NASHVILLE NOTES

# Holdco has a point about Boston Private

**Thursday, January 28, 2021 9:41 AM CT**

By Jeff K. Davis

*Jeff Davis CFA is a veteran bank analyst. The views and opinions expressed in this piece are those of the author and do not necessarily represent the views of S&P Global Market Intelligence; Mercer Capital, where he is the managing director of the financial institutions group; or StillPoint Capital, where he is a registered representative.*

So far, 2021 bank M&A has been a snoozer other than the broadside HoldCo Asset Management LP fired at Boston Private Financial Holdings Inc. regarding its pending merger with SVB Financial Group. Holdco, which owns 4.9% of Boston Private's shares, asked some hard questions about the transaction in a letter and presentation that was released Jan. 5. The letter questioned the sales process, price ("grossly too low"), risks associated with SVB's valuation, and possible management conflicts.

Muddying the waters has been a stellar performance by SVB since the deal was announced Jan. 4, in which SVB's shares have risen 24% through Jan. 22 compared to roughly 7% both for the SNL Bank Index and the Nasdaq Index. The run was capped by great earnings reported Jan. 21.

The gain in SVB's shares may not stick, but as of Jan. 22 Holdco might drop "grossly" from the price description while raising more concerns about the valuation of SVB.

I am not a corporate securities attorney, obviously. My lay person's take on a board's duty is not to make perfect decisions; rather boards are to act in good faith, make informed decisions (duty of care) and make decisions that do not conflict with the shareholders' interests (duty of loyalty). In no way am I suggesting the board did not follow its duties. Boston Private had excellent advisers. But in a roundabout way I think Holdco is raising duty-type questions that the board would have considered in rendering its decision.

My first reaction to the announced transaction value was the same as Holdco's (i.e., low), but as Holdco points out, the company's cost structure is high. It is hard to get fully paid for the cost cutting that others will do. Overlaid may be an outlook for net interest income that is weaker than the Street assumes.

The terms of the transaction call for Boston Private shareholders to receive 0.0228 of an SVB share and $2.10 in cash for each share. Based upon SVB's Jan. 4 close, the shares were valued at $10.94 per share, which equated to only 115% of tangible book value. However, the P/E based upon consensus 2021 earnings was nearly 18x and the one-day premium was respectable at 30%.

The value of the merger consideration was 134% of tangible book value and about 20x consensus 2021 EPS as of Jan. 22 given the run in SVB's shares.

Investors will know more about the sales process once the S-4 is filed. My non-lawyer take is that boards should run an auction when selling for cash; however, there is leeway in terms of a "market check" when the predominant consideration is the acquirer's shares because shareholders are swapping shares.

Would an auction — assuming one did not occur whether limited or robust — have produced a higher price? Holdco listed multiple potential acquirers but focused on Eastern Bankshares Inc., Independent Bank Corp. and People's United Financial Inc. as having the capacity to offer materially higher prices. Could have and would have are not necessarily the same outcomes. I am not sure these East Coast franchises would be interested in a foothold on the West Coast. Nonetheless, Holdco's analysis is interesting. In no-shop deals an ideal outcome is when the analyses suggest alternative acquirers could not offer materially higher consideration.

Holdco has a point, too, that SVB shares are richly valued. Immediately before the transaction was announced, SVB's shares were valued at 276% of tangible book value and 22x 2021 consensus EPS. Since then, the multiples have expanded to 325% and about 24x as of Jan. 22.

SVB has deep ties to Silicon Valley. The shares have rallied strongly from the March 2020 lows like the tech-heavy Nasdaq. Perhaps the risk is not SVB's valuation per se; rather the risk may be tied to Silicon Valley and the tech ecosystem that may (or may not) be in a massive bubble as was the case in early 2000 when the dot com mania was peaking. Nonetheless, no one knows what the future holds, only that elevated valuations imply lower future returns.

As for the $36 million breakup fee, it is equal to 4% of the announced $900 million deal value, which I believe is an acceptable amount based upon Delaware case law. The $36 million breakup fee should not preclude another bank from stepping forward if Boston Private is a must have for that bank. What may be a hurdle for a competing bid is the $200 million restructuring charge assuming the bulk of the charge cannot be avoided.

So far, the market has not indicated that it expects a suitor to step forward or that SVB will up the consideration. Boston Private's shares have been trading at a 1% to 2% premium to the deal price. While normally the target would trade slightly below the deal price, the premium so far is negligible.

Holdco has done its homework and has been helped by the run in SVB's shares since the deal was announced. It built a position in Boston Private between Aug. 10, 2020, and Oct. 27, 2020, when the shares traded around $6 per share. As of Jan. 22, Holdco appears to have doubled its investment, assuming the shares have not been sold. The annualized return if realized would be on the order of 200%, an amount that would look good in a marketing deck regardless of the answer to the questions the firm raised.

*This article was published by S&P Global Market Intelligence and not by S&P Global Ratings, which is a separately managed division of S&P Global.*

*Published with permission. Jeff K. Davis, Managing Director of Mercer Capital's Financial Institutions Group, is a regular contributor to S&P Global Market Intelligence, formerly SNL Financial. He can be reached at jeffdavis@mercercapital.com or 615.345.0350.*