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One-on-One / With

C. Matthew Allen of
Milestone Advisors LLC

C. MATTHEW ALLEN

C. MATTHEW ALLEN IS A MANAGING DIRECTOR OF MILESTONE ADVISORS LLC AND LEADS THE BANK AND THRIFT GROUP. PRIOR TO JOINING MILESTONE, MR. ALLEN WAS A MANAGING DIRECTOR FOR HOWE BARNES HOEFER & ARNETT AND PRIOR TO THAT A SENIOR VICE PRESIDENT FOR HOVDE FINANCIAL. MR. ALLEN'S RESPONSIBILITIES INCLUDE THE ORIGINATION, STRUCTURING, AND NEGOTIATION OF MERGER AND ACQUISITION TRANSACTIONS, VALUATION OF FINANCIAL INSTITUTIONS, AND IDENTIFICATION AND IMPLEMENTATION OF STRATEGIC ALTERNATIVES FOR BANKS, THRIFTS AND SPECIALTY FINANCE COMPANIES. MATT IS ALSO RESPONSIBLE FOR STRUCTURING ASSET AND LIABILITY SALES, BRANCH ACQUISITIONS AND DIVESTITURES, AND OFFERINGS OF ALL TYPES OF EQUITY AND DEBT SECURITIES. OVER HIS CAREER, MATT HAS LED OR NEGOTIATED OVER 40 FINANCIAL SERVICES SECTOR M&A TRANSACTIONS WITH A COMBINED DEAL VALUE OF ABOUT \$2.4 BILLION. MATT GRADUATED FROM THE GRADUATE SCHOOL OF BUSINESS AT THE COLLEGE OF WILLIAM AND MARY, WITH A CONCENTRATION IN FINANCE. HE RECEIVED HIS UNDERGRADUATE DEGREE IN BIOCHEMISTRY FROM OLD DOMINION UNIVERSITY.

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Q: Tell me about Milestone and your new position. What will your focus be?

A: Milestone is an investment bank based in Washington, DC with an office in Miami, Florida. Milestone provides M&A advisory and corporate finance services.

I'll be heading up the Bank and Thrift group and focusing on the West and Southeast. I have many, many relationships in the West and that will definitely be a focus. The Southeast is another natural fit for me because I covered the Southeast for six years before I moved to the West Coast. I have some relationships there that I feel I can ramp up pretty quickly.

Q: What's the typical deal size for Milestone?

A: It runs the full gamut. We just announced a \$760 million deal. What I have seen is they range anywhere from the small, \$20 million deals up to over \$700 million. Certainly, that upper limit is not meant to be a limitation on our capabilities. Over my career, I've done an M&A deal as small as \$11 million and as big as \$365 million.

Q: In thrift banking, are you seeing different trends than in typical banking M&A? Are they very different markets?

A: As far as industry trends, you've seen in the thrift sector a subset of thrifts – some with better and some with worse

success – look more bank-like. The bank and thrift sectors, however, are very different animals and you tend to market to them differently. They generally trend together, but the swings in cyclical in thrifts can be wider and you saw that in the mid-80s a little bit, so we're keeping in mind that economic cyclical could hit thrifts a little harder than banking just because of their residential real estate focus.

Q: What are some of the driving forces in banking M&A right now? What are buyers looking for?

A: Buyers right now on the West Coast are particularly attuned to core deposit levels and asset quality. One of the main issues that banking faces today is a huge amount of capital that's flowed into the sector over the last four to five years. Some of that has come in the form of secondary offerings in the younger subset of banks and most of that has come in the form of de novo banks.

It wasn't too long ago that a de novo bank in California, Oregon, Washington or Nevada – and I'm sure this translates to many other states as well, if not all – that usually a de novo bank would have \$10-\$12 million in capital and the average banker would go out and do a secondary offering in 3-4 years and take another \$10-12 million. Today it's not uncommon to see de novo banks opening with \$30-50 million as initial capital and that has put enormous pressures on both loan generation and profit generation.

It's also put a tremendous amount of pressure on people. Community banks flush with capital are able to pay up for

talent and it has definitely put the squeeze on community banks that are in the \$300 million up to \$1 billion range, that aren't as flush with capital. They're already running on an 8%-9% tangible equity ratios and they have issues retaining talented people. Those are the three main ways that capital influx has really affected the banking industry.

Q: Are there any trends in deal financing you're noticing?

A: You do enough deals and you'll come across a unique structure or two, but I think, by and large, deals for banks with assets in the \$200 million up to \$10 billion, as far as financing goes, are primarily equity and trust preferred financed. We have seen and will continue to see refinancing of trust preferreds, at least those with the less onerous prepayment penalties. Remember, a lot of the trust-preferreds from '99, 2000 and 2001 are coming up on their five-year calls and some of these things have coupons that are way above what you can get now.

Q: I noticed this week there was an Atlanta and an Arkansas deal. Is the South a hot region for banking M&A right now?

A: I think you're going to see an upswing in M&A across the country and I think it's going to be driven primarily by the economic situation of the particular region of the country. Look at the West Coast. The regulators right now in California, for example, are very interested in commercial real estate concentrations. In Oregon and Washington they're not so worried about that. I offer that as an example of regionality of banking M&A. You've got hot markets in the Southeast and in the West Coast and I think those markets are going to drive M&A moving forward. The Southeast is particularly interesting because of the general population migration from the Northeast and Midwest, to a certain extent, to the Southeast.

Q: How healthy is banking M&A right now?

A: I think the environment today is much more healthy than the environment in '97 and '98. I think the deals that are getting done today, there's a solid business plan and economic reasoning to it. I believe that most of the deals done today aren't simply to say they're getting to a magic number of \$1 billion or \$10 billion, nor are deals being done to have a big enough market cap to get on Russell or something like that. I think deals today generally have solid reasoning behind them.

Most recently I advised Umpqua on their acquisition of Western Sierra and if you look at that deal, it had very solid market extension and economic reasons behind the deal that will ultimately be the lead to success. That particular

transaction is going to be a win-win type of situation. I love working on these types of deals. You can really see the reasoning behind it and you see that Umpqua is going to be able to do some things with Western Sierra that Western Sierra wouldn't have been able to do alone. You can see former Western Sierra stock holders that took Umpqua stock as moving towards what I believe will be a brighter future from a valuation standpoint than what they would have been able to do alone.

Q: What multiples are you seeing in the banking sector? And what multiple do you prefer to use for valuations?

A: The typical metrics used to describe valuations in a bank M&A deal are price- to- earnings, first and foremost, premium paid on core deposits, and price- to- tangible book. The price- to- tangible book numbers are basically worthless because banks operate with such widely disparate capital ratios ranges.

For example, if you pay 2x book and someone has 15% capital they got 30% of assets, but if someone pays 3x book for someone that only has 6%, they only paid 18%, but directors love that metric for some reason and that's the one that they always quote.

The price- to- earnings numbers have been picking up over the last few years. For average deal values on the West Coast - and this would translate to the Southeast, as well - , for a seasoned bank not just starting up, you would generally be looking at about 20x earnings or so and premium on core deposit numbers in the 15%-30% range.

Q: Have valuations plateaued?

A: I think the anecdotal evidence I have, which has been reinforced in practically every meeting I've had, is that the sledding is going to get a little tougher toward the end of this year. The yield curve right now is not a friend of banks. To a certain extent, that will affect valuations and that could bring valuations down to a little more realistic level as far as M&A valuations and I think that also could spur its own share of deals over the short term, say the next 18-24 months.

Q: Three of the biggest 20 banking deals since '96 are from this year, and there were none last year. What's going on?

A: What you're seeing on the top end is happening throughout the spectrum of banks. The yield curve and current economic conditions are making things tougher. I believe that the banks that have considered selling over the last 5 or 6 years but didn't are looking at the outlook and saying, "Now might be a time to consider it again."

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