RMB Mendon Financial Funds

Commentary: April 2018

April proved to be an interesting month for bank mergers and acquisitions (M&A). Looking underneath aggregate transaction data for the month shows some remarkable dynamics. Last month, Renasant Corporation (RNST) acquired Atlanta-based Brand Banking Company (PRIVATE). In April, we witnessed two more transactions in Atlanta, both announced on the same day. National Commerce Corporation (NCOM) is acquiring Landmark Bancshares, Inc. (PRIVATE) for $115 million / 220% of tangible book value (TBV) and CenterState Bank Corporation (CSFL) is acquiring Charter Financial Corporation (CHFN) for $360 million / 195% of TBV. Pro forma, these transactions result in 25% of NCOM's footings now in Atlanta and CSFL materially crossing over the $10 billion asset level. During its earnings call, CSFL's CEO reinforced our thoughts about scarcity value in the region when he stated the following, *"And it was evident to us that Atlanta would be rapidly consolidating in 2018, just like North Carolina did a couple of years ago. We've seen four Atlanta banks sell in the last couple of months. So if we were ever going to enter the Atlanta market, time was of the essence. And so it became a matter of reaching a negotiated deal with the right cultural partner, with the right scale, before the Atlanta banks are consolidated by others."*

Another extremely interesting transaction that occurred during the month was Triumph Bancshares, Inc.'s (TBK) simultaneous acquisition of two banks and one factoring company as well as a concurrent $175 million common equity raise. What makes the transaction of interest is that buying mature, stable deposit franchises provides the raw materials for TBK's continued asset generation. This asset generation is further expanded by the acquisition of a competing transportation factoring business. Essentially, the acquired banks' deposit costs of 0.21% are funding transportation receivables yields approaching 26%. This is another thoughtful transaction by a company that embodies the optionality we seek: that is, it can drive value on a standalone basis, as an acquirer, or as a bolt-on acquisition by a larger institution.

Finally, one other bank effected a transaction during the month that would carry them well in excess of the $10 billion asset regulatory threshold. For the first four months of 2018, there were 80 transactions at an average price/TBV of 181.5%, compared to 75 and 168.2%, respectively, for the same period last year. As discussed in our first-quarter letter, when S. 2155 is passed by the House and signed by the president (which we believe should happen in the near term), we think both larger and smaller transactions will meaningfully accelerate.

Although we have focused on M&A in this update, the other drivers for the group (deregulation, economic growth, increasing rates, and valuation) remain meaningfully intact. We continue to spend a large amount of time in various geographies, meeting with management teams and other industry participants to enhance our awareness of real-time changes to the investment landscape.

In closing, we remain extremely excited about the opportunity set in front of us and our portfolio's ability to create return in multiple market environments. We will remain opportunistic while keeping a vigilant eye on the fundamentals and outlook of the group.

As always, we welcome your feedback, comments, and questions.

Sincerely,

Anton Schutz
Senior Portfolio Manager

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