

# Michigan Banker

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If your hard work isn't being reflected  
in your bank's stock price,  
you're obviously  
doing the wrong exercises...

**CAMELS Consulting Group**  
*Increasing Shareholder Value*

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# CAMELS Consulting Group focused on ... *'Increasing Shareholder Value'*

By BILL PERRY

CAMELS Consulting Group (CAMELS), a firm fully focused on the community bank sector is providing guidance to Michigan banks in attaining greater Fair Market Value (FMV), increased liquidity, and higher trading multiple for their company stock. CAMELS offers “a succession plan for their shareholders and capital expansion planning and implementation for the bank.”

**CAMELS three core processes, are described in the following manner:**

- Stock Navigation Program ... “Effective Management of Long Term Investor Interest”
- Stock Valuation Reports ... “Benchmarking Today’s Value for Tomorrows Growth”
- CAMELS CommunityLink ... “Identifying Opportunities, One Name at a Time”

## About the Principal



Ed Schmidt/President of CAMELS Consulting Group

Edward E. Schmidt, president of CAMELS has worked in the community bank sector for over thirty-five years in various capacities from a teller while attending school to holding such titles as CLO, CFO, COO and President/CEO. His credentials extend beyond banking to spending many years as Co-director of a bank specific West Coast legal firm addressing wide ranging initiatives, such as; board governance, new bank formations, mergers/acquisitions, and performing bank stock valuations.

Important to the evolving disciplines of Mr.

Schmidt was his relocation to the mid-west, as EVP/COO of a boutique brokerage firm that dealt with publicly traded and privately held community bank stock. In that capacity, he provided bank valuations, investment banking services, and market making support to the community bank sector in the mid-west, southeast, and western markets.

He orchestrated the formation of over 14 community banks most recently, Nationwide Bank in Columbus, Ohio. Early this year, as Financial Advisor, he completed three successful bank offerings raising approximately \$4.5 million in new capital and has completed over \$1.8 B in investment banking transactions over the course of his career. Mr. Schmidt, noted “that the numerous transactions cemented in my mind the importance of how shareholder expectations drive the life cycle of community banks, from start-up to exit”.

When asked to summarize his objectives, it was immediately noted, as “wanting the community bank sector to survive and to provide the processes and understandings to both board’s and management on how to accomplish that goal.” Mr. Schmidt simply stated. “I started in this business in the early 70’s and have seen that many consolidations have occurred for the wrong reasons. The reason’s being not preparing for shareholder succession, nor amplifying the benefits shareholders provide the banking franchise. In other words, the shareholder often becomes the forgotten numeric in the equation that drives survival and success.”

Mr. Schmidt holds an undergraduate degree in business administration, graduate of the Pacific Coast Banking School, Graduate School of Business-University of Washington, Seattle and is a doctoral candidate in business management. He has held numerous industry and brokerage certifications and awards for achievement in marketing of bank services. He often speaks at industry conferences and annual shareholder meetings.

## How did you come up with ‘CAMELS’ for your corporate name?

I was not expecting that as your first question, but on reflection it is a good one. The toughest initial decision one makes in company formation is deciding how you want to be recognized in the marketplace and of course the logo design that goes along with the name.

I wanted the name to be immediately recognized within the banking sector and offered clear meaning; specific to the guidance the industry utilizes to gauge performance and shareholder return. Name selection focused on CAMELS as being recognized, easily remembered, and most importantly available.

### **Is the consulting business new to you?**

“I have been providing consultative support to the banking industry since the mid-seventies.” As EVP of a community bank that I saw grow from \$12 million to over \$300 million in assets, I was responsible for instituting what was the first correspondent banking platform for community banks on the west coast. This included supporting 24 community banks with their data processing, treasury and participation activities. Within my tenure at the previously described law and brokerage firm that consultative experience only grew with one key objective that has been my firm’s mission. “Provide value at every client contact, provide repeatable learned processes to the client, and offer cost effective solutions.” I feel that at the end of the day, the best consultative process is one that has a beginning and ends with the word success.

### **So what is it that CAMELS actually does? And how?**

CAMELS processes are utilized by both publicly held and privately traded banks and focuses on increasing shareholder value. “This value is defined as increasing FMV, liquidity, and securing higher multiples.” The programming of CAMELS addresses new shareholder identification, dividend strategies, and capital planning. “We are pleased to have clients within the State of Michigan, such as; ChoiceOne Financial Services, Old Mission Bancorp, Inc., Honor Bancorp, Inc., Dart Financial Corporation, Huron Valley State Bank, and Union Financial Corporation.”

The past several years have been very challenging for community banks both in earnings and maintaining capital levels. This translates into



**... CAMELS CommunityLink has helped tremendously in identifying prospective shareholders ...**

*Mike Worden  
President of Honor Bank*

**... without a shareholder succession plan community bank's will not survive, CAMELS provided us an action plan ...**

*Jim Bosserd  
President of ChoiceOne Bank*



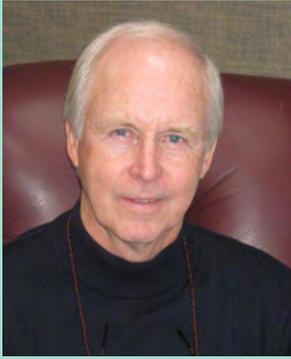
dividends which in turn negatively impacts not only FMV but the desirability of shareholders maintaining ownership. This also brings with it what I call “the perfect storm, which is a naturally aging shareholder base that has entered into the last phase of their investment cycle, turning assets into cash.”

I speak often with boards and CEOs with a central theme of price, liquidity, dividend, and large block sale concerns. This concern is amplified by the question, “Where can I find my next shareholder? When can I re-institute a dividend program? In today’s world of being dividend ‘light’ or dealing with too many treasury shares, I find a strong investor relations program of great importance.

“CAMELS Stock Navigation Program provides its client banks deep perspectives on elevating shareholder communications that re-focuses investor relations to drive home the value of ownership.” This encompasses more than just a quarterly recap of performance or a newly announced dividend. “CAMELS review all media communications and offers proprietary programming that advances the culture of ownership.”

CAMELS Stock Valuation Reports identifies processes that can positively impact a bank’s stock price. Valuations also support option pricing, ESOP/DRIP or address fairness opinions. Valuations offer board’s the ability to provide shareholders a qualified third party view of a stock’s Fair Market Value (“FMV”). Basically, a properly prepared valuation report puts a stake in the sand, as a reference point, establishing the multiple that is reflective of your bank.

“Privately held banks need to establish not only the FMV, as identified by a third party valuation appraiser, but to effectively communicate that price level to shareholders.” An investor who is not aware of the value of their investment would be easily moved to sell and in some cases well below FMV. Unfortunately, this lack of knowledge impacts the FMV of all shareholders. “Michigan banks, as



**... CAMELS Valuation Services provides shareholders an indication of FMV, positively impacting liquidity ...**

*Dave Firack  
President of Old Mission Bank*

all community banks have been down some rough roads in most recent years, it is time the stock price slide be challenged with consistent communication of your bank's fundamentals." CAMELS principal is recognized as an expert witness and appraiser of community bank stocks.

### **How do you identify new shareholders?**

CAMELS CommunityLink is designed for Identifying Opportunities, One Name at a Time". Let me explain it this way. "New shareholders are all around you, you just need to ask." The Jobs Act opened shareholder identification to more than just attracting a few deep pockets. "Now an institution can look to attract shareholders who will also help grow the bank and during that time increase their respective ownership position."

Properly orchestrated, shareholder identification can increase market share and your bank's profitability. CAMELS software application is designed for directors, officers, and staff to become seekers of new shareholders. "CAMELS CommunityLink, has been responsible for successful capital raises, increasing liquidity, FMV, and opening up new business opportunities.

### **You referenced the importance of Shareholder Accounting, can you explain?**

Most often in implementing key processes for increasing shareholder value, I have found that a bank's shareholder accounting system cannot adequately handle recommended programs. Current IRS regulation requires that cost basis accounting be provided shareholders of even privately held companies, is but just one example. ESOPs, DRIP, Stock/Cash Dividends, Splits, Usage of preferred shares, warrants, and options all require special handling and accurate record keeping. In researching firms that offer shareholder accounting, "I have found one company, FigTree Consulting that offers elevated recordkeeping with their STOCKTRACK

software program" that includes, 24/7 support and training, direct shareholder web access coupled with a competitive price point. Many of CAMELS clients have moved to the StockTrack platform providing elevated reporting to both bank and shareholder.

### **Who makes up the staff of CAMELS?**

Important to CAMELS is its Advisory Board and support firms. We are fortunate in having firms as VDA Solutions, InfoShare , and FP WEB one of the world's largest providers of hosting solutions part of CAMELS team. Additionally, CAMELS has a partnership affiliation with Otterbein University internship program providing communications and accounting graduate students.

CAMELS Advisory Board members include Ted Eissfeldt (Attorney) Howard & Howard; Brian Rhonemus (Partner) Angott Search Group; John Lacher, CPA, Lacher & Associates; Dave Mayo (Principal) Financial Information Systems/FEDFIS; and Neil Grayson (Partner) Nelson Mullins Riley & Scarborough LLP.

### **You mentioned doing special projects for client banks. Can you give examples?**

CAMELS has been engaged over the course of just the past two years as financial advisor for four offerings; formation of a bank holding company, a shareholder trust holding company; incentive stock option plan(s), dividend re-investment plan(s), formation of two wealth management business units, and updating of corporate governance including capital plans and dividend policies.

### **Can you give our readers a final thought on CAMELS?**

*"It's time to put your focus on your shareholders .... they deserve it."*



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866.539.9311**