

## THE BEST CHEESE AND THE BEST ACQUISITIONS

by [Steve Brown](#)

This is probably old news to you, but last week tiny North Wales won the gold medal in the World Cheese awards. Like winning the Tour de France, but without the testosterone, South Caernarfon Creameries staged a come-from-behind win and shocked leading teams from France, England, Italy and the U.S. At the medal stand, the manager of the creamery talked at length about the secret of making top cheese. He said the best way was to start with the absolutely finest ingredients and then benchmark against the competition in an effort to constantly improve. The manager sounded more like an analyst than a farmer, which underscored that the world is becoming more sophisticated. Like modern cheese making, we continue to benchmark mergers and acquisitions, in an effort to determine what a guaranteed accretive deal looks like. After interviewing bankers that have done successful acquisitions (those that turned accretive within the first 3Ys of operations), we have distilled some interesting points. While we picked up the normal tidbits of how to combine cultures, business units and core systems, we also learned a very stark lesson – acquiring banks is not a strategy. While many banks act as though M&A activity is a key to their growth strategy, these banks used acquisitions as a tool to carry out their strategic plan. Not one person in this group of banks admitted to the merger as a defensive measure (to keep a competitor at bay) and all had higher goals in mind. For some banks, they did mergers to acquire a new business line - such as leasing, trust or insurance. For others, the goal was to diversify geography - either to expand or to fill in market area gaps. In each case, the management team compared the potential acquisition with their next best organic alternative and found that the price of the acquisition was cheaper than starting or expanding the current business venture. For clarity, M&A activity plays a very important role in creating value for banks (BoFA being the classical example); however, to be repeatedly successful, acquisitions need to be viewed in the context of the overall corporate strategy. Contrast that philosophy with some banks that did not make our top group. In these cases, the market initially rewarded them for each merger, until these entities inevitably ran out of candidates to acquire. At that point, each saw their market value falter. These banks that were seemingly driven by top-line growth, now all languish behind banks that conducted absolutely no acquisitions, but grew organically. In other words, while some of these banks were spending their resources on M&A activity, smart organic banks focused on core deposits, profitable loans and relationship management to produce outsized returns. The banks that conduct acquisitions the best only turned to M&A after they established a healthy overall operation. With each acquisition, these top banks acquired talent with consolidation experience, making each acquisition easier. Like making a world class Vintage Cheddar, the right ingredients and the right strategy are required. A successful acquisition starts with a good business model and then balances acquisitions with organic growth to produce an award-winning sharp fore-taste with a quintessential smooth finish.

### BANK NEWS

#### Acquisition

Ameris Bancorp (\$1.7B, GA) will acquire Islands Bancorp (\$68mm, SC) in a transaction valued at nearly \$16mm or 2.42x book.

#### M&A

A study of bank acquisitions finds 70% do not meet announcement expectations due to problems with integration.

### **Bank Robbery**

The FBI expressed concern over the growing number of armed bank robberies conducted by teenagers. The FBI will be collecting statistics and will release more data at the end of the year, or as a definitive trend develops.

### **Auctions**

According to the WSJ, some homeowners are using an auction process to sell property amid a slowing market. Auction firms are reporting a strong increase in demand from homeowners, as well as builders and investors, with excess properties. They also report more banks with foreclosed properties. The National Auctioneers Association said auctions of residential real estate totaled \$14.2B last year, an increase of nearly 8.4% from 2004.

### **Work Flexibility**

The average workweek has grown from 81 hours in 1981 to 91 hours in 2006 on average between couples with children. Additionally, 86% of employees work late and 87% bring work home. In a recent poll, 79% of employees said they would like more flexibility in the workplace if it didn't interfere with status, although 40% said they felt it would jeopardize their status at work.

### **Robot Leasing**

In an innovative program, Wachovia teamed up with Innova Holdings to provide financing to police and fire departments on robotic vehicles.

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