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INSIGHTS | October 14, 2014

One Exception To Large Banks Staying On The Sidelines…
— BB&T Acquisition of Bank of Kentucky

Recently, BB&T ($188 billion in assets), headquartered in North Carolina and one of the top-15 banks in the U.S. by assets, made news by its announcement of an acquisition of a much smaller Bank of Kentucky ($1.8 billion in assets). This transaction was notable due to the dearth of smaller acquisitions initiated by the top-20 banks in the U.S. over the past few years.

Why did BB&T make this acquisition and what might it mean for the future?

BB&T was interested in accessing the markets Bank of Kentucky served, notably Northern Kentucky and the Cincinnati MSA. The market premium was significant in the cash and stock deal at approximately 36% based on an average price of the seller's stock over the previous month. Additionally, the premium to tangible book was also high at 217%. The seller will receive 17.4x earnings in the transaction as of the announcement date.

Pretty rich deal? Yes, but maybe not as much as it seems on the surface. BB&T is trading at 194% of tangible book value and 15.7x earnings. Combined with the implied leverage of the cash component in the deal (approximately 20%), the high value attributed to the acquirer's stock and the normal cost take outs should make this transaction accretive in the first year to BB&T. Not bad for an acquirer making a "strategic" acquisition in a growth market and not bad for a seller who admittedly "couldn't grow fast enough or make acquisitions" to "hit numbers that they wanted."

This transaction would appear to be a precursor for more transactions where buyers, enabled by relatively attractive multiples in terms of price/earnings and price/tangible book value, can make a "win-win" case to community bank managements/boards who face asset growth, regulatory, technology and limited product offering headwinds to be competitive. Most large banks are not yet as prepared as BB&T to take advantage of the acquisition opportunities presented. For that reason, this transaction might be an anomaly in the short run but it could reflect what is likely to happen in the next 3-5 years.