From Marc Bogan via email to Andy Davies, October 5, 2020
Reformatted in this manner by Andy to share with members of
VBA's Management Development Program Class of 2020-2021

"I view mergers and acquisitions, for our company, one of four ways:

. acquisition (where we are the acquiror);
. outright sale (where we divest ownership at a premium price);
. merger of equals (where our management team prevails);
. merger of equals (where our management team participates).

Following is my view on each of the four possibilities:

ACQUISITON:

This is virtually impossible for a company our size with our valuation. We don't have the currency to offer another bank a meaningful premium, particularly in the current environment. And there are very few banks that are small enough for us to be able to consider buying, especially in our immediate geography.

It doesn't make sense for us to acquire a small community bank, in Abingdon, VA (for example). We don't know the market, and it is prohibitively difficult to operate that far from our home base. Pure acquisition isn't really an option for our bank.

OUTRIGHT SALE:

I call this 'putting out the For Sale sign'. IT is always a consideration if a large bank wants to acquire our company at a premium price, but we always felt we would be undervalued for multiple reasons. We wouldn't be able to get the full share price we felt we deserved, and we would give up absolute control.

We believed we operated our company well and continued to earn independence through tangible book value appreciation, earning asset growth, and growth in sustainable profitability.

As long as we continued to perform well in these areas, our share price and market capitalization would continue to improve, and divesting our company would be premature. We have every line of business, good management with succession, a supportive board of directors, and good markets. Consequently, selling the bank wasn't the best option.

Merger of Equals Where Our Management Team Prevails:

This would be the preferred option. Unfortunately, our currency has not been strong enough for this to be an option. We have conducted conversations, but we never could thread the needle on this type of combination. MOEs are incredibly difficult in the best of circumstances.

Merger of Equals Where Our Management Team Participates:

This is the route we ultimately chose. We believe we got a fair exchange rate for our shares and reasonable pro forma ownership in the combined company. There is the potential for succession in the CEO position in the reasonable future.

We received a fair representation of our directors on the combined board of directors. And, our management team will participate in a meaningful way in the combined company.

The upside is we are a bigger company and are able to better withstand economic downturns with the combined capital strength. We have good growth markets to take advantage of, and we offer all lines of business, so there are no gaps in product offerings.

The downside is we divest the company and the legacy, and we put our relationships at risk.

We also consider our 4 primary constituencies in any merger activity: Employees, Customers, Community, Shareholders:

. Employees:

Combining allows us to offer more career opportunities to our employees. I acknowledge that some of our support personnel will be negatively impacted, but the employees that remain with the combined company will have more opportunity to grow in the future.

. Customers:

Higher legal lending limit, more branch locations in new markets, bigger investments in technology/ebanking/digital, better products, better rate offerings for loans and deposits, etc.

. Community:

Having a larger company gives us the financial wherewithal to invest more in our core communities.

. Shareholders:

25%+ earnings per share accretion for shareholders of both companies, and a 60%+ dividend accretion for The Fauquier Bank shareholders.

So, there is symmetry to mergers and acquisitions:

. 4 potential M&A options

. 4 constituencies to consider

There are other considerations as well:

. ability to attract top talent to a company our size, and
. ability to grow at a rate that would be meaningful to provide us the continued earning asset growth we needed to remain independent.

We felt at some point we were going to have to pursue one of the four M&A options, and the deal we negotiated with Virginia National was the best opportunity for our four primary constituencies.

We felt it was somewhat inevitable, and we wanted to control our destiny as opposed to having it controlled for us."