



COMPANY ALERT

M&T TO BUY PEOPLES

ANOTHER ONE BITES THE DUST

What Just Happened?

M&T Bank Corporation (MTB), one of our most highly rated and undervalued companies announced the acquisition of People's United Financial (PBCT), another one of the banks in our Regional Bank Group, in an all stock deal valued at \$7.6B. This represents approximately a 14% premium over PBCT's closing price on 2/19. We had rated PBCT as being likely to be acquired.

What's the Deal?

Under the terms of the deal, PBCT shareholders will receive .118 shares of MTB stock. This results in a price of approximately \$18/share based on closing prices on 2/19. The deal is expected to close in the 4th quarter. Rene Jones, M&T's CEO, will run the combined company and the bank will maintain its headquarters in Buffalo, NY while Bridgeport, CT will become the company's New England headquarters. Management expects the deal to be accretive to book value immediately and to be 10% to 12% accretive to EPS by 2023.

Why is this Interesting?

This transaction continues and accelerates a consolidation trend among larger regional banks to expand market presence, supplement organic growth, and create greater economies of scale. Larger size allows these banks to make needed investments in technology and other capabilities to compete more effectively with both large National institutions and specialized FinTech providers.

WHAT WE LIKE

More Competitive Size

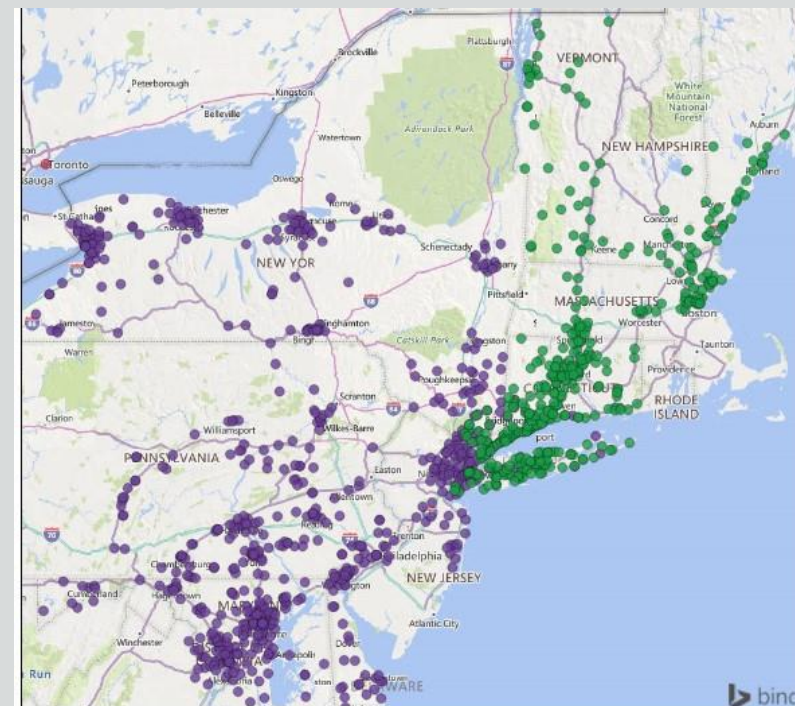
The resulting company will increase M&T's size by one-third to around \$200B. This increases scale opportunities and provides additional resources to make significant investments in technology and infrastructure. Management expects to realize annual cost savings of around \$330M.

Market Expansion

There is very little overlap in the geographic presence of the two companies, providing few consolidation opportunities. Rather, this deal provides M&T with significant growth opportunities in new markets. The combined organization will operate approximately 1200 branches ranging from Maine through Virginia.

The Price

The implied purchase price of around \$18/share values the deal right at PBCT's book value. This represents a significant difference to other similar acquisitions which are generally priced at a premium to book value. The price is also slightly below our fully valued target price for PBCT of \$18.59.



People's United Financial Inc.

● 420 US branches

M&T Bank Corp.

● 770 US branches

Number of branches reflects information collected by S&P Global Market Intelligence, using the FDIC standard branch definition, and may not include recent non-publicly disclosed branch activity. Map includes all branch types. Most recent data not available in areas without shading. Data from some unincorporated cities are included in nearby counties.

WHAT WE ARE WATCHING

Consolidation Progress

An important element of this acquisition will be the ability of M&T to integrate People's businesses, people, and systems into the M&T organizational structure, operating model, and culture. This is not only necessary to achieve available acquisition-related efficiencies, but to help the bank achieve its post-merger growth goals and maintain organizational focus on external, rather than internal, opportunities and issues. Historically, M&T has struggled to effectively integrate acquired companies quickly and none of the previous acquisitions have been close to the size and complexity of this purchase.

Cost Savings Targets

Management estimates that the combined entity will produce annual expense savings of \$330M. This is only about 8% of the total non-interest expense levels reported by both companies in 2020. This target is significantly below what we would expect in an acquisition of this size. As a result, management is relying on growth to achieve its post-merger profitability targets. We believe this increases the risk that the bank will not hit the financial assumptions used to justify the deal. Both companies have only been average performers in terms of expense control so we will be watching to see if management is able to exceed these rather mediocre cost savings targets.

Business Mix

Both companies operate fairly traditional business models, relying primarily on core banking businesses in relatively mature geographic markets. Consequently, improving performance in the combined entity will require driving growth in existing commercial and retail businesses, rather than developing new businesses or taking advantage of significant organic market growth. The one exception is M&T's relatively large Trust business that contributes a meaningful amount of non-interest income. We expect that there is significant opportunity to expand this business into People's franchise and customer base.

OUR RATING AND OUTLOOK REMAIN POSITIVE

Nothing in this report should be construed to represent either an offer to buy or solicitation to sell investment securities. It is for information and entertainment purposes only. As always, you should consult a qualified financial professional before making any investment decisions.

We are Maintaining our Outperform Rating on MTB

Prior to the announcement of this acquisition M&T was one of our most highly rated and most undervalued companies. As a result, we added MTB to our model portfolio in early December 2020 at a price of \$127.90. After the acquisition was announced, MTB closed at \$159.38 on 2/23, representing a 25% appreciation in just over 2 months. For the past three months, our target fully valued price target for M&T has been \$188. This is considerably above most analysts' price forecasts; however, we continue to believe that MTB is still undervalued relative to its performance and peers. There is nothing about this acquisition that would change our targets our outlook.

Key Performance Comparisons (Pre-Deal)

	5 Yr ROE Growth	3 yr EPS Growth	Efficiency Ratio	Price/Book	PE	Target Price
MTB	9.87	20.9	56.35	123%	14.4	\$188.29
PBCT	6.85	11.5	55.65	77%	10.6	\$18.59