

How Banks Can Smooth the Way to Going Public

**By Joseph F. Spedale
and Thomas Cronin**

In the world of banks and thrifts, conversion from depositor owned to publicly owned status has become a common way to do business and raise capital.

Generally, banks use the offering proceeds to grow their businesses by making acquisitions, adding services and continuing to hire top talent. (Of course, the managers and officers of privately held banks have also noticed that bank stock prices are rising.)

But a major challenge of operating a public company is the addition of a new constituency – the shareholders.

A bank's potential shareholder base includes depositors, traditional institutional investors such as mutual funds and pensions, specialist bank hedge funds, as well as activist investors.

Shareholders' agendas are not always consistent with those of the bank's officers and managers. But banks need not find themselves at odds with shareholders over strategy. They can influence the makeup of their shareholder base and the various shareholder agendas at the outset.

There are three distinct stages to consider in developing a shareholder communications strategy: the conversion process itself, the first shareholder

meeting, and on-going investor relations.

Banks beginning the conversion process must first make persuasive case to depositors, whose vote on the conversion is usually required.

Do not assume that the depositors will actively support the conversion.

They may be uninterested – and if they choose not to vote on the issue, the bank may find itself short of needed votes.

On the other hand, depositors can become concerned, and even hostile, if they view conversion as taking a community institution out of their hands. Confused by the technical language of a conversion statement, they may view the plan as a scheme to raise their own costs of doing business while making the bank's insiders rich.

To understand how depositors are likely to react, a bank should thoroughly understand who they are and what they expect from it. An effective strategy for communicating the rationale and benefits of the conversion can overcome apathy and short-circuit hostility.

After the conversion, one of the management team's first tasks is to organize the first official shareholder meeting.

In general, converted banks use this meeting to put their equity-

based compensation plans for senior executives and directors in front of shareholders for a vote. But though many say that it makes good business sense to align senior executives' compensation with the company's value, opposition to such plans has risen to record levels in recent years.

The board may be able to deal with the opposition. But dissident shareholders can sometimes wield more power than their numbers suggest.

According to our research last year's annual-meeting season was one of the most contentious ever. "Hostile" campaigns and counter-solicitations rose.

Activist shareholders are now expected to use even more sophisticated tactics to oppose management proposals or put forward their own.

One group of influential shareholders, for example, might be savvy bank investors, with specific end-game strategies, who make deposits in community banks in time to participate in the conversion. These are often short-term speculators, sophisticated money managers and hedge funds. They may eventually advocate putting the institution up for sale to the highest bidder.

In general, these and other shareholder issues are completely new terrain for the bank's officers and management. Without a clear plan to communicate with shareholders, both before and after the conversion, the management of newly public banks can find itself bogged down by issues that have little to do with running a financial institution.

To implement a smooth transition and get a handle on the new shareholder issues, we suggest the conversion strategy include these steps:

- Retain a knowledgeable team of investment bankers, lawyers, and shareholder-communications professionals.
- Understand the depositor /shareholder base and the issues of importance to this audience.
- Be prepared to communicate the rationale for conversion to depositors.
- Recognize the corporate governance issues of concern to institutional shareholders and the various corporate-governance ratings systems.

• Determine the types of management issues that shareholders will vote on at the first meeting.

• Target appropriate shareholders – for example, members of the community, who will often remain committed to the bank's business plan.

• Maximize voting for equity compensation plans and other proposals that must be put to a shareholder vote.

It is worthwhile to note that the conversion trend, which began with the banks and thrifts, is now spreading to the credit unions. We believe that with the right communications strategies they can have smooth conversions and all the benefits of being public companies.

Mr. Spedale is an executive vice president and Mr. Cronin a senior managing director in the banking practice at Georgeson Shareholder Communications, a New York proxy solicitation subsidiary of Computershare Ltd. of Melbourne, Australia.