



Deal Logic BB&T / SunTrust

WHU Finance Society

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Abstract

Two regional retail banks merging to become the 6th largest bank in the US sounds very much like inorganic growth. After all, that is how Chemical Bank, Manufacturer's Hanover Trust Company, Chase Manhattan Bank and J.P. Morgan became one of the largest banks in the world today. But an aspect which is more relevant today than ever is inorganic growth enabling organic growth. Scalability applies to technology on the revenue side as well as on the cost side and gives larger banks a crucial competitive advantage. The strategic option of consolidation seems to be something which was long overdue, considering the dynamic market environment.

The words consolidation and banking seem to be coming in a package, reading through current news articles and reports. What has intensified is their frequency. Bank size matters now more than ever with a large investment backlog in digitalization, high fixed costs from regulation such as MiFID II and Basel III in Europe or the Dodd–Frank Act in the US, and high pressure from non-banking competitors. Banks have three strategic options to ensure future profitability: Product specialization, value chain breakup or consolidation. The merger of BB&T Corporation (BB&T) and SunTrust Banks Inc. (SunTrust) is a great example of how two regional retail banks use the latter strategy.

Banking consolidation is not a new trend. The number of banks was cut by about two thirds, comparing the number of banks in the US today to the 1980s, but market reports suggest that the number of banks in the market today is still too high to cope with current challenges. The merger of BB&T and SunTrust is the biggest bank merger since the financial crisis with a pro forma total assets of USD 442bn. This number is crucial from a regulatory perspective. Last fall the US regulators classified a new bank category with total assets between USD 250bn and USD 700bn, lifting the threshold for the most stringent regulation. This announcement was surely an enabler of this merger.

Regional retail banking, the core business of both institutions, has increasingly become a commodity business, where efficiency is key. The expected cost synergies, which are rather conservative, are expected to be at about 12.5%. Closing branches will be the main driver, as about 24% of the branches of the two banks are within two miles of each other. Banking clients are less concerned with mergers, but more focused on the future of the trust relationship with their banker. This trust cannot be assured by reshuffling client coverage. Consequently, the

management announced publicly that client-facing associates will keep their jobs in an attempt to avoid customer churn. What is questionable is the topic of IT system integration. The statement by the management that they will “pick the best and destroy the other” is not as simple, as past bank mergers have often struggled with this aspect. An advantage of both firms is their acquisition history. Therefore, the post-merger integration can be based on expertise from the past.

The biggest driver of this acquisition is the combination of digitalization investment. It is hard for a “small” bank to compete with large players such as JPMorgan Chase which has a technology budget of USD 10.8bn. Additionally, non-banking competitors are entering the retail banking market in particular with for example mobile payment solutions. As those developments have been going on for a while now, the merger seems to be more defensive than offensive.

The market reacted very positively to the announcement, pushing the stock price of both firms upwards. As this is a stock for stock merger of equals, no premiums were paid directly. One of the reasons to structure the merger this way could be due to the negative market reaction to past transactions with sizable premiums and strong dilution to tangible book value per share.

Looking at the margins and market share development, both banks were “doing fine” in the past years but realized that this is not enough to secure a sustainable market position. This deal could start the next banking merger wave – not only in the US. The European banking market is still fragmented and especially countries such as Switzerland, Germany, Austria, and Italy have high consolidation potential. So, we stay tuned for more transactions in the banking landscape.

All values in USDm, except Price, Initial (USD) & Price, Paid (USD)

Summary

Target	Suntrust Banks Inc.
Acquirer	BB&T Corp
Date, Announ.	07.02.2019
Date, Effective	Pending
Deal Attitude	Friendly
Consideration	Stock Swap Merger of Equals
%Held/%Acq.	0.0 / 100.0
Deal Value	28,282
Price, Initial	62.85
Price, Paid	62.85
Total Fees	84.3
Premium*, 1d	6.9
Premium*, 1w	5.7
Premium*, 4w	13.5

* Pre-bid (%)
Sources: Thomson Reuters Eikon

Synopsis

- BB&T will merge with SunTrust, an Atlanta-based bank holding company, in a stock swap transaction valued at USD 28.282bn, BB&T offered 1.295 common shares per SunTrust common share
- Based on BB&T's closing stock price of USD 48.53 on 06.02.2019, the last full trading day prior to the announcement, each SunTrust share was valued at USD 62.85
- Upon completion, BB&T and SunTrust shareholders will own 57% interest and 43% stake in the merged entity
- The deal is still subject to customary regulatory approvals and approval by the shareholders of each company

LTM Transaction Multiples

	Target	Acquirer	Industry†
Equity Value to Sales*	2.7x	3.7x	3.8x
Equity Value to EBIT*	8.5x	9.2x	9.9x
Price to EPS	10.4x	13.0x	13.2x

* Market Capitalisation
† National Commercial Banks, 6021

Rationale

- Strong cultural alignment, preserving the community bank model to maintain close ties to shared local communities
- Increased profitability and scale to drive new innovations focusing on selecting the best systems and joint technology investments
- Revenue growth through complementary businesses, combining BB&T's Community Banking and insurance operation and SunTrust's middle market corporate & investment banking business and digital consumer lending platform
- The acquisition is expected to result in EPS accretive by 2021 and deliver cost synergies of USD 1.6bn by 2022

Financial Advisors

Target	Fees	Acquirer	Fees
Goldman Sachs	30.1	RBC Capital Markets	28.7
SunTrust Robinson Humphrey	25.5		

All values in USDbn, except EPS

Recent News*

- **2019/02** Markets respond in favor of BB&T-SunTrust merger
- **2019/01** BB&T to buy SunTrust in biggest U.S. bank deal in a decade
- **2019/01** BB&T reports record annual earnings for 2018
- **2018/12** BB&T's ratings affirmed by Moody's: outlook is stable
- **2018/11** BB&T expands its recreational lending nationwide
- **2018/07** BB&T is awarded 'outstanding' rating for community reinvestment
- **2018/06** BB&T increases prime lending rate
- **2018/06** BB&T's online banking service is hit by data center glitch

* Prior To Deal

Sources: Thompson Reuters Eikon, [BB&T](#)

Company Description

- BB&T is a bank holding company based in Winston-Salem, North Carolina, US
- The bank operates 2,049 branches in 16 states and is the 16th largest bank in the United States by assets
- BB&T offers consumer and commercial banking, securities brokerage, asset management, mortgage, and insurance products and services through 6 main segments: Community Banking, Residential Mortgage Banking, Dealer Financial Services, Specialized Lending, Insurance Holdings and Financial Services
- Through 147 years of operation, BB&T has made over 106 mergers and acquisitions

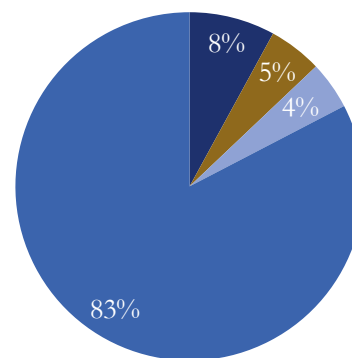
Key Management & Ownership Structure



Kelly S. King
CEO
Since 2009



Daryl N. Bible
CFO
Since 2009

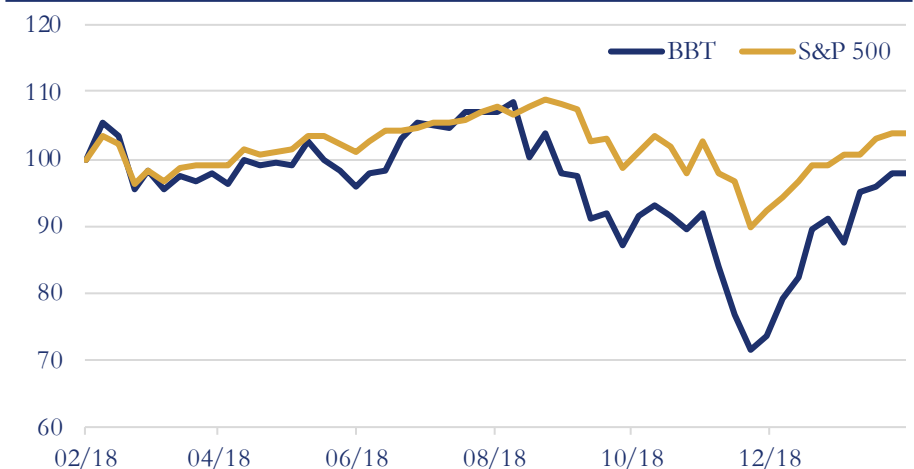


■ The Vanguard Group
■ BlackRock
■ State Street Global Advisors
■ Freefloat

Key Financials

	2016A	2017A	2018A	2019F	2020F
Sales	12.3	13.0	13.2	13.6	14.0
% growth	10.6	6.0	1.9	2.8	2.4
EBIT	4.7	4.5	5.2	5.7	5.8
% margin	37.7	35.1	39.7	41.7	41.8
Net Inc.	2.6	2.6	3.5	3.6	3.9
% margin	20.9	19.8	26.3	27.7	27.8
EPS	2.8	2.8	3.9	4.3	4.7

LTM Stock Price Performance



All values in USDbn, except EPS

Recent News*

- **2019/02** SunTrust declares quarterly dividend of USD 0.50 per share
- **2019/02** SunTrust-BB&T merged bank will spend USD 100m on technology and innovation
- **2019/01** The BB&T-SunTrust merger will spark more bank M&A deals
- **2018/10** SunTrust issues reminder concerning expiration of warrants
- **2018/09** SunTrust is named leader for online banking and mobile banking by prestigious market research agencies.
- **2018/07** Dodd-Frank stress test projects USD 5.7bn loan losses at SunTrust in severe recession

Company Description

- SunTrust is an American bank holding company established in 1891 and headquartered in Atlanta, Georgia, US
- The bank operates 1,400 bank branches and 2,160 ATMs across 11 southeastern states and Washington, D.C. and is the 17th largest bank in the United States by assets
- SunTrust provides its clients a wide range of services including deposits, lending, credit cards, trust and investment services, as well as corporate and investment banking, capital market services, mortgage banking, and wealth management through 3 main segments: Consumer Banking and Private Wealth Management, Wholesale Banking, and Mortgage Banking and Corporate

Key Financials

	2016A	2017A	2018A	2019F	2020F
Sales	8.7	9.1	9.3	9.6	10.0
% growth	7.0	4.5	1.9	3.5	3.4
EBIT	3.1	3.3	3.6	3.8	3.9
% margin	35.9	36.6	38.7	39.5	39.4
Net Inc.	1.8	2.0	2.7	2.6	2.6
% margin	20.7	21.8	29.2	26.7	25.9
EPS	3.6	4.6	5.7	5.9	6.2

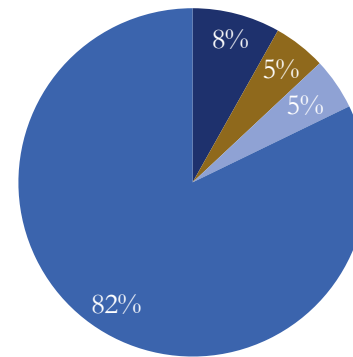
Key Management & Ownership Structure



William H. Rogers Jr.
CEO
Since 2012

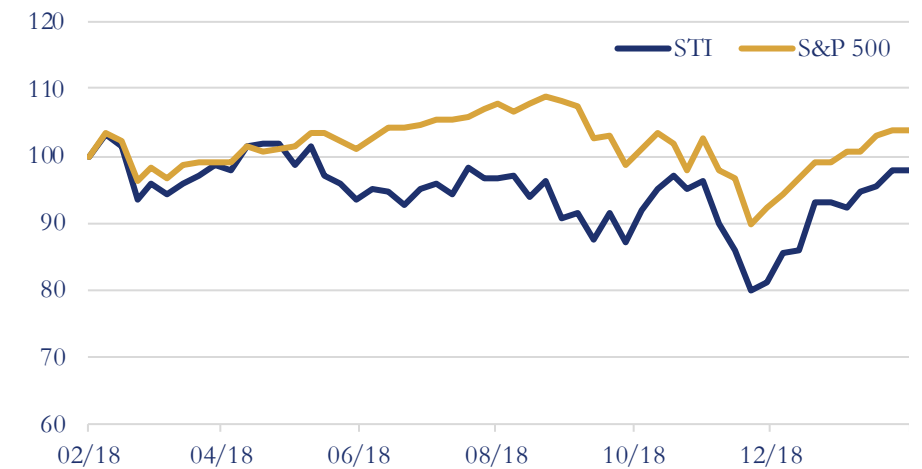


Laura Allison Dukes
CFO
Since 2018



■ The Vanguard Group
■ BlackRock
■ State Street Global Advisors
■ Freefloat

LTM Stock Price Performance



* Prior To Deal

Sources: Thompson Reuters Eikon, [SunTrust](#)

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