

BankDirector.

Breakout 4:
**So, You Want to Sell -
How to Increase Your
Value as a Target**

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So, You Want to Sell – How to Increase Your Value as a Target

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Dennis E. Merkley

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- Dennis advises banks on the many constantly changing regulations directed specifically at financial institutions, as well as acquisitions, sales, and general corporate governance.

Sarah K. Billington

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- Sarah represents banks and other businesses in acquisitions, sales, securities guidance, including capital raises, and general corporate governance.

Roadmap

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- Provide insight on how to maximize purchase price
- Expectations
 - No magic bullet
 - General best practices
 - Deals often start unexpectedly
 - Always be prepared

Market Climate

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- 2023
 - Deal activity was at record lows for recent years
 - Price to tangible book value was down substantially from prior years
 - Increased interest rates decimated bank securities portfolios
 - High profile bank failures, volatility in the market, and regulatory uncertainty contributed to slow deal volume

Market Climate (continued)

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- 2024
 - Anticipated interest rate reductions should stimulate deal activity and erase some unrealized losses
 - Loan demand should remain steady or increase
 - Search for deposits should drive deal activity
 - A slow 2023 should make for a busy 2024

Deposits

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- Loan demand remains high, and banks want to meet this demand
- Acquiring new deposits will allow for additional lending
- Banks are at a competitive advantage to be acquired if they have a strong core deposit base

Deposits (continued)

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- Organic deposit growth faces increased challenges in the current market
- Even with anticipated rate reductions, large scale borrowing is more expensive than acquiring a solid core deposit base
- Targets can be more attractive and fetch a higher valuation by securing and maintaining their best deposit customers

Capital

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- Obviously, the bank must be adequately capitalized
- To receive a premium or increased valuation, tier-1 capital should exceed minimum requirements
- If excess capital is too high, it can be paid as a dividend to shareholders prior to closing, lowering the acquisition price while resulting in a more accurate payout to shareholders

Liquidity

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- Any liquidity issues will result in a deep discount in acquisition price
- Liquidity issues indicate a need, rather than a desire, to sell and will almost always negatively impact purchase price

Unrealized Losses

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- Accumulated Other Comprehensive Income (AOCI)
- In 2023, several deals died because of high AOCI losses
- Declining rates should decrease unrealized losses and make bank securities portfolios more attractive to buyers
- Banks with lower AOCI losses will be more attractive to acquirers

Board Involvement

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- A board that understands the potential to be a target adds value that is not represented on a financial statement
- Periodic discussions about being acquired can help the board identify ways to maximize value

Advisors and Brokers

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- Advisors and brokers add value to potential deals
- They can streamline the marketing process and help fetch a premium
- Engaging them early can help identify prospective acquirers or attract multiple acquirers
- Advisors and Brokers can help identify potential due diligence issues

DUE DILIGENCE ITEMS



Competitive Issues

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- Herfindal-Hirschman Index (HHI)
- HHI calculation should be performed at the outset of any acquisition discussions
- Can be calculated prior to discussions if a specific acquirer is identified

Compliance Issues

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- Bank Secrecy Act (BSA)
- Anti-Money Laundering (AML)
- Community Reinvestment Act (CRA)

Loan Portfolio

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- Identifying problem loans early is essential
- Addressing problem loans prior to engaging broker or discussion with acquirer can increase valuation
- This is a best practice that will help with regulators as well

Books and Records

- Ensuring corporate books are up to date and complete will expedite that portion of due diligence
- Notice of change of control – most often violated regulation
- Up to date shareholder information and updated bylaws and shareholders' agreements

Information Technology and Cybersecurity

- Having up to date information technology (IT) and cybersecurity platforms make a target more attractive
- If IT or cybersecurity platforms are out of date or inadequate issues can arise regarding compatibility and confidence

Vendor Contracts

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- Review vendor contracts for cancellation and early termination costs and fees
- Begin to negotiate reduced or no early termination fees in the event of acquisition

Questions?

Office Locations

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