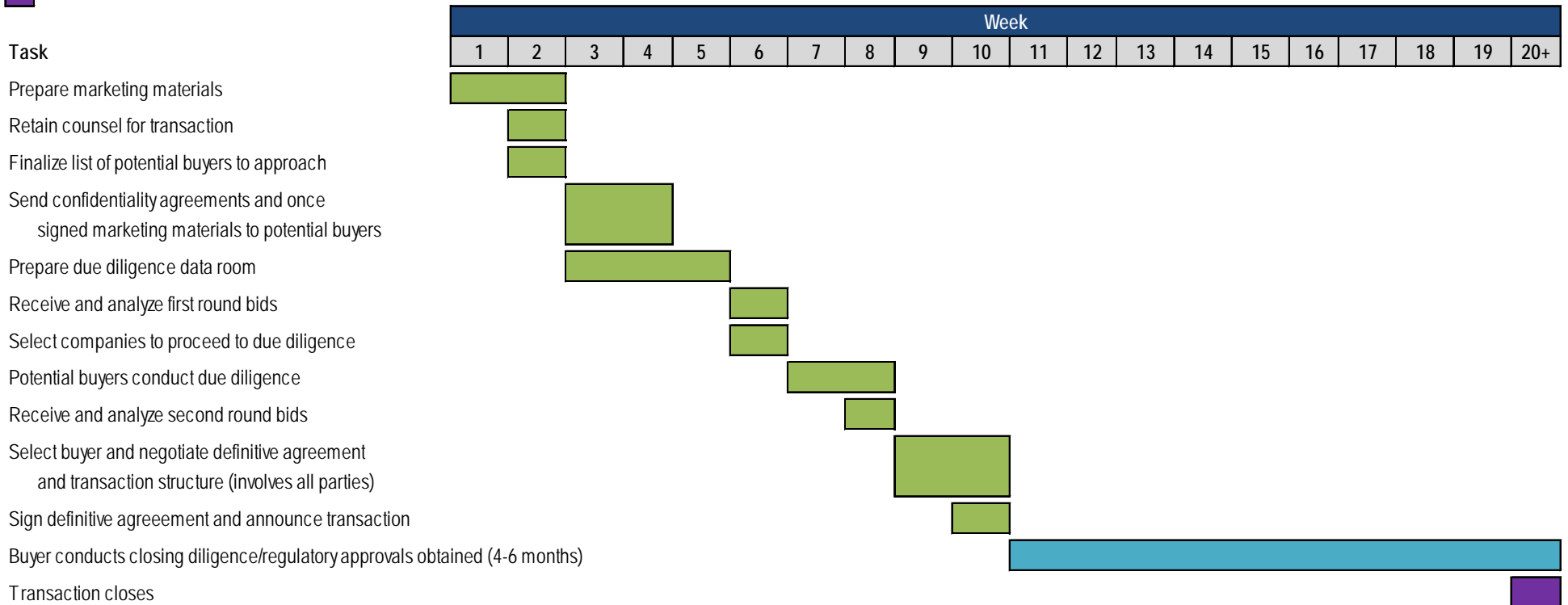
- Front load due diligence
- Develop Confidential Memorandum and management presentation
- Assist in negotiations and documentation
- Preserve options/competitive environment to closing

# M&A Process Overview

## Typical Targeted Sale Process

JUNE 2013							JULY 2013							AUGUST 2013							SEPTEMBER 2013							OCTOBER 2013							NOVEMBER 2013							DECEMBER 2013						
S	M	T	W	H	F	S	S	M	T	W	H	F	S	S	M	T	W	H	F	S	S	M	T	W	H	F	S	S	M	T	W	H	F	S	S	M	T	W	H	F	S	S	M	T	W	H	F	S
						1		1	2	3	4	5	6					1	2	3	1	2	3	4	5	6	7			1	2	3	4	5						1	2	1	2	3	4	5	6	7
2	3	4	5	6	7	8	7	8	9	10	11	12	13	4	5	6	7	8	9	10	8	9	10	11	12	13	14	6	7	8	9	10	11	12	3	4	5	6	7	8	9	8	9	10	11	12	13	14
9	10	11	12	13	14	15	14	15	16	17	18	19	20	11	12	13	14	15	16	17	15	16	17	18	19	20	21	13	14	15	16	17	18	19	10	11	12	13	14	15	16	15	16	17	18	19	20	21
16	17	18	19	20	21	22	21	22	23	24	25	26	27	18	19	20	21	22	23	24	22	23	24	25	26	27	28	20	21	22	23	24	25	26	17	18	19	20	21	22	23	22	23	24	25	26	27	28
23	24	25	26	27	28	29	28	29	30	31			25	26	27	28	29	30	31	29	30						27	28	29	30	31			24	25	26	27	28	29	30	29	30	31					
30																																																

- HOLIDAY
- BEGIN WORK ON TRANSACTION
- TRANSACTION CLOSES

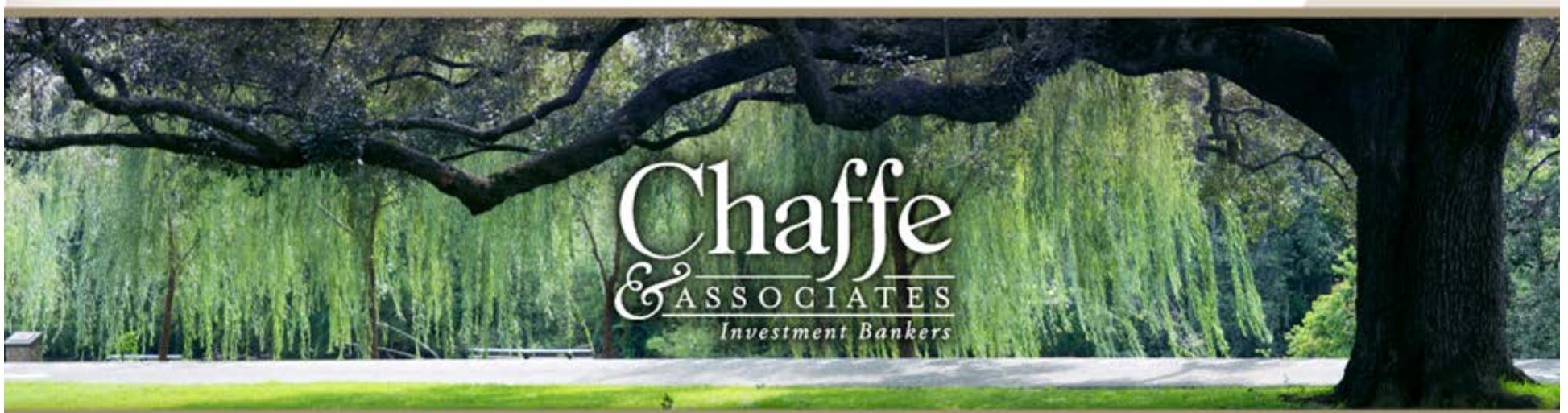


# Chaffe & Associates, Inc. Capabilities

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## *Corporate Profile*

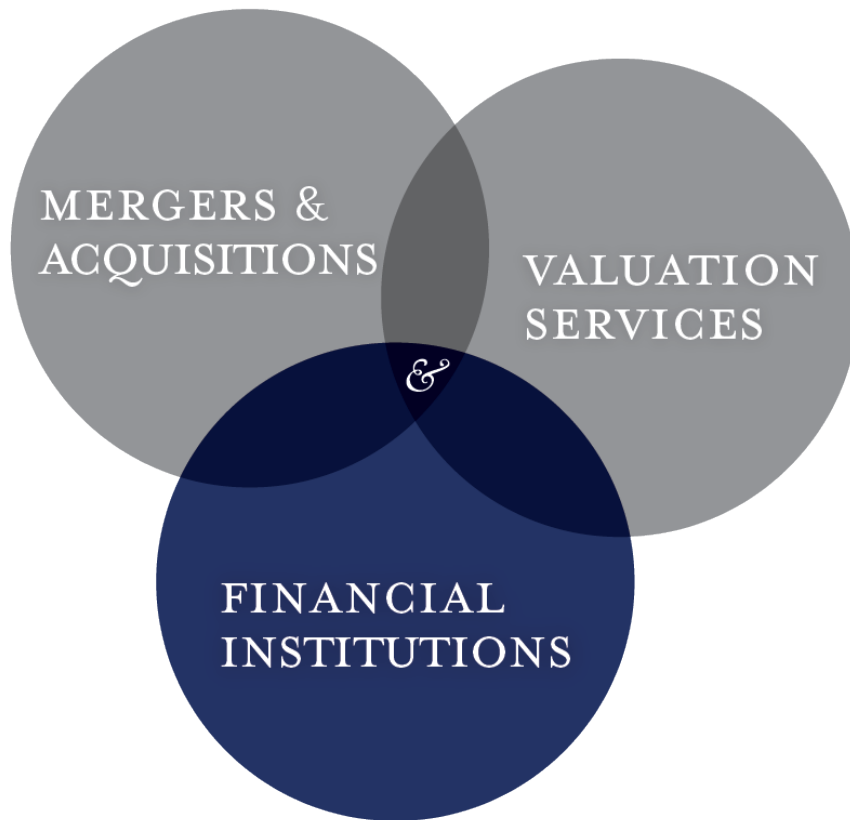
- Chaffe & Associates, Inc. ("Chaffe") was founded in 1982 by D.B.H. Chaffe III to provide specialized investment banking services to financial institutions and corporations
  - Investment Bank serving the Gulf South
  - Registered Broker/Dealer through wholly owned subsidiary, Chaffe Securities, Inc.
  - Employs 17 investment banking professionals with significant experience in a wide range of investment banking and consulting services
  - Enjoys enduring relationships with clients as a result of an unwavering commitment to principles



*See the Chaffe difference.*



## *Corporate Profile: Three Divisions*



## Financial Institutions Group

- Provides advisory services to community banks and thrifts and other financial institutions
  - Mergers and acquisitions
  - Capital planning
  - Debt and equity private placement
  - Regulatory advisory services
  - Valuation services
- Brings to clients years of financial institutions investment banking experience, valuable relationships with financial institutions in the region, and an in-depth knowledge of the industry, regulatory issues, and the region's banking environment

Chaffe's Financial Institutions Group advises community banks and thrifts and other financial institutions across the region with a primary focus on Alabama, Arkansas, Louisiana and Mississippi and is well-known as a trusted financial advisor to its clients

## Selected Financial Institution Transactions

*This announcement appears as a matter of record only.*

April 30, 2013

THE FIRST BANCSHARES, INC.  
Hattiesburg, MS

has completed its acquisition of

FIRST NATIONAL BANK OF  
BALDWIN COUNTY  
Foley, AL

The undersigned initiated the transaction and acted as financial advisor to The First Bancshares, Inc.

Jonathan W. Briggs ♦ Jenny Day Austin

201 St. Charles Avenue, Suite 1410 • New Orleans, LA 70170  
Phone: (504) 524-1801 • Fax: (504) 524-8765  
www.chaffe-associates.com

Securities transactions conducted through Chaffe Securities, Inc., member FINRA/SIPC

*This announcement appears as a matter of record only.*

December 31, 2012

\$7,458,036

Private Securities Transaction

acted as the placement agent representing a group of shareholders of a bank holding company in Mississippi in the sale of the securities.

Jonathan W. Briggs ♦ Jenny Day Austin

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Phone: (504) 524-1801 • Fax: (504) 524-8765  
www.chaffe-associates.com

Securities transactions conducted through Chaffe Securities, Inc., member FINRA/SIPC

*This announcement appears as a matter of record only.*

September 16, 2011

Hattiesburg, MS

has purchased Whitney's Gulf Coast Mississippi branches (7) and Bogalusa, LA branch from

WHITNEY  
New Orleans, LA

a wholly owned subsidiary of

Hancock Holding Company  
Gulfport, MS

The undersigned acted as financial advisor to The First, A National Banking Association in this transaction

Jonathan W. Briggs ♦ Jenny D. Austin

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Securities transactions conducted through Chaffe Securities, Inc., member FINRA/SIPC

*This announcement appears as a matter of record only.*

July 1, 2011

GREENSBURG BANCSHARES, INC.  
Greensburg, LA

Has been acquired by

FIRST GUARANTY BANCSHARES, INC.  
Hammond, LA

The undersigned issued a Fairness Opinion and acted as financial advisor to Greensburg Bancshares, Inc.

Jonathan W. Briggs ♦ Jenny Day Austin

201 St. Charles Avenue, Suite 1410 • New Orleans, LA 70170  
Phone: (504) 524-1801 • Fax: (504) 524-8765  
www.chaffe-associates.com

*This announcement appears as a matter of record only.*

June 30, 2010

FSB BANCSHARES, INC.  
Church Point, LA

purchased the assets and assumed the deposits of the Rayne, LA Branch of

FIRST BANCSHARES OF ST. MARTIN, LTD.  
Breaux Bridge, LA

The undersigned initiated the transaction and acted as financial advisor to First Bancshares of St. Martin, Ltd.

Jonathan W. Briggs, Vice President

201 St. Charles Avenue, Suite 1410 • New Orleans, LA 70170  
Phone: (504) 524-1801 • Fax: (504) 524-8765  
www.chaffe-associates.com

*This announcement appears as a matter of record only.*

February 12, 2009

GLOBE BANCORP, INC.  
Globe Homestead Savings Bank  
Metairie, LA

has completed its merger with

FIRST TRUST CORPORATION  
New Orleans, LA

The undersigned initiated the transaction and acted as financial advisor to Globe Bancorp, Inc.

Sherwood G. Briggs ♦ Jonathan W. Briggs

201 St. Charles Avenue, Suite 1410 • New Orleans, LA 70170  
Phone: (504) 524-1801 • Fax: (504) 524-8765  
www.chaffe-associates.com

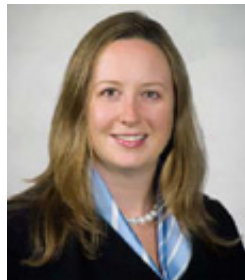
# Chaffe Financial Institutions Group Biographies

# Chaffe Financial Institutions Group Biographies



**Jonathan W. Briggs**  
*Managing Director*

Mr. Briggs joined Chaffe & Associates, Inc. ("Chaffe") in 1997 and currently heads its Financial Institutions Group. Mr. Briggs leads the group in providing merger and acquisition advisory services, valuation services, capital planning services and regulatory advisory services to banks and thrifts. Mr. Briggs began his career at Chaffe as a Financial Analyst and was promoted to Assistant Vice President in 2001. He then left Chaffe in 2003 to join another investment banking and financial advisory firm, where he continued his work with community banks. Mr. Briggs returned to Chaffe in 2005 and was promoted to Vice President in 2007 and Managing Director in 2010. While at Chaffe, Mr. Briggs has completed numerous bank and thrift merger advisory engagements, including regulatory-assisted transactions, for a total aggregate value of over \$400 million. In addition, Mr. Briggs has completed over 200 of other advisory assignments, including valuations, capital planning services and advisory on regulatory matters. Mr. Briggs holds a B.S. in Finance from the University of New Orleans and is a CFA charterholder. Mr. Briggs is a member of the CFA Institute and the CFA Society of Louisiana. He is licensed with Financial Industry Regulatory Authority ("FINRA") as a registered representative and general securities principal and holds the Series 7, 24, 79 and 63 licenses.



**Jenny Day Austin**  
*Vice President*

Ms. Austin joined Chaffe in 2010 and is a Vice President in the Financial Institutions Group. Prior to joining the firm, she was an Associate with the Financial Services Investment Banking Group of Robert W. Baird & Co. Incorporated where she managed execution of transactions (mergers, acquisitions and general advisory as well as capital raising) involving financial services companies with a focus on community banks and business development companies. From 2004 to 2006, she was an Associate in the Human Resources Department of American Capital where she led compensation planning for the company, provided human resources executive level support to the Western Region and the Finance Division (100+ professionals) and led on-campus and lateral recruiting efforts for Post-MBA and Pre-MBA Associates. From 2000 to 2004, Ms. Austin was an Analyst/Senior Analyst with SunTrust Robinson Humphrey, involved in the execution of numerous public equity offerings, M&A assignments and private capital raising initiatives within various industry sectors. Ms. Austin holds a B.S., *summa cum laude*, in International Business from Auburn University and an M.A. in International Economics and Finance from Brandeis University. She is a CFA charterholder. Ms. Austin also is licensed with FINRA as a registered representative and holds the Series 7, 79 and 63 licenses.



**A. Glenn Geddis**  
*Vice President*

Mr. Geddis joined Chaffe & Associates, Inc. in March 2010 and provides general financial consulting to banks and thrifts located in the Southeast. He specifically focuses on regulatory and management consulting. Mr. Geddis has over thirty years of diversified financial experience in both banking and commercial finance environments with management, administrative and business development responsibilities. Mr. Geddis was formerly President and CEO of Your Bank, a de novo bank, founded in 2003. From 2001 to 2004, Mr. Geddis was a Senior Vice President and Chief Lending Officer at First American Bank. From 1991 to 2001, Mr. Geddis was President and CEO of Schwegmann Bank and Trust Company which was acquired by First American Bank in July 2001. From 1985 to 1991, Mr. Geddis was President and CEO of Pontchartrain State Bank. Mr. Geddis holds a Masters Banking Degree from the Stonier Graduate School of Banking at the University of Delaware and a BBA from St. John Fisher College in Rochester, New York.

# Chaffe Financial Institutions Group Biographies



Michael J. Mestayer, Jr.  
*Financial Analyst*

Mr. Mestayer joined Chaffe as a financial analyst in the Financial Institutions Group in October 2011. Mr. Mestayer specializes in database research, financial analysis, and valuations. Mr. Mestayer graduated in May 2010 with a Bachelor of Science in Physics from the University of Texas at Austin. In May 2011, he received his Master of Finance from the Owen Graduate School of Management at Vanderbilt University. He is licensed with Financial Industry Regulatory Authority (FINRA) as a registered representative and holds the Series 79 and Series 63 licenses.



Gregory C. Weitman  
*Financial Analyst*

Mr. Weitman joined Chaffe as a financial analyst in the Financial Institutions Group in July 2012. Mr. Weitman specializes in database research, financial analysis, and valuations. Mr. Weitman graduated cum laude with a Bachelor of Science in Management, majoring in finance, and received his Master of Accounting from the A.B. Freeman School of Business at Tulane University in May 2012. He is licensed with Financial Industry Regulatory Authority (FINRA) as a registered representative and holds the Series 79 and Series 63 licenses.



**Sherwood "Woody"  
Briggs**  
*Vice Chairman*

Mr. Briggs joined Chaffe & Associates, Inc. in 1985 and founded the firm's Financial Institutions Group, which focuses on banks and thrifts. He is responsible for over \$600 million of completed financial institution merger and acquisition transactions, including regulatory-assisted transactions. His services also include capital planning, debt placements, equity placements, equity financing, asset/liability management and investment portfolio management.

In addition to his expertise with financial institutions, Mr. Briggs advises on business strategy and regulatory considerations. He has testified or been deposed in Federal Court, Federal Bankruptcy Court and various State courts on the subject of the valuation of bank shares.

Mr. Briggs began his career in banking in 1960 with Manufacturers and Traders Trust Company of Buffalo, New York, where he rose to the position of vice president. In 1978, he joined Jefferson Guaranty Bank in New Orleans and, in 1983, was appointed executive vice president and chief financial officer. He also held the position of treasurer of the bank's holding company, Jefferson Bancshares, Inc. In these capacities, Mr. Briggs was responsible for the bank's asset/liability management, the investment portfolio, the international department, correspondent banking department and all financial reporting, budgeting and financial analysis.

Mr. Briggs holds a B.A. from Cornell University and an M.B.A. from State University of New York.