

Breakout 4:
**Bank M&A Master Class:
Best Practices and Tactical
Recommendations**

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Olsen Palmer LLC



Bank Director.
#BBTF24

Bank M&A Master Class:

Best Practices and Tactical Recommendations

September 2024

Proprietary & Confidential

Presented by:



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Managing Partner

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Introduction

Who We Are

Model	Independent investment banking firm
Focus	Exclusively advising community banks across Mergers & Acquisitions
Credentials	FINRA-Member, SEC-Registered Broker / Dealer
Locations	<ul style="list-style-type: none"> Headquartered in Washington, DC Regional offices in Birmingham, Chicago, Dallas, Denver, and Kansas City

How We Are Different

Expertise	<ul style="list-style-type: none"> Professionals have collectively advised on more than 150 M&A transactions, representing aggregate deal value exceeding \$10 billion
Specialization	<ul style="list-style-type: none"> Exclusively focused on community banks Specialization + proprietary intel allow us to maximize value, minimize risk
Approach	<ul style="list-style-type: none"> Relentless dedication to achieving client objectives We are defined by aggressive, nimble, innovative, and responsive approach
Independence	<ul style="list-style-type: none"> Unlike conventional firms, we do not sell products or trade securities Fully independent: no investing, trading, underwriting, or lending conflicts

Selected Advisory Assignments

Sell-Side	
	\$330.1mm Sale to: <i>FirstBank</i>
	\$146.3mm Sale to: <i>Simmons First National Corporation</i>
	\$78.7mm Sale to: <i>Fidelity D & D Bancorp, Inc.</i>
	\$52.1mm Sale to: <i>United Community Banks, Inc.</i>
	\$196.9mm Sale to: <i>Pinnacle Financial Partners, Inc.</i>

Buy-Side	
	\$49.0mm Acquisition of: <i>Traders & Farmers Bank</i>
	\$25.0mm Acquisition of: <i>Carroll Bancorp Inc.</i>
	Section 363 Bankruptcy Acquisition of: <i>Independent Bankers Bank of Florida</i>
	\$32.2mm Acquisition of: <i>Southern Heritage Bank</i>
	\$10.8mm Acquisition of: <i>DeSoto County Bank</i>

Branch Transactions, Merger-of-Equals	
	Merger-of-Equals With: <i>First National Community Bank</i>
	Merger of Mutuals: <i>First Mutual Holding Co.</i>
	Acquisition of 3 Branches from: <i>Atlantic Capital Bank, N.A.</i>
	Acquisition of 1 Branch from: <i>Community First Bank</i>
	Acquisition of 1 Branch from: <i>Bank OZK</i>

Achievements



Top Firm

Olsen Palmer is Top-3 ranked community bank M&A advisory firm nationwide¹



#1 Advisor

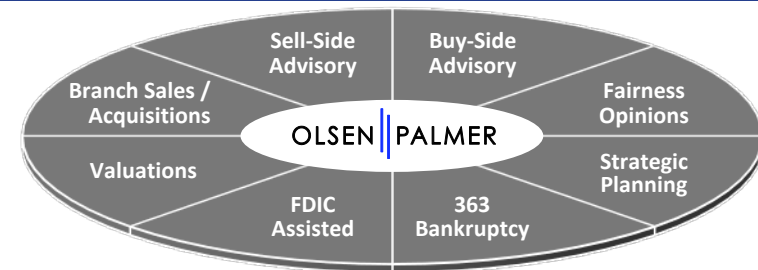
Managing Partner Christopher Olsen is the #1 individual bank M&A advisor nationwide²



\$3.0 Billion

Olsen Palmer has advised on bank M&A transactions with value approaching \$3.0Bn

Advisory Capabilities



*Includes transactions executed by Olsen Palmer professionals while at other firms. 1 – Based on total no. of whole-bank M&A transactions since 2020. 2 – Based on total no. of whole-bank M&A transactions in 2019, 2020, 2021, 2022, and 2023. Source: S&P Global.

Speaker Biography + Credentials

Contact Information



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Expertise + Achievements



#1 bank M&A advisor nationwide
5th consecutive year



Advised on over **150 M&A**
transactions across 3 decades



#1 bank M&A advisor nationwide
5th consecutive year



Frequent industry speaker



Education



MBA:
Columbia University



BBA:
The George Washington University



Additional Professional Studies:
Columbia Law School –
The Law of M&A Transactions



American Bankers Association –
Institute of Banking

Prior Experience

- Morgan Stanley / Investment Banking Division
- The Hovde Group
- Houlihan Lokey / Milestone Advisors
- Norwest Bank (now Wells Fargo)
- Began career as teller for a community bank

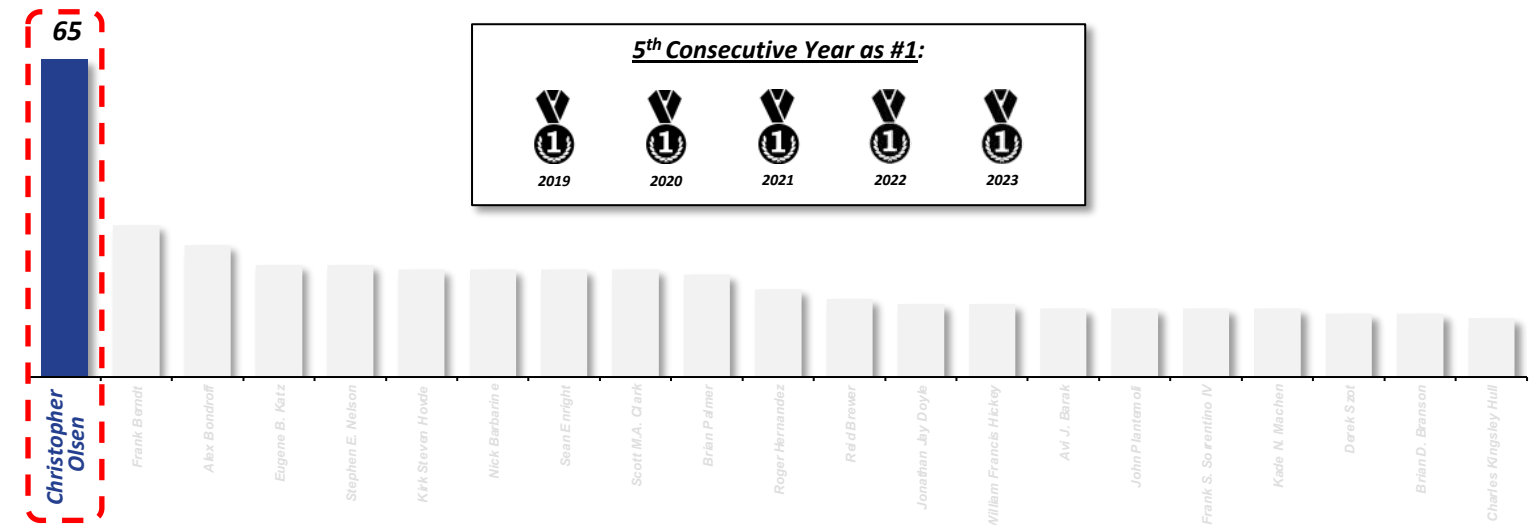


Professional Licensing

- General Securities Principal (series 24)
- Investment Banking Representative (series 79)
- Uniform Securities Agent (series 63)
- General Securities Representative (series 7)
- Limited Representative - Private Securities Offering (series 82)



#1 Bank M&A Advisor – By # of Transactions



Note: #1 bank M&A individual advisor ranking reflects all whole-bank M&A transactions advised upon since 2020 in which advisor information was disclosed. Source: S&P Global.

Transaction Process & Best Practices

Typical Transaction Timeline

Blueprint of Marketing Process

Process and Timeline

Phase	I.	II.			III.		IV.					
	Prep.	Preview Discussions			Offer Solicitation		Transaction					
Month	1	2	3	4	5	6	7	8	9	10	11	12
Internal information collection and preparation	[Shaded]											
Determination of Selected Potential Acquirers	[Shaded]											
Olsen Palmer Contacts Selected Parties	[Shaded]											
Parties Execute NDA, Receive Preliminary Info		[Shaded]										
Initial Meetings With Parties		[Shaded]										
Detailed Information Provided to Parties					[Shaded]							
Formal Indications of Interest are Received						[Shaded]						
Due Diligence / Reverse Due Diligence Review							[Shaded]					
Negotiation, Execution of Definitive Merger Agreement							[Shaded]					
Regulatory, Shareholder Approval							[Shaded]					
Closing of Transaction											[Shaded]	

Options for Transaction Process

	1. Unilateral Discussions	2. Discreet Marketing Process	3. Broad Auction	4. Private Listing
Description	Discreet negotiations w / only one party	Simultaneous discussions w/ several parties	Formal auction among multiple parties	Customized 2-stage effort: 1) Organized but informal introductory phase then 2) formal offer solicitation from subset of selectees
No. of Parties Involved	1	2 to ~15	> 15	~2 to ~12
Benefits	<ul style="list-style-type: none"> Maximizes discretion and optionality Enhanced relationship with acquirer may increase value Greater diligence on prospective acquirer 	<ul style="list-style-type: none"> Avoids “all eggs in one basket” Leverage multiple parties Utilizes proprietary market intelligence to exclude irrelevant parties 	<ul style="list-style-type: none"> Typically maximizes value Maximizes negotiating leverage Minimizes the duration to closing 	<ul style="list-style-type: none"> Ideal balance of leveraging multiple parties while maintaining discretion and confidentiality Stage 1 introductory meetings increase familiarity and value while providing opportunity to size up potential acquirer for fit, stock, etc. ‘Flips the tables’ such that buyers are competing for the right to bid
Limitations	<ul style="list-style-type: none"> Value may be lower than broad auction Time lost if talks are unsuccessful Longer duration to closing 	<ul style="list-style-type: none"> Less discreet than unilateral discussions Value may be lower than broad auction 	<ul style="list-style-type: none"> Least discreet of the options Arms-length process may dissuade certain buyers 	<ul style="list-style-type: none"> Entails relationship building with multiple parties Longer, more-involved process
Summary:				
Discretion				
Value Maximization				
Speed to Closing				

Illustrative Term Sheet

Transaction Structure	<ul style="list-style-type: none"> Acquirer Bancorp (“AB”) acquires Target Bancorp (“TB”)
Purchase Price	<ul style="list-style-type: none"> Expressed as either: <ul style="list-style-type: none"> Total value, Per TB share, Multiple
Form of Consideration	<ul style="list-style-type: none"> [●]% stock / [●]% cash <i>Election</i> – TB shareholders can elect preferred consideration mix subject to aggregate parameters Structured as a tax-free reorganization for IRS purposes
Exchange Ratio	<ul style="list-style-type: none"> If stock, the number of AB shares issued for each share of TB Example: 2.0500 shares of AB issued for each share of TB
Pro Rata Ownership of Combined Company	<ul style="list-style-type: none"> If stock, [●]% AB / [●]% TB If cash, 100% AB / 0% TB
Management and Employees	<ul style="list-style-type: none"> Role of TB management: [TBD] Role of TB employees: <ul style="list-style-type: none"> Retention pool for key employees Customary severance for any displaced employees
Governance	<ul style="list-style-type: none"> [●] of AB board seat(s) given to TB Exact number of seats to-be-negotiated, typically based on TB’s pro rata ownership percentage of combined company Uncommon but not unheard of, to issue a board seat(s) in all-cash deal
Transaction Expenses	<ul style="list-style-type: none"> Treatment of applicable or customary transaction expenses
Minimum Equity	<ul style="list-style-type: none"> Optional term that calls for a minimum threshold of equity at close, else a dollar-for-dollar adjustment
Exclusivity Period	<ul style="list-style-type: none"> Requirement for exclusive discussions for specified number of days
Required Approvals	<ul style="list-style-type: none"> Standard regulatory and shareholder approvals
Expected Closing	<ul style="list-style-type: none"> Public announcement in Q4 2024, transaction closing in Q2 2025

Other Key Items

- Consideration form:
 - Cash vs. Stock
 - Tax implications
 - Liquidity implications
- Fair value accounting adjustments
 - Loans
 - OREO
 - Real Estate
 - Bond Portfolio
- Credit Issues / OREO
- Minimum equity / Minimum net worth
- Synergies
- Human Capital matters
 - Contracts
 - Retention / Severance
 - Non-Compete
 - Change-of-Control Payments

Negotiation Best Practices

Build Relationships

- Pre-establish relationships and trust with counterparty(s)

Know Your BATNA

- Know your BATNA: “Best Alternative to a Negotiated Agreement”

Neutralize Ego, Emotions

- Solve for interests not positions, egos, etc.

Ask “Why?”

- Identifying core interests and motivations can reveal avenues for mutual gain

Expand the “Pie”

- Creatively seek ways to expand the total pie

Time Is Not Your Friend

- Time passage is rarely, if ever, beneficial to a successful transaction

Know What Matters

- Understand which legal and financial terms are important... and which are not

Understand Pricing

- Truly understand the factors and variables that drive value and pricing

What Drives Value...And What Does Not

Value Drivers



Core Earnings



Synergies



Core Growth



Incremental Revenue Potential



Management & Human Capital



Location / Market Demographics



Funding



Scale / Density

Value Detractors & Non-Factors



Non-Core Earnings



Non-Core Growth



Outsized Transaction Costs



Credit Issues



Multiples (e.g. Price-to-Book)



Scarcity



"Unique" Business Lines



Lack of Management Continuity



Disjointed Footprint

How Deal Pricing is Determined

Customary Acquisition Pricing Criteria

	Methodology	Formula	Typical Range			Relevance																				
			Poor	Customary	Exceptional																					
1 Earnings Per Share ("EPS") Accretion / Dilution	Percent and / or amount EPS increases (or decreases) as a result of transaction	$\left(\frac{\text{EPS Pro Forma}}{\text{EPS Standalone}} \right) - 1$	< 0%	0 -10%	> 10%	EPS is highly correlated with shareholder value: earnings per share drives value per share																				
2 Internal Rate of Return ("IRR")	Measure of return on investment where the discount rate that makes the net present value of all cash flows equal to zero	$0 = NPV = \sum_{n=0}^N \frac{CF_n}{(1 + IRR)^n}$	< 12%	12 - 20%	> 20%	Return analysis that can be used to rank various projects on a relatively even basis																				
3 Tangible Book Value Per Share ("TBVPS") Dilution + Earnback (in Years)	<ul style="list-style-type: none"> Initial dilution to TBVPS Break-even analysis: acquirer's standalone TBVPS vs. pro forma TBVPS 		Initial Dilution: > 15% 5 - 10% < 5%	Earnback Period: > 5 yrs ~ 3 yrs < 3 yrs	Can be used to compare transactions as it incorporates both initial TBVPS dilution as well as pro forma earnings																					
4 Regulatory Capital	Measure of acquirer's regulatory capital ratios (e.g. leverage ratio) on a pro forma basis relative to desired levels and/or regulatory requirements	<table border="1"> <thead> <tr> <th></th> <th>Stand-alone</th> <th>Merger Adj.</th> <th>Pro Forma</th> </tr> </thead> <tbody> <tr> <td>000s</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Capital</td> <td>120,000</td> <td>(20,000)</td> <td>100,000</td> </tr> <tr> <td>Assets</td> <td>1,000,000</td> <td>250,000</td> <td>1,250,000</td> </tr> <tr> <td>Ratio</td> <td>12.00%</td> <td>→</td> <td>8.00%</td> </tr> </tbody> </table>		Stand-alone	Merger Adj.	Pro Forma	000s				Capital	120,000	(20,000)	100,000	Assets	1,000,000	250,000	1,250,000	Ratio	12.00%	→	8.00%	< 9%	9 -10%	> 10%	Regulatory approval dependent on achieving certain capital levels at transaction closing
	Stand-alone	Merger Adj.	Pro Forma																							
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Capital	120,000	(20,000)	100,000																							
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Tactical Recommendations


Pre-Transaction Diagnostic

Blueprint for a Strategic Sale

OPERATIONS	Vendor Management	<ul style="list-style-type: none"> Recognize 'Golden Window' Align contracts to be coterminous
	Credit Administration	<ul style="list-style-type: none"> Scan & consolidate all files Backfill customer financials or documentation
	Policies & Procedures	<ul style="list-style-type: none"> Audit policies for relevant updates Ensure recent approvals and reviews
	Human Resources	<ul style="list-style-type: none"> Get ahead of anticipated promotions or adjustment of roles Lock in employment contracts or agreements
STRATEGY & OPTIONALITY	Board Education	<ul style="list-style-type: none"> Discuss strategic options Familiarize the Board with deal terminology and frameworks
	Define Priorities	<ul style="list-style-type: none"> Refresh responsibilities of fiduciary duty Set benchmarks for when opportunities are actionable
	Value Drivers	<ul style="list-style-type: none"> Focus on core activities and growth Reinforce 'stickiness' of staff, customers, and community
	Know Your Buyers	<ul style="list-style-type: none"> Stay apprised of your buyer universe Meet with buyers and build familiarity
EXECUTION	Timeline Development	<ul style="list-style-type: none"> Be prepared, start early Set outside date for Closing, post-Closing (i.e. core conversion)
	Define Deal Team	<ul style="list-style-type: none"> Decide who will be 'under the tent' Engage 3rd parties (counsel, financial advisors, etc.)
	Select Process Structure	<ul style="list-style-type: none"> Confirm outreach list Layout preferred stages
	Lead Projections	<ul style="list-style-type: none"> Integrate an optimistic budget Identify potential cost savings

Key Contracts

Vendor Contracts



Core Processing
jack henry™
FIS fiserv.




Other IT Contracts
VISA mastercard



Other Contracts

Human Resources

Change-in-Control



Employment Contracts



SERP



Non-Compete Agreements



Confidentiality Agreements



Credit Quality and Administration

Recommended Procedures



**Obtain Third-Party
Loan Review**



**Clean Up
Loan Files**



**Update Policies
and Procedures**



**Image
Loan Files**



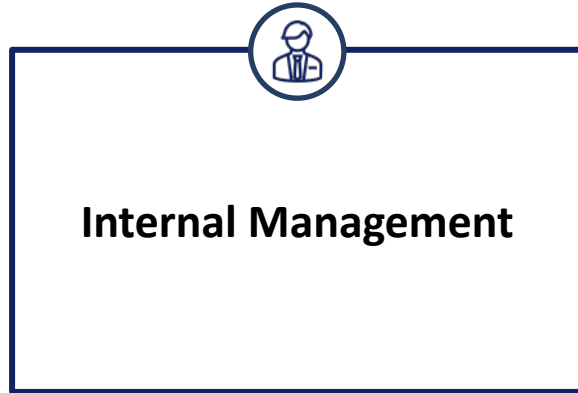
**Address Credit
Issues Early**



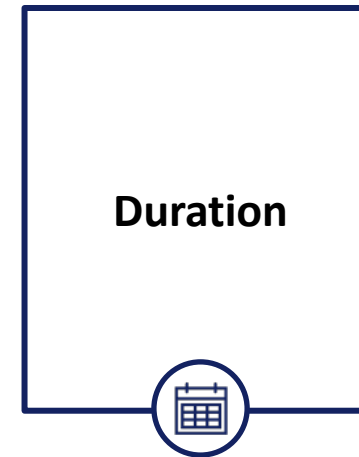
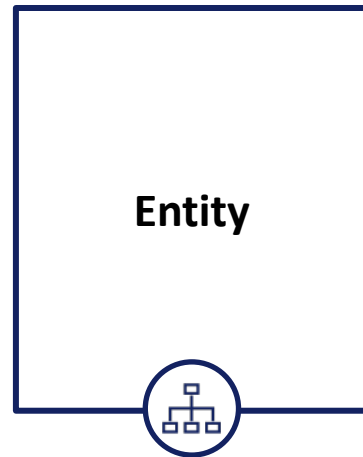
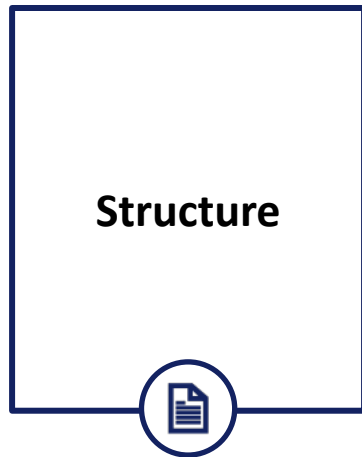
Sell OREO

Personnel and Confidentiality

Deal Team



Confidentiality Agreements

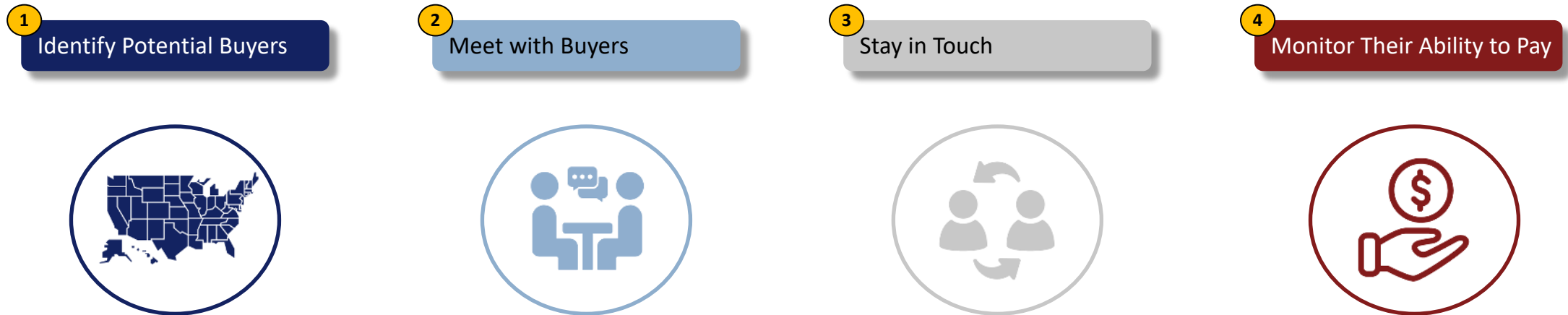


Know Thy Potential Dance Partners






Understand the Buyer Universe



Initiating and Maintaining Relationships

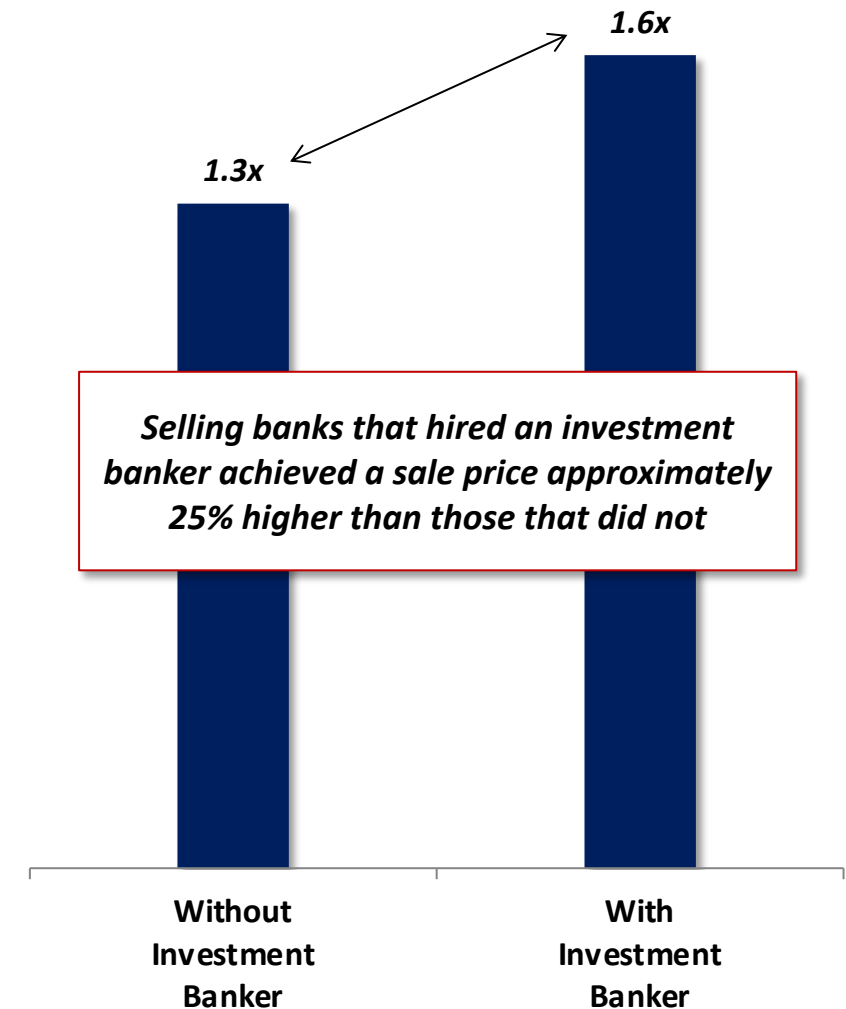


Value of an Investment Banker

<p>Superior Pricing</p> 	<ul style="list-style-type: none"> Selling banks that hired an investment banker realized a sale price nearly 25% higher than those that did not (<i>see chart</i>) Superior pricing is achieved through combination of factors including proprietary buyer intelligence, marketing narrative, process efficiencies, generated negotiating leverage, and transaction structural expertise
<p>Buyer Intelligence</p> 	<ul style="list-style-type: none"> A good investment banker will have proprietary intel on the universe of potential acquirers With knowledge of a buyer's preferences (e.g. target size, markets, etc.) and acquisition criteria (e.g. max TBV earnback, minimum IRR, etc.), an investment banker can estimate a buyer's willingness and ability to make a competitive offer
<p>Reduce Risk</p> 	<ul style="list-style-type: none"> M&A transactions can be complex and commonly raise questions around valuation, structure, financial returns, tax, accounting, law, regulatory approvability, etc. Investment bankers provide context and expertise that minimize risks related to process, transaction structure, pricing, tax, confidentiality, and regulatory approval.
<p>Free up Management</p> 	<ul style="list-style-type: none"> Investment bankers provide additional support and typically will dedicate a specific execution team that shoulders a significant portion of the transaction workload Consequently, management is free to focus on operating the bank, overseeing the process, evaluating potential offers, etc.
<p>Fiduciary Duty</p> 	<ul style="list-style-type: none"> While engaging an investment banker is by no means required, doing so supports the Board's satisfaction of its duty of care by receiving advice from third-party experts Similarly, a Fairness Opinion helps satisfy duty of care through a third-party, expert opinion on the fairness, from a financial perspective, of consideration to shareholders

The Value of an Investment Banker

Median P/TBV Without Investment Banker vs. With¹



¹ - Reflects median P/TBV multiples of all applicable whole-bank M&A transactions from January 1, 2018. Source: S&P Global.

M&A Best Practices

Role	Item	Recommendation
Remain Independent	M&A Environment	• Prepare for acquisition of competitors...they don't just disappear
	Competitive Landscape	• Anticipate new market entrants and / or more formidable competitors
	Organic Strategy	• Position to take advantage of market disruption
Acquisition(s)	Acquisition Strategy	• Define M&A strategy and rationale for acquisitions
	Advisors	• Solicit advice from expert advisors – especially investment banker and legal – well before any potential deal
	Deal Criteria	• Enunciate clear strategic and financial criteria
	Financial Analysis	• Analyze financial implications of transaction including EPS, IRR, Tangible Book Dilution Earnback, and Capital
	Consideration	• Assess capital capacity and consideration options for consummating an acquisition
	Regulators	• Apprise regulators of potential M&A plans
	Legal Framework	• Understand legal implications of M&A
	Board Preparation	• Educate Board on M&A landscape, valuation, deal process, fiduciary duties, and risks
	Target Identification	• Identify broad list of potential targets
	Relationships	• Initiate and maintain relationships with potential targets
Strategic Merger / Merger-of-Equals	Rationale	• Evaluate rationale for a combination...i.e., unlocking value by realized greater operating scale
	Negotiation	• Remain flexible and approach negotiations collaboratively
	Partner Identification	• Identify counterparties with complementary social issues; “Secret Sauce” usually complementary management succession
Sale	M&A Environment	• Understand M&A environment, deal drivers, and valuation implications
	Advisors	• Engage expert advisors – especially investment banker and legal – well before any potential deal
	Board Preparation	• Educate Board on M&A landscape, valuation, deal process, fiduciary duties, and risks
	Strategic Options	• Review , periodically, all potential strategic options
	Valuation	• Determine , through consultation with your advisor, your bank's estimated actual market value
	Acquirer List	• Identify and actively monitor the universe of potential acquirers
	Relationships	• Initiate and maintain relationships with potential acquirers
	Sale Process	• Select preferred sale process: 1) unilateral/one-off discussions, 2) limited marketing process, 3) broad auction
	Significant Contracts	• Revisit any long-term commitments, especially data processing and employment agreements
	Window Dressing	• Avoid “window dressing”: one-time efforts to inflate earnings or shrink expenses

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