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Talmer vets, now steering Chemical Bank, eye growth

By **Tom Henderson**



Two former Talmer Bancorp executives are running the bank that bought theirs a year ago.

The announcement on June 21 that David Ramaker, the longtime president and CEO of both Chemical Financial and Chemical Bank, would be replaced by David Provost, former president and CEO of Troy-based Talmer Bancorp, and Thomas Shafer, former president of Talmer Bank & Trust and COO of its holding company, shocked both the Midland business community and industry watchers and insiders.

Was it a board-room coup or a sudden decision to retire? Either way, the leadership change paves the way for Midland-based Chemical Financial Corp., which bought Talmer Bancorp last August in a \$1.7 billion deal, to aggressively pursue acquisitions in large urban markets that former Chemical management tended to avoid, in places like Indiana and Ohio, according to industry experts.

Analysts expect acquisitions to happen quickly once federal regulators certify the bank has passed its current mandatory stress test for financial health. That test should be routine and could happen later this year or early next.

"They'll find strategic partners at the right price. They'll be looking in big markets and small markets, in left field and right field," said Terry McEvoy, an analyst with Little Rock, Ark.-based Stephens Inc. "There will be a lot of things on the table for Chemical over the next few years. It's a big bank, now, and will only get bigger."

"... But it won't be a deal just to get a deal done. These guys are sharp operators," McEvoy said. "It'll be a deal that drives value and makes sense."

"Chemical Bank has a strong history of both organic growth and growth through acquisitions. We are focused on our Midwest footprint of Michigan, Ohio and Indiana where we believe we have significant opportunity," Shafer told *Crain's*. "We have a record for consistent, strong organic growth and market and competitive trends suggest that strong organic growth will continue. Therefore, when and if we do acquisitions, we will be highly selective and disciplined."

Was it a coup?

Provost replaces Ramaker as president and CEO of Chemical Financial. Shafer replaced Ramaker as president and CEO of Chemical Bank, which became the largest bank headquartered in Michigan after the deal and now has \$18.8 billion in assets.

Following the acquisition, Provost was named vice chairman of Chemical Financial and Shafer was named the executive vice president and director of regional and community banking at Chemical Bank.

Gary Torgow, who had been Talmer Bancorp's chairman before the acquisition, was named Chemical chairman after the deal closed and remains chairman. Dennis Klaeser, who was Talmer's CFO, is Chemical Financial's CFO.

The bank will remain based in Midland, the new executives said.

The announcement that Ramaker was stepping down characterized it as a retirement, but some in the Midland business community and the Michigan banking community use the word "coup," which Provost and Shafer dispute vociferously.

Coup or not, the change in leadership was widely praised by industry observers. They said some of Talmer's large commercial customers had been disgruntled over lingering IT problems connected to merging two bank systems, and that shareholders were disappointed over recent lackluster quarterly earnings reports and a declining share price — \$47.87 to open trading June 21, off from a high of \$55.55 on Dec. 12. There was also a perception that Provost and Shafer would be more adept than Ramaker at quickly growing Chemical's business in large urban markets like Detroit and Cleveland and expanding the bank's footprint in the Midwest through acquisitions.

Ramaker himself had a track record of acquiring community banks, but in small markets.

Scott Siefers, an analyst with Sandler O'Neill, wrote the day the retirement was announced that "in the limited time we had spent with them during their days at Talmer, we found the team very, very impressive. They came across as clear and logical thinkers, and we sensed a results- and accountability-driven culture."

The six analysts who follow Chemical rate it positively, with two ratings of overweight, one strong-buy rating, one outperform rating and two buy ratings.

Three of those ratings were made after the Ramaker announcement.

"Both Ramaker and Provost will go down in Michigan banking history as two of the best CEOs ever," said John Donnelly, a managing director in the Grosse Pointe investment banking firm of Donnelly Penman & Partners. (Donnelly wasn't involved in the Talmer deal.) "What Talmer accomplished over the years is unprecedented. Ramaker is a great banker, but Tom Shafer is the right guy, the perfect choice, to replace him. I've known him for 30 years and he's absolutely the right guy for the job. His background includes big markets and small, and he can mesh Chemical's outstate and downstate cultures perfectly."

Provost and Shafer say the change in management proves that the deal was a true merger of equals. Talmer shareholders got \$1.61 in cash and 0.4725 shares of Chemical stock for each share of Talmer they owned, becoming 45 percent stakeholders in the combined company.

"It wasn't a coup," said Shafer. "Dave Ramaker retired after bringing the companies together and a system conversion, and it made all the sense in the world to look internally for succession planning. This is really about Chemical Bank continuing to grow and taking advantage of markets we are in."

Frank Wheatlake has been a member of the board since 2006. "David Ramaker was a tremendous visionary and the architect who took Chemical from being a \$3 billion bank to being an \$18 billion bank, and he wanted to retire," he said. "There was no board coup. When you put two teams together, there is going to be some churn, and I am very positive about Tom Shafer and the management team."

Ramaker, a past president of the Michigan Bankers' Association, couldn't be reached for comment.

Some surprised

Feeding the coup narrative, though, is the timing of Ramaker's departure. One source said he had a meeting with Ramaker in early June and that the bank executive talked about long-term plans for growing the bank and didn't mention retirement. He said he talked to other people who met with Ramaker in the days before the announcement. Ramaker gave no hint of leaving in those meetings, either.

Then there is how quickly his retirement took place. The June 21 press release said that Ramaker, who joined Chemical Bank as a vice president in 1989, became president and CEO of the bank in 2001 and president and CEO of the holding company in 2002, would retire by the end of September. But a press release by the bank on July 13 already listed Provost as CEO.

According to an SEC filing by the bank, on Aug. 9 Ramaker entered into an agreement with the bank, giving him ongoing payments totaling \$4.2 million and immediately vesting his unvested stock options. The filing read in part: "In consideration of the foregoing, Mr. Ramaker has agreed to a general release of all claims against the corporation."

One possibility, said bank observers, is that while there was no coup, per se, it became clear to Ramaker prior to his announcement that Talmer execs had grown more influential with his board than he was. Rather than prolong things or start butting heads, it was easier to step down.

After the Talmer deal went through, five of its executives got spots on Chemical's 12-member board. But several of Chemical's directors joined Chemical through acquisitions and might have had less institutional loyalty to Ramaker than others on the board, including Larry Stauffer, whose Caledonia Financial Corp. was acquired in 2003; John Pelizzari, whose Northwestern Bancorp was bought in 2014; and Richard Lievense, whose Lake Michigan Financial was acquired in 2015.

Said one industry insider, an investment executive in Midland who knows both Ramaker and Shafer well and thinks highly of each: "This was shocking to everyone in Midland. I got a text in the middle of the night saying David was out. It was totally shocking. You had two organizational approaches. Trying to integrate two banks together can take a lot of time or a little time. The Talmer people didn't like the way things were going. They wanted to make things go faster and got some Chemical board members to flip and join them."

"I was surprised by the announcement of the CEO change," said McEvoy. "But after putting thought into it, I can see why the board thought David Provost was the individual who could take the bank to the next level and into new markets. I agree with the board that Provost was that person. Ramaker is a very good banker and it couldn't have been an easy decision by the board. They are two very qualified individuals. But Provost has the willingness to crank up progress faster than Ramaker."

McEvoy, who upgraded the bank to an outperform on July 10 with a one-year target price of \$56, praised the rest of what has become a Talmer-led management team, particularly Klaeser. "He was the mastermind behind the Chemical acquisition, which created a lot of shareholder value for both companies."

Talmer is seen as the bank that more vigorously pursued the acquisition, convincing a reluctant Ramaker, who until then had assiduously avoided big markets like Detroit and southeast Michigan.

Insiders say Ramaker eventually agreed to the deal to help mitigate the extra cost of more regulatory compliance required under Dodd-Frank of banks when they surpass \$10 billion in assets. At the time the deal was announced, Chemical had \$9.2 billion in assets.

By joining together, the combined entity could offset increased compliance costs by closing overlapping branches and merging back-office and other operations.

As of June 30, the bank had 249 branches in Michigan, northeast Ohio and northern Indiana and about 3,500 employees.

Banks' history

On March 14, Chemical Bank celebrated its 100th anniversary by having its management team ring the opening bell at the Nasdaq exchange. The bank first opened its doors in downtown Midland as Chemical State Savings Bank.

Chemical Bank had made 12 previous acquisitions since 2000, buying Holland-based Lake Michigan Financial Corp. and its \$1.2 billion in assets in 2015 and the \$873.8 million in assets of Traverse City-based Northwestern Bancorp in 2014.

In 2007, Talmer was founded as the single-branch First Michigan Bank in Troy. It quickly grew by buying the assets of distressed Michigan banks as they were shut down by federal regulators during the Great Recession, acquisitions funded in part by raising \$200 million in equity capital in April 2010, including almost \$50 million from New York financier Wilbur Ross Jr.

By the time the Chemical deal was announced, Talmer Bank had grown through eight acquisitions, most of troubled banks being shut down by the Federal Deposit Insurance Corp. It had gone from a one-branch bank with \$75 million in assets to 71 branches in three states and assets of about \$6.6 billion.

As it eyed expansion into Ohio, Illinois and Wisconsin, First Michigan Bank changed its name. Talmer was coined as a combination of the last name of Provost's grandfather, John Talmage, and Torgow's grandfather, M. Manuel Merzon. The bank began trading on the Nasdaq exchange in February 2014 after an initial public offering of \$250 million.

In February 2016, Ross, now the U.S. Secretary of Commerce, told the audience at the annual *Crain's M&A* event why he made his investment.

"We didn't think Michigan was going to zero, which was the prevailing wisdom at the time. And we believed in Dave and Gary," Ross said, referring to Provost and Torgow. "Banking is the most management-intensive business in the world, and we believed in their management."

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