



Bank Strategy Briefing

Ideas and analysis for community bank executives

2019-2020 annual M&A round-up and predictions; Godfrey & Kahn ranks third in Midwest and first in Wisconsin

In our annual forecast last January, we predicted that 2019 would be a big year for bank M&A activity. That prediction turned out to be accurate, and our attorneys advised several banks in the midst of one of the most active bank M&A years in recent memory. **According to S&P Global Market Intelligence, Godfrey & Kahn ranked third in our region and first in Wisconsin among law firms in number of deals announced in 2019.**

Nationally, 266 deals were announced in 2019 compared to 264 in 2018 and 267 in 2017. Given that the number of charters continues to decline, this remarkably steady *total number* of deals represents a substantial increase in the *rate of consolidation* among U.S. banks.

Locally, deal activity in Wisconsin and the Upper Midwest closely followed national trends, with 75 whole bank deal announcements in 2019 compared to 73 in 2018. The following is a snapshot of 2019 metrics in each state that we follow:



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State	2019 number of deals ¹	Change from 2019	Median target assets (\$)	Deal value to earnings ²	Deal value to tangible common equity ³
Illinois	21	-2	97,810	20.6x	140.1x
Iowa	10	-2	110,953	14.1x	81.9x
Michigan	6	+1	301,793	22.4x	163.0x
Minnesota	13	-1	67,554	N/A	N/A
Missouri	8	-3	280,154	13.5x	150.2x
Wisconsin	17	+9	191,746	15.4x	149.1x
Average	12.5	+0.33	175,002	18.3x	143.6x
National	266	+2	204,846	19.4x	157.6x

*Data Source: S&P Global Market Intelligence

¹ Numbers reflect whole-bank transactions where the seller was headquartered in the state identified.

² Average Deal Value/Earnings for publicly reported deals.

³ Average Deal Value/Tangible Common Equity for publicly reported deals.

One of the more interesting trends in 2019 was how M&A activity declined as the year progressed. Most states in our region experienced high volumes of M&A announcements during the first half of 2019, with a much quieter second half of the year. This was the case, for example, in Wisconsin, where 14 of the 17 deal announcements occurred prior to June 30. Illinois was the one significant exception to this trend, with just eight of its 21 deal announcements prior to June 30.



Although there will continue to be a robust M&A market within the banking industry, we believe the tapering of deal activity seen in late 2019 is indicative of a “cooling off” year in 2020. A decline in M&A activity makes sense to us for two primary reasons: 1) the recent pace of consolidation over the last few years is simply not sustainable given the decline in the number of charters; and 2) we believe fewer sellers exist given that the large number of sales in recent years have removed interested parties from the market.

That said, there may be “wild cards” brewing in 2020 that could swing bank M&A activity levels significantly in either direction. Election year politics, international trade negotiations and global conflicts all have the potential to move markets, impact the macro-economic climate and encourage or stall strategic business decisions. These considerations could drive banks to take a “wait and see” approach to buying or selling, or they could accelerate those decisions. Time will tell.

The Banking & Financial Institutions Practice Group at Godfrey & Kahn wishes all of our clients and friends a happy, healthy and profitable 2020. For more information on M&A trends, or to learn how Godfrey & Kahn can help, contact our team.

Bank Strategy Briefing is prepared by the Banking & Financial Institutions Practice Group at Godfrey & Kahn, S.C., Milwaukee, Wisconsin, as a service to the community banking industry. It features commentary focusing on strategic business and legal issues relevant to community banks. Each written edition contains 500 words or less. Information found in Bank Strategy Briefing is for educational and informational purposes only and is not to be construed or relied upon as legal advice.

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