Tidal Community Bank: Reacting to Investor Pressures (A)\textsuperscript{1}

63 year old Tidal Community Bank (listed on the NASDAQ in 1993) had enjoyed tremendous success, growing from 7 branches in 1985 to 23 branches in 2006. Deposits and profitability had equally impressive growth. Tidal’s success reflected the substantial growth of the local community – an isolated part of a larger metro area. But by 2006, Tidal’s and the community’s growth had started to slow, and management felt they had to enter the larger metro market to maintain growth. Matt (Chairman and CEO) and John (President and COO) had identified a perfect takeover target – Granary Bank – and Granary’s management and employees supported the merger.

Over the first few months of 2006, Tidal’s management presented their expansion vision at various investor meetings. Their reasoning was summarized by John:

> We have a wonderful market area that has good, healthy, growth … it’s been a great place to be a community bank. There are different ways to run a community bank. You could be a pure commercial type of entity where … you mainly have commercial, institutional customers that are providing the deposit money… with few branches and retail customers. Or, you could have a retail-oriented, deposit-based business where you have a lot of branches. … The bulk of our funding comes from our retail presence. … So, that means we have to add facilities from time to time. We have always been in Charles County – an area of about 400,000-500,000 people … right across the bay from the city, which has about 4.4 million people. So, we have always looked over to the city and said someday … we would like to put a stake down.

Tidal’s largest investor, Eagleye, was a noted investment analyst firm specializing in the banking industry. They were convinced that the takeover plans were both ill conceived and beyond Tidal’s capabilities. Eagleye also felt that Tidal’s success in Charles County would not translate to the larger metro area. Tidal’s management recounted Eagleye’s saying:

\textsuperscript{1} This case was inspired by interviews and observations of actual experiences but names and other situational details have been changed for confidentiality and teaching purposes.

These cases were prepared for the Giving Voice to Values program by Joseph A Cote, Professor of Marketing, Washington State University, and Mary C. Gentile, Ph.D.
I don’t like the idea of you guys jumping over into the city. You have this wonderful market. Why don’t you just stay where the hell you are instead of jumping into this larger market where there’s just more competition.

A second point of contention was the long-term strategic vision for Tidal. Tidal’s management felt:

Even though we are a little bank, it is possible … to make a lot of money, particularly if we sell the bank. Therein lies the difference between our objectives and those of our institutional investors. [It] may sound like a “Mom and apple pie” kind of thing, but it’s true … we have this proud ownership inside the bank. We have community people that are working in the bank and our local community needs this kind of institution. We want to grow this thing, and we want our employees and employees’ kids to benefit from this organization and for this thing to live on. We’re not looking for the highest bidder that can come along. Our idea was a lot longer timeframe.

But the institutional investors, led by Eagleye, had a different perspective. As Tidal’s management put it:

They don’t want to hear that we want to create a legacy. That points to the conflict between how we wanted to run the company, and how the [institutional] investor might want it run. They are very short-term oriented, and we are exactly the opposite of that. They don’t really want to see you putting too many financial resources into [growing the business]. I don’t want to sound like an anti-capitalist, but they want you to rape and pillage. They want you to maximize their return in the short run. Their big deal is to have us sell the bank, to get a big pop in their investment, and then they move on to the next one, and they wait for someone else to do the same thing. That’s kind of the message we received [from institutional investors].

To complicate matters, Tidal had to be careful about any claims it was not for sale.

We didn’t want to give the impression that we were for sale, but by virtue of the fact that we’re a publicly traded institution we’re always for sale. … [However] there are very few hostile takeovers in community banking. You destroy the value of the company if you cruise in and try to take over a community bank. At the same time, your stock price reflects a takeover premium. If we say, “We’re not for sale” that takeover premium will be destroyed.

Eagleye insisted management pull back on growth plans and position the bank as a takeover target. In fact, Eagleye threatened to sell all their shares which represented about 16 times Tidal’s average daily trading volume and over 3% of shares outstanding. More importantly, they were going to take a significant number of other large institutional investors with them. Matt and John were feeling the pressure.

After running our company the way we wanted to for twenty years, it was very worrisome we were suddenly beholden to a different group that may have different goals and expectations. Yes, we were afraid of the pressures [from investors]. We were afraid, of investors who were interested in … a

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2 Tidal has 66 million shares outstanding, and average trading volume of 125,000 shares a day. Eagleye owned 1,980,200 shares.
quarterly statement … and we have to be able to show them what kind of return they’re getting. It’s not just us running the bank … there is this other group out there, these “investors”. Sometimes they can be noisy. You have to learn how to deal with them.

Eagleye’s management was very knowledgeable and influential. Their concerns could not be taken lightly. But the Tidal management team had thoroughly analyzed the takeover. They extensively debated Eagleye’s concerns, but remained convinced the merger was in the best interest of the bank and its employees and customers. Matt and John’s reaction to Eagleye’s suggestion was:

‘s Well, thank you for your input. We’re still going to do what we think is right for the bank and the community. We think that the city is important to our growth. We have an opportunity to acquire a small bank that has about three offices in the city. We have done our due diligence and we talked to the folks there, and we feel the best decision is to buy that little bank.

But management still needed to convince other investors. A mistake could cost Tidal and its stakeholders dearly.

Discussion Questions
Discuss the case and craft an action plan and a “script” for Tidal’s management:
● First consider the relationship between management and investors. What obligations does Tidal management have to investors? To other stakeholders?
● How should Tidal reconcile the apparent differences in perspectives between institutional investors and the community, customers, and employees to whom management want to leave a legacy?
● How would you script an argument to convince institutional investors that the expansion decision is a good idea? Make certain to consider the following:
  o What are the main arguments you are trying to counter? That is, what are the reasons and rationalizations you need to address?
  o What’s at stake for the key parties?
  o What is your most powerful and persuasive response to the reasons and rationalizations you need to address? To whom should the argument be made?
  o Do you think Tidal’s management could be wrong in their assessment? They had experienced nothing but growth and a supportive economic environment since going public. What risks do you feel they may be underestimating?
● Do you ultimately need Eagleye’s buy-off, or do you proceed despite their objections? In other words, what authority do the investors have over senior management and under what conditions can management ignore that authority?