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Local observers applaud Chemical-Talmer deal; Wall Street not so sure

By **Tom Henderson**

Local industry watchers are applauding last week's announcement that Midland-based **Chemical Financial Corp.** has agreed to buy Troy-based **Talmer Bancorp Inc.** for \$1.1 billion.

But Wall Street reaction has been mixed. New York City-based **Keefe, Bruyette and Woods Inc.** upgraded Talmer stock to outperform, while **Raymond James & Co.** and Atlanta-based **FIG Partners** downgraded it to perform.

There was nothing mixed about the reaction of Richard Glass, a portfolio manager in the New York office of German-based **Deutsche Bank**, who was sharply critical of Talmer for selling itself for less than 1.5 times tangible book value.

"As a shareholder, we are very disappointed ... you should be ashamed of yourselves," said Glass during a conference call to explain the deal to shareholders and reporters.

"Your fiduciary responsibility is to shareholders, not the banks' future. From our perspective, the valuation is not great at all. It's lousy.

"It's a great deal for Chemical shareholders and not a good deal for Talmer shareholders. I don't know why all the shareholders for Talmer shouldn't vote this down."

"You may be shortsighted, but we are not," countered Dennis Klaeser, Talmer's CFO.

"Klaeser got it right, and the other guy is wrong," said Brian Pollice, national group leader of the financial services practice at Southfield-based **Plante Moran PLLC**, told *Crain's*.

"Clearly, Talmer wanted a merger of equals, and that's what they got. When you get a merger of equals, you get a lower price. This was a stock deal. If they wanted to cash out, they would have done that.

"This was two smart guys named Dave who got in a room, checked their egos at the door and got a deal done. It's a great transaction," said Pollice, referring to David Provost, Talmer Bancorp's

president and CEO, and David Ramaker, the CEO and president of Chemical Financial.

The deal was for 10 percent cash and 90 percent stock. Current Talmer shareholders will own 45 percent of the combined entity.

Each Talmer shareholder will get about \$1.60 per share after the deal closes. Company insiders own about 4 percent of the company's stock. Based on their holdings as of last March 15, Gary Torgow, Talmer's Bancorp's chairman, will receive about \$974,000 for his 608,840 shares, and David Provost, the holding companies president and CEO, will get about \$973,000 for his 607,893 shares.

Torgow will serve as Chemical's chairman. Provost will serve on the board.

Ninety-four percent of Talmer stock is owned by institutional investors and mutual funds, led by the **Vanguard Group Inc.**, which owns 4.4 million shares; **Manufacturers Life Insurance Co.**, which owns 3.8 million shares; and **Bank of New York Mellon Corp.**, which owns 3.8 million shares.



John Donnelly, Donnelly Penman

Deutsche Bank isn't one of the 10 largest institutional investors.

"This deal is brilliant. It was a well-crafted deal that has a great chance to be successful," said John Donnelly, managing director of Grosse Pointe-based **Donnelly Penman & Partners**, an investment banking firm that focuses on financial institutions.

While Chemical (Nasdaq: CHFC) and Talmer (Nasdaq: TLMR) used the tagline "Creating Michigan's Community Bank" in their printed material explaining the transaction, the deal positions the combined entity to be a major regional player, Donnelly said.

"Chemical and Talmer are the two primary predators in the Michigan landscape — and I mean that in a good sense — but this elevates them from being a state player to being a regional player," he said.

"They are big fish now, and they'll be looking for big fish to buy in the future. Their deals will be begin with a 'B,' now, instead of an 'M,' " he said.

The Chemical-Talmer deal will create a bank with nearly \$16 billion in assets, \$12 billion in loans and \$13 billion in deposits at 266 locations, primarily in Michigan and northeast Ohio.

Since raising \$200 million in equity capital in 2010, almost \$50 million from New York financier Wilbur Ross Jr., Talmer Bank has grown through eight acquisitions from being a one-branch bank with \$75 million in assets to 71 branches in three states and assets of about \$6.6 billion.

Chemical Bank, which has assets of about \$9.2 billion, has made 11 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.

During last Tuesday's teleconference for investors and analysts, Provost said his bank was so sure it had found the right partner in Chemical Bank that it did not shop around for a better deal.

He said the combined bank would build better shareholder value through continued acquisitions than it would have through a sell for a higher price to the wrong strategic partner. Current Talmer shareholders will own 45 percent of Chemical if the deal is approved in the second quarter, as expected.

By Thursday morning, at least nine law firms had announced they were investigating Chemical and Talmer for possible violations of securities law, an issue Provost pooh-poohed in an interview with *Crain's* last Tuesday, saying, "Ninety-six percent of all deals get sued."

'More sparklers than fireworks'

Terry McEvoy, an analyst who covers Talmer for Little Rock, Ark.-based **Stephens Inc.**, wrote: "The sale of Talmer comes as somewhat of a surprise to us, as we had believed the company would pursue acquisitions until the bank grew closer to \$10 billion in assets, at which point they would more likely represent an acquisition target."

While McEvoy said that the sale represents a successful investment for the original investors in Talmer, he described the deal as "more sparklers than fireworks."

He maintained his equal-weight, or market perform, rating of Talmer stock.

In an interview with *Crain's* Friday, McEvoy was supportive of the leadership at Talmer and Chemical. "Management has a long-term view of what it can accomplish, and it's hard to disagree that these companies over time can drive value," he said.

McEvoy said some institutional investors are disgruntled because it had been an assumption on the street that Talmer would continue to make acquisitions until it got close to \$10 billion in assets, at which point it would find a buyer, "which would give them a large pop in the stock price."

Tuesday's deal popped that pop, and McEvoy said some of those institutional investors decided to cash out on a bank that had outperformed the market in the previous 12 months, its share price up 17 percent prior to the announcement.

About 273,000 shares of Talmer stock were traded Monday, before the news broke. About 1.5 million shares traded Tuesday and 2.6 million traded Wednesday. The stock opened the week at \$16.52 a share, hit a low of \$14.51 on Wednesday and rebounded to \$15.67 by midday Friday.

Ken Marblestone, a managing director at Southfield-based investment banking firm **Cascade**

Partners LLC, and a longtime banker who was president of Ohio and Michigan operations for **Charter One Bank** in 2013, was effusive about the Talmer-Chemical deal.

"I'm really excited about this deal. I'm a long-term investor and like to think about long-term valuations," he said. "This is an opportunity for Chemical Bank to take its reputation as a great community bank into Southeast Michigan and Ohio. And what's nice about it is there is almost no overlap between Chemical and Talmer. There won't be a lot of jobs lost."

"I think the deal makes a lot of sense, especially from a footprint standpoint," said Greg Roberts, an executive director at Birmingham-based turnaround and consulting firm **Conway MacKenzie Inc.** "This represents a good opportunity for the new entity to grow."

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Greg Roberts, Conway MacKenzie Inc.

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