



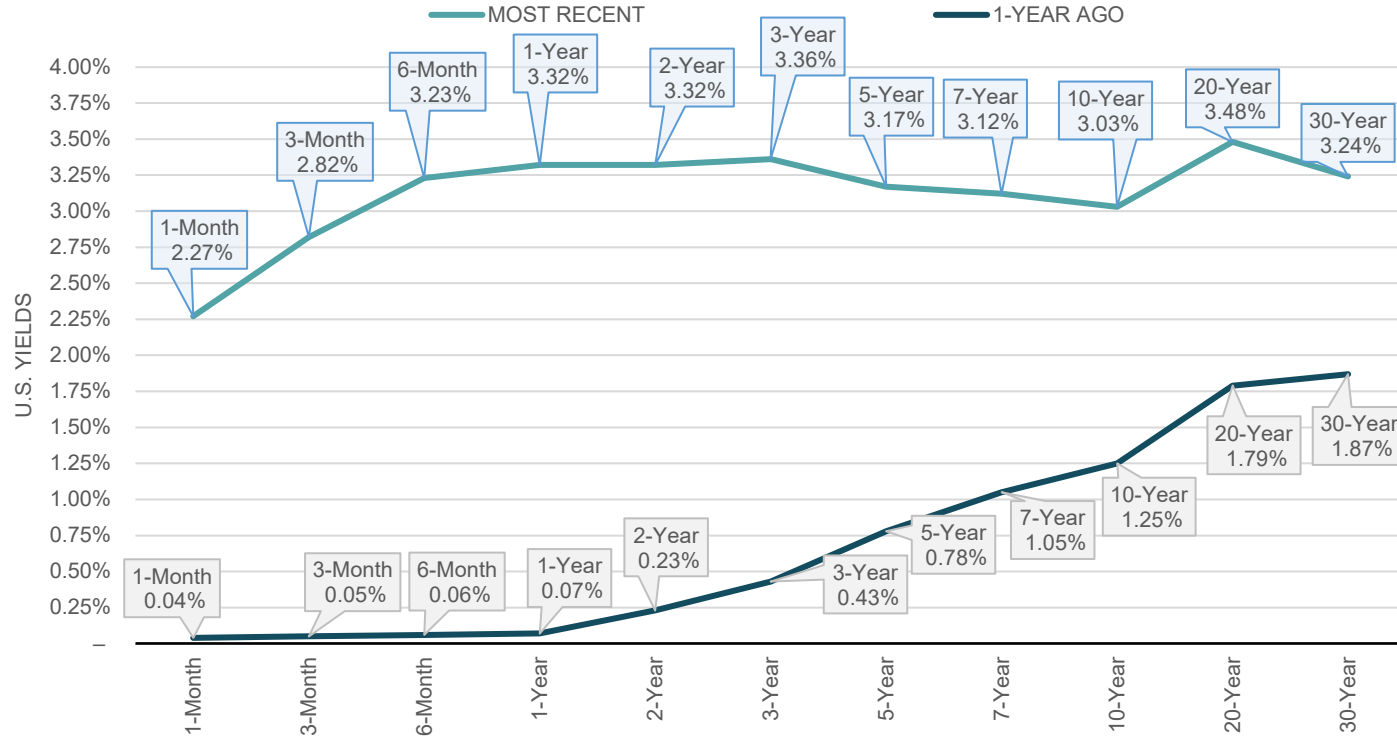
PERFORMANCE TRUST
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A Better Way to M&A

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Impact of Interest Rates on M&A

LTM Yield Curve Movement



Impact of Interest Rates on M&A

- 1 Longer than announced earnback period due to unforeseen AOCI hit
- 2 Deals in progress stalled or ended by rate movements during negotiation
- 3 In today's environment, the higher the percentage of wholesale assets on a target's balance sheet, the greater the opportunity to reprice to higher earnings
- 4 In today's environment, the larger the capital hit on a target's balance sheet, the easier it is to pay a higher Price / TBV multiple while benefitting from a lower Price / Realized Earnings multiple

A Better Way to M&A

An Industry-Wide Problem Exists

The Current and Accepted M&A Decision Making Framework is
ACCURATE BUT INCOMPLETE

X	0	1	2	3	4	5	6	7	8	9	10	11	12
0							0						
1							6						
2							12						
3							18						
4							24						
5							30						
6	0	6	12	18	24	30	36	42	48	54	60	66	72
7							42						
8							48						
9							54						
10							60						
11							66						
12							72						

PalaceCurriculum.com

Sources of the Problem

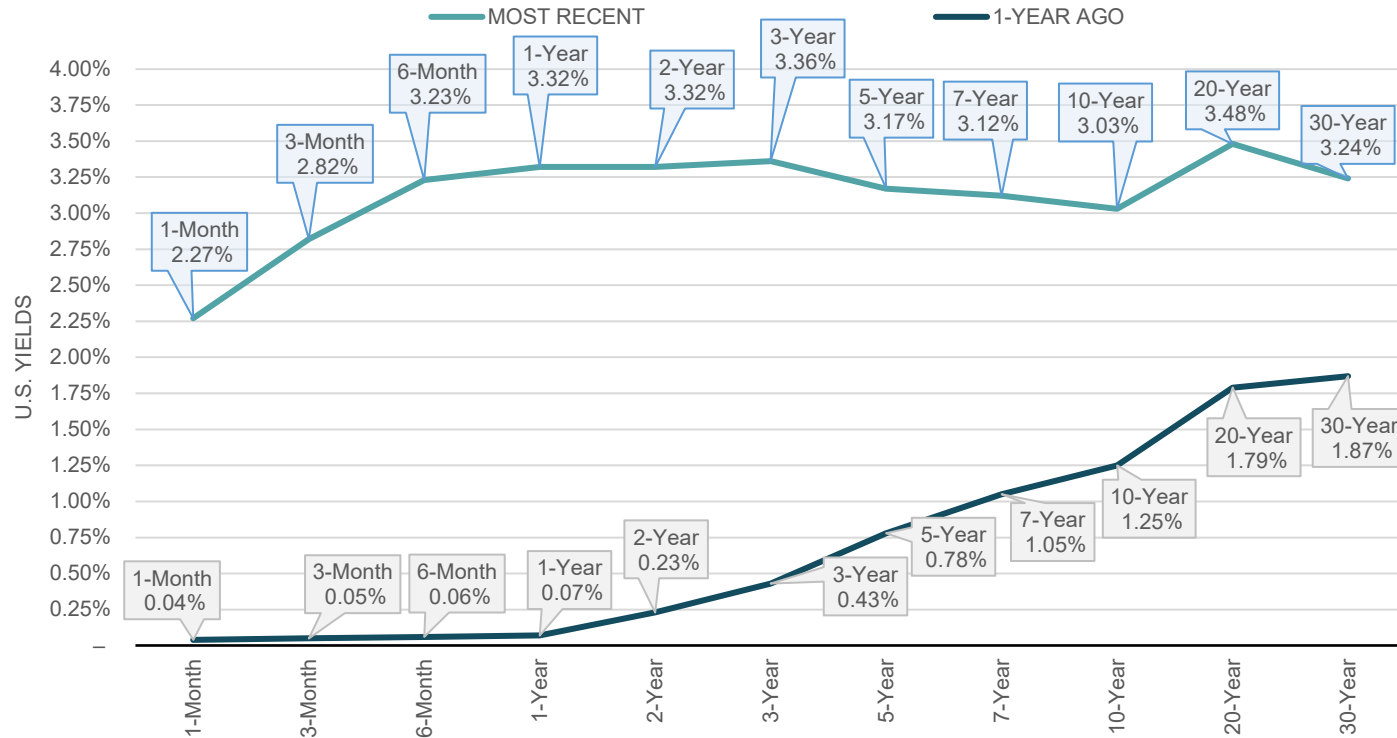
Single Scenario Analysis

- Interest rate movements are unknowable, uncontrollable and unavoidable
- They also have a significant impact on your institution's financial performance and the attractiveness of various M&A targets

Wrong Tools

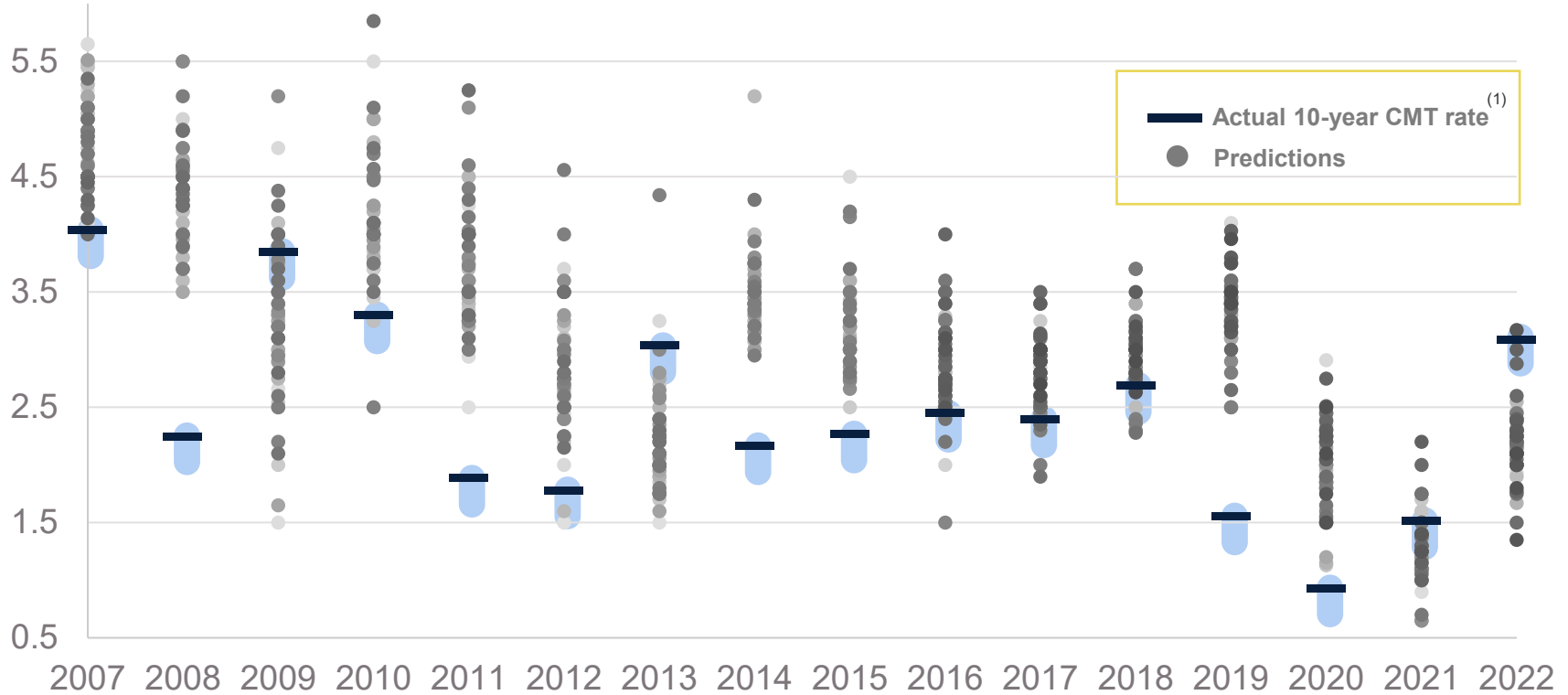
- TBV Earnback has limitations
- Traditional M&A metrics can contradict one another
- No measurement of risk

Interest Rates are Unknowable, Uncontrollable and Unavoidable



Interest Rates are Unknowable... Even by the Experts

What percentage of the economists came within 50 (+/-) bps?



WITHIN 50 BPS: 8% 0% 24% 6% 0% 4% 6% 0% 2% 30% 33% 44% 0% 4% 45% 5%?

Case Study: How Interest Rate Movement Changed the Math

Metric	Announcement	Completion	
2yr UST Rate	0.21%	2.44%	+223 bps
5yr UST Rate	0.81%	2.55%	+174 bps
10yr UST Rate	1.31%	2.39%	+108 bps
TBV Accretion/(Dilution)	2%	(4%)	
First Full Year EPS Accretion	9%	15%	
TBV Earnback Period	Accretive Day 1	1.5 years	

Conventional
M&A metrics

Single Scenario Analysis Causes Blind Spots

By not factoring in multiple interest rate environments, our analysis is incomplete...

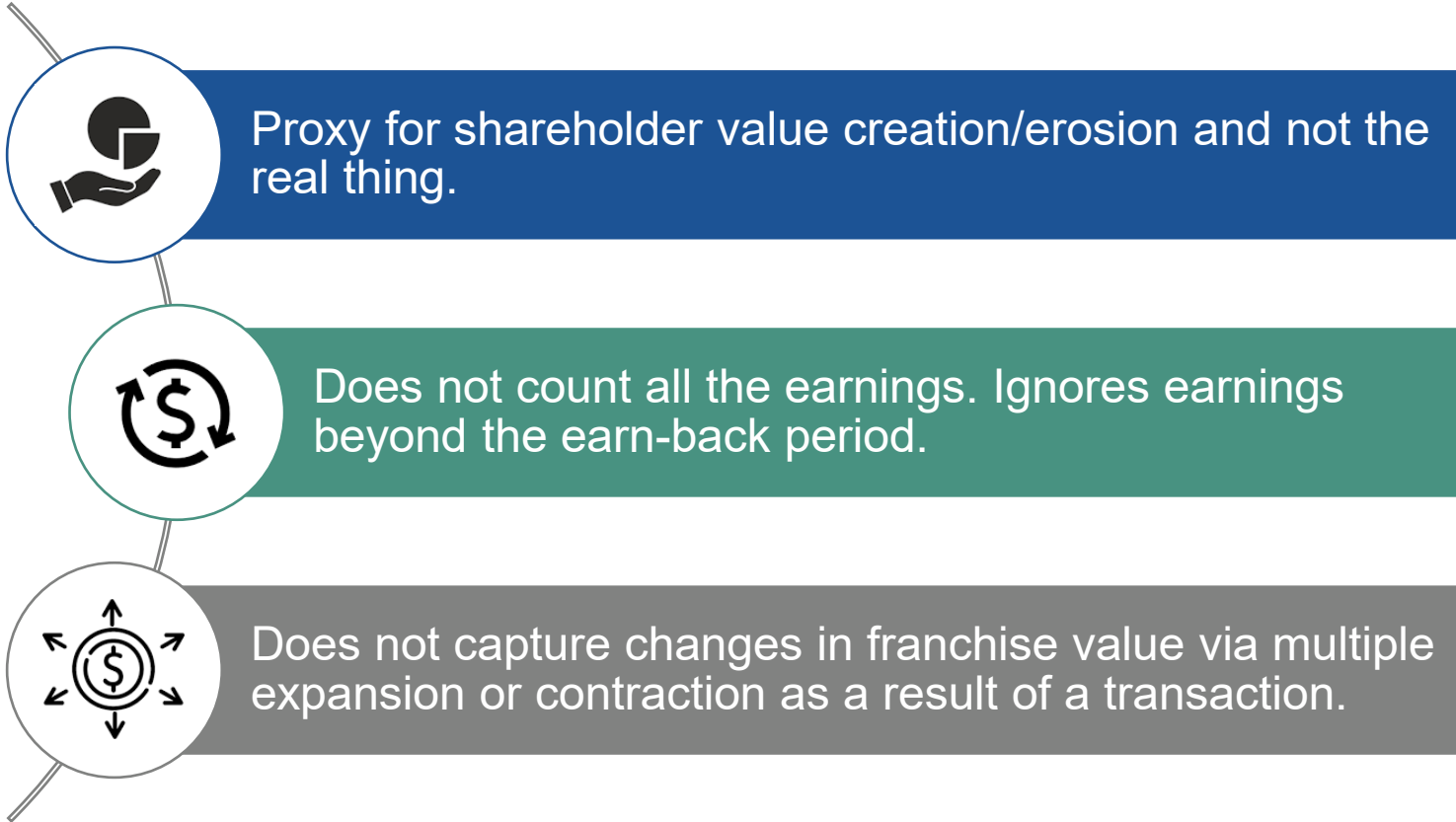
Traditional Metrics					
	-200 bps	-100 bps	Base	100 bps	200 bps
EPS Accretion: Year 1 (\$)	??	??	\$ 0.27	??	??
EPS Accretion: Year 1 (%)	??	??	6.4%	??	??
TBPS Accretion (Dilution) @ T0 (\$)	??	??	\$ 0.24	??	??
TBPS Accretion (Dilution) @ T0 (%)	??	??	1.3%	??	??
Earnback (Years) - Crossover	??	??	Accretive	??	??

Sensitize What We Can't Control

With a multi-scenario merger analysis across different interest rate environments, the impacts on traditional transaction metrics are quantifiable and seen

Traditional Metrics					
	-200 bps	-100 bps	Base	100 bps	200 bps
EPS Accretion: Year 1 (\$)	\$ 0.26	\$ 0.28	\$ 0.27	\$ 0.27	\$ 0.27
EPS Accretion: Year 1 (%) - 100% CS	7.1%	7.2%	6.4%	6.2%	6.2%
TBVPs Accretion (Dilution) @ T0 (\$)	\$ 0.72	\$ 0.49	\$ 0.24	\$ (0.05)	\$ (0.37)
TBVPs Accretion (Dilution) @ T0 (%)	3.5%	2.5%	1.3%	-0.3%	-2.6%
Earnback (Years) - Crossover	Accretive	Accretive	Accretive	0.2	1.3

TBV Earnback Limitations





**“Analyst consensus
becomes conventional
wisdom which seeps into
the industry groundwater.”**

- Matt Forgotson

(PT Director and Former Sandler O’Neill Equity Research Analyst)



Case Study: Traditional M&A Metrics Contradict One Another

Metric	Announcement	Completion	
2yr UST Rate	0.21%	2.44%	+223 bps
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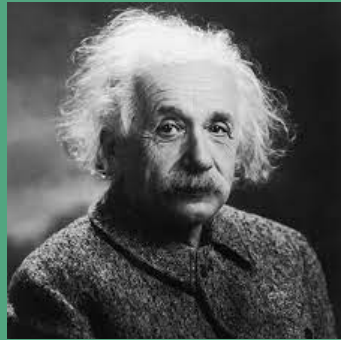
Conventional
M&A metrics

Where is Risk Measured in the M&A Decision Making Framework?



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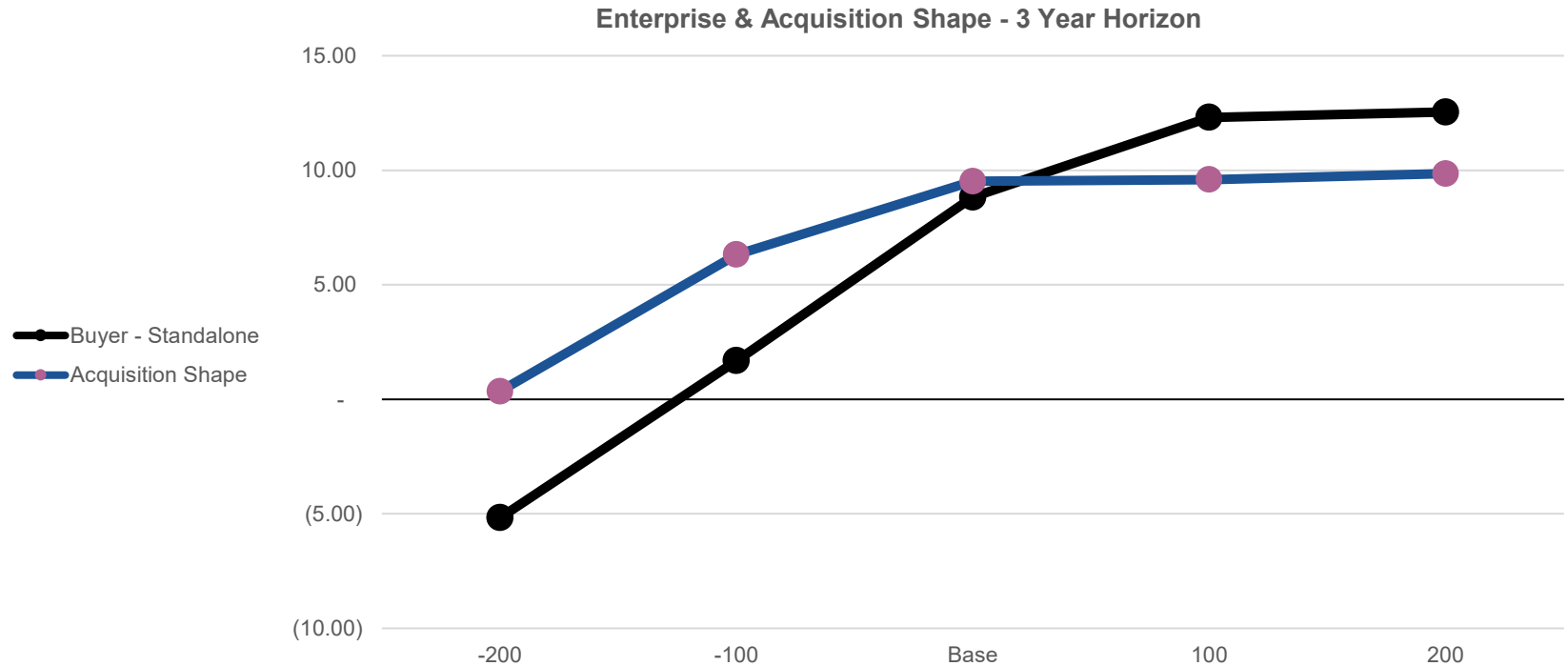
**“Everything should be made
as simple as possible, but
not simpler.”**



- Albert Einstein

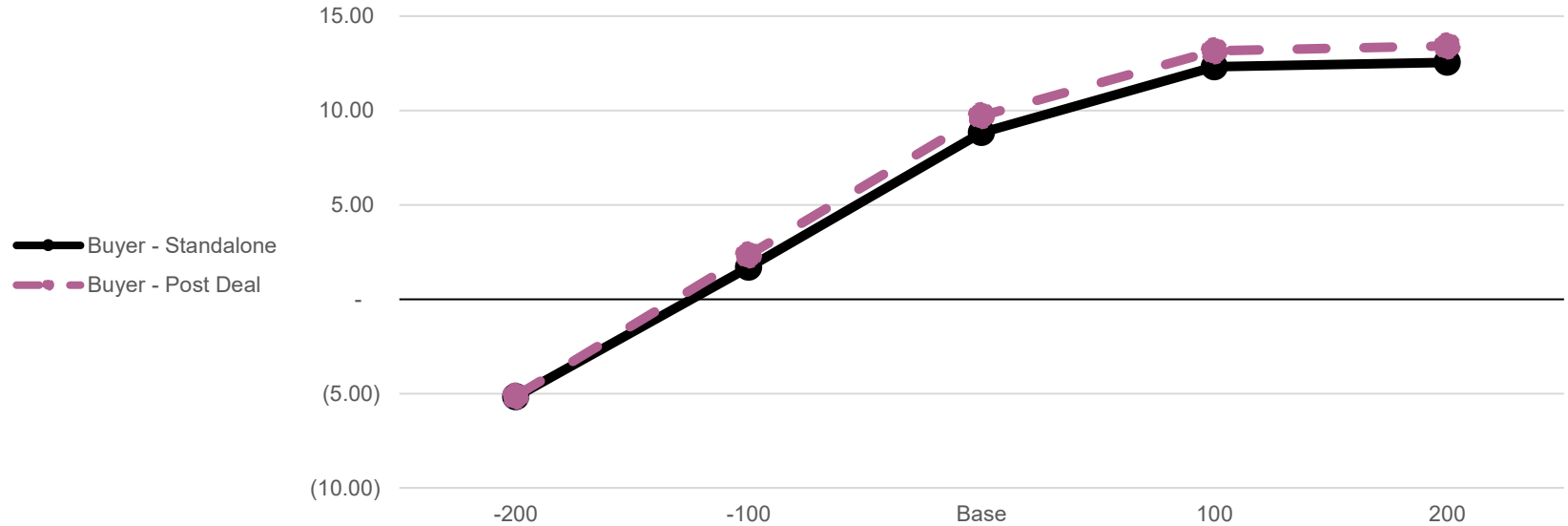
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Shareholder Look Forward (SLF) – Acquisition Shape



SLF – Buyer Pro Forma

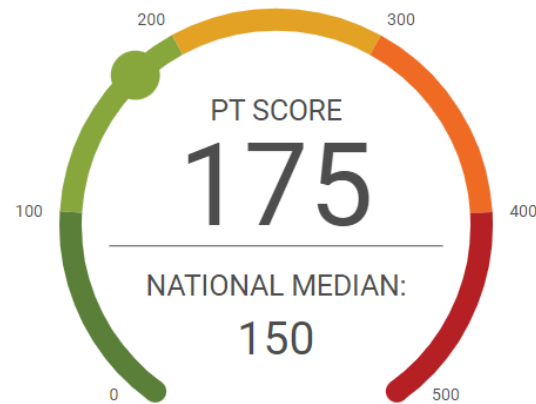
Enterprise Shape - 3 Year Horizon



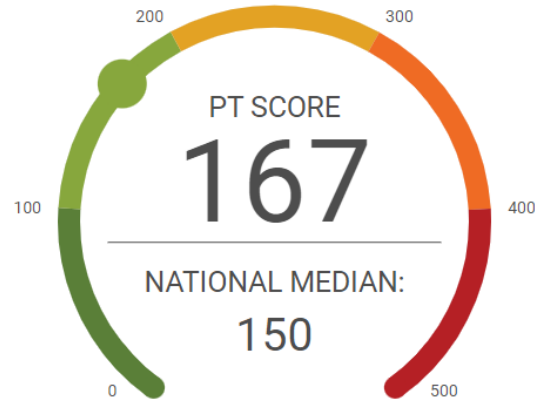
	-200	-100	Base	100	200
Standalone Annualized Shareholder Return (%)	(5.17)	1.69	8.83	12.31	12.55
Pro Forma Annualized Shareholder Return (%)	(5.13)	2.35	9.72	13.15	13.41
Difference	0.04	0.66	0.89	0.84	0.87

PT Score®

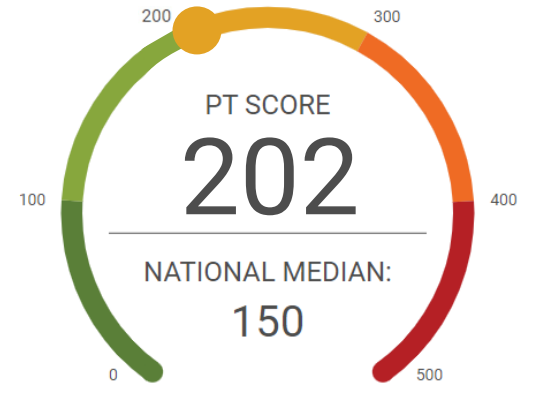
Buyer



Target



Pro Forma



Supplements to Current Merger Model & Decision-Making Process



SLF, PT Score and Traditional Merger Model executed in tandem

Key Takeaways

- 1 Interest rate movements are having significant impacts on M&A
- 2 The current and accepted M&A decision making framework is accurate but incomplete
- 3 The traditional merger model, Shareholder Look Forward and PT Score® should be executed in tandem to provide a more complete framework to make M&A decisions

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