

# Branch Acquisition: How to Zero in on the Right Opportunity

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Although the Illinois banking market has been hit hard by the economic crisis, many community banks remain healthy today. And, for those in a position of fiscal strength, the implications of the current environment are very clear — branch supply and demand has created unprecedented opportunities for acquirers to grow their footprint at a lesser premium. To enhance the likelihood of augmenting franchise value through acquisition, however, it is critical for Illinois bankers to take a methodical, proactive approach to assessing potential prospects.

## Why now is a good time: pricing

Before delving into the how, let's take a quick look at the factors defining acquisition pricing today — branch supply and demand. The supply of branches for potential sale is likely to increase as larger institutions continue to exit weak or saturated markets to improve efficiency levels. As the longer-term trend of consolidation continues through whole bank merger or acquisition, other branches will be added to supply due to location redundancy of the combining institutions. Finally, the reality of today's adverse banking economy is that the state's failing institutions will continue to rapidly increase the supply of available branches. Consider that the number of branches in Illinois grew from 3,978 in 2000 to more than 4,989 in 2009.

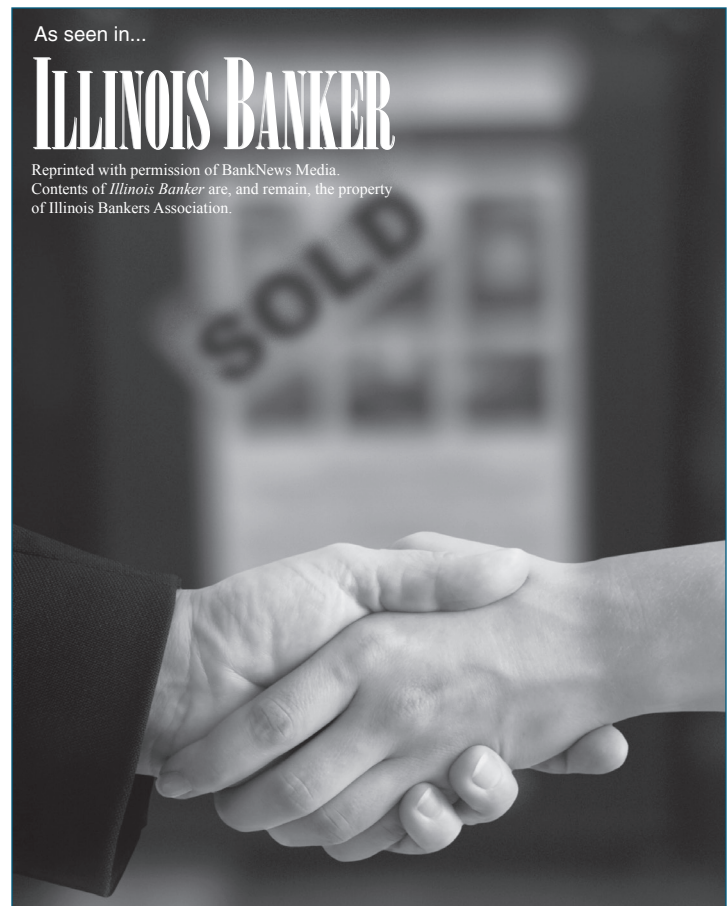
Conversely, capital constraints have materially lessened the volume of potential acquirers and even those with relative capacity are reticent to move decisively in today's uncertain environment. Increasing supply and waning demand will always create decreased pricing. Does this present an opportunity for those bold enough to move decisively? We believe the answer is "yes." But pricing is not the only variable influencing transaction success. You can further increase the odds of a successful transaction by proactively developing a focused acquisition strategy, versus waiting to respond to emerging opportunities.

## Develop an expansion strategy

**Conduct a strategic situation audit** — You're not trying to find a good acquisition for any bank; you're trying to find the best opportunity for your bank. The key is to "know thyself" by doing a situation audit of your institution's strengths and weaknesses from both a profitability perspective and a footprint perspective.

**Define your primary growth objectives** — What are you looking to accomplish? The answer, which is fundamental to evaluating whether any acquisition will enhance franchise value, should have emerged from your strategic situation audit. Utilize this foundation to define your bank's primary growth objectives. Are you seeking to fill an existing footprint or to expand into tangential markets? Is the focus more on consumer or commercial development, or are you looking for a combination of both factors? Is your desire to acquire a branch driven by funding? Or could it be about lending or gaining wealth management volume to exploit unutilized capacity?

**Set your guiding principles** — Having set your primary growth objectives, you need to establish principles that can further isolate the best acquisition candidates for your institution. Through the segmentation append process, your situation audit might reveal that your institution resonates with a particular client segment as you have a disproportionate share of that segment in your legacy



footprint. What could be more valuable than knowing who responds to your message? Could you not utilize that insight to identify potential locations with a disproportionately large base of that segment? Wouldn't that heighten the value of that location for your institution versus others?

Another essential guiding principle is what the competitive landscape looks like. Wouldn't you like to choose your competitors? If your offering differentiates well from national or regional institutions, for example, then it may be lucrative to acquire a branch that competes with them in a particular market.

**Proactive candidate identification** — Having utilized your unique situation audit to establish growth objectives and guiding principles, your institution is now in a position to develop an exclusive query to identify candidates possessing your desired characteristics. The objective is not to wait on opportunities to emerge but anticipate by already knowing which opportunities you would pursue with vigor. Could you anticipate failed-bank receivership opportunities? By screening within desired markets for institutions with the right footprint characteristics and high levels of loan loss exposure, you might identify which opportunities might emerge that are right for you. Your query could include criteria such as competition type, saturation, projected growth, consumer product demand, commercial niches like medical professionals or others.

## Being proactive will pay off in the long run.

In the end, an acquisition only makes sense if it addresses your weaknesses or exploits your strengths. Ultimately are you better off? The answer to this question can be addressed by comparing the growth potential of the current footprint to that of the pro forma footprint. Through advance scouting, your institution can proactively identify expansion opportunities instead of simply responding to unsolicited offers. Anticipate, and you will be in a position to exploit the state's favorable acquisition environment. ▮

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