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# Traditional Strategic Mergers Building Next Generation of Regional Bank Powerhouses

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**Editor's Note:** Edward Herlihy is a partner and co-chairman of the Executive Committee at Wachtell, Lipton, Rosen & Katz. The following post is based on a Wachtell Lipton memorandum by Mr. Herlihy and Matthew M. Guest.

In 2013 we've seen the welcome return of healthy, growing community banks acting decisively to become regional players through transformative mergers. History has demonstrated the most successful banks have been built through thoughtful stock-for-stock mergers that pair two strong firms in a deal and governance structure that acknowledges the culture and contributions of each.

Today's smaller and midsized banks that are poised to grow have recognized that current business and regulatory challenges weigh more heavily on smaller institutions, and that jointly realizing cost savings and revenue synergies can create significant value for each company's shareholders. In a disciplined pricing environment, sellers and acquirers alike are more focused on essential factors like cultural and geographic fit, shared values and business practices and a commitment to serve the communities where they operate. And in announcing these stock deals there is a shared interest in pricing terms (including in the important area of tangible book value dilution) that will be well received by the market, recognizing the pairing is a long term decision creating significant scarcity value.

In February, SCBT Financial continued its remarkable run of responsible and value-enhancing growth by announcing its transaction with First Financial. This joining of two strong and well-run banks will create a very substantial bank poised to grow throughout the region. But besides the obvious appeal in scale and financial benefits, the merger was carefully planned to ensure First Financial's many strengths in governance, management, and community presence will be preserved and enhanced in the combined company. The transaction was clearly well-received by the market, with SCBT's stock trading up (to the great benefit of First Financial's shareholders) dramatically in the days and weeks following the deal's announcement.

Just this week Provident New York and Sterling joined together in a merger of equals that fits the mostly suburban franchise of Provident with the NYC and Long Island franchise of Sterling. The appeal of the geographic and complementary business fit is immediately apparent, as is the governance structure which draws heavily on each company's board strengths. Again, the market welcomed the news of the transaction with Provident and Sterling each trading up significantly. Another notable example is the recently completed Columbia/West Coast merger, where the value to West Coast shareholders increased substantially over the pendency of the deal as a result of deal terms that were well-received by the market and benefited Columbia's stock price.

These traditional mergers must be viewed as true partnerships to work. This starts with announcing a highly certain, limited condition transaction that is designed to close successfully. These are not sales, but mergers where each firm's stakeholders continue their interest in the combined company, and as a result these deals need not (and should not) include fiduciary termination rights or the like seen in cash auctions or similar sale transactions. Where a party has significant, involved shareholders, they are almost always immersed in the deal planning from the outset, and their commitment to support the deal is an essential part of the deal's certainty and reception by the market.

The examples mentioned here and the many other smaller strategic deals happening regularly are evidence of the next generation of great regional banks being created. In many cases these mergers were conceived as a matter of strategic necessity, as efficient growth for healthy community banks helps navigate the dual challenges of the low yield environment and crushing regulatory and compliance costs. Successful implementation of these deals requires advance planning around delicate issues beyond exchange ratios, including board arrangements, employment and retention arrangements, name and headquarters, community commitments, regulatory reaction and synergy and revenue opportunities. Careful attention to each of these matters can help ensure strong deal execution and timing and a favorable reception in any market.