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## West Town Bancorp, Inc. (WTWB - OTC Pink)

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North Carolina  
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**John A. (Buddy) Howard, CFA**  
**November 26, 2018**

<b>Price:</b>	\$26.10	<b>EPS *</b>	<b>2016A:</b>	\$ 1.24	<b>P/E</b>	<b>2016A:</b>	21.0 x
<b>52 Wk. Range:</b>	\$25.00 - \$29.49	(FY: DEC)	<b>2017A:</b>	\$ 1.54		<b>2017A:</b>	16.9 x
<b>Div/Div Yld:</b>	\$0.00 / 0.0%		<b>2018E:</b>	\$ 2.80		<b>2018E:</b>	9.3x
<b>Shrs/Mkt Cap:</b>	3.0 mm / \$80 mm	<b>Book Value: **</b>		\$ 25.31	<b>Price/Book Value:</b>		1.03 x

\* EPS in 2017 includes a nonrecurring tax benefit of \$0.22 per share. 2018 EPS excludes \$1.15 per share in a nonrecurring gain.

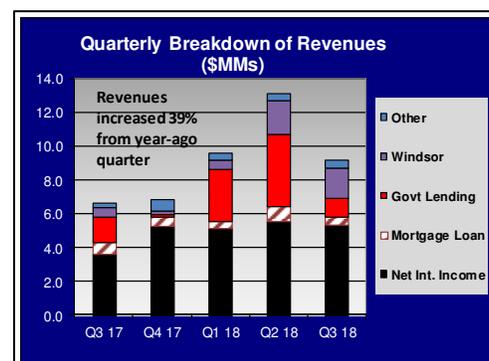
\*\* Tangible book value is \$15.30 per share; price to tangible book value is 1.71x.

### Background

With \$551 million in assets, West Town Bancorp, Inc. is the Raleigh, NC based multi-bank holding company for West Town Bank & Trust, a North Riverside, IL based state-chartered bank and Sound Bank, a Morehead City, NC based state-chartered bank. West Town Bank & Trust provides banking services through its offices in Illinois and North Carolina, while Sound Bank provides banking services through its offices in North Carolina. Primary deposit products are checking, savings, and time certificate accounts, and primary lending products are residential mortgage, commercial, and installment loans. Additionally, both banks engage in Government Guaranteed Lending (SBA and USDA) activities as well as mortgage banking activities and, as such, originate and sell loans from multiple states into the secondary markets. Finally, through Windsor Advantage, LLC (“Windsor”), the Company also provides a platform to other banks and credit unions to assist those institutions in SBA and USDA lending strategies by providing prequalification, packaging, closing, secondary market sales, servicing and liquidation services. The Company is registered with, and supervised by, the Federal Reserve. West Town Bank & Trust’s primary regulators are the Illinois Department of Financial and Professional Regulation and the FDIC. Sound Bank’s primary regulators are the North Carolina Commissioner of Banks and the FDIC.

### Revenues Were Strong Relative to Year-Ago Quarter; Higher Shares Outstanding Affected EPS

As was expected, West Town Bancorp’s third quarter comparisons (particularly relative to the first two quarters of 2018) were skewed by the winding down of the “originate and hold” strategy started in late 2017 for government guaranteed loans. The selling off of stockpiled loans resulted in a spike in government income in the first two quarters of this year (seen by the red bars in the adjacent chart), and the third quarter reflected a more normalized level of income from this sector. While mortgage income was also lower in 2018’s third quarter, the strength of recently acquired Windsor Advantage offset a good deal of this weakness. In fact, relative to the year-ago quarter, revenues actually increased 39%. We were also encouraged by loan origination activity, which has actually been better than implied by the increase in loans given high payoff activity in the Sound Bank loan portfolio, as is discussed in more detail on the opposite page.



In terms of specific results, net income in the third quarter of 2018 was \$1,028,000, or \$0.33 per diluted share, versus \$947,000, or \$0.56 per diluted share, in the year-ago quarter. The increase in net interest income was impressive (\$5,273,000 in 2018’s third quarter, versus \$3,551,000 in 2017’s third quarter), with most of that increase coming from the addition of the Sound Bank operation.

ASSETS: \$551 MM

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PRESIDENT & CEO  
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3<sup>RD</sup> QUARTER HIGHLIGHTS:

EPS: \$0.33 vs. \$0.56

REVENUES WERE UP 39% FROM THE YEAR-AGO QUARTER AND BENEFITTED FROM THE INCLUSION OF 100% OF WINDSOR’S OPERATIONS

REVENUES FELL RELATIVE TO THE LINKED SECOND QUARTER AS A RESULT OF THE UNWINDING OF THE “ORIGINATE AND HOLD” STRATEGY IN GOVERNMENT LENDING

**NONINTEREST INCOME  
INCREASED 28%**

**WINDSOR ACCOUNTED FOR  
MUCH OF THAT INCREASE**

**FIRST HALF HIGHLIGHTS:**

**EPS: \$2.44 (EXCLUDES  
NONRECURRING GAIN) VS. \$1.47**

**CORE NONINTEREST INCOME  
GREW 60%**

**LOAN ORIGINATIONS HAVE BEEN  
BETTER THAN IMPLIED BY THE  
GROWTH IN THE LOAN  
PORTFOLIO, AS SOUND BANK  
LOANS HAVE BEEN PAYING OFF  
FAIRLY QUICKLY**

**ORIGINATED LOANS HAVE  
INCREASED 49% IN THE PAST  
YEAR**

**ALTHOUGH DEPOSITS ONLY  
INCREASE 3%, NONINTEREST  
DEPOSITS GREW 34%**

**CAPITAL POSITION IS STRONG,  
WITH TANGIBLE EQUITY TO  
TANGIBLE ASSETS AT 8.9%**

**ASSET QUALITY REMAINS  
STABLE**

**NPAs/ASSETS: 1.30%**

**RESERVES/LOANS HFI: 1.27%**

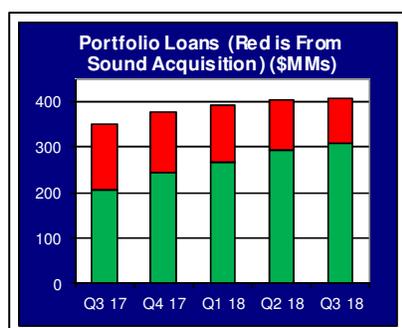
**EPS:  
2016A: \$1.24  
2017A: \$1.54  
2018E: \$2.80 (EXCLUDES \$1.15  
PER SHARE IN NONRECURRING  
GAIN)**

However, we would note that net interest income did decline relative to 2018's second quarter level, reflecting recent softness in margins but also a drop in average loans and average earning assets (due in part to the previously mentioned paydowns at Sound Bank). Noninterest income increased 28% to \$3,869,000 in the third quarter of 2018 (with Windsor revenue accounting for nearly half of that amount), versus \$3,013,000 in 2017's third quarter, while noninterest expense increased 56% to \$6,953,000 from \$4,454,000 over the same respective quarters.

For the first nine months of 2018, West Town Bancorp earnings (excluding a one-time pretax gain totaling \$4.8 million from the completion of the purchase of Windsor Advantage, LLC) were \$7,588,000, or \$2.44 per diluted share, versus \$2,340,000, or \$1.47 per diluted share, in the year-ago period. Net interest income increased 79% to \$15,863,000 in 2018's first nine months, up from \$8,854,000 in the year-ago period, while core noninterest income was up 60% to \$15,970,000 from \$9,981,000 in the same respective periods. Noninterest expense grew 47% to \$20,163,000 in 2018's first nine months. Finally, the higher earnings occurred despite an increase in the provision for loan losses to \$1,519,000 in the first nine months of 2018, versus \$1,048,000 in the year-ago period.

**Balance Sheet Growth Remains Strong**

From a balance sheet standpoint, West Town Bancorp continues to execute well, although as was stated previously, the paydowns at Sound Bank has had a dampening effect on the overall growth rate

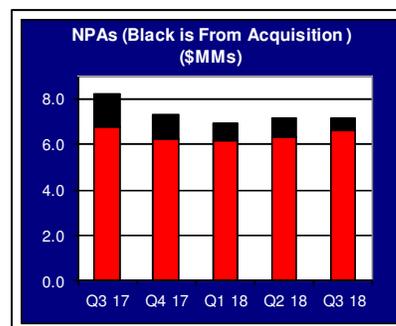


in the loan portfolio. This can be seen graphically in the adjacent chart, as the Sound Bank loan portfolio fell from \$145 million at September 30, 2017 to \$101 million at September 30, 2018. Over that same time period, originated loans held for investment (net of repayments) increased from \$206 million to \$307 million, an increase of 49% in a single year. Over the past year, assets increased 13% and deposits grew 3%. Although the rate of deposit growth was somewhat modest, we would note that noninterest bearing deposits increased 34% from \$71 million at September 30, 2017 to \$95 million at September 30, 2018. Capital wise, West Town

Bancorp remains in excellent shape to maintain its growth, as total equity at September 30, 2018 was \$76.4 million, or 13.9% of assets, while tangible equity was \$46.2 million, or 8.9% of tangible assets.

**Asset Quality Has Been Holding Fairly Steady**

At September 30, 2018, nonperforming assets (including nonaccruing loans, accruing loans more than 90 days past due and OREO) were \$7.2 million, or 1.30% of assets, versus \$7.1 million, or 1.31% of assets, at June 30, 2018 and \$8.2 million, or 1.68% of assets, at September 30, 2017. The allowance for loan losses totaled \$3.9 million, or 1.27% of loans held for investment, at September 30, 2018, as compared to \$2.8 million, or 1.38% of loans held for investment, at the year-ago date. (The Sound Banking Company loans were marked to market, so the effective allowance for them was zero.)



**Projections**

Based on the most recent results, we are lowering our 2018 earnings estimate to \$8.7 million, or \$2.80 per diluted share, from our previous estimate of \$9.3 million, or \$3.00 per diluted share. We will introduce our 2019 earnings estimates in our next report. These projections are subject to wide variation given the large amount of income coming from the Bank's specialty lines of business.

ADDITIONAL INFORMATION UPON REQUEST

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