

Small bank sellers could see new level of buyer interest

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By Kevin Dobbs

Kevin Dobbs is a senior reporter and columnist for SNL Financial. The views and opinions expressed in this piece represent those of the author or his sources and not necessarily those of SNL.

Important signs of renewed interest among regional banks in mergers and acquisitions could prove positive for small banks looking to sell, industry insiders say.

Notably this week, BB&T Corp. said it planned to buy Crestview Hills, Ky.-based Bank of Kentucky Financial Corp. for more than \$360 million. The target, with a little more than \$1.8 billion in assets, is tiny relative to Winston-Salem, N.C.-based BB&T, which has about \$188 billion in assets. But the buyer said the deal will provide it with entrance to Greater Cincinnati — a logical extension of the bank's footprint in Kentucky and one that continues its gradual expansion beyond its Southeastern base. The "compelling" move made the deal worth the effort and could be one that BB&T repeats, Ricky Brown, president of BB&T's largest unit, Branch Banking and Trust Co., told SNL after the deal was announced.

Brown said BB&T is generally eyeing banks with at least \$3 billion in assets but, as the Bank of Kentucky deal demonstrates, it is willing to pursue even smaller lenders if they afford the buyer significant tactical advances.

While BB&T is more openly acquisitive than the vast majority of large regional banks in the U.S., it has company among smaller regionals also pursuing community bank targets. In June, for example, Raleigh, N.C.-based First Citizens BancShares Inc. said it would buy Columbia, S.C.-based First Citizens Bancorp. Inc. for more than \$670 million. The buyer in that deal has about \$22 billion in assets while the seller has about \$8.4 billion in assets.

Aaron Packles, head of investment banking for depository institutions at Bank of America Merrill Lynch, advised First Citizens Bancorp. on its sale. He told SNL in an interview this week that more regional banks, particularly those under roughly \$50 billion in assets, are at least discussing the possibility of buying community banks, viewing such deals as more likely to garner timely regulatory approval. Regulators, he said, have heavily scrutinized the few larger

deals announced in recent years, in some cases causing lengthy delays, he noted. That has raised eyebrows among many would-be buyers of larger targets and pushed most of them to the M&A sidelines.

But some of those same banks, frustrated with the slow organic growth they are generating in the current choppy economy and low interest rate environment, are exploring the possibility of buying community banks, viewing them as simpler to acquire and therefore far less likely to attract intense regulatory attention. If, like BB&T says it did, they can find targets that provide clear strategic positives, Packles said such potential buyers may pounce.

"There are certainly more conversations now going on behind closed doors," Packles noted.

All of that, observers say, could signal positive news in the making for community banks interested in selling. Larger buyers not only add to the competitive landscape, potentially helping targets fetch higher prices, but also typically bring to the table far greater resources than smaller buyers. That means sellers could essentially have "zero concerns" about a regional bank having the capital to close a deal or the wherewithal to easily integrate a small target, Jon Winick, president of Clark Street Capital, told SNL.

SNL calculated the value of the BB&T-Bank of Kentucky deal to be 216.3% of tangible book. Offers for bank and thrift targets in the Midwest region over the past 12 months, meanwhile, averaged about 140% of tangible book.

"It looks like they [Bank of Kentucky] got a pretty good price," Winick said, in what was a win for its investors. He added that BB&T has a proven M&A background and should have little trouble absorbing the target smoothly. "It's very easy for them to pull it off."

What's more, Winick said, BB&T will clearly bring to Bank of Kentucky's customers a broader array of products and services, providing further value to the seller.

Winick noted that others say it is too soon to call the beginning of a trend. He added that several regional banks this year have been publicly bearish on bank M&A, including SunTrust Banks Inc. and U.S. Bancorp. But he said the BB&T announcement this week, coupled with rumblings about increasing M&A conversations among some regionals, "suggests attitudes are beginning to thaw." *i*