

Wintrust deals could be the beginning of open-bank M&A wave in Chicago

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By Kiah Lau Haslett and Robert Downey III

Wintrust Financial Corp. opened 2015 with a bang, announcing three deals in five weeks, but the wave of open-bank deals for the Windy City may just be starting to gather steam.

Wintrust announced it would acquire nearly \$1 billion in assets through three bank deals announced within a little more than a month. But this may just be the beginning of Chicago's M&A wave. As failures have receded, more sellers may come to the market looking for a buyer and create more opportunities for acquisitive institutions like Wintrust, according to the investment banker who advised two of the sellers.

Wintrust was "very, very" active in M&A discussions with potential sellers throughout 2014, executives said during the bank's third-

quarter earnings call, and management previously said they are partial to smaller acquisitions because they tend to be less disruptive to the company and offer a cultural fit. Courting smaller banks can also mean less competition from other community banks, and the preference has differentiated the company as it cobbles deals together in order to make a more meaningful impact to the bank, said FIG Partners analyst John Rodis.

The latest deals go along with that playbook. Wintrust announced March 2 that it had agreed to acquire Glen Ellyn, Ill.-based Community Financial Shares Inc., which had \$343.0 million in assets as of year-end 2014, for a reported deal value of \$42.4 million. It followed with another announcement March 30 that it had agreed to acquire Chicago-based North Bank for a reported deal value of \$17.0 million. North Bank had \$107.9 million in assets as of year-end 2014. It then announced April 2 that it had agreed to acquire Elmhurst, Ill.-based Suburban Illinois Bancorp Inc. for a reported deal value of \$12.5 million.

The three deals would bring total acquired assets of \$921 million, total acquired loans of \$537 million and total acquired deposits of \$817 million, Sandler O'Neill analyst Brad Milsaps wrote in an April 6 report following the Suburban Illinois deal. Wintrust paid about \$72 million in total, which Milsaps said "seems reasonable relative to what a \$1 billion Chicago franchise would fetch." The three deals will improve profitability and provide "ample" cost saves from branch consolidation. He estimated that they could add between 8 cents and 12 cents to 2016's EPS if Wintrust could generate 80 to 90 basis points on the acquired assets.

There could be more deals coming for the Windy City. Chicago is in the "opening innings" of its own consolidation wave after lagging many markets across the United States, said Eugene Katz, an investment banker at D.A. Davidson. Katz worked with the management teams at North Bank and Community Financial in their mergers with Wintrust and his comments to SNL were limited to the general marketplace.

He said banks in Chicago mulling open-bank deals had to consider the opportunity cost of FDIC-assisted transactions in the past. The number of troubled banks in the state meant buyers may have focused more on failed-bank deals, with would-be sellers waiting on

Financial highlights of Wintrust's acquisition targets For the year ended Dec. 31, 2014.

Financial metrics	Community Financial Shares Inc.*	North Bank	Suburban Illinois Bancorp Inc.
Total assets (\$M)	343.2	107.9	470.5
Total deposits (\$M)	310.3	96.1	411.1
Total loans and leases (\$M)	185.0	55.1	296.7
ROAA (%)	1.74	0.49	-0.47
Net interest margin (%) ¹	3.39	3.83	3.15
Efficiency ratio (%) ¹	85.33	78.65	91.99
Texas ratio (%)	16.00	32.92	288.37
NCOs/avg. loans (%)	-0.01	0.31	1.77
Tier 1 risk-based ratio (%)	12.24	17.30	5.21

Data compiled April 8, 2015.

* Subsidiary financials were used for the company due to unavailability of consolidated financials.

ROAA = return on average assets

NCOs = net charge-offs

¹ Shown on a fully taxable equivalent basis.

Texas ratio = Nonperforming assets plus loans 90 days or more past due, adjusted for assets guaranteed by the U.S. government, divided by tangible equity and loan loss reserves.

Total loans and leases include those held for sale.

Data is based on regulatory filings.

Source: SNL Financial



Bank acquisitions announced in the Chicago metropolitan region since Jan. 1, 2014

Buyer (ticker)	Target (ticker)	Target city, state	Announcement date	Deal value (\$M)	Price/tang. book (%)	Total assets (\$M)
Wintrust Financial Corp. (WTFC)	Suburban Illinois Bancorp Inc.	Elmhurst, IL	04/02/15	12.50	NM	470.55
First Savings Bank of Hegewisch	South End Savings S.B.	Homewood, IL	03/30/15	NA	NA	34.30
Wintrust Financial Corp. (WTFC)	North Bank	Chicago, IL	03/30/15	17.00	152.34	107.91
Wintrust Financial Corp. (WTFC)	Community Financial Shares Inc. (CFIS)	Glen Ellyn, IL	03/02/15	42.38	152.02	335.18
Brookfield Financial Holdings Inc.	First National Bank of Brookfield	Brookfield, IL	12/16/14	2.00	29.15	147.57
National Bancorp Holdings Inc.	Baytree National Bank & Trust Co.	Lake Forest, IL	11/19/14	NA	NA	92.31
Royal Financial Inc. (RYFL)	PNA Bank	Chicago, IL	11/14/14	1.20	22.84	99.02
Premier Commerce Bancorp Inc.	Winfield Community Bank	Winfield, IL	11/06/14	NA	NA	54.87
First Midwest Bancorp Inc. (FMBI)	Great Lakes Financial Resources Inc. (GLFL)	Matteson, IL	07/08/14	60.77	137.73	581.52
American Bancorp of Illinois Inc.	Bank of Palatine	Palatine, IL	04/28/14	NA	NA	52.26

Data compiled on April 8, 2015.

The Chicago metropolitan region is the Chicago-Naperville-Elgin, IL-IN-WI Metropolitan Statistical Area, as defined by the 2003 Office of Management and Budget.

All deal values as of announcement date.

Excludes terminated deals.

Excludes government-assisted deals.

NA = not available, NM = not material (values above 750%)

Source: SNL Financial



Failed bank deals announced in the Chicago metropolitan region since Jan. 1, 2014

Buyer (ticker)	Target (ticker)	Target city, state	Announcement date	Total assets (\$M)	Cost to FDIC (\$M)	Cost to FDIC/ assets (%)
Fidelity Federal Bancorp (FDLB)	Highland Community Bank	Chicago, IL	01/23/15	54.73	5.80	10.60
SBT Bancshares Inc.	National Republic Bank of Chicago	Chicago, IL	10/24/14	954.39	111.60	11.69
Providence Bank LLC	GreenChoice Bank fsb	Chicago, IL	07/25/14	72.92	14.20	19.47
Republic Bancorp Co.	AztecAmerica Bank	Berwyn, IL	05/16/14	66.31	18.00	27.15
Republic Bancorp Co.	DuPage National Bank	West Chicago, IL	01/17/14	61.66	1.60	2.59

Data compiled on April 8, 2015.

The Chicago metropolitan region is the Chicago-Naperville-Elgin, IL-IN-WI Metropolitan Statistical Area, as defined by the Office of Management and Budget.

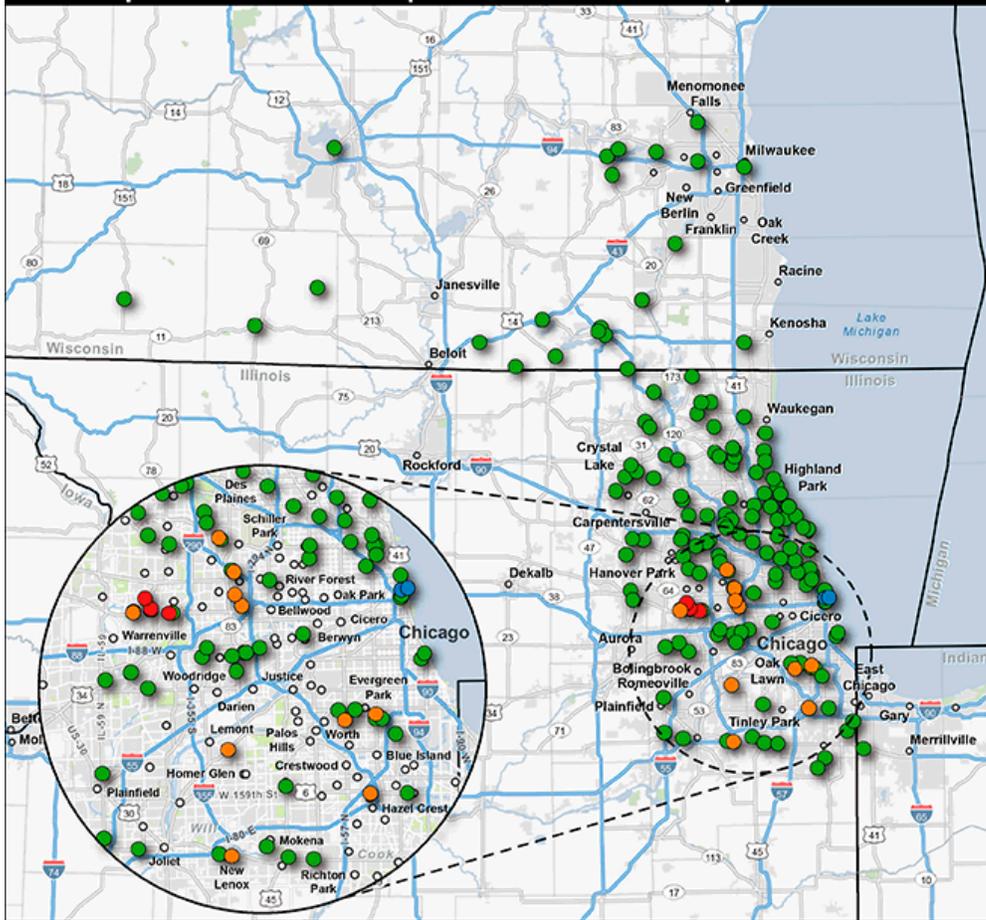
Cost to FDIC is declared by the FDIC at the announcement of bank failure.

All deal values as of announcement date.

Source: SNL Financial



Branch map of Wintrust Financial Corp.'s 2015 announced bank acquisitions



- Community Financial Shares Inc.
- Suburban Illinois Bancorp Inc.
- North Bank
- Wintrust Financial Corp.

Data compiled on April 9, 2015.
Source: SNL Financial
Map credit: Whit Varner



the sidelines for the wave of failed banks to peter out. Now that the tide of failures has receded, Katz said to watch for the rise of open-bank acquisitions.

"In Chicago, we're finally at the end of that rope. There's really nothing left of any size that is problematic and so folks started looking at open-bank transactions, which is something that's been going on across the country for two to three years now. We just haven't had as much of it here in Chicago," he said. "I think that's one of the reasons why you're seeing this pent-up demand to sell come to the surface. Potential sellers have figured out that banks are not failing and even the problem banks [are] salvageable."

Including Wintrust's three announced deals, there have been five bank deals announced in the Chicago metropolitan area year-to-date, according to SNL data; only one was for a failed bank. There were 10 deals in the Chicago area for all of 2014, including four that were FDIC-assisted.

The pent-up demand could even create more sellers than buyers, Katz said. The types of banks apt to sell now are those that are troubled but not expected to fail, as well as clean banks that may be grappling with succession and growth concerns. He also said deal prices are beginning to "firm up" but remain below historical levels, creating an opportune environment for sellers and buyers. At the

time of announcement, Community Financial had a deal value to tangible common equity of 152.0%; North Bank had an announced deal value to tangible common equity of 152.3%, according to SNL.

This is not the first time that Wintrust has juggled multiple deals from announcement to close. It acquired failed banks Lincoln Park Savings Bank and Wheatland Bank on the same day in April 2010. It announced a deal for HPK Financial Corp. and a failed-bank deal for First United Bank within 11 days of each other in 2012. It also announced two branch deals within days of each other in April 2014.

Rodis said management has maintained and defended its regulatory "gold standard," which has allowed it the flexibility to do several deals at the same time. The comparatively small size of the deals and Wintrust's multiple bank charters may make the deal more palatable for regulators and integration easier. The pro forma company will have about \$21 billion in assets, but Rodis believes the bank will remain disciplined when it comes to deal-making. He said today's regulatory environment discourages banks from approaching \$50 billion in assets, and that he does not see Wintrust combining with a larger regional in Chicago at this time to get larger.

"I think maybe \$25 billion to \$30 billion [in assets] is certainly realistic. I think beyond that is harder to say," he said. *i*