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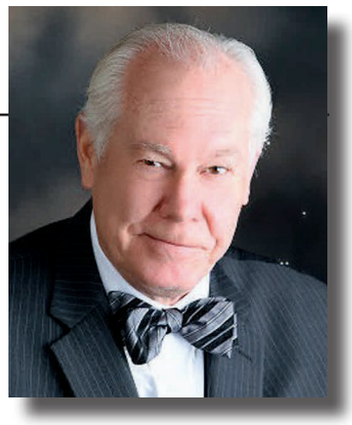
On the Cover this month: Donnelly Penman & Partners: . Their team includes Left to Right: Roy Vorhees, Mark Cleland, Jeremy Lamb, John Barrett, Blake Searight, Nick Diehl. Seated Left to Right: Andrew Christians, John Donnelly, Greg Cunningham. Missing from picture: Jim Penman and Bonnie Somerville.

This Month Featuring....

...and So Much More!

Implement a Shareholder Strategy Or Sell the Bank!



Edward E. Schmidt,
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Selling the bank. It's a thought that has likely floated through the minds of most community bank executives and board members these days, given the rapid-fire mergers and acquisitions that are now commonplace in our industry. Even if it's only a fleeting thought, or a brief discussion in a board room, it's one that requires a decisive answer. Collectively, your bank's leadership must decide if the bank will remain independent, or if your institution will be positioned for a merger or acquisition. If the choice is independence, then a strategy for meeting shareholder expectations must be executed.

To sell or not to sell? It all comes down to exceeding shareholder expectations.

Obviously, preparing for a sale and preparing for the future as an independent bank are two very different endeavors. However, they both revolve around a single critical task: increasing shareholder value. If your bank is going to sell, it is highly likely that in some shape or form, the end game is to provide additional value for your shareholders that cannot be attained by staying independent. On the other hand, the decision to remain independent is essentially a pledge to continue providing—and increasing—shareholder value and liquidity, to meet investor expectations. After all, if you can't attract new shareholders the bank can't grow or move forward very rapidly, if it can do it at all. This is why shareholder succession planning is important.

For example, two institutions merging that in both instances have stock selling below book value coupled with lack of liquidity, will be tested in maintaining investor interest after the transaction is closed without an investor strategy in place.

Succession planning is a particularly poignant considering that the demographic profiles of community banks shareholders tend to skew to the "more mature" end of the age spectrum. Clearly, recruiting new shareholders who will be invested in the bank over the next ten, twenty or thirty years should be a key objective. To meet this objective, board members must think beyond the singular cash dividend and focus on the level of authorized shares, shares outstanding, stock dividends, ownership programs, and elevated investor relations.

To remain independent, go back to the basics of building shareholder value.

Let's look at the "nuts and bolts" of strategic value-building for your bank's shareholders:

- **Stock valuation**. The old saying, "If you don't know where you are, you can't get where you're going," applies here for a couple of reasons. 1) An accurate valuation of your bank's fair market value is the first step in benchmarking the price of your bank stock, the measure against which you can track your progress in regard to increasing shareholder value and stock liquidity. 2) Regular stock valuations drive investor interest—your existing shareholders want to know how their investment in your institution is performing and having regular communication in regard to the movement of your bank's share price satisfies this desire. For potential investors, up-to-date stock valuation information is a key decision-making factor and provides the basis, ultimately, for a purchase of bank stock.

- **New shareholder identification**. Do you know where your next investor is coming from? This is a crucial question that your bank's team needs to answer. A generic message about the importance of investing in your community bank because it's "the right thing to do" is not going to win you new shareholders in today's crowded and consolidation-centric environment. You need a program across the bank that dovetails shareholder development with business development, utilizing a prospecting strategy that tracks the investor sales funnel, similar to, and ideally, integrated with, that which is used for cultivating new commercial lending and financial advising client relationships.
- **New investment options.** Today's potential bank shareholder is looking for an investment that will provide value, not only from a community-building perspective, but based on ROI as well. Two options that fit the bill are dividend reinvestment plans (DRIPs) and self-directed IRA programs (utilizing bank stock). Both of these options can be economical, easy to implement and manage, and attractive to potential investors, while also addressing the continual challenge of maintaining stock liquidity.

Remaining independent requires a sharp focus on shareholder value.

A comprehensive strategy for creating shareholder value and rejuvenating your investor base will: provide a clear plan for increasing the future earnings potential of your institution, improve stock liquidity and enable you to attract the next generation of investors to your organization—all essential for ensuring that your bank can sustain its independence and leverage the importance of 'local ownership'. Remember, although brokerage firms would encourage you to list your stock … that listing comes with many pitfalls, especially if liquidity and lack of local investor interest are inherent issues for your bank.

Edward E. Schmidt is President and CEO of CAMELS Consulting Group, which helps banks increase shareholder value and stock liquidity, develop dividend and capitalization strategies, and address the need for shareholder succession. With more than 35 years of executive experience in the banking industry, Schmidt is a recognized expert financial witness and has completed more than 1,000 bank stock valuations over the course of his career.