



AMERICAN BANKER

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First Niagara-NewAlliance Deal Shows M&A Rules Are Shifting Up to a Point

By Matt Monks

It's an important deal for sure. But calling it a game-changer for bank M&A might be premature.

First Niagara Financial Group Inc.'s agreement to pay \$1.5 billion for NewAlliance Bancshares Inc. is the largest regular bank acquisition in two years. It sets a precedent for other lenders eager to grow by buying good companies, not failures. That makes it a banner transaction.

But it isn't likely to unleash a wave of pent-up deal activity because it indicates the market is only gelling for buyers and sellers that meet some rather stringent criteria, experts said.

Those include: Be somewhat small, profitable and on good terms with regulators. Don't have too many loan problems. Don't owe the government any bailout money. Operate in the Northeast. Being a serial acquirer helps, too.

First Niagara, of Buffalo, fits the profile, experts said. The \$20.5 billion-asset institution returned its federal aid last year and is already one of the rare banks to buy a nonfailed bank since the start of the financial crisis. For its part, so had NewAlliance of New Haven. It has stayed profitable through the downturn, and it was one of the few lenders to actually expand its loan book last quarter.

The transaction - should it close next year as expected - would be a turning point for First Niagara by transforming it into a regional powerhouse in one of the most affluent regions of the country. Its impact on the broader mergers and acquisitions market, though influential, is not yet clear.

There just aren't enough parties that have the financial heft to buy another bank right now, according to William Schwartz, senior vice president of the ratings agency DBRS Inc. High unemployment, a stagnant economy and still-elevated loan losses mean that there aren't a whole lot of good banks worth buying at the moment either, he said.

"I don't know that we're going to see an avalanche of transactions," Schwartz said.

There are other limiting factors. Most of the banks healthy enough to buy are in the Northeast - as that region hasn't suffered as badly as other parts of the country during the recession.

And regular mergers are mostly feasible for banks with assets of \$20 billion or less, Schwartz said. Most of the big regional banks are either bogged down with loan problems or still holding their federal bailout money, two characteristics that aren't conducive to doing a deal. The four largest banking companies - JPMorgan Chase & Co., Bank of America Corp., Citigroup Inc. and Wells Fargo & Co. Inc. - are off the deal market for a while as well. They're either committed to getting smaller or hold too many deposits, which restricts them from collecting any more through acquisitions.

The First Niagara deal is still a significant development in the stagnant bank M&A market, which has been modestly rebounding this year after coming to a virtual standstill two years ago. It's not the first sign of life, either. There's another New England banking company that's been on the prowl for deals lately: People's United Financial, of Bridgeport, Conn. In July People's United said it agreed to pay some \$156 million for struggling banks on Long Island and in Massachusetts.

The First Niagara deal is more important than that one, though, experts said. First of all, it is much bigger. It also ramps up pressure on Northeastern banks to start looking for deals now that they have to worry about getting outflanked by two big, insurgent players. Furthermore, it establishes a market price for a bank with 88 branches and \$8.7 billion of assets.

It values NewAlliance at 163% of its price to tangible book value. Before the recession, banking companies were fetching 200% to 250% of their book value, according to Emmett Daly, a principal at Sandler O'Neill & Partners LP and the lead advisor to First Niagara in the transaction.

He described deal values of 150% to 175% as the "new normal" for regular bank mergers. It could heat up the deal market in the region by shifting the competitive landscape and by showing that the banking industry is stabilizing, he said. "It will get the other banks thinking about where they stand in the pecking order - how they're going to compete and whether they can be a buyer or seller as well," Daly said.

It also helps establish a blueprint for structuring deals that makes sense for buyers and sellers, he said. A failure to see eye-to-eye on deal terms that are favorable to both is one of the reasons there haven't been more regular deals, Daly said.

The deal is 86% stock, which means that NewAlliance shareholders will walk away with a piece of a combined company that pays a higher dividend, he said. The \$14.09-per-share sale price is also a "healthy" 24% premium over NewAlliance's closing share price Wednesday.

William W. Bouton - a partner with Hinckley Allen & Snyder LLP, the primary legal counsel to NewAlliance in the transaction - said lots of institutions have been talking more about doing deals.

Tougher new regulations will likely increase costs and cut revenue, he said. More banks are starting to question whether they can survive alone, he said.

But that doesn't mean there will be enough buyers lined up. Regulators won't be eager to let a healthy bank under its watch buy somebody else's problems, Bouton said. "I think you're going to have more interested sellers in the next couple of years than you had in the past," he said. "All buyers are going to be particular. It's not like the old days where you buy just to buy."



NewAlliance and First Niagara Will Combine to Create a Top-25 U.S. Bank With More Than \$29 Billion in Assets, \$18 Billion in Deposits and 340 Branches Across Connecticut, Massachusetts, Pennsylvania and Upstate New York

Transaction Combines the Banks' Consistent and Strong Cultures and Strategies

NewAlliance's Connecticut Headquarters to Serve as First Niagara's New England Regional Market Center

BUFFALO, N.Y., Aug. 19, 2010 (GLOBE NEWSWIRE) -- The boards of directors of First Niagara Financial Group, Inc. (Nasdaq: [FNFG](#)) and New Haven, Connecticut-based NewAlliance Bancshares, Inc. (NYSE: [NAL](#)) announced that the companies entered into a merger agreement, valued on a fixed exchange ratio of 1.10 shares of First Niagara stock for each NewAlliance share. Per yesterday's close, this represents \$14.09 per NewAlliance share, or an approximate total transaction value of \$1.5 billion, including transaction expenses.

The merger of NewAlliance into First Niagara will be a cash-and-stock transaction creating a top-25 U.S. bank, by assets. The combined bank will have more than \$29 billion in assets, including more than \$14 billion in loans, as well as \$18 billion in deposits. NewAlliance's competitive position, talented team and extensive branch network will serve as the foundation for the Buffalo-based bank's growth in New England, as two of the best regional financial services brands in the country come together at a point when both companies are operating from positions of exceptional strength.

NewAlliance has \$8.7 billion in assets, including \$4.9 billion in loans, as well as \$5.1 billion in deposits. Its 88 branches serve eight counties from Greenwich, Connecticut to Springfield, Massachusetts. Currently, First Niagara serves communities across Upstate New York, Western Pennsylvania including Pittsburgh, and Eastern Pennsylvania from the Philadelphia suburbs to Allentown, Pennsylvania.

"First Niagara's strategy for creating shareholder value is to deliver profitable growth by 'playing offense' and entering new markets that complement our geographic footprint with companies that enhance our strong business model," said First Niagara President and Chief Executive Officer John R. Koelmel. "We and NewAlliance share many strategic and cultural strengths, and by joining forces with them and their talented leadership team, we add another attractive and well-positioned franchise with tremendous upside potential in a region with very strong demographics. In Connecticut and Massachusetts, we will be able to continue our record of increasing lending to consumers and businesses while making a positive impact in the communities we serve. NewAlliance and its outstanding leadership and employee team will be critical to the success of our long-term growth and expansion plans in New England.

Additionally, we will be able to do even more for the community as a larger, stronger institution. This is another very positive step forward for both our Main Street and Wall Street constituents."

The boards of directors of both companies have unanimously approved the transaction. Transaction closing is anticipated early in the second quarter of 2011, subject to approvals from regulators, First Niagara and NewAlliance shareholders, and other customary conditions. All 88 NewAlliance branches are expected to be converted and rebranded as First Niagara locations. Connecticut's New Haven, Fairfield, Hartford, Middlesex, Tolland and Windham counties are currently home to 75 NewAlliance locations, and Massachusetts' Hampden and Worcester counties have 13 branches. NewAlliance's workforce currently totals about 1,200 employees.

"We are very proud that NewAlliance's exceptional balance sheet, credit quality and overall franchise strength enabled us to put a deal together that allows our shareholders to participate in a tremendous long-term growth opportunity, while also providing them immediate value," NewAlliance Chairman, President and CEO Peyton Patterson said. "Based on yesterday's close, NewAlliance shareholders will realize a 24% premium and more than double the dividends earned. As importantly, our shareholders now own more than 30% of a combined regional banking powerhouse. Both NewAlliance and First Niagara have been recognized as national standouts when so many other banks are struggling. In combination, we will be creating a super-regional powerhouse and accelerating our potential in ways that we couldn't individually. By joining with First Niagara, NewAlliance customers will continue to enjoy the benefits of being served by a community-focused institution that makes lending and other decisions at the local level, in addition to having the resources of a fast-growing, top-25 bank. We will be in a position to raise the bar on the level of support we provide to the communities we serve; and extend to our employees broader career opportunities and better tools and training. I want to personally extend my gratitude and congratulations to the people of NewAlliance for their role in building one of the best banks in the country; and for their commitment to carry that momentum forward as we join First Niagara. Together we can set a new standard for what it means to be a great community bank."

NewAlliance's 195 Church Street headquarters in New Haven is slated to become First Niagara's New England Regional Market Center. As is the case with First Niagara's six other market centers across Upstate New York and Pennsylvania, the bank's regional lending, operational and philanthropic decision making will be made by local leaders based in New

Other Company Press Releases

[First Niagara Risk Management Expands Into Pennsylvania With Acquisition of Pittsburgh's RTI Insurance Services and Three Rivers Financial Services](#) - Aug 2, 2010

[First Niagara Financial Group, Inc. Declares Quarterly Dividend](#) - Jul 30, 2010

[First Niagara Reports Strong Second Quarter Results](#) - Jul 22, 2010

[First Niagara Financial Group to Announce 2nd Quarter 2010 Results on July 22, 2010](#) - Jul 1, 2010

[Photo Release -- First Niagara Names Oliver Sommer Executive Vice President for Corporate Development](#) - Jun 16, 2010

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Stock Quote

Recent Quote for **FNFG**
Last Trade: **\$ 12.030**
Trade Time: 15:01 ET
Change: +0.080 (+0.669454%)
Prev Close: 11.95
52-Wk Range: 11.63 - 14.88

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Haven.

Koelmel added, "We are thrilled to bring on such a seasoned leadership team, and we know they have what it takes to help us build out our New England Region. A top priority for Peyton and me is to map out specific roles for them in the newly combined organization."

Additionally, three NewAlliance directors, to be named in the months ahead, will be joining the board of First Niagara at transaction closing, increasing the total number of directors from nine to 12.

The transaction does not affect NewAlliance's existing pledges to community and philanthropic activities, and the current NewAlliance Foundation will continue to operate independently serving local communities. At transaction closing, First Niagara will contribute an additional \$7.5 million to its foundation to support funding for not-for-profit, charitable organizations in the communities served by NewAlliance.

Under the terms of the definitive agreement signed by the companies, each NewAlliance stockholder will receive, for each NewAlliance share and at the holder's election, either 1.10 shares of First Niagara stock, cash, or a combination thereof, subject to adjustment, election and allocation procedures spelled out in the agreement. The cash price will remain fixed while the value of the stock consideration will likely change prior to closing due to fluctuations in the price of FNFG stock. Therefore, at closing, the cash and stock alternatives are likely to have different values. Per yesterday's close, the approximate blended value of the stock and cash consideration is \$14.09 per share and represents a premium of approximately 24% based on NewAlliance's closing price of \$11.36, and a premium of about 19% over NewAlliance's 52-week average closing price, on August 18, 2010.

First Niagara has successfully completed more than nine major whole-bank and branch-network acquisitions over the last 10 years. First Niagara is now positioned to engage in this merger having successfully completed and integrated its most recent transactions.

Combination of Strong and Well-Capitalized Banks

The transaction with NewAlliance has similar characteristics to most of the whole-bank deals undertaken by First Niagara throughout its history. It is designed to deliver profitable growth while maintaining superior credit quality and a well-capitalized balance sheet.

Selected data for the combined entity, on a pro-forma basis as of June 30, 2010, include:

- More than \$29 billion in assets
- More than \$14 billion in loans and \$18 billion in deposits
- More than 340 branches in New York, Pennsylvania, Connecticut and Massachusetts
- Well above well-capitalized regulatory ratio minimums

The transaction is expected to be accretive to First Niagara's diluted earnings per share excluding transaction expenses in 2011 and accretive by approximately 4% to 5% in 2012, the first full year of ownership.

Transaction Summary

Following are selected terms and metrics associated with the transaction:

- Purchase price per share of \$14.09
- Aggregate consideration is 86% in stock and 14% in cash, subject to election and allocation procedures
- Total transaction value of approximately \$1.5 billion, including anticipated transaction expenses
- Premium of approximately 24% based on the current market and NewAlliance's closing price of \$11.36, and a premium of about 19% over its 52-week average closing price, on August 18, 2010
- Tangible book value premium of 163%
- 13.5% deposit premium

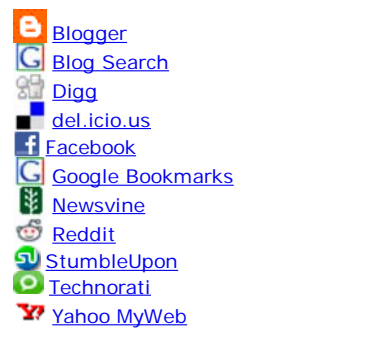
First Niagara was advised by the investment banking firm of Sandler O'Neill + Partners, L.P., as well as the law firm of Sullivan & Cromwell LLP. NewAlliance was advised by the investment banking firm of J.P. Morgan and the law firm of Hinckley, Allen & Snyder, LLP.

Investor Conference Call

Executives from First Niagara and NewAlliance will host a conference call with investors and the financial community at 10 a.m. Eastern Time today to discuss this transaction. Those wishing to participate in the call may dial toll-free 1-877-709-8150. A replay of the call will be available for approximately two weeks by dialing 1-877-660-6853, account number 240, ID number 355609. An investor presentation on this transaction is also available at First Niagara's website www.fnfg.com.

News Media Conference Call

Executives from First Niagara and NewAlliance will also host a media conference call at 11:30 a.m. Eastern Time today. Journalists may participate by dialing 1-877-407-4019.



About NewAlliance Bancorp

NewAlliance Bancshares is a New Haven, Connecticut headquartered regional banking and financial services company and the parent company of NewAlliance Bank, the third largest bank headquartered in Connecticut and fourth largest headquartered in New England.

NewAlliance Bank has a network of 88 branches in Connecticut and western Massachusetts with assets of \$8.7 billion. NewAlliance Bank provides a full range of consumer and commercial banking products and services, trust services and investment and insurance products and services. The bank's website is at www.newalliancebank.com. Shareholders are encouraged to monitor the investor relations section of the company's website.

About First Niagara Financial Group

First Niagara Financial Group, Inc., through its wholly owned subsidiary, First Niagara Bank, N.A., has \$21 billion in assets, 255 branches and \$14 billion in deposits. First Niagara Bank is a multi-state community-oriented bank with about 3,800 employees providing financial services to individuals, families and businesses. Upon completion of its pending merger with NewAlliance Bancorp, Inc. -- subject to customary closing conditions including approvals from regulators and shareholders -- First Niagara will have more than \$29 billion in assets, \$18 billion in deposits and 340 branches across Upstate New York, Pennsylvania, Connecticut and Massachusetts. For more information, visit www.fnfg.com.

Additional Information for Stockholders

In connection with the proposed merger, First Niagara Financial Group, Inc. will file with the Securities and Exchange Commission a Registration Statement on Form S-4 that will include a Proxy Statement of NewAlliance Bancshares, Inc. and a Prospectus of First Niagara, as well as other relevant documents concerning the proposed transaction. Shareholders are urged to read the Registration Statement and the Proxy Statement/Prospectus regarding the merger when it becomes available and any other relevant documents filed with the SEC, as well as any amendments or supplements to those documents, because they will contain important information. A free copy of the Proxy Statement/Prospectus, as well as other filings containing information about First Niagara and NewAlliance, may be obtained at the SEC's Internet site (<http://www.sec.gov>). You will also be able to obtain these documents, free of charge, from First Niagara at www.fnfg.com under the tab "Investor Relations" and then under the heading "Documents" or from NewAlliance by accessing NewAlliance's website at www.newalliancebank.com under the tab "Investors" and then under the heading "SEC Filings."

First Niagara and NewAlliance and certain of their directors and executive officers may be deemed to be participants in the solicitation of proxies from the shareholders of NewAlliance in connection with the proposed merger. Information about the directors and executive officers of First Niagara is set forth in the proxy statement for First Niagara's 2010 annual meeting of shareholders, as filed with the SEC on a Schedule 14A on March 19, 2010. Information about the directors and executive officers of NewAlliance is set forth in the proxy statement for NewAlliance's 2010 annual meeting of shareholders, as filed with the SEC on a Schedule 14A on March 11, 2010. Additional information regarding the interests of those participants and other persons who may be deemed participants in the transaction may be obtained by reading the Proxy Statement/Prospectus regarding the proposed merger when it becomes available. Free copies of this document may be obtained as described in the preceding paragraph.

Forward-Looking Statements

Certain statements contained in this release that are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"), notwithstanding that such statements are not specifically identified as such. In addition, certain statements may be contained in our future filings with the Securities and Exchange Commission, in press releases, and in oral and written statements made by us or with our approval that are not statements of historical fact and constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenues, expenses, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other financial items; (ii) statements of our plans, objectives and expectations or those of our management or Board of Directors, including those relating to products or services; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as "believes," "anticipates," "expects," "intends," "targeted," "continue," "remain," "will," "should," "may" and other similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those in such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to: local, regional, national and international economic conditions and the impact they may have on us and our customers and our assessment of that impact, changes in the level of non-performing assets and charge-offs; changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements; the effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve Board; inflation, interest rate, securities market and monetary fluctuations; political instability; acts of war or terrorism; the timely development and acceptance of new products and services and perceived overall value of these products and services by users; changes in consumer spending, borrowings and savings habits; changes in

the financial performance and/or condition of our borrowers; technological changes; acquisitions and integration of acquired businesses; the ability to increase market share and control expenses; changes in the competitive environment among financial holding companies and other financial service providers; the quality and composition of our loan or investment portfolio; the effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which we and our subsidiaries must comply; the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters; changes in our organization, compensation and benefit plans; the costs and effects of legal and regulatory developments, including the resolution of legal proceedings or regulatory or other governmental inquiries and the results of regulatory examinations or reviews; greater than expected costs or difficulties related to the opening of new branch offices or the integration of new products and lines of business, or both; and/or our success at managing the risk involved in the foregoing items.

Forward-looking statements speak only as of the date on which such statements are made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events.

CONTACT: First Niagara Financial Group, Inc.
Michael W. Harrington, Chief Financial Officer
(716) 625-7701
michael.harrington@fnfg.com
Leslie G. Garrity, Public Relations and Corporate
Communications Manager
(716) 819-5921
leslie.garrity@fnfg.com

NewAlliance Bancshares, Inc.
Glenn I. MacInnes, Executive Vice President
and Chief Financial Officer
(203) 789 2639
Paul McCraven, Senior Vice President
(203) 784-5001

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Thursday, August 19, 2010, 10:39am EDT

First Niagara buying NewAlliance for \$1.5B

Philadelphia Business Journal

First Niagara Financial Group said Thursday that it has agreed to buy NewAlliance Bancshares of New Haven, Conn., in a \$1.5 billion transaction that will position First Niagara among the nation's 25-largest banks, according to assets.

The deal is expected to close in the second quarter of next year. First Niagara (NASDAQ:FNFG) will have assets of \$29 billion and operate 340 branches.

NewAlliance has \$8.7 billion in assets, including \$4.9 billion in loans, as well as \$5.1 billion in deposits. Its 88 branches serve eight counties from Greenwich, Conn. to Springfield, Mass.

All NewAlliance branches are expected to be converted and rebranded as First Niagara locations. Connecticut's New Haven, Fairfield, Hartford, Middlesex, Tolland and Windham counties are home to 75 NewAlliance locations, and Massachusetts' Hampden and Worcester counties have 13 branches. NewAlliance's work force totals about 1,200.

NewAlliance's New Haven headquarters will become First Niagara's New England Regional Market Center, its seventh such operation.

The purchase price of \$14.09 per share represent a 24 percent premium over NewAlliance's Wednesday closing price of \$11.36 and a 19 percent premium over its 52-week average closing price.

It would be the third major transaction for First Niagara in less than two years and extend its reach from New York and Pennsylvania into Massachusetts. Last September, First Niagara entered western Pennsylvania by completing the acquisition of 57 former National City branches from **PNC Financial Services Group Inc.** of Pittsburgh.

Earlier this year, First Niagara closed its **acquisition of Harleysville National Corp.** for \$300 million.

First Niagara acquired two Pittsburgh insurance firms earlier this month.

First Niagara was advised by the investment banking firm of Sandler O'Neill & Partners as well as New York law firm Sullivan & Cromwell. NewAlliance was advised by the investment banking firm of J.P. Morgan and the law firm of Hinckley Allen & Snyder.



First Niagara Financial Group Thursday said it has entered into a merger agreement with NewAlliance Bancshares Inc.

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