



Deal keeps Associated a buyer, rather than a seller

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MILWAUKEE JOURNAL SENTINEL

The acquisition of Bank Mutual Corp. by Associated Banc-Corp likely delays the day that Associated itself could be taken over by a bigger bank, some industry professionals say.

The two Wisconsin-based banks announced Thursday that Associated planned to buy Bank Mutual in an all-stock deal valued at about \$482 million. Associated, of Green Bay, and Bank Mutual, of Brown Deer, are the largest and third-largest banks, respectively, headquartered in the state. Some industry analysts have said Associated probably is on the radar of Columbus, Ohio-based Huntington Bancshares Inc., which moved into Wisconsin last year with the acquisition of FirstMerit Bank and has more than 40 branches here. Pittsburgh-based PNC Bank, which is believed to have been the runnerup to BMO Harris to acquire Milwaukee's Marshall & Ilsley Corp. back in 2011, also could be an eventual suitor for Associated, according to some in the industry. Any acquirer of Associated would immediately have a huge presence in Wisconsin, and even more so after Associated's purchase of Bank Mutual is completed. Associated will gain access to 12 new markets when the deal closes. In a research note analyzing the transaction, Christopher McGratty of the New York financial services investment bank Keefe, Bruyette & Woods, said, "Longer term, we still believe (Associated) could sell and the (Bank Mutual) deal doesn't do anything to jeopardize this, rather likely merely pushes out the timing." McGratty, in an interview, said the drop in Associated's stock price Friday probably reflected the sentiment of investors who had thought Associated might be sold sooner rather than later.

"I think the weakness that you're seeing in the stock today is less about the deal itself vs. I think a lot of investors have viewed Associated as a potential seller near term themselves," he said. The acquisition of Bank Mutual — a bank with about \$2.7 billion in assets — keeps Associated, currently with \$29 billion in assets, at a size that still would be appealing to a number of acquiring banks, said bank analyst Terry McEvoy, a managing director for Stephens Inc. "If they had done a larger transaction, it would have maybe pushed them into a category where it may have limited the number of potential buyers," McEvoy said. However, in the short run, the deal for Bank Mutual pushed the rumor of Associated being a takeover target "out into the future," he said.

Competition may intensify

The acquisition of Bank Mutual is the kind of smaller, lower-risk banking industry deal that Philip B. Flynn, Associated's chief executive, consistently has told Wall Street that the bank may pursue. With many branches overlapping with Bank Mutual, Associated will be able to reduce expenses as the banks merge. Bank analyst Jon C. Bruss isn't a fan of the Associated-Bank Mutual deal. "I think that neither of these banks are good

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solid performers," said Bruss, CEO of Fortress Partners Capital Management Ltd. in Hartland.

Bruss said, "They are going to have to terminate a lot of people. Otherwise, this just isn't going to work."

In its announcement Thursday, Associated said it anticipates cost savings from the consolidation of branches and operations, but expects "significant, ongoing opportunities for employees of both organizations to contribute to the franchise over the long term."

Bruss also said Associated can expect competitors to be pushing hard to take away business loan customers of Associated and Bank Mutual as the two focus on the merger. He said he thinks GreenBay's Nicolet National Bank and Manitowoc's Bank First National and Investors Community Bank are likely to be among banks and credit unions trying to chip at Associated's business.

"I think it's going to be all-out war," Bruss said.

The deal, which is expected to close in the firstquarter of 2018, would eliminate a Milwaukeearea corporate headquarters. But a Keefe, Bruyette & Woods report said Bank Mutual has been considered an acquisition target for some time.

"As one of the largest remaining independent financial institutions in the state of Wisconsin, (Bank Mutual) has long been viewed as an acquisition target for a larger bank looking to gain market share across the state," according to the report.

In a 2016 survey of bank deposits by the Federal Deposit Insurance Corp., Bank Mutual had about \$1.9 billion in deposits, or about1.3% of deposit market share in Wisconsin. That means that of every \$100 on deposit with a bank in the state, \$1.30 was held by Bank Mutual. Associated's deposit market share was 13.7% in the FDIC survey.

Associated Bank plans to acquire Bank Mutual.

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