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## Mercantile-Firstbank merger draws surprise, praise

By Lindsey White

When [Mercantile Bank Corp.](#) and [Firstbank Corp.](#) announced [plans to merge](#), the news took some in the industry by surprise, but the reaction from investors, analysts and investment bankers was generally positive.

On Aug. 15, Grand Rapids, Mich.-based Mercantile and Alma, Mich.-based Firstbank unveiled an all-stock [merger of equals](#) valued at \$18.77 per share, or about \$151.5 million in the aggregate. John Donnelly, a managing director at Michigan-based investment bank Donnelly Penman & Partners, called the deal "the best-kept secret going."

"It was a surprise to everybody, bankers and investment bankers," Donnelly told SNL. "With that said, [Firstbank President and CEO Thomas] Sullivan and [Mercantile Chairman, President and CEO Michael] Price are good friends, and served on the Federal Home Loan Bank board together for a number of years, and obviously have a lot of trust in each other."

Donnelly praised the simple structure of the deal, which is a 1-to-1 stock exchange. He also applauded the succession plan, which will see Mercantile's Price in the role of president and CEO at the combined company. Firstbank's Sullivan will serve as chairman of the combined company for one year, before Price takes over that role. "It's a nice succession plan, given the [younger] age of the Mercantile management team, versus the age of the Firstbank team," he said.

Donnelly said the deal is "a real coup" for Firstbank, given the smaller, more rural markets where it operates. "They're kind of moving into the big city with this merger," he said.

Andrew Christians, a vice president at Donnelly Penman, said the deal is "a win-win" for both sides, with Firstbank in particular standing to benefit. "While [Firstbank] has done a fantastic job of managing their credit problems without taking any type of substantial losses or dilutive capital raises, the challenge going forward for them in this low interest rate environment was going to be [putting] out enough loans to really generate a return for their shareholders that would warrant such a premium," he said.

Investors certainly took a shine to the deal. By the closing bell Aug. 15, Mercantile shares were up 5.22% to \$19.75, and Firstbank jumped 6% to \$17.66.

Keefe Bruyette & Woods analyst John Barber said the deal makes sense because it pairs a strong asset generator in Mercantile with a strong deposit gatherer in Firstbank. "That's a nice combination and that should do well," he told SNL. "You're also looking at the third-largest bank headquartered in the state of Michigan, and I think they're going to be an even more formidable competitor."

Barber said the deal presents Mercantile with an opportunity to replace its wholesale funding with low-cost core deposits. "I think management was conservative in their forward projections and their accretion expectations, so I think you could even see more upside to the extent that they can execute on that strategy of replacing the wholesale funding," he said.

The deal is at least the third transaction in the past month where a company with wholesale funded strategies has partnered with a core deposit funded institution, Barber noted. He pointed to the example of [MB Financial Inc. merging with Taylor Capital Group Inc.](#), and [PacWest Bancorp partnering with CapitalSource Inc.](#)

"I think it's a theme that could continue to play out and help drive consolidation," he said.

In Michigan, Christians believes the Mercantile deal could stimulate additional M&A discussion among bank CEOs, especially those in the state's less dynamic markets. "Michigan is a slow-growth market, and a lot of the banks that aren't in the Grand Rapids, Lansing or Ann Arbor markets are going to need to find some type of stimulus to generate loan growth in order to continue profitability going forward," he said.

The combined Mercantile-Firstbank could be well-positioned to take advantage of such consolidation. During a [conference call](#) to discuss the deal, executives from both companies indicated their interest in eventually expanding through additional bank acquisitions. "Once we've completed all the hard work that goes along with putting these two companies together, we believe that there are going to be other opportunities for us, either within our footprint or adjoining the new footprint," Sullivan said.