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Bank Strategy Briefing

Ideas and analysis for community bank executives

WI bank M&A: 2017 predictions

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In our last edition of *Bank Strategy Briefing*, we summarized the 2016 bank M&A landscape in Wisconsin and identified several trends. In this edition, we give our thoughts on what 2017 might yield for bank M&A in our state.

After a record-setting 2016, with 17 whole bank deals announced, we think 2017 will be characterized as a return to more normalized M&A activity in Wisconsin. Here is why:

- **Lack of Sellers**. Many of the community banks that have dealt with some of the more common deal drivers in recent years - e.g., regulatory burden, interest rate compression, technology costs, succession issues, etc. - have either already sold their bank or figured out how to deal with whatever challenges they face. This appears to be the reason why there seems to be fewer motivated sellers currently compared to 2016.
- **Interest Rates Will Increase**. Post-election, experts are predicting that interest rates are going to increase and soon. Most community banks have had ample time to structure their balance sheets so as to benefit from a rate hike (hopefully!). Given that M&A pricing is mostly determined based on the target's earnings, some banks considering a sale may wait and see what a bump in interest rates might do to their prospects for an increased deal multiple. (Note that delaying a potential sale to try to time the market can present other risks.)
- **Regulatory Relief**. Another result of the recent presidential election, the banking industry is expecting the president and Congress to deliver on regulatory relief legislation. For those banks considering a sale due to the regulatory burden they face, the prospect of relief - especially combined with a likely interest rate hike - might again cause banks to "wait and see" what the next year or two bring before deciding whether to sell. (Note that any potential regulatory relief will likely take quite a while to materialize.)

There are still several existing motivating forces as well as new developments that will no doubt result in continuing M&A in 2017. One existing motivating force continues to be the strong desire for shareholder liquidity. One new development is the recent run-up in publicly traded bank holding company stock prices, giving those companies more valuable currency to offer sellers. Another new trend that might emerge is an increase in "strategic combinations" whereby two banks merge in a stock-for-stock deal (as opposed to a cash sale of a bank). There are a relatively large number of "buyers" looking to grow significantly and to remain independent. Without more sellers in the market, it increases the likelihood that these buyers will consider merging with one another in strategic combinations as an alternative. These are not necessarily "mergers of equals," but rather mergers driven by a mutual understanding that a combined bank offers more value to each bank's shareholders.

We expect bank M&A to continue at more normalized levels in 2017. All banks - whether buyers, sellers, or neither - would be wise to monitor M&A developments in order to identify threats and opportunities.

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