

THE



Chairman's Forum

Opening the door to new ideas

NEWSLETTER

Gerrish Smith Tuck, Consultants and Attorneys

March 2020

Life comes at you fast! You have all probably heard that phrase and that has certainly been borne out since the last *Chairman's Forum Newsletter* only a few weeks ago! Since that time, we at Gerrish Smith Tuck have gone from our standard heavy travel schedule trying to make connections in airports across the country, to the largest gathering of community bankers across the country, being on the platform in front of thousands of bankers, conducting face to face roundtable discussions with a dozen bankers, speaking in front of breakout sessions with hundreds of people attending, shaking the hands of friends and colleagues and meeting new people, to, now, only a few days later, both in our own city and in multiple places around the country having school closures, restaurant closures, client face to face meetings postponed, travel interrupted or terminated, as well as gyms, places of worships and other businesses closing.

We know you and your organizations are facing those same traumatic and business-altering, if not life-altering, events as well. Therefore, in this month's edition of *The Chairman's Forum Newsletter*, we are taking a look at the role that true leadership plays within your organization in times like these, how that responsibility falls to the Chairmen and others in leadership positions and how the issues you face in your business will not necessarily cease during this time of crisis, but may even be more magnified. If ever there was a time where your organization needs strong leadership, it is probably now.

Happy Reading!

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Chairman's Summary

- ◆ Small steps or giant leaps?
- ◆ Financial planning in crisis? Start at the top.
- ◆ Sometimes strategic planning does not matter.
- ◆ Buying what you want, when it makes sense, regardless.

Small Steps or Giant Leaps?

We recently had the opportunity to discuss with a Chairman what he felt would be the right response to the changes happening in our world financially, economically and business-wise. For his organization, he said the question was whether to take small prudent steps or to take giant leaps. He commented that, candidly, he was not sure which was the right strategy. For example, do you ask people to wash their hands more often or do you close your business? Do you begin conducting meetings via videoconference, or do you cancel meetings altogether? More directly, do you renegotiate the price at which you were looking to make an acquisition or do you terminate the acquisition altogether? If you were thinking about selling your bank, do you hunker down and weather the storm until better economic times come back or do you simply sell to the first buyer still willing to do a deal that has cash?

Difficult times and difficult questions. Each circumstance likely demands different leadership styles and different leadership decisions. Perhaps interestingly, we are not seeing deals being terminated (yet), but there does seem

to be an increased level of concern as you might expect. Generally speaking, we would suggest most people have somewhat hit “pause” for a one to two-week timeframe and are planning to reassess where things stand at that point. That may be a prudent strategy so that you do not take a giant leap to make a termination when long-term a deal may still be viable. So, whether it’s in the day-in and day-out operations of your organization or in the big strategic decisions you are considering, there may be times when a giant leap is needed to make the hard call to start doing something or stop doing something that dramatically changes your strategic direction. On the other hand, giving yourself a little more time, merely hitting the pause button for a moment, or making small incremental decisions step by step in order to have the patience to see how things unfold may sometimes be the best route. Use both options wisely.

Financial Planning in Crisis? Start at the Top

As things have unfolded over the past couple of weeks, we have had the opportunity to speak with bankers from different parts of the country and there currently are certainly different types of reactions we are seeing. Candidly, banks in the heartland of the country, and in the southeast, and generally areas that are not densely populated or do not have large urban areas are dealing with a different reality than those of you on the coasts or in large metropolitan areas. So, while a banker in the Midwest may be strongly encouraging people not to sit too close at lunch and to cover their mouths when they cough, a banker in the Pacific Northwest may be questioning whether the organization’s entire salary structure ought to be modified in order to ensure long-term financial viability. Both are probably taking the right steps for their organizations as circumstances warrant.

By way of example, we had the opportunity recently to speak with a client in one of the areas where the Coronavirus is beginning to have the largest impact. Particularly, as you look at the states of Washington, California and Oregon, you

see a much greater concentration of cases that are raising the concerns of Chairmen and the leadership. So, would it be wrong for a Chairman or an executive officer to demonstrate leadership by suggesting that his salary ought to be voluntarily reduced in order to improve cashflow for the rest of the year? If you are Chairman of the Board, should you begin considering whether director fees ought to be waived for the remainder of the year?

This individual that we were talking to was beginning to look at his current circumstances and recognizing that financial sacrifice and true leadership must begin at the top. So, he was considering voluntarily reducing or modifying his salary. He was also considering changes to Board fees and other strong steps. And we must be careful that our actions are consistent with shareholder expectations of leadership. For example, would you consider cutting dividends this year because of financial concerns, yet continue to pay incentive compensation even if financial performance does not automatically trigger the incentives that were otherwise expected? We are not necessarily suggesting that any of those steps have to be taken, but the point is that leadership from the Chairman or executive management mandates that we at least consider those types of shared sacrifices. Sometimes we will need to sacrifice a part in order to benefit the whole. So, continue to consider what leadership steps you can take that not only request that individuals take action, but demonstrate your leadership on that front as well.

Sometimes Strategic Planning Does Not Matter

As most of you know, our firm conducts scores of strategic planning sessions throughout the year in a myriad of different types of locations. In particular, we are generally fond of commenting that strategic planning for community banks really needs to be substantive and practical. Part of that focus is making sure that the Board and the management do not become too “pie in the

sky” and try to outline their five to 10-year vision for the organization when the organization has not yet decided what they want to do the next 12 months. As we often comment, a 10-year plan is probably worthless because circumstances are going to change.

Putting that into the current context, in all of the strategic planning we have done for banks of all different sizes in every nook and cranny across the country for the past five years, we feel confident in saying that in all the words spoken in all the plans made, in all the scenarios considered, not one single strategic plan ever outlined the course of action for how to deal with the Coronavirus. In fact, most of us were probably not even aware of the term until the most recent few weeks. However, while we perhaps did not have a specific plan for how to deal with a worldwide pandemic, our organization should have been thinking about strategies for risk management, economic downturns, capital planning, loan loss reserve funding and all of the other core elements that community banks deal with on a day in and day out basis that are, in and of themselves, emergency and contingency planning.

Therefore, we hope that many of you can pull out your strategic plans and, while you cannot point to the paragraph on Coronavirus, you can certainly point to the paragraph on enterprise risk management, or the paragraph on the minimum and maximum capital ratios the Board set, the capital contingency steps the organization would take in a time of need and other factors that could potentially be triggered now as a result of this unexpected activity. So, in the midst of the current situation and as you think forward to strategic planning throughout 2020 and into 2021, we hope it provides a renewed sense of purpose in terms of what you do and why it is important to think about the processes by which we would manage crisis even if we can't clearly identify every single crisis we are going to face. And, importantly, just as you should not cut costs by eliminating the marketing department when sales are down, you also should not forego strategic

planning at a time when circumstances may dictate the need for even more substantive planning.

Buying What You Want, When It Makes Sense, Regardless.

In some of our typical presentations on mergers and acquisitions, we have a comment that encourages potential buyers to “pay for value”. The comment we often make is that if you are looking to make an acquisition, and if you have run your financial analysis, and if you find an appropriate price point where you can make the deal productive for your organization and where it benefits your bottom-line, do not hesitate paying for that value you could receive in the transaction even if the price is a little more than you thought you might otherwise pay. Far too many times, we see potential buyers miss out on transactions by trying to figure out the way they can bid the minimum amount of money possible and still be the successful bidder. It is much like being on “The Price is Right” where they are trying to outbid the next closest bidder by one dollar. That strategy rarely works when buying a bank. Rather, find the value where it makes money for your organization, allow us to run the models, and then pay a fair but perhaps slightly aggressive price if it is something you really want and which will be beneficial to your organization and its stockholders in the long run. In addition, in the current market dynamics, do not necessarily assume that continuing to pay a standard pricing multiple is a dumb idea. The underlying economics of a transaction may still be beneficial. If so, it is likely that the long-term benefits will continue to benefit your organization over time, notwithstanding the current economic circumstances. Keep in mind, rarely have we ever heard a bank say “I paid \$1.5 million too much for that bank”. However, we have heard plenty of bankers say “Boy, I wish XYZ Bank hadn’t been the successful bidder, I really wish we had increased our bid to make sure we were successful”. In short, be willing to pay for what you want as long as it still provides value to your organization.

Meeting Adjourned

We are sending our thoughts and prayers out across the country to all of you in this unsettled and unusual time. As most of us try to continue striving to keep things “business as usual” to the greatest extent possible, we all recognize that every single organization and indeed every single person is being touched in one way or another by this pandemic. Therefore, we are all working to modify our processes and procedures, find new ways of staying in touch, but also, hopefully, keeping our eyes on the horizon for when the clouds clear and some sense of normalcy returns. So, for now, we may have a few more videoconferences and fewer handshakes, but business will go on, community banking will remain strong and, hopefully, you and the other leaders in your organizations will remain steadfast throughout these unique times. If we can lend an ear to your situation, give you an outside perspective from a different part of the country or help you decide whether to take the small steps or the giant leaps, please know that we are always here to help.

Until next time,



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