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First Midwest heats up Chicago M&A

By Kevin Dobbs

First Midwest Bancorp Inc. doubled down on Chicago mergers and acquisitions July 8 with a $58 million deal to buy Great Lakes Financial Resources Inc., a banking company with about $582 million in assets and eight branches in the Windy City's southern suburbs.

The announcement followed Itasca, Ill.-based First Midwest's move in April to buy 12 Chicago-area branches from Popular Inc. First Midwest President and CEO Michael Scudder told analysts July 8 that the deal with Popular has received all regulatory approvals needed for it to close during the current quarter. "This is moving extremely well," he said.

The two deals would together add about $1.4 billion in assets to First Midwest ($8.33 billion), he said.

The Great Lakes deal is expected to close before the end of 2014, Scudder added, and First Midwest has the wherewithal to continue marching down the M&A path in a Chicago market primed for more consolidation. Scudder said First Midwest "certainly" has the capital strength and resources in place to continue shopping for deal opportunities in and near Chicago.

And analysts said First Midwest likely will find more potential targets to pursue. "The Chicago market is very fragmented," John Rodis, a FIG Partners analyst who covers First Midwest and other banks in the nation's third-largest market, told SNL.

He said there are many small banks in the Chicago area — around $500 million or less — that have gradually cleaned up credit problems dating to the last recession, making them unlikely to fail and more appealing as open-bank targets. These banks are generally healthy, and many of them operate in heavily populated areas, but in some cases they lack the size and resources to absorb mounting costs tied to stiffening regulations and to compete with larger banks.

"So certainly there are opportunities to piece together a number of smaller banks" and gain heft and greater market share in the Chicago area, Rodis said.

Jim Adkins, managing member of Artisan Advisors in Chicago, offered a similar assessment in a recent interview with SNL. "I think it is a market ripe for more consolidation," he said.

Rodis anticipates that a handful of First Midwest's prominent peers could emerge as competition on the M&A front.

He noted that Rosemont, Ill.-based Wintrust Financial Corp. has completed several open-bank deals since the financial crisis, the most recent in October 2013. "I would expect to see them resurface" and seek more deals, Rodis said.

He said that Chicago-based MB Financial Inc., which is in the midst of buying Taylor Capital Group Inc., could also pursue more deals after that acquisition closes. Rodis also noted Chicago-based PrivateBancorp Inc. as a potential buyer. It has not completed an open-bank acquisition since 2006, but its executives have said they are open to M&A.

Jon Winick, president of Clark Street Capital in Chicago, told SNL that First Midwest's serious interest in M&A following the MB Financial-Taylor deal and Wintrust's recent buying history "shows that there is competition for community bank franchises" in the Chicago area.

First Midwest said it is paying about 132% of tangible book value for Great Lakes. Winick called that "a modest premium" that appears to constitute a "fair deal" for both sides. The combination of seeing more buyers coming forth and Great Lakes fetching a reasonable price could motivate more sellers to step up to the deal table, he said.

"This shows sellers that there is activity going on," Winick said.

Meanwhile, investors appeared to welcome First Midwest's latest move. Its stock rose nearly 1% in morning trading July 8 following the announcement.