

July 18, 2014

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## Mackinac Financial to acquire Peninsula Financial in cash-and-stock deal

Manistique, Mich.-based Mackinac Financial Corp. (\$583.6 million) entered into a definitive agreement to acquire Ishpeming, Mich.-based Peninsula Financial Corp. in a cash-and-stock transaction for a fixed \$13.285 million purchase of \$10.50 million of equity.

“So in other words, we’re paying a premium to their book value,” Mackinac Financial Chairman and CEO Paul Tobias told SNL shortly after the deal was announced. “Our calculations show that it’s three years or less of recovery of the book value dilution. And the key for us is, it’s accretive in terms of earnings right out of the blocks.”

According to a July 18 news release, Peninsula Financial shareholders will receive a mix of Mackinac Financial common shares and cash for each share of Peninsula Financial common stock. The mix will depend on cash and stock elections made by each Peninsula Financial shareholder, provided that the aggregate cash consideration will not exceed 35% of the total merger consideration.

Additionally, shareholders of Peninsula Financial will receive a special dividend immediately prior to close of any equity greater than \$10.50 million as specified in the merger agreement.

Mackinac Financial is the holding company for mBank. Peninsula Financial is the holding company for Peninsula Bank of Ishpeming, which operates six full-service banking centers and has nearly \$132 million in total assets and \$112 million in deposits, according to the merger release.

In a Form 8-K filed July 18, Mackinac Financial noted that pursuant to the agreement, Peninsula Financial will merge with and into PFC Acquisition LLC, a wholly owned subsidiary of Mackinac Financial, with PFC as the surviving entity. The deal also provides that Peninsula Bank will be consolidated into mBank.

The acquisition will nearly double mBank’s Upper Peninsula presence to 13 branches and increase its total number of branches in Michigan from 11 to 17.

After the transaction, mBank will have an estimated \$710 million in assets, making it the largest bank headquartered in the Upper Peninsula of Michigan. The bank will have pro forma gross balance sheet loans of approximately \$561 million and combined core deposits of approximately \$581 million. Post-acquisition, mBank is expected to rank as the 16th-largest financial institution headquartered in Michigan, out of 123 banks, ranked

by total assets of such institutions as of March 31, according to the merger release.

Mackinac Financial expects the transaction to be immediately accretive to EPS for 2014 with increasing accretion estimated for 2015 of 24 cents and 2016 of 35 cents. The company projects that initial operating savings resulting from economies of scale and increased efficiencies will be approximately 35%, and will be fully realized in the 2015 fiscal year. The company currently expects the tangible book value earnback to be approximately three years or less.

The deal is expected to close late in the third quarter or early in the fourth quarter, subject to approval by regulators and Peninsula Financial’s shareholders, along with other closing conditions. Total transaction expenses are estimated to be about \$2.0 million on an after-tax basis.

River Branch Capital LLC acted as financial adviser to Mackinac Financial and Honigman Miller Schwartz and Cohn LLP provided legal counsel to the bank. Wipfli LLP acted as financial adviser to Peninsula Financial and Godfrey & Kahn provided legal counsel.

*By Jasmine Castroverde*