

March 17, 2008

Where's My Deal? Or Do I Really Have to Partner-up?

Over the past three quarters, the merger landscape changed dramatically. The number of deals plummeted, the pricing multiples of completed deals moved lower, the normal buyers are not buying and for new banks, the underlying fundamentals of deal have changed.

In 2007 through September 30th, there were roughly 50 deals each quarter with a deal value of over \$10 million, a rate that was typical of preceding years. In the 4th quarter of 2007, though, the number of deals fell dramatically as 50 deals became 24 deals and in the 1st quarter of 2008, there have been only 13 deals to date. Pricing also moved lower as the median price to tangible book fell from 285% in the 1st quarter of 2007 to 176% in the 1st quarter of 2008.

M&A Activity Nationwide

	<u>No. of Deals</u>	<u>Median</u>	
		<u>Price/ Earnings</u>	<u>Price/ Tang. Book</u>
<u>2008</u>			
1st Qtr.**	13	21.2X	176%
<u>2007</u>			
4th Qtr.	24	22.1X	217%
3rd Qtr.	50	23.7	228
2nd Qtr.	46	23.1	222
1st Qtr.	57	25.2	285

* Nationwide. Excludes mergers of equals and transactions under \$10 million in deal value.

** Through March 13, 2008.

Source: SNL Financial, Charlottesville, Virginia.

While the above are nationwide numbers, the number of new banks that are selling in the East also declined in number and pricing. In the area covered by this report, there were only four new bank sales in the 4th quarter of 2007 and only one in the 1st quarter of 2008 (see next page).

The most obvious change in new bank sales is that pricing is lower than expected. The expectation of getting three times book is no longer realistic and even getting two times book now seems out of reach. The change beyond pricing, though, is that the buyers are different and the underlying fundamentals of the deals have changed. New banks are no longer selling to regional banks. Of the five "new bank"

sales since September 30, 2007, all five were to other small banks with assets of less than \$1 billion and three of the five buyers were other “new banks.”

New Bank* Deals Since September 30, 2007

<u>Buying Bank</u>	<u>Selling Bank</u>	<u>Annnc. Date</u>	<u>Deal Value</u> (in mill.)	<u>Price/Tang. Book</u>
Village B&T (VA) Est. 12/99	River City Bank (VA) Est. 7/04	3/10/08	\$20	134%
EagleBank (MD) Est. 7/98	Fidelity & Trust (MD) Est. 11/03	12/2/07	49	137
Four Oaks B&T (NC) Est. 1912	Longleaf Community (NC) Est. 8/03	12/10/07	13	169
First Priority (PA) Est. 11/05	Prestige Community (PA) Est. 10/07	10/19/07	n/a**	n/a**
Premier Financial (WV) Est. 1903	Citizens First Bank (WV) Est. 7/01	10/24/07	12	197

* Sales of banks established after 1989.

** Deal value was not announced. Bank opened and sold in the same month.

Source: SNL Financial, Charlottesville, Virginia.

This change in buyer indicates a shift in underlying deal fundamentals. It used to be that a sale to a regional bank involved getting a good price, a stock with more liquidity and the opportunity to take some cash off the table. Today, the sale of a new bank often means “partnering up” with another new bank, exchanging one illiquid stock for another, cutting expenses and moving ahead together, seeking the real value increase in the next sale.

As always, we hope you enjoy the report. If you have any questions, please feel free to give me a call.

Sincerely,

David G. Danielson
President
Danielson Associates, LLC