

# *Financial Services Alert*

Volume 4 - 3

**The Elite Five in Massachusetts Finance:  
Performance of the Largest Massachusetts  
Financial Services Firms in Recent Years**

**Part 3**

**Boston Private Financial Holding  
Independent Bank Corporation**



**Foreword by Arindam Bandopadhyaya  
Director, Financial Services Forum  
College of Management, UMASS-Boston**

**Shamita Behl and Jimit Kanani contributed towards the preparation of this report. Shamita and Jimit are currently candidates in the UMASS-Boston MBA program and are Financial Services Forum Research Assistants. Shamita also works for the Environmental Protection Agency as a financial analyst.**

**SECTION I: Foreword**  
**Arindam Bandopadhyaya**  
**Director, Financial Services Forum**  
**College of Management, UMass Boston**

A final chronicle in a three part series, this report presents an in-depth analysis of Boston Private Financial Holding and Independent Bank Corporation, two of the five largest financial firms in the Massachusetts Bloomberg Index. Beginning with a general overview, we provide an examination of the financial ratios and equity price, an analysis of the Strengths, Weakness, Opportunities and Strengths and a scrutiny of the Economic Value Added of each firm.

State Street Corporation was the focus of the first report in this series. The second report analyzed Enterprise Corporation and Wainwright Bank.

## EXECUTIVE SUMMARY

### **Boston Private Financial Holding**

- Provider of financial planning, private banking and investment management services, established in 1988
- The company offers comprehensive wealth management for high-net-worth individuals, their families and businesses, as well as for selected institutions

### **SWOT:**

#### **Strengths:**

- Loyal and wealthy customers

#### **Weaknesses:**

- High cost of capital

#### **Opportunities:**

- Opportunity to expand as a result of wealthy and loyal customers

#### **Threats:**

- High cost of capital and negative EVA may result in declining share price

### **Financial Ratios as compared to Industry:**

- Higher Long Term Debt to Capital ratios until 2002; subsequently, lower LTD to capital ratio with respect to industry
- Almost identical Receivable Turnover Ratio for company and industry average
- Higher Gross Profit Margin for last ten years with respect to industry average
- For the majority time period analyzed, the industry average out performed company in terms of Return on Equity
- Earnings per share are lower than the industry for the given time period
- For the past few years the P/E ratio for industry and company are similar

### **Shareholder Return:**

- Company stock listed on NASDAQ
- The total HPR for five years is 35.42% for the company, lower than the market (S&P 500)

### **EVA:**

- Calculated for the last ten years  
Negative EVA growth for last ten years with EVA of -\$56.56 million in 2006

## **Independent Bank Corp**

- Banking Holding Company for Rockland Trust, established in 1985
- Services offered include commercial banking, retail banking, investment management services, and retail investment and insurance sales

### **SWOT:**

#### **Strengths:**

- Diversified services offered by a company

#### **Weaknesses:**

- High cost of capital

#### **Opportunities:**

- Better growth rate

#### **Threats:**

- Decline in market capital as a result of lowering share price

### **Financial Ratios as compared to Industry:**

- Higher Long Term Debt to Capital ratios in the last ten years with respect to the industry
- Lower Receivable Turnover Ratio with respect to the industry which means lower cash collection ability as compared to the industry
- Higher Gross Profit Margin for last ten years but the difference with respect to industry average is very minimal
- Higher Return on Equity for the last ten years and higher Return on Assets for most of the period
- Earnings per share are less than the industry standards until 2000; subsequently, it surpasses industry average.
- Lower P/E ratio, showing lower earning expectations by investors

### **Shareholder Return:**

- Company stock listed on NASDAQ
- The total HPR for last five years is 11.32% for the company, lower than the market (S&P 500)

### **EVA:**

- Calculated for the last ten years
- Negative EVA growth for last ten years with EVA, -\$21 million in 2006

## Boston Private Financial Holdings INC

Boston Private Financial Holdings  
 Ten Post Office Square  
 Boston  
 Massachusetts 02109  
 Phone: 1 617 912 3799  
 Fax: 1 617 912 4511

### Key Information:

<b>SIC Code</b>	Primary SIC: 6022 – State commercial banks Secondary SIC: 6712 – Bank holding companies
<b>NAICS Code</b>	Primary NAICS: 522110 – Commercial Banking 551111 – Offices of Bank Holding Companies <a href="#">46482 (Hoovers)</a>
<b>Company Type</b>	Public - NASD: BPFH
<b>Year Of Founding or Change In Control</b>	1988
<b>State of Incorporation</b>	MA
<b>Key Numbers</b>	
<b>Fiscal Year-End</b>	December
<b>2006 Sales (mil.)</b>	\$471.4
<b>1-Year Sales Growth</b>	45.3%
<b>2006 Net Profit (mil.)</b>	\$54.4
<b>1-Year Net Income Growth</b>	24.9%
<b>2006 Employees</b>	1031

## COMPANY OVERVIEW

Boston Private Financial Holdings (BPFH) is a provider of financial planning, private banking and investment management services. Through twelve operating subsidiaries, the company offers comprehensive wealth management for high-net-worth individuals, their families and businesses, as well as for selected institutions.

Boston Private's subsidiary companies include Borel Private Bank & Trust Company, First Private Bank & Trust, Gibraltar Private Bank & Trust Company, Westfield Capital Management Company, LLC, Sand Hill Advisors, Inc, Dalton, Greiner, Hartman, Maher & Co., LLC, Boston Private Value Investors, Inc., KLS Professional Advisors Group, LLC, RINET Company, LLC, and Anchor Capital.

Boston Private Bank is a Massachusetts-chartered trust company that pursues a private banking business strategy and is principally engaged in providing banking, investment and fiduciary products to high net worth individuals, their families and businesses in the greater Boston area and New England. Boston Private Bank offers its clients a broad range of deposit and loan products. In addition, Boston Private Bank provides investment management and trust services to high net worth individuals and institutional clients. Boston Private Bank has wealth management offices in Post Office Square, Back Bay, Seaport, Cambridge, Newton, Wellesley, Lexington, and Hingham, Massachusetts. Boston Private Bank also has a loan production office in Jamaica Plain, Massachusetts.

Westfield is an investment management company that specializes in separately managed growth equity portfolios with products across the capitalization spectrum. Additionally, Westfield acts as the manager to the general partner and the investment manager to several limited partnerships that employ a long/short domestic growth equity strategy, with styles focusing on the life sciences sectors and micro capitalization area.

RINET is an investment adviser that provides fee-only financial planning, tax planning and investment management services to high net worth individuals and their families in the



greater Boston area, New England, and other areas of the United States. The firm offers tax planning and preparation, asset allocation, estate planning, charitable planning and planning for employment benefits, including 401(k) plans, alternative investment analysis and mutual fund investing. Through its Kanon Bloch Carré division, RINET provides an independent, nationally recognized mutual fund rating service.

BPVI is an investment management firm that acts as a large-cap style investor. Each value equity product it offers can be combined with high-quality fixed income products to create specialized balanced accounts to meet each client's goal in the context of risk tolerance, tax sensitivity and time frame. The firm has offices in Boston, Massachusetts and Concord, New Hampshire.

Anchor is the parent holding company of Anchor Capital and Anchor/Russell. Anchor Capital is an investment adviser specializing in active investment management for families, trusts, and institutions, including foundations and endowments. Anchor Capital serves clients through its Discretionary Management Accounts division and its Separately Managed Accounts division, and offers four core disciplines which include balanced, all-cap, mid-cap, and small-cap styles. Anchor Capital's sister company, Anchor/Russell, structures diversified investment management programs for clients utilizing management solutions including institutional multi-manager, multi-style, multi-asset mutual funds and SMA programs sponsored by the Frank Russell Company.

Dalton, Greiner, Hartman, Maher & Co is an investment manager specializing in smaller capitalization equities. The firm manages investments for institutional clients and high net worth individuals in mid, small, and micro-cap portfolios.

KLS Professional Advisors Group, LLC is an investment adviser that specializes in investment management, insurance, retirement planning, estate planning and income tax planning services. KLS offers a comprehensive and objective approach to financial, tax, and estate planning. The firm offers advice and counsel on every aspect of its clients'



financial affairs in pursuit of strategies designed to preserve and build clients' family wealth.

Gibraltar Private Bank & Trust Company is a federal savings association that provides private banking, wealth management, and commercial and residential lending as well as services provided through strategic alliances with prominent firms. Its primary focus is on small and medium-sized businesses and professionals located in the Miami-Dade, Monroe, Broward, Collier, and Palm Beach Counties.

Borel Private Bank & Trust Company is a California state banking corporation that conducts a commercial banking business, which includes deposit and lending activities. Additionally, Borel offers trust services and provides a variety of other fiduciary services including investment management, advisory and administrative services to individuals. Borel has offices in Palo Alto, San Francisco, and Los Altos, California.

Sand Hill is an investment management company that manages investments covering a wide range of asset classes for both taxable and tax exempt portfolios and has special expertise as transitional wealth counsel.

Bingham, Osborn & Scarborough is an independent, fee-only comprehensive wealth management firm that specializes in strategies for retirement planning, estate planning, charitable giving, portfolio diversification, insurance programs and tax management.

First Private Bank & Trust is a California state banking corporation that provides a range of deposit and loan banking products and services to its customers. Its primary focus is on small and medium-sized businesses and professionals located in the Los Angeles and San Bernardino counties. FPB has offices in Burbank, Rancho Cucamonga, Granada Hills, Santa Monica and Westlake Village, California.

Coldstream Holdings is the parent of Coldstream Capital, a multi-client family office providing comprehensive wealth management services to high net worth individuals and their families in the Pacific Northwest. Coldstream Capital has offices in Bellevue, Washington and Portland, Oregon.

**SWOT:**

Strength Wealthy Customer	Weakness High Cost of capital
Opportunity Business Expansion	Threat Declines in Market Value of Company

**Strength:**

Strong customer base; BPFH offers wealth management service to successful people, their family and their businesses and selected financial institutions.

**Weakness:**

The main weakness of the company is the relatively high cost of capital; the cost of capital is even higher than that of net operating profit after tax, which results in negative economic value addition.

**Opportunity:**

Even though the company has a small customer base, they all are wealthy individuals or businesses, which give the company an opportunity to expand and prosper.

**Threat:**

With persistent negative economic value added, there can be decline in price of company share and thus the market value.

## **Financial Ratio Analysis**

In this section, we have performed a conventional financial statement analysis of BPFH. We have analyzed the last eleven years of data to have a better and more accurate understanding of the company's performance. In general, an examination of a company's financial ratios over a longer period will depict a more accurate picture of its health because it balances out large divestitures, stock repurchases, changes in accounting systems and economic fluctuations that tend to skew the numbers.

The Exhibits in Appendix - A gives a snapshot of financial position of BPFH in comparison to the industry values over a period of last eleven years. So as to simplify and facilitate the industry average calculations, we have used the Standard and Poor's "Compustat - financial application" wherein the NAICS codes were used for the industry reference. There are five hundred and forty companies including BPFH, under the respective NAICS code.

For convenience sake, the ratios are divided into five categories; Shot Term Solvency Ratios, Long Term Solvency Ratios, Asset Management or Turnover Ratios, Profitability Ratios and Market Value Ratios.

### ***1) Short Term Solvency Measures***

This includes the Current and Quick Ratio. These ratios relate to the ability of the firm to generate cash in the short term, the liquidity of a company's assets. These ratios have little or no significance in the context of Financial Institutes / Companies. So in the absence of any significant financial data availability for these two ratios, we are unable to provide any insight on the company's short term solvency position.

## 2) *Long Term Solvency Measures*

These ratios examine a firm's ability to meet its long term obligations. The long-term debt to capital ratio relates total long-term debt to total capital, giving an investor a greater insight at the firm's long term solvency situation.

Exhibit 1 shows the Total Debt to Capital ratio of the firm. The ratio varies between 92 and 307; the ratio is high for the years 1996 to 1999, after which there is a decline. For the industry, the value of this ratio remains almost constant and varies between 102 and 137. After 2003, the company has lower debt to capital ratio compared to industry average.

## 3) *Asset Management Ratio*

The first of these ratios is the receivables turnover ratio, which is used to quantify a firm's effectiveness in extending credit as well as collecting debts. It is calculated by dividing Net sales with Receivable ( $\text{Net Sales} / \text{Receivables}$ ). The greater the number of times receivables turn over during the year, the shorter the time between sales and cash collection. Also higher receivable turnover ratio determines the firm's efficiency to operate on a cash basis. As we can see from Exhibit 3, the value of this ratio varies between 0.11 and 0.154. After a recessionary period, the value of this ratio declines for the company; also during this period except for years 2001 and 2004 the industry average is higher than that of company's ratio.

The other ratio in this category is the total asset turnover ratio,  $\text{Revenue} / \text{Asset}$ , and this ratio determines the firm's efficiency to use its assets in order to generate revenue. Exhibit 4 shows a comparison of BPFH and the industry average. We can see that in terms of this ratio, the company has outperformed industry average; this ratio varies between 0.085 and 0.115 while for industry the value range is 0.075 and 0.095.

## 4) *Profitability Ratio*

These ratios demonstrate how well a firm is utilizing their assets or equity to create income and wealth. One of these ratios, Gross Profit Margin, represents the percentage of each

sales remaining after a firm has paid for its cost of producing goods/services. In terms of this ratio, the company outperformed the industry average for the given time period; the value of this ratio varies between 55 and 84 while for industry average the value varies between 54 and 72.

Return on equity, ROE, measures a firm's ability to leverage its equity for profitability. In terms of return on equity the company's performance is not consistent; the company has outperformed industry average between years 1997 and 1999 and in 2002, but in other years the industry average is better than that of company's ROE.

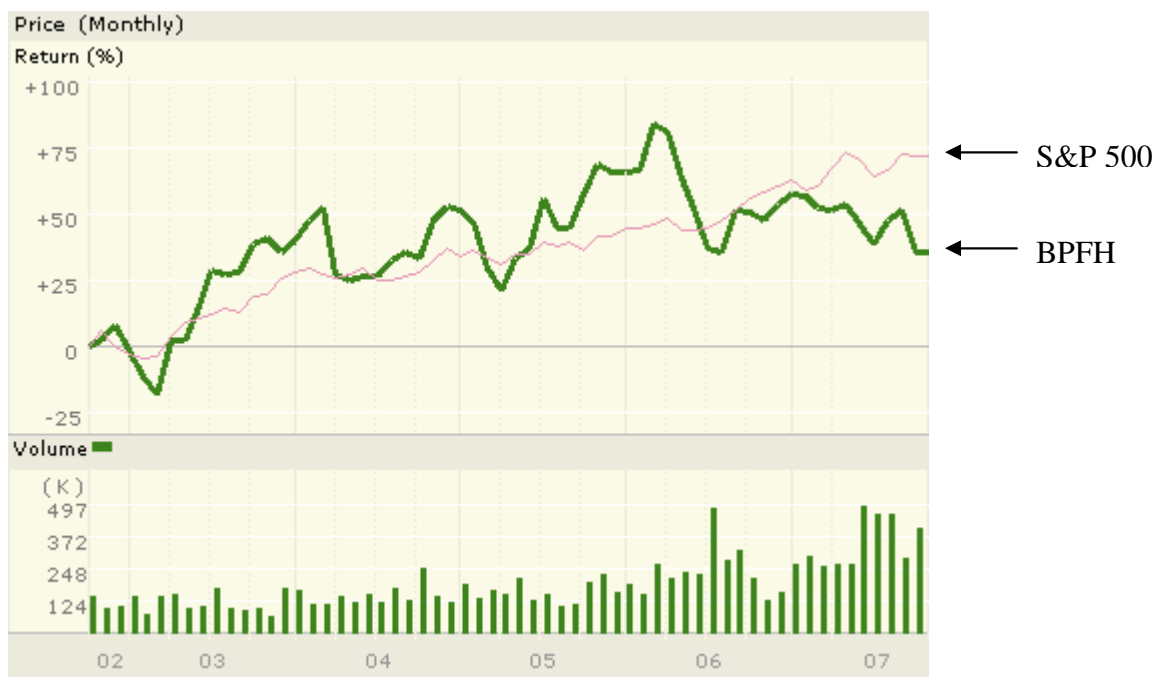
#### 5) *Market Value Ratios*

Finally, we look at Market Value Ratios, which include earnings per share, EPS, and price to earnings, PE. The measures relate net income and outstanding shares, and price per share with EPS, respectively. They give information regarding the valuation of the company's stock, and thus the company itself, by the market, analysts, and investors in particular. Earnings per share represent basic earnings per share before extraordinary items and discontinued operations. The company has underperformed the industry EPS value. The company's EPS has average around 0.86 over the last decade.

On the PE front in order to have a better and clear picture we computed the same on the monthly basis by dividing the month end close price with the appropriate 12-months moving earnings per share. If the most recent earnings per share figure were not available then the close price was divided by the sum of the previous quarter's value of 12-month moving earnings per share. The PE ratio increased during the 2002, but after that it remains almost constant. Also, during the 2001 to 2003 the company has outperformed industry average but subsequently, as we can see from Exhibit 9, the PE ratio is almost constant and is equal to the industry average.

## SHAREHOLDER RETURN PERFORMANCE PRESENTATION

The graph presented below compares the five-year holding period return of the shareholder for BPFH and the S&P 500, from October 2, 2002 to October 7, 2007. The market performance is better than that of BPFH; the five years HPR for market is 71.56% while for the Company the number is 35.42%.



### EVA Analysis:

Economic Value-Added Analysis measures the amount of value a company has created for its shareholders. It determines how much profit a company has produced after it has covered the cost of its capital. Whereas conventional accounting methods deduct interest payments on debt, Economic Value-Added Analysis also deducts the cost of equity—what shareholders would have earned in price appreciation and dividends by investing in a portfolio of companies with similar risk profiles. Economic Value-Added Analysis thus offers a truer picture of the return a company delivers to its shareholders and provides a framework to assess options for increasing it. By making the cost of capital visible, Economic Value-Added Analysis helps companies identify whether they need to operate more efficiently, to focus investment on projects that are in the best interests of

shareholders and to work to dispose of or reduce investment in activities that generate low returns.

The basic formula is:

$$EVA = (ROC - COC) * C = NOPAT - COC * C$$

Where

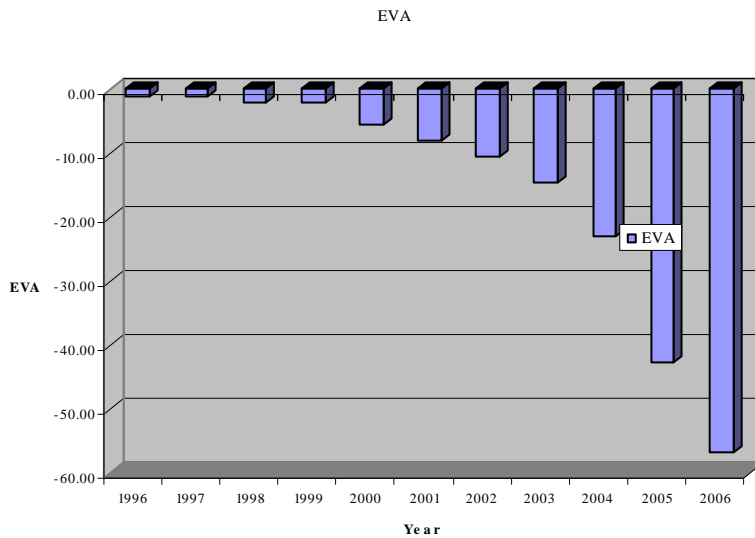
$$ROC = \frac{NOPAT}{C}; \text{ called the return on capital employed.}$$

ROC: Return on capital.

COC: Weighted average cost of capital.

NOPAT: Net Operating Profit after Tax

C: Capital employed



The figure above shows the economic value added of BPFH. The EVA for the company is negative and declining; the EVA in 1996 is -1.29 million while in 2006 the value is -56.56 million, implying that even though the company is showing accounting profit the cost of capital is higher than that of accounting profit which results in a negative value of EVA.

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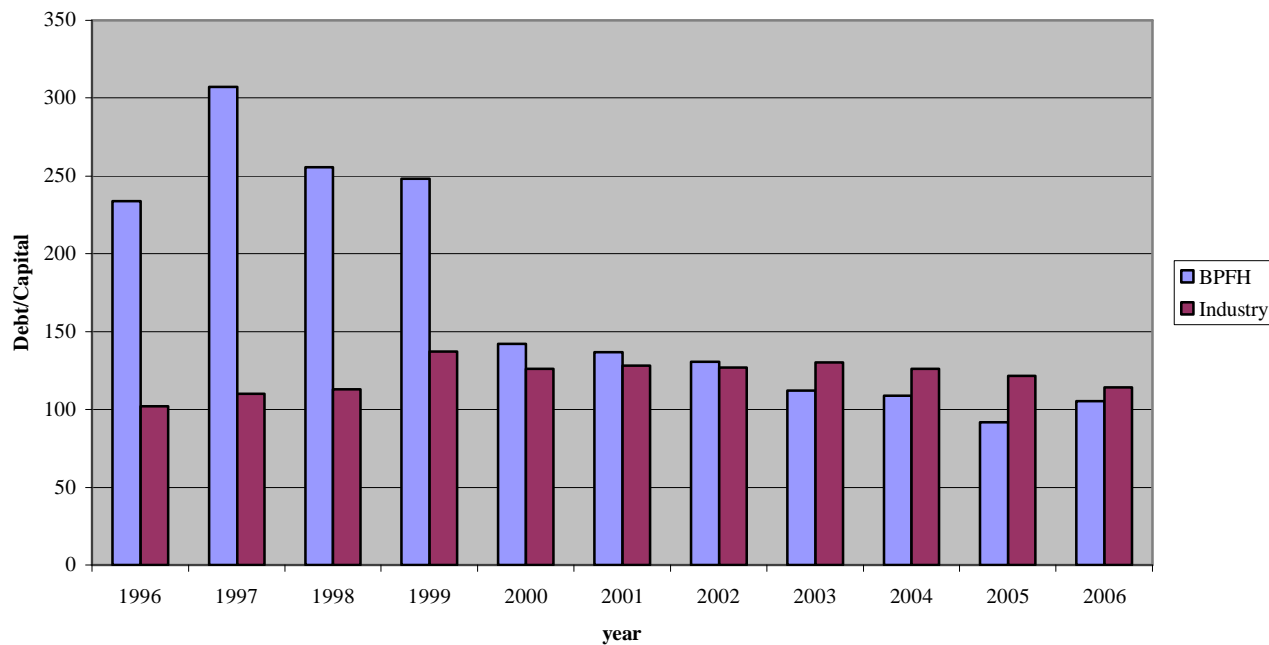
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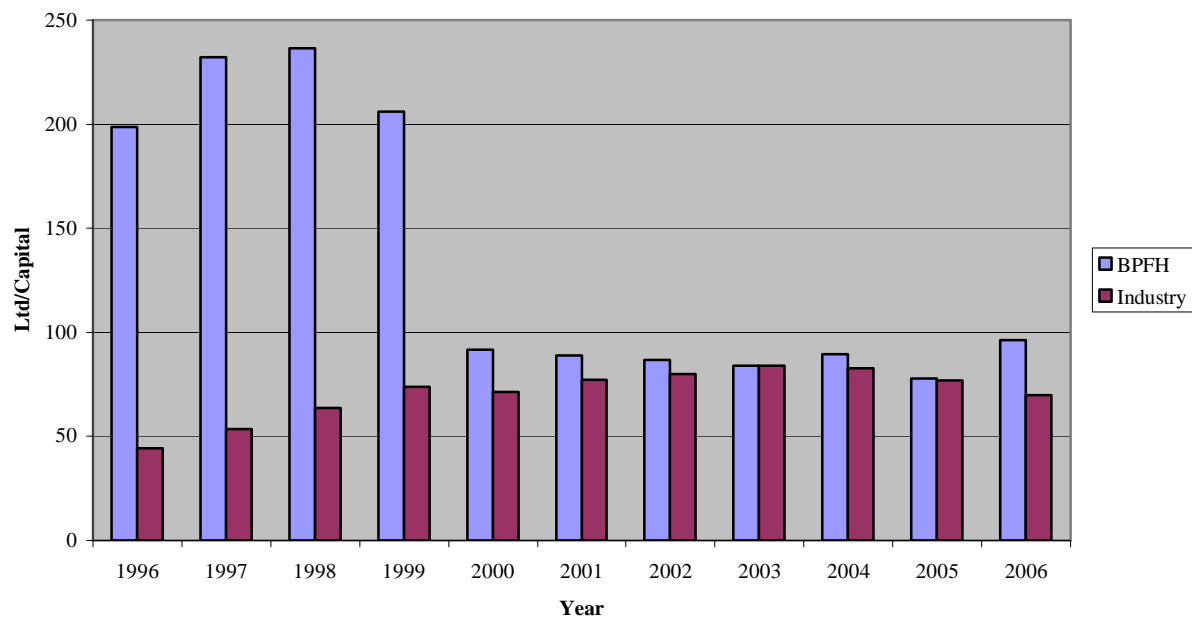
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<http://www.lib.umb.edu/compustat/>

### Total Debt to Capital



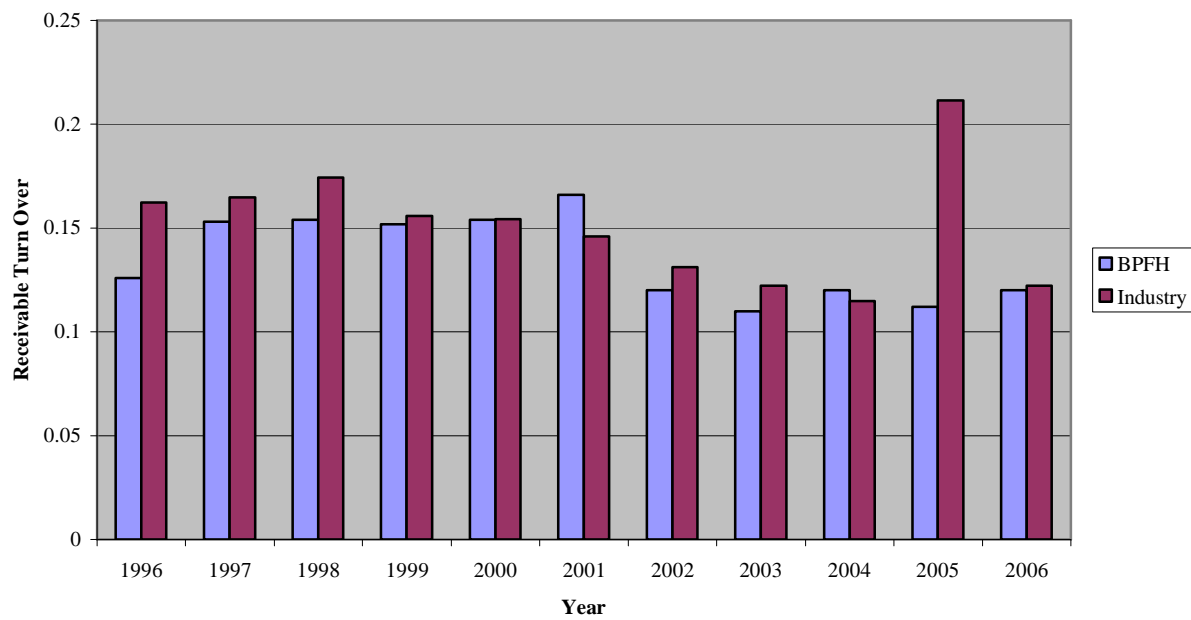
### EXHIBIT 1

### Long Term Debt to Capital



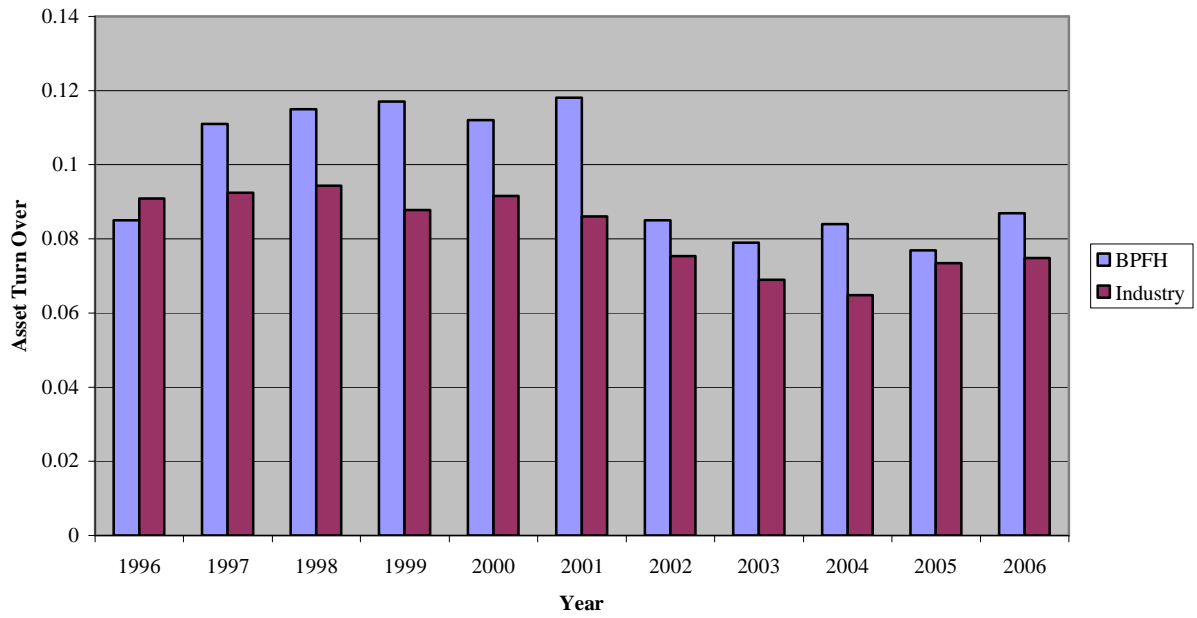
### EXHIBIT 2

### Receivable Turn Over



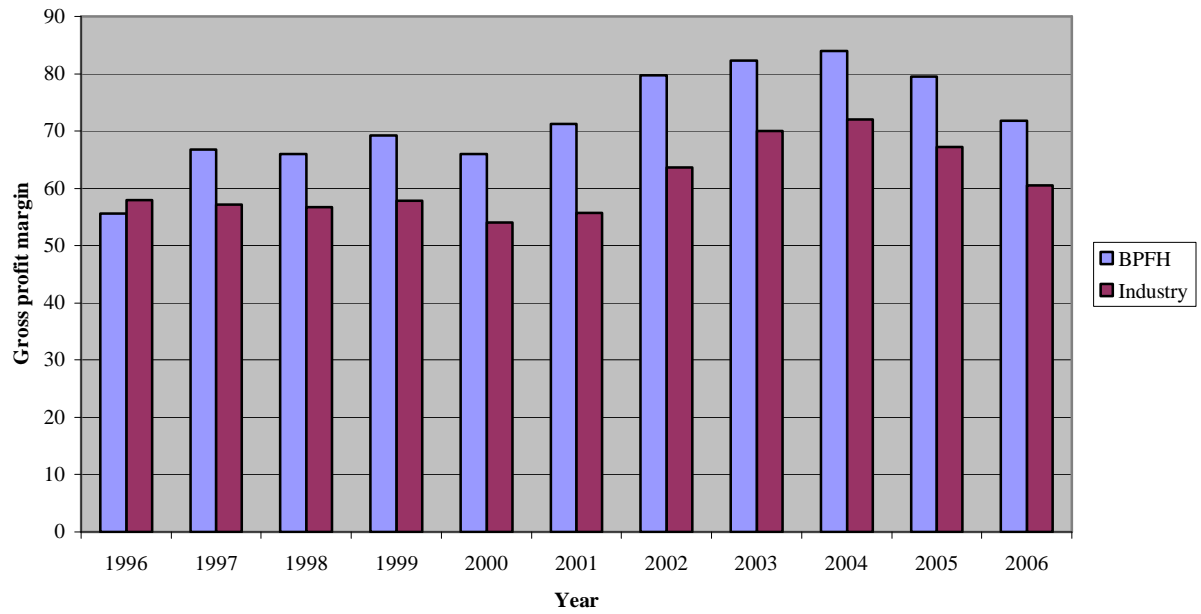
### EXHIBIT 3

### Asset Turn Over



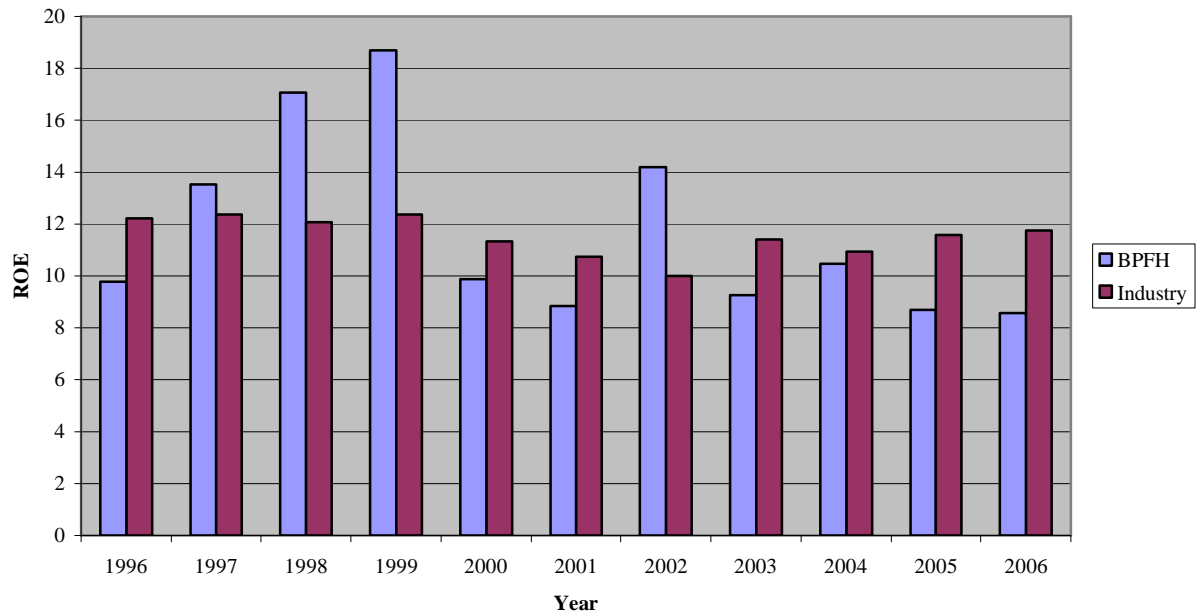
### EXHIBIT 4

### Gross Profit Margin



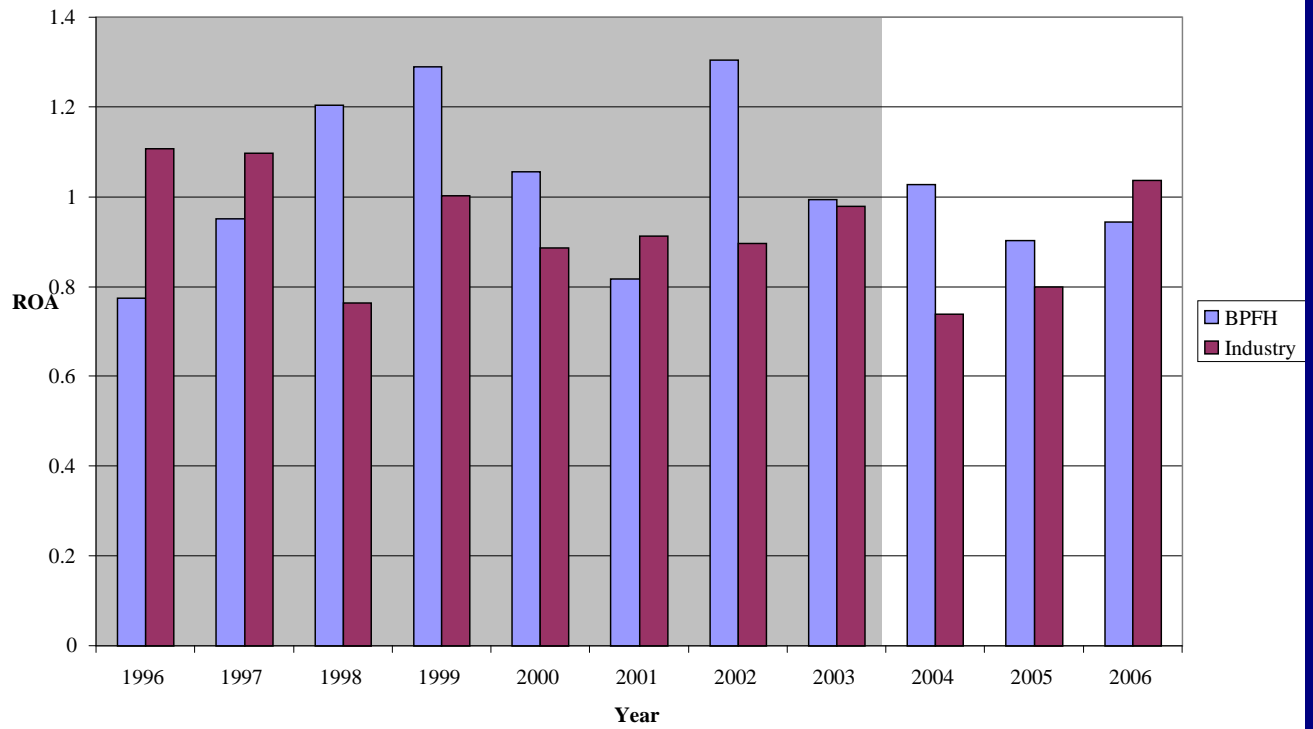
### EXHIBIT 5

### Return on Equity



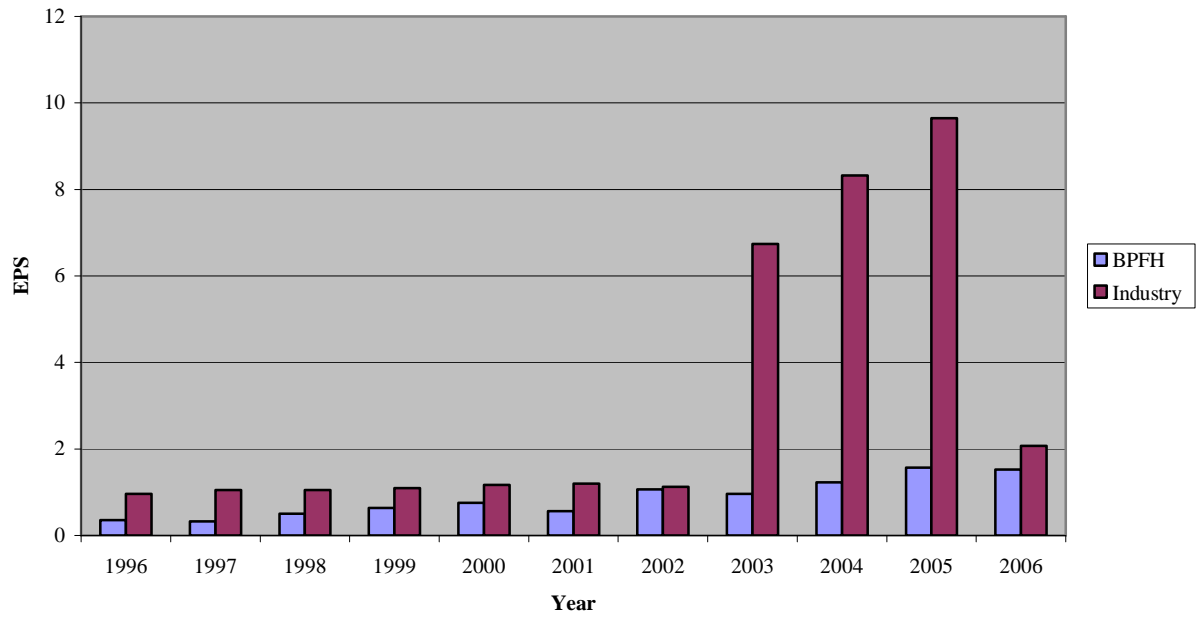
### EXHIBIT 6

### Return on Asset

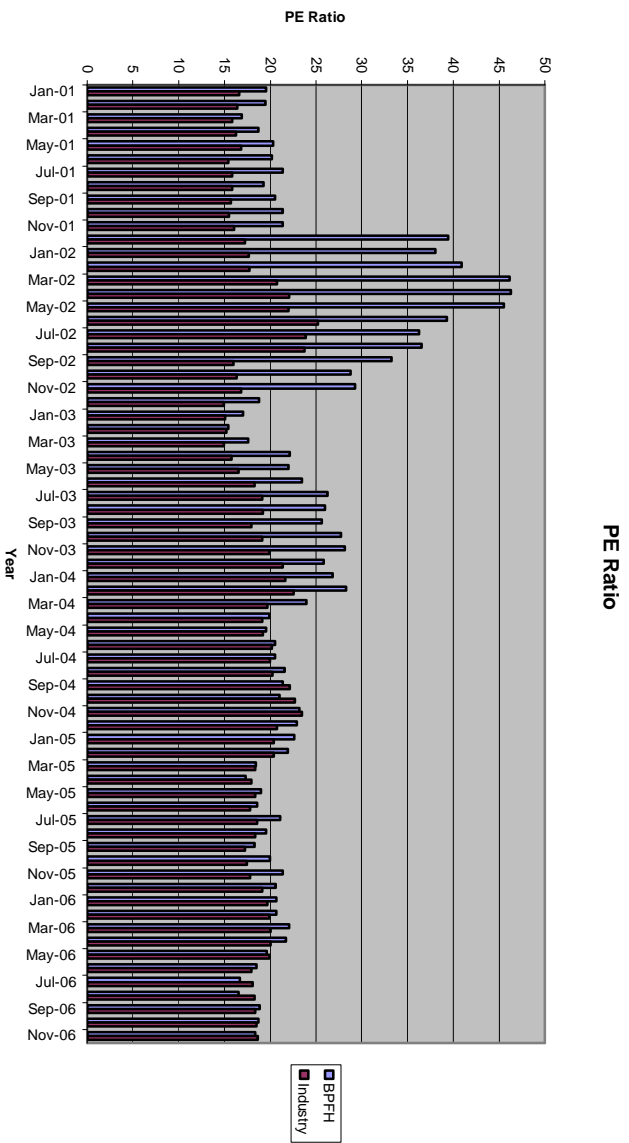


### EXHIBIT 7

### EPS Analysis



### EXHIBIT 8



**EXHIBIT 9**

### Independent Bank Corporation

288 Union Street  
 Rockland, MA 02370 United States  
 Region: New England

#### Key Information:

<b>SIC Code</b>	Primary SIC: 6022 – State commercial banks Secondary SIC:
<b>NAICS Code</b>	Primary NAICS: 522110 – Commercial Banking 551111 – Offices of Bank Holding Companies
<b>Company Type</b>	Public – NASD: BPFH
<b>Year Of Founding or Change In Control</b>	1985
<b>State of Incorporation</b>	MA
<b>Key Numbers</b>	
<b>Fiscal Year-End</b>	December
<b>2006 Sales (mil.)</b>	\$194.3
<b>1-Year Sales Growth</b>	6.2%
<b>2006 Net Profit (mil.)</b>	\$32.9
<b>1-Year Net Income Growth</b>	-1.1%
<b>2006 Employees</b>	706

## **BUSINESS DESCRIPTION**

Independent Bank is the holding company for Rockland Trust. The community banking business, the company's only reportable operating segment, consists of commercial banking, retail banking, investment management services, retail investments and insurance sales. The company offers a range of community banking services through its network of 52 banking offices, nine commercial banking centers, three investment management group offices, and four residential lending centers, which are located in the Plymouth, Norfolk, Barnstable and Bristol counties of southeastern Massachusetts and Cape Cod. The community banking business provides a range of banking services which include lending activities, acceptance of demand, savings, and time deposits, trust investment management services, retail investments and insurance services, and mortgage banking income.

The bank provides loans in various categories which include commercial, business banking, real estate, or consumer. The commercial loans category consist primarily of loans to businesses with credit needs in excess of \$250,000 and revenue in excess of \$2.5 million for working capital and other business-related purposes and floor plan financing. The business banking loans category consist primarily of loans to businesses with commercial credit needs of less than \$250,000 and revenues of less than \$2.5 million. The real estate loans category include commercial mortgages that are secured by non-residential properties, residential mortgages that are secured primarily by owner-occupied residences and mortgages for the construction of commercial and residential properties. The consumer loans category consist of automobile loans and home equity loans. The bank also offers secured and unsecured commercial loans for business purposes, including issuing letters of credit.

The bank's securities portfolio consists of US Treasury and US Government agency obligations, state, county and municipal securities, mortgage-backed securities, collateralized mortgage obligations, Federal Home Loan Bank (FHLB) stock, corporate



debt securities and equity securities held for the purpose of funding supplemental executive retirement plan obligations through a Rabbi Trust. Most of these securities are investment grade debt obligations with average lives of five years or less.

The bank accepts deposits from consumers, businesses, and municipalities located in southeastern Massachusetts and Cape Cod. Rockland offers a range of demand deposits, interest checking, money market accounts, savings accounts, and time certificates of deposit.

**SWOT:**

Strength Wide Range of Services	Weakness High Cost of Capital
Opportunity Growth Opportunity	Threat Declines in Market Value of company.

**Strength:**

Diversified services like commercial banking, retail banking, investment management services, real investment and insurance service, and mortgage banking.

**Weakness:**

High cost of capital.

**Opportunity:**

The company is in financial services but with different kind of services to its customers, it can attract more customers, which can boost the company's growth rate and diversify risk.

**Threat:**

The cost of capital for the company is much higher than that of net operating profit after tax, which can lead to a drop of company's share.

## **Financial Ratio Analysis**

In this section, we have performed the conventional financial statement analysis of State Street Corporation. We have analyzed the last eleven years of data to have a better and more accurate understanding of the company's performance. In general an examination of a company's financial ratios over a longer period will depict a more accurate picture of its health because it balances out large divestitures, stock repurchases, changes in accounting systems and economic fluctuations that tend to skew the numbers.

The Exhibits under Appendix - A gives the snapshot of financial position of Independent Bank in comparison to the industry values over a period of last eleven years. So as to simplify and facilitate the industry average calculations, we have used the Standard and Poor's "Compustat - financial application" wherein the NAICS codes were used for the industry reference.

There are a total of five hundred and forty companies including Independent Bank, under the respective NAICS code. For convenience sake, the ratios to be examined are divided into five categories. These categories are related to the aspect of the company's performance to which they relate and also to their input values; these five ratios are Short Term Solvency Ratios, Long Term Solvency Ratios, Asset Management or Turnover Ratios, Profitability Ratios and Market Value Ratios.

### ***1) Short Term Solvency Measures***

This includes the Current and Quick Ratio. These ratios, as their name depicts relate to the ability of the firm to generate cash in the short term, the liquidity of a company's assets. These ratios have little or no significance in the context of Financial Institutes / Companies. So in the absence of any significant financial data availability for these two ratios, we are unable to provide any insight on the company's short term solvency position.

## 2) *Long Term Solvency Measures*

The second set of ratios examines a firm's ability to meet its long term obligations. The Long Term Debt to Capital ratio relates total long-term debt to total capital and gives an investor a greater insight in to the firm's long term solvency situation.

Exhibit 1 shows the Long Term Debt to Capital ratio. The ratio varies between 96.16 and 274.86 for Independent Bank; it is high for the years 1996 to 1999 but subsequently there is a decline in value of this ratio. For the industry this ratio remains almost constant and varies between 44.62 and 83.67, and thus for the given time period the long term debt to capital ratio is lower for industry compared to the company.

## 3) *Asset Management Ratio*

The first of these ratios is the receivables turnover ratio, which is used to quantify a firm's effectiveness in extending credit as well as collecting debts. It is calculated by dividing Net Sales with Receivable ( $\text{Net Sales} / \text{Receivables}$ ). The greater the number of times receivables turn over during the year, the shorter the time between sales and cash collection. Also higher receivable turnover ratio determines the firm's efficiency to operate on a cash basis. As we can see from Exhibit 2, the value of this ratio varies between 0.094 and 0.142, while during the same period the industry average varies between 0.12 and 0.21.

The other ratio of this set is the total asset turnover ratio,  $\text{Revenue}/\text{Assets}$ . This ratio determines the firm's efficiency to use its assets in order to generate revenue, and higher ratio values determine higher firm efficiency. Exhibit 3 shows that in terms of this ratio the industry has outperformed company; the value of this ratio varies between 0.06 and 0.083 while for industry the value range is 0.075 and 0.095.

## 4. *Profitability Ratio*

These ratios demonstrate how well a firm is utilizing their assets or equity to create income and wealth. One of these ratios, the Gross Profit Margin, represents the

percentage of each sales dollar remaining after a firm has paid for its cost of production. It is calculated by dividing gross income (profits) by net sales. In terms of this ratio, the company has outperformed the industry average for the given time period; the value of this ratio varies between 56 and 75 while for industry average the value varies between 54 and 72.

Return on equity, ROE, measures a firm's ability to leverage its equity for profitability. In terms of ROE the company's performance is consistent and it has outperformed the industry average; for company the value varies between 14.29 and 17.35 while for industry the value varies between 10.92 and 12.20.

##### **5. *Market Value Ratios***

Finally, we present Market Value Ratios, which include earnings per share, and price to earnings, PE. The measures relate net income and outstanding shares, and price per share with EPS respectively. They give information regarding the valuation of the company's stock, and thus the company itself, by the market, analysts, and investors in particular. EPS represent basic earnings per share before extraordinary items and discontinued operations. The company's EPS varies between 0.79 and 2.2, which is below the industry EPS value except for 1996, 1997 and 2000. It is noteworthy that during 1996 to 2006 the company EPS has observed a sharp growth compared to the industry average.

We have computed the price to earnings, PE, ratio on a monthly basis by dividing the month end close price with the appropriate 12-months moving EPS. If the most recent EPS figure were not available then the close price was divided by the sum of the previous quarter's value of 12-month moving earnings per share. The PE ratio demonstrates the growth expectation by the investor, and as we can see the industry has outperformed the company in terms of PE ratio for the given time period; over the given time period the value of PE ratio varies between 15 and 20 for the company while for the industry the value varies between 17 and 25.

## SHAREHOLDER RETURN PERFORMANCE PRESENTATION

The graph presented below compares the five years holding period return for Independent Bank Corp., and S&P 500, during November, 2002 and November, 2007. The market performance is much better than that of Independent Bank Corp., 55.26% versus 11.34%, respectively.



### EVA Analysis:

Economic Value-Added Analysis measures the amount of value a company has created for its shareholders. It determines how much profit a company has produced after it has covered the cost of its capital. Whereas conventional accounting methods deduct interest payments on debt, Economic Value-Added Analysis also deducts the cost of equity—what shareholders would have earned in price appreciation and dividends by investing in a portfolio of companies with similar risk profiles. Economic Value-Added Analysis thus offers a truer picture of the return a company delivers to its shareholders and provides a framework to assess options for increasing it. By making the cost of capital visible,

Economic Value-Added Analysis helps companies identify whether they need to operate more efficiently, to focus investment on projects that are in the best interests of shareholders and to work to dispose of or reduce investment in activities that generate low returns.

The basic formula is:

$$EVA = (ROC - COC) * C = NOPAT - COC * C$$

Where

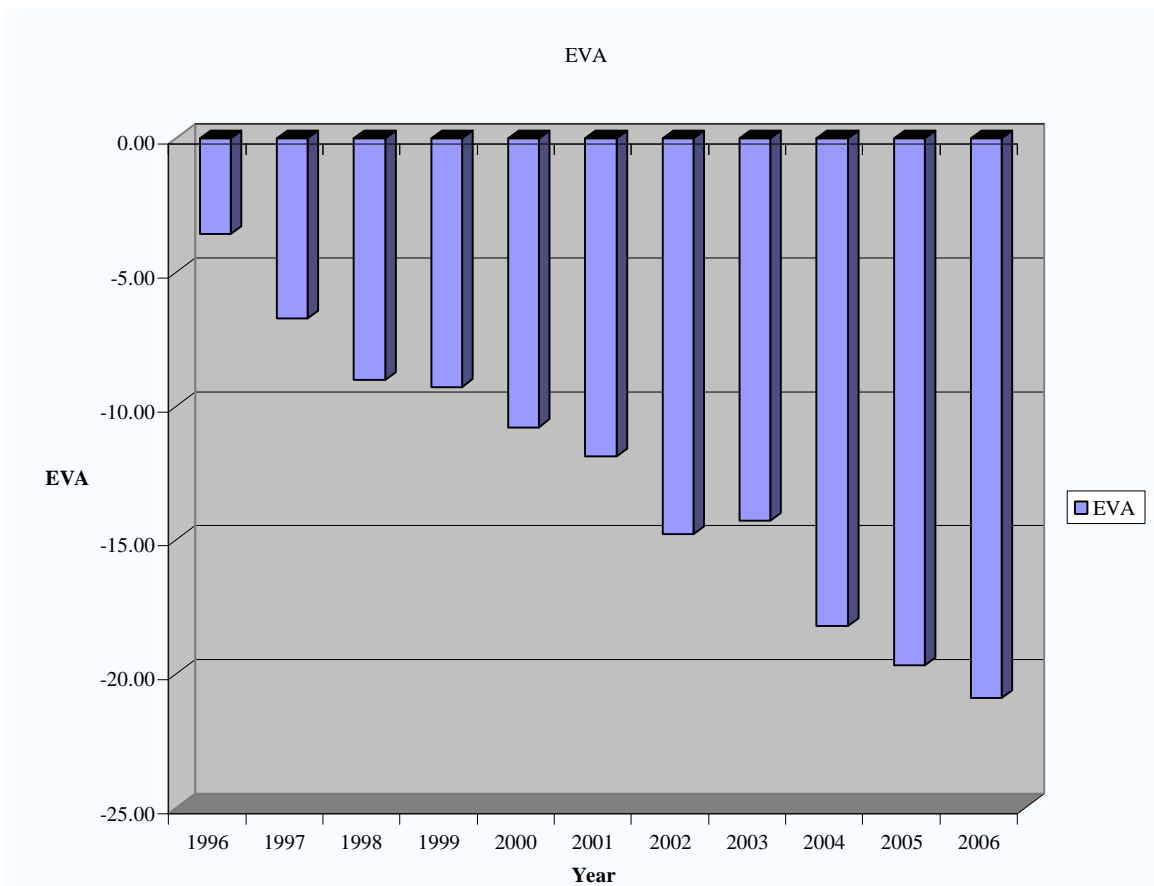
$$ROC = \frac{NOPAT}{C}; \text{ called the return on capital employed.}$$

ROC: Return on capital.

COC: Weighted average cost of capital.

NOPAT: Net Operating Profit after Tax

C: Capital employed



The figure above shows the economic value added by Independent Bank Corporation., The EVA for the company is negative and declining. Although the company has positive accounting profits, the cost of capital is relatively higher, which results in negative EVA values.

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Log-Term Debt to Capital

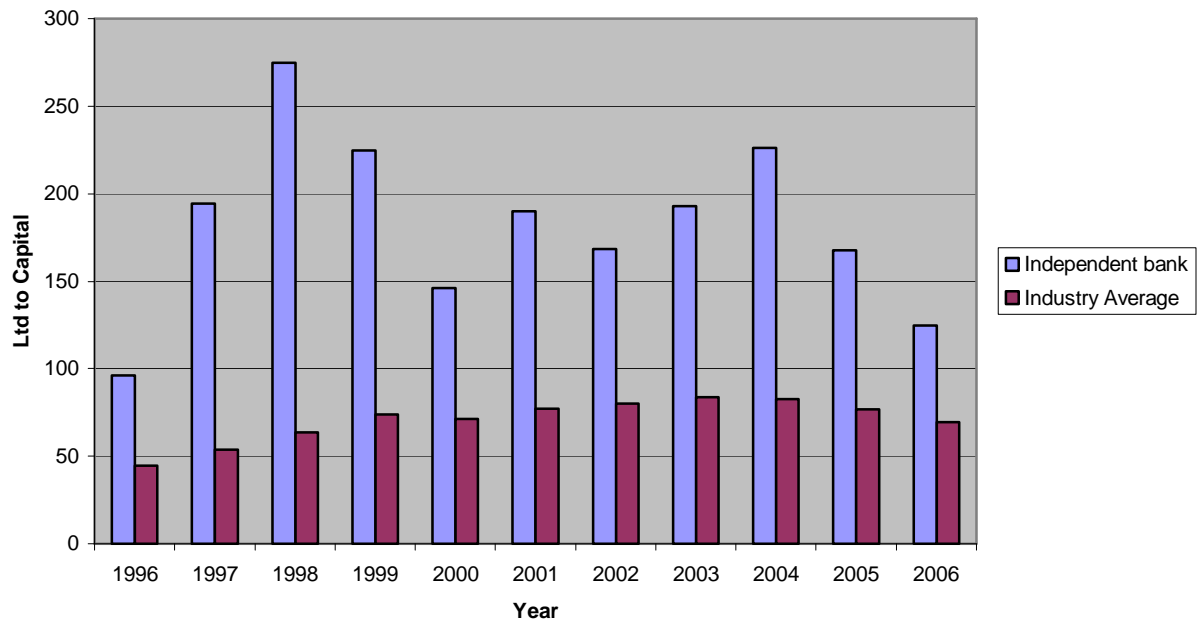
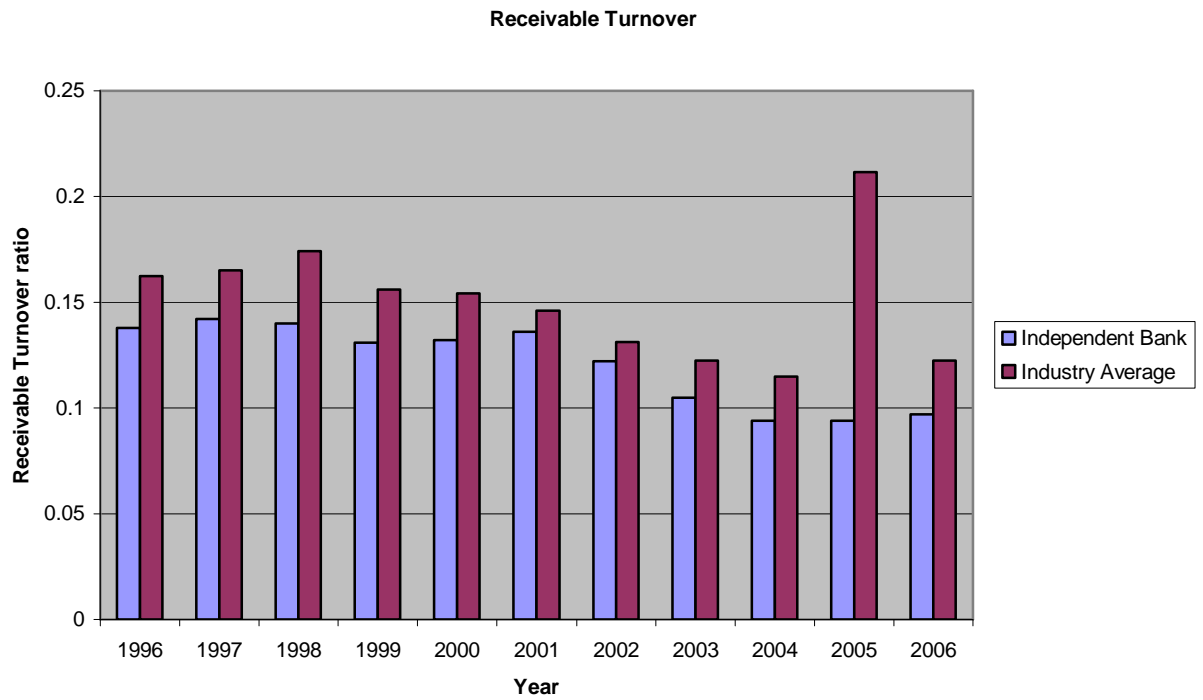
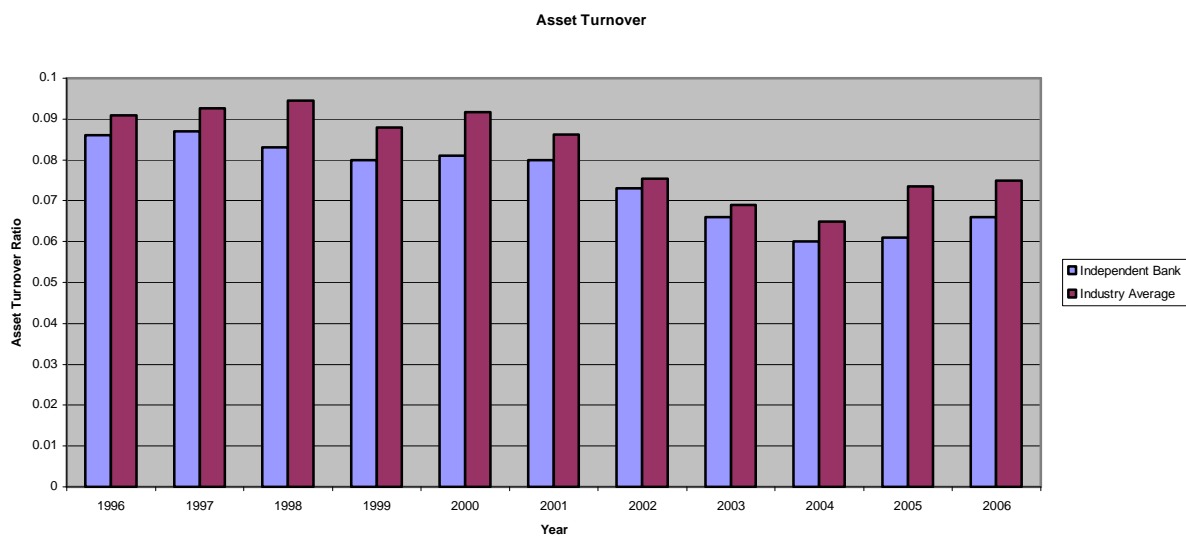


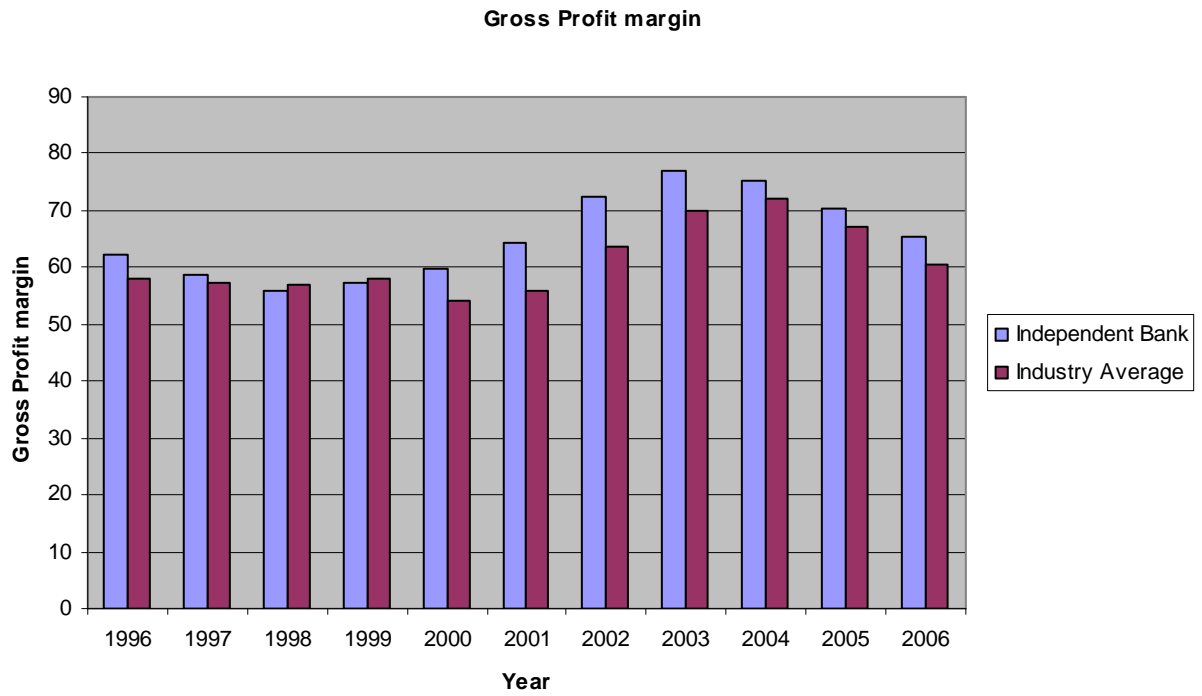
Exhibit 1



**Exhibit 2**

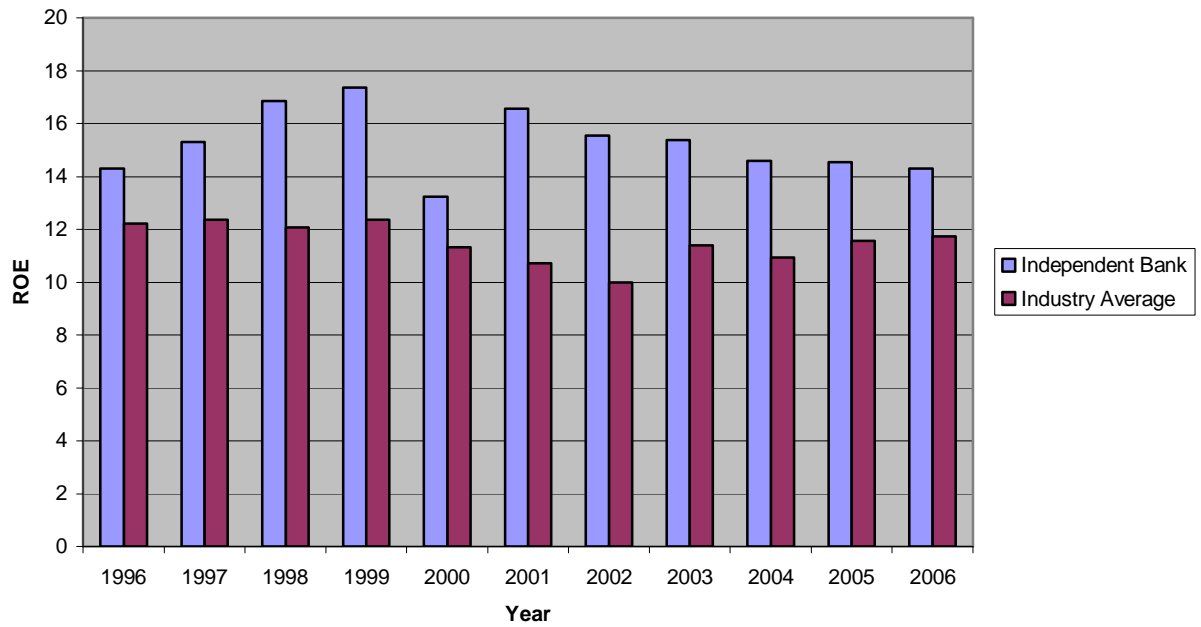


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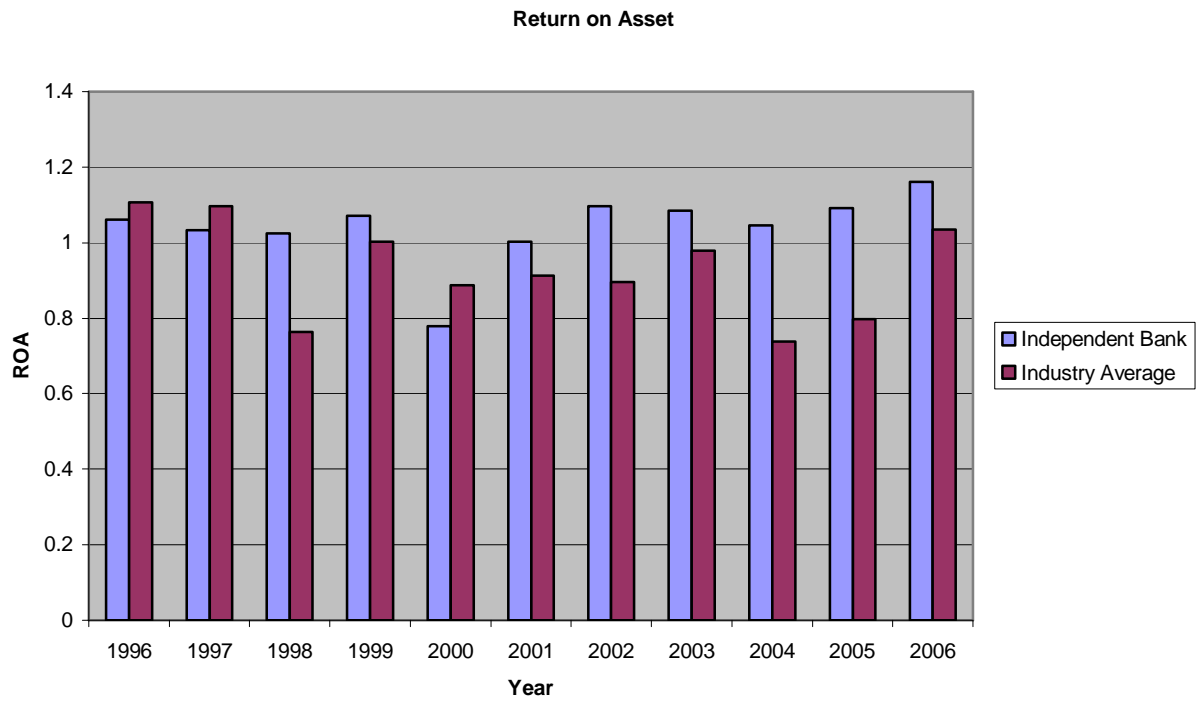


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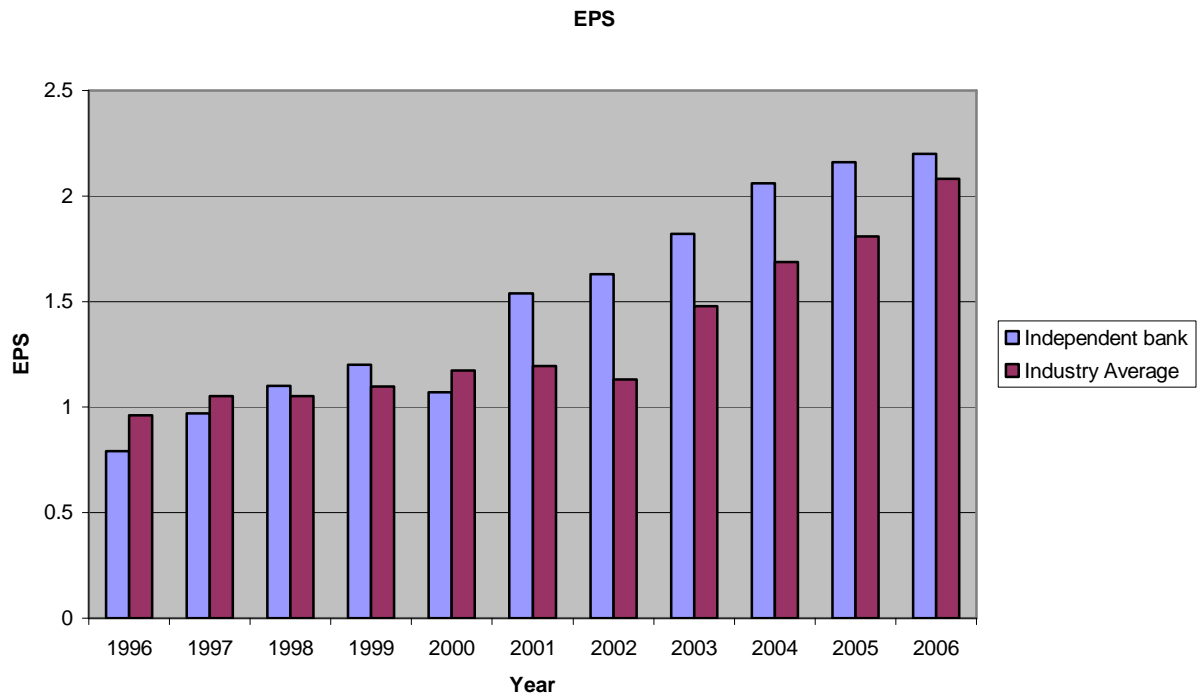
## Return on Equity



## Exhibit 5



**Exhibit 6**



**Exhibit 7**

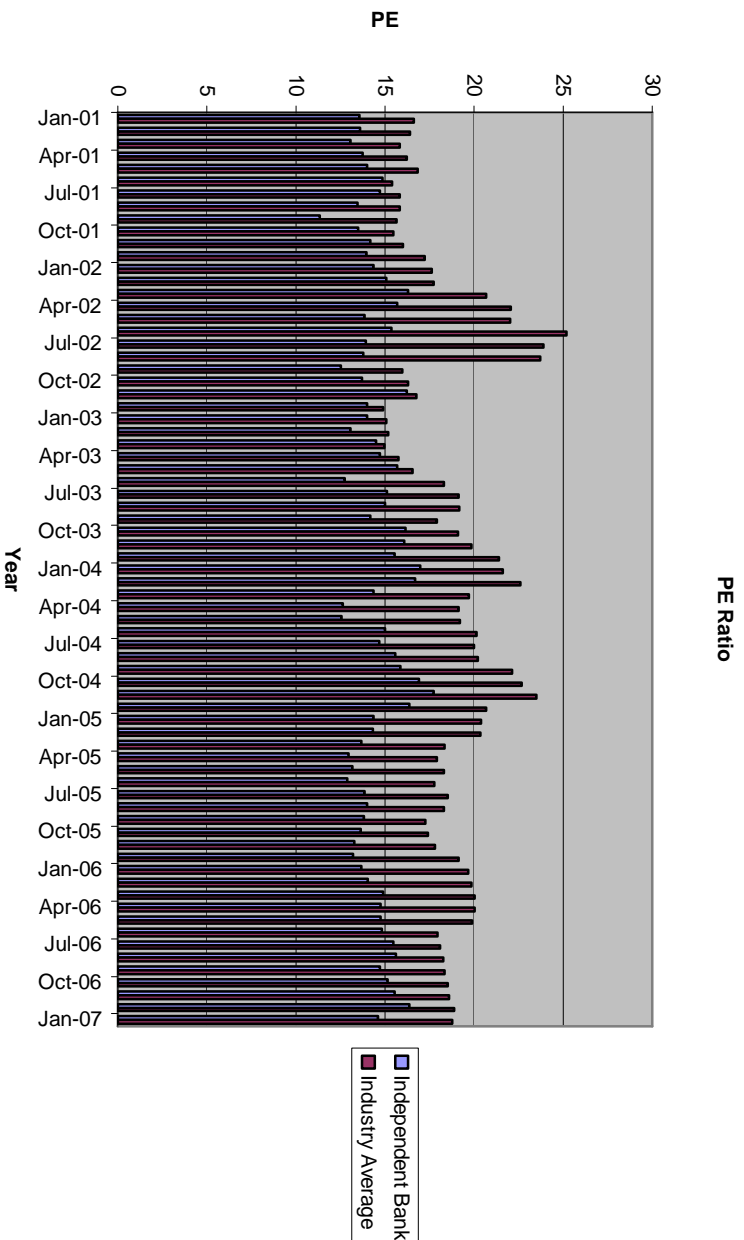


Exhibit 8