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## M&A MISTAKES PEOPLE MAKE: THE SELLER'S SIDE

Part 2 of a two-part series about things that make mergers go wrong

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In my last blog , I addressed five common mistakes of buyers in community bank mergers and acquisitions. This week, I will address five common mistakes of sellers. (Not that there are not more!)

As noted in previous blogs, the merger and acquisition wave is beginning to come ashore. We are noticing a lot of buzz, particularly among the smaller community banks, regarding combinations with their larger brethren for cash, stock, or a mix. Many of the potential acquirors will be Subchapter S banks who actually have a good "currency" to offer, providing a decent cash flow and good return.

Although there are many mistakes that sellers make in connection with selling their community bank, I will address five common errors:

1. Sellers maintaining pricing expectations beyond what the market will bear.

Prior to 2008, the pricing on bank acquisitions was from a multiple of book value standpoint, somewhere in the stratosphere. It was well north of 2 times book for cash acquisitions and often significantly higher than that for stock acquisitions, where the acquiror's stock was trading at a similarly high or higher multiple.

For the last three years, understandably, pricing multiples have tanked.

Unfortunately, some sellers still have unrealistic expectations as to what their bank may be worth in this market. If you do not really want to sell your bank, price it too high.

I remember a lake house our family had years ago. One of the family members (wife) wanted to sell it. I did not. I let her price it, which she did, and she priced it way too high. As a result, we enjoyed the lake house for an additional five years.

Selling your bank is not different. If you are going to sell your bank, you need to understand the realism of the marketplace as it relates to purchase price.

## 2. Sellers not understanding how banks are valued.

Everyone likes to talk about multiples of book value and (we used to) talk about multiples of earnings. Banks are not really "valued" on either one of those.

Each of those indicators are "after-the-fact reporting mechanisms" after the price is determined.

The price is determined based on the earnings stream, or potential earnings stream, which the buyer receives from the seller. A buyer doing its job-to enhance value for its shareholders-will not give up more in stock or cash than it receives in earnings stream, in order to not dilute the earnings per share of its own shareholders.

## 3. Buyers structuring a merger of equals.

There is much talk about mergers of equals going around. In our firm we liken mergers of equals to Bigfoot and the Loch Ness Monster marrying. Everyone talks about them but no one has ever actually seen one.

While that is not exactly accurate, they are difficult to put together. Social issues are paramount. Who is going to run the company when it comes together? Who is going to be on the board? What is it going to be called? Where should the world headquarters be located? And the like. Mergers of equals are not impossible, but they are difficult.

(For more on this concept, go to my earlier blog.)

## 4. Sellers selling their banks at the wrong time.

Selling your bank over the last three years, particularly if you are healthy, was pretty much the wrong time. Selling an unhealthy bank at any time, unless you are desperate, is probably the wrong time.

The board needs to strategically determine the best time for the shareholders in connection with selling the bank. This could depend on many issues that are not market-related, i.e., the retirement of a CEO, etc.

Even a sale triggered by the retirement of a CEO needs to build in enough time so the CEO can overlap with the acquiror. Such timing issues are critical.

#### 5. Sellers not getting value from their professionals.

I am always astounded. I see sellers who, having run their bank successfully for 25 or 30 years, also think they can sell it equally successfully on their own, when they have never done it before. For the largest financial transaction in their life, some are penny-wise and pound-foolish, and try to work the sale of their bank themselves.

Get the right professionals, get people who know what they are doing, who understand the industry, and who can do a good job for you. You will receive value from your professionals. (and no, this is not simply shameless self-promotion).

Although there are a multitude of mistakes made by sellers in connection with community banks, those set forth above are some of the more common ones.

Editor's Request: Have you seen M&A errors by sellers? Share them with fellow readers below.

About the Author

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