

# A Partnership of value: Firmex helps The Bank Advisory Group streamline bank stock valuations, mergers and acquisitions



The Bank Advisory Group, L.L.C.

## COMPANY

The Bank Advisory Group LLC

## WHAT THEY DO

M&A advisory services  
Bank brokerage  
Bank stock valuations

## MARKET FOCUS

Community banks

## HOW THEY USE FIRMEX

- Pre-due diligence data collection
- Due diligence
- Bank stock appraisals

## ABOUT THE BANK ADVISORY GROUP

For over 25 years, The Bank Advisory Group has advised community banks across the United States. “We provide investment banking services to community banks, principally merger and acquisition advice, brokerage and valuation services for the stocks of closely-held community banks,” explains Stephen Skaggs, President of The Bank Advisory Group.

Skaggs has worked extensively with community banks nationwide and has been involved in well over 500 fair

market evaluations of bank stock for purposes of merger & acquisition transactions, employee stock ownership plans, federal estate tax returns, and collateral assessments.

Prior to forming The Bank Advisory Group in 1989, Skaggs was a vice president in the Investment Banking Division at Sheshunoff & Co., where he co-authored the company’s widely read publication, *Buying, Selling, Merging Banks*.

## COMMUNITY BANKING – A CLIMATE OF CONSOLIDATION

A community bank is typically locally owned and operated and is not affiliated with a multibank holding company.

“M&A activity ebbs and flows but in a broad sense, the community banking market is consolidating,” says Skaggs. “To compete, a smaller community bank has to have a defined niche or specialization. Even then, they face an

ever-increasing regulatory burden that adds to the cost of doing business. For smaller banks, this burden can be difficult to manage because their account base isn’t broad enough to spread the compliance costs across. The ownership of many small banks is also ageing, which can be another impetus to sell or merge.”



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— Stephen Skaggs, President, The Bank Advisory Group



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## Q/A

**What business problems are you solving?**

**Stephen Skaggs:** “When you get to the due diligence phase, the bank and the bidder start swapping information that is customer specific, extremely sensitive and needs to be kept strictly confidential. Bank regulators aren’t too keen on customer information being shared insecurely. This is where the Firmex Virtual Data Room works beautifully. With its easy to set up user access controls, Firmex is essential for maintaining the confidentiality of all files exchanged between buyers and sellers.”

**What is your role in a typical bank merger or acquisition?**

**SG:** “M&A advisors are 75% financial analysts and 25% psychologists. Selling a community bank is a once in a lifetime event. Our clients are facing possibly the most important financial decision they will ever make. Emotions can run high and the process can often seem chaotic and painful. Our clients trust us to provide objective analysis and frank advice. We put things in perspective and tell it like it is.”

**What advice would you give a client who is considering selling a bank?**

**SG:** “Get your loan files in order. Many smaller banks are, frankly, poor at this. Because they’re lending to clients that they personally know, they’ll trade on character and a handshake. For bigger banks, this doesn’t really fly. The bidder’s credit team will want access to borrowers’ cash flow statements and the bank’s loan review files to assess the quality of the lending. Are the loans poorly underwritten? Where is the documentation that lays out a plan for how the loan is going to be repaid? The quality of the seller’s loan files can become a real issue.”

**BANK STOCK VALUATION**

“Under the US Department of Labor’s Employee Retirement Income Security Act (ERISA), a community bank’s employee stock ownership plan (ESOP) has to have a valuation report prepared annually,” Skaggs explains. “If you’re a plan participant, and you want to retire, you need to know what your benefit is worth so you can liquidate it and roll it over into an IRA. Since the stock is closely-held, and not publicly traded like Bank of America or Wells Fargo, you have to have a qualified appraiser tell you what it’s worth.”

“Our staff includes Certified Valuation Analysts (CVAs) who are qualified to prepare and sign off on these annual valuation reports,” says Skaggs. “We have 50-60 bank clients who trust us every year to value their stock for their employee stock ownership plans. We rely on our Firmex Virtual Data Room to support our valuation business in addition to our M&A and bank brokerage services.”

**FIRMEX FOR BANK STOCK VALUATIONS**

“We use Firmex to keep track of all our repeat valuation clients,” says Skaggs. “Every year in January, we send out a questionnaire to our bank clients requesting year-end financial statements, securities portfolio inventory, asset quality benchmarks, and so on, and ask them to upload the documents to a folder in the Firmex data room. We give them administrator rights for that folder alone and the bank’s CFO and whoever else is working on the project has permission to upload directly to the data room. They don’t have to email the confidential documents to us or send them by mail or courier. Firmex makes this data collection fast, simple and straightforward.”

“Another folder in Firmex contains the engagement letter where we’re indemnified by the client,” Skaggs continues. “We refresh these

indemnification letters every 3-4 years and add a new engagement letter spelling out our fees for the valuation service.”

“And finally, rather than emailing the valuation report to the client when it’s finished, we post the report to a folder in Firmex,” Skaggs adds. “This has a couple of advantages. First, it’s a more secure way of delivering the report than email, and second, we consolidate a complete history of all prior valuation reports in one place. So, for example, I’m looking at a client’s folder right now, and we have 6 reports going back to 2012. For other clients, we go back even further than that, sometimes for 12 years.”

“We like Firmex because it provides a secure solution for organizing and storing years’ worth of client data, and our clients find it very intuitive to use,” says Skaggs.





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## FIRMEX FOR BANK MERGERS AND ACQUISITIONS

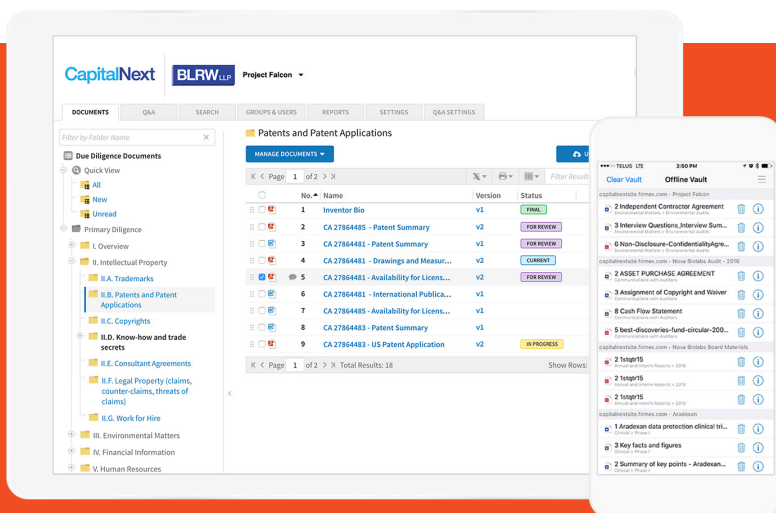
"When a client hires us to broker their bank, we gather data and set up a due diligence data room in Firmex where we post documents for the client," Skaggs says. "We go out and identify and solicit bidders and then run the bidding process in Firmex."

"All bidders sign a non-disclosure agreement," Skaggs says. "In the Firmex VDR, we set up a folder for each potential bidder and the only thing the bidder's team can see is their own folder plus the data folder for the bank we are brokering. In the bidder's individualized folder, we post a PDF of the NDA so that anyone who goes into the project from the bidder's team can't say that they aren't aware of the NDA. As we run through the bidding process and the first stage of due diligence, we can add new and updated documents for the bank we're brokering. Plus, if we need to provide a document to a specific bidder, we can post that document to the bidder's individualized folder."

"After the winning bidder is selected, our approach during the second stage of diligence is to get out of the way and allow the seller and bidder to swap documents in the data room," says Skaggs.

"We don't feel obliged to handle every piece of documentation. Most bidders have a hit list of the documents they want to see and the client will start uploading them directly to the Firmex VDR. We find that taking a hands-off approach where we monitor but don't try to micromanage the flow of information works best for all parties. Firmex makes the document sharing process easy and straightforward, as well as safe and secure."

"During diligence, sellers often feel under the gun," Skaggs notes. "The last thing they need is a virtual data room that is frustrating to use or makes the process more onerous than it already is. The Firmex VDR interface is easy to navigate. It's functionally friendly and most of our clients are able to start uploading and sharing documents immediately."



## The world's most trusted virtual data room.

As one of the most widely used virtual data rooms, Firmex supports complex processes for organizations of all sizes including diligence, compliance, and litigation. Since 2006, Firmex has helped professionals take control of their confidential documents.



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