

To view as a web page, click [here](#).



1175 Peachtree St. NE 350 S. Figueroa St. Suite 550
 100 Colony Square Suite 2250 Los Angeles, CA 90071
 Atlanta, GA 30361 213-620-9556
 404-601-7200

Ideas and Execution on Financial Institutions

ABOUT FIG | OUR SERVICES | MARKET MAKING | RESEARCH | TRANSACTIONS | CONTACT US

RESEARCH & TRADING THOUGHTS Thursday, May 19, 2011

[[CRE Roundtable Observations / EFSC Capital Raise / FPTB](#)]

Quote of the Day:

"Fear often does the job that reason doesn't"

(Larry Summers)

Research Notes:

[CRE Observations From Our Atlanta Panel Discussion Yesterday:](#)

[Analyst: Christopher Marinac, CFA cmarinac@figpartners.com 404-601-7210]

We hosted a roundtable discussion in Atlanta yesterday on Commercial Real Estate with five(5) professionals on the ground doing real transactions. The state-of-the-union in Atlanta is probably best summed up that deals are indeed getting done, pressure on prices remains within many property types and submarkets, and capitalization rates still vary widely. Below are a few other sound bites we thought would be of interest:

- **Lack of cash flow is the single greatest issue on valuations for banks' loan marks.** While regulators/examiners are tough, they are forced to respond to the lack of cash flow in deals. Yes, reduced cash flow covered triggers "Substandard" classifications and sometimes is too onerous, but most valuation hits start and end with cash flow.
- **Capitalization Rates ("cap rates") on actual transactions vary widely.** Triple-net lease credit tenants (such as drug stores) see the best rates and increasingly low interest rates and everyone's desire for yield cause these cap rates to be lower and lower. However, some irrational cap rates are being seen on B- Multifamily properties and high-grade international full-service hotel was cited for its low cap rate on a recent trade (this did not occur in Atlanta, but was in D.C. Metro)
- **Lenders have to finance their OREO** ... those who cannot or will not are likely to struggle purging their problem assets. This theme was repeated several times as a few panelists with real deal experience in 1973-74 recounted how financing buyers to respond to troubled assets was the only way out of the ditch 37 years ago and it likely is the recipe to improved asset quality in 2011-12.
- **Transactions with lender financing tend to be priced 25% higher.** Again, as stated above, providing loans to finance OREO makes a tremendous difference to (a) moving troubled properties and/or building out vacant land and lots; and (b) it

raises the valuation of the loan or underlying collateral. This point created several "nods" from our 5 panelists.

- **CMBS loans coming due must get financed in order to avoid further pricing pressure.** Yes, there is still a healthy pipeline of shadow foreclosures on both commercial and residential properties, but specific to pending CMBS maturities the next several quarters the need for financing these loans is a critical piece of the analysis on how CRE ultimately performs.

EFSC - Enterprise Financial Services (Clayton, MO - \$235 Mil. Mkt. Cap, \$2.9 Billion Assets, \$13.56, 1.55% Yield):

[Analyst: Brian Martin, CFA bmartin@figpartners.com 312-461-4346]

Yesterday, EFSC announced a common stock offering of \$2.4mm shares at \$12.75 per share for gross proceeds of \$30.4mm. Inclusive of the over-allotment of 357,900 shares, EFSC will receive net proceeds of approximately \$32.9mm. The total share count will increase by ~16%. The deal is targeted to close on May 24th and was priced at a 6% discount to the closing price, or ~122% of pro forma tangible book value (125% of 1Q11 TBV).

On a pro forma basis the Tangible Common Equity and Tier 1 Leverage ratios increase ~115 bps to 6.35% and 9.75%, respectively while the Tier 1 Common and Risk Based Capital ratios jump ~160bps to 9.12% and 15.95%. Inclusive of the convertible TRUPS, the pro forma tangible common equity ratio ~7.35%. Pro forma tangible book value increases nearly \$0.30 to ~\$10.50 per share.

On a pro forma basis, using an 8% Tier 1 Leverage as a guidepost, EFSC has ~\$50mm in excess capital at 1Q11, which can support ~\$600mm in new assets. The capacity could be as great as ~\$1 billion if EFSC is able to quickly reduce the size of the acquired institution.

The proceeds will improve EFSC's overall capital mix and support organic growth as well as acquisitions. EFSC expects to continue to capitalize on disruption in all three of its markets due to the acquisition of M&I plus EFSC has a high interest in additional FDIC acquisitions with a focus on core deposit franchises rather than financial transactions. This narrows the list to a handful of targets in Arizona and Kansas City. We suspect one of these targets is likely to fail in the second quarter, thus prompting a capital raise in order to be a bidder.

We are maintaining our Outperform rating on shares of EFSC. We will follow up with adjustments to our EPS estimates following a discussion with management.

FPTB - First PacTrust Bancorp (Chula Vista, CA -- \$141 Mil. Mkt. Cap, \$835 Mil. Assets, \$14.50, 2.9% Yield):

[Analyst: Brett Villaume, CMT bvillaume@figpartners.com 415-284-2010]

[Analyst: Tim Coffey tcoffey@figpartners.com 415-284-2011]

We made certain assumptions regarding First PacTrust Bancorp when we initiated coverage in December 2010. The new management team, we believed, was likely to execute a two-pronged growth strategy of organic expansion and acquisitions. While organic expansion is underway (the company opened two branches in San Diego and plans to enter Los Angeles later this year), we realize the timing of acquisitions are unlikely to meet our original expectations. As a result, we are delaying the impact of potential acquisitions until

the second half of 2011, which results in a lowering of our EPS estimates to \$0.15 in 2Q11, \$0.77 in the full-year 2011 and \$1.08 in 2012. In our discussions with management over the last few months, we believe there are several attractive acquisition candidates in the \$200 million to \$350 million range. We also believe there will more likely be several smaller acquisitions over the coming quarters and years, rather than one large purchase per year. The company is moving along with its organic lending operations too, with the La Jolla branch now fully operational, the San Marcos branch due to come on line at the end of June, and a move into Los Angeles County later this year.

We have revised our EPS estimates to include a change in the timing of the company's future acquisitions -we now expect two smaller purchases of \$150 million and \$250 million in assets during the 3Q and 4Q, respectively, to be followed by another \$500 million acquisition in 3Q-2012 (unchanged). As well, we have factored in management's guidance on expenses, although the timing of these could, and likely will be, sporadic over the course of the next two years. To the degree that FPTB keeps costs inline and/or sees higher spread income on its newly acquired and organic earning assets, our estimates could be too conservative. We now expect EPS of \$0.15 in 2Q11, \$0.77 in 2011 and \$1.08 in 2012. Tangible book value per share bottoms in 3Q11 at \$3.71, then grows to \$14.04 by 1Q12.

We factor Normalized EPS of \$0.88 over the next four quarters, plus an additional 16 cents in leveraged excess capital ("strategic EPS"), at a 16.7x multiple to arrive at our \$17.50 one-year price target. This equates to 125% of our one-year forward tangible book value. Currently, the stock trades a 21% discount to our price target and at 103% of our forward tangible book estimate. We therefore reiterate our "Outperform" rating on FPTB. Please see our report issued this morning for further details.

Today's Technical Stock Notes:

[Analyst: Brett Villaume, CMT bvillau@figpartners.com 415-284-2010]

Continued light volume drifting around for the Bank Sector yesterday, as the group of Top 50 Banks & Thrifts gained about a half a percent and volume was only 82% of average. The 10-Year Treasury Yield gained about 5 basis points on the day and could be reversing its recent decline, which would be a tailwind for Banks during their own struggle to begin trending higher. Meanwhile, the S&P 500 and other broad market indices picked up the pace, which was the other inter-market influence we were watching for signs of improvement. Now, if we could just get a little *volume* in the Sector as the bounce gains momentum, all would be right with the World. Except in a few individual cases, investors have shied away from any involvement in Banks, be it a bearish or bullish decision. Options expire on Friday, which may have a greater influence on trading going into the end of this week and give a false sense of interest due to the higher volume. Our *Stock Trader's Almanac* suggests mixed results for the week before Memorial Day and points out that June is historically a pretty poor month for the S&P 500 ([CLICK HERE](#)).

UPCOMING FIG PARTNERS EVENTS:

New! Friday June 3rd: [BBT-BB&T Corporation](#) CEO Daryl Bible will be visiting investors in Atlanta, GA. A detailed schedule to follow shortly, please contact your FIG Partners sales person to book a meeting.

Monday, September 19th & Tuesday, September 20th: [7th Annual Bank CEO Forum](#), Four Seasons Hotel in Atlanta and Peachtree Golf Club. Join us for a great gathering of CEOs, investors, and industry professionals to discuss the latest issues and opportunities within Banking. Last year we hosted over 50 companies and 200 guests and this year's event promises to be even bigger. More details will be available in the future - please

contact for more background in the interim.



Please email or call with any questions or feedback.

Christopher Marinac, CFA, 404-601-7210, Mobile: 404-307-5453

Tim Coffey, 415-284-2011

Brian Martin, CFA, 630-649-4525

Brett Villaume, CMT, 415-284-2010

FIG Partners LLC

E-Mail: cmarinac@figpartners.com, tcoffey@figpartners.com, bmartin@figpartners.com, bvillauume@figpartners.com

<http://www.figpartners.com>

Research Report Disclosures

- Neither the research analyst nor any member of the analyst's household has any substantial financial interest in the subject companies (contact us if you would like details on the holdings of the analyst).
- At the prior month end, neither FIG Partners LLC nor any of its partners or officers owned more than 1% of the outstanding equity securities of the subject company
- There are no material conflicts of interest of the analyst or FIG Partners LLC at the time of this report
- FIG has not been a manager or co-manager of a public offering of any securities of the recommended issuer with in the last three years
- FIG has not received any investment banking compensation from the subject company in the last three years
- FIG intends to seek investment banking compensation from the subject in the next three months
- The subject company is not a client of FIG
- Neither the analyst nor anyone at FIG serves as an officer, director, or advisory board member of the subject company
- FIG will usually make a market in the subject security and was making a market in some of the listed securities at the time of this report's publication
- All analysts are compensated based on a number of factors including the overall profits of FIG Partners LLC which includes investment banking revenues, but no analyst receives any compensation which is based on a specific investment banking service or transaction
- To determine price target, our analysts utilize a variety of valuation techniques including but not limited to: peer analysis, absolute P/E, relative P/E, projected P/E, absolute P/B, relative P/B, projected P/B, deposit premium, and a discounted cash flow model
- This research report reflects the analyst's actual opinion
- No research analyst is subject to the supervision or control of any employee of the member's investment banking department
- No employee of the investment banking department has reviewed or approved this report prior to publication
- The report has not been approved by the subject company, but may have been reviewed for factual accuracy except for the research summary, research rating and price target. The subject company has not promised directly or indirectly favorable research, a specific rating or a specific price target nor has the subject company been threatened with a change in research as an inducement for business or compensation
- Additional information is available by request
- The information contained herein has been prepared from sources and data we believe to be reliable but we make no representation as to its accuracy or completeness. The opinions expressed herein are our own unless otherwise noted and are subject to change without notice. The price and value of the securities mentioned herein will fluctuate; past performance is no guarantee of future results.

- This report is published solely for informational purposes and should not be construed as an offer to buy or sell, or a solicitation of an offer to buy or sell, any security. The securities discussed herein are not suitable for everyone; each investor should assess his or her own particular financial condition and investment objectives before making any investment decisions.
- FIG Partners LLC may act as principal for its own account or as agent for both buyer and seller in connection with the purchase or sale of any security discussed herein.
- Reproduction or redistribution of this report in any form is prohibited except with the written permission of FIG Partners LLC.
- The author is employed by FIG Partners LLC, a broker-dealer
- Data sources for the report are SNL Financial, Highline Data LLC, StockCharts.com, FirstCall, and regulatory filings.

Equity Rating System as of July 1, 2003

--Buy/Outperform: FIG expects that total return of the subject stock will outperform the industry benchmark (BIX) over the next 12 months.

--Hold/Market-Perform: FIG expects that total return of the subject stock will perform inline with the industry benchmark (BIX) over the next 12 months.

--Sell/Underperform: FIG expects that total return of the subject stock will under perform the industry benchmark (BIX) over the next 12 months.

For purposes of FINRA rule 2711, outperform is classified as a buy, market perform is a hold and underperform is a sell. The industry benchmark that we use is the S&P Bank Index referred to as the BIX.

The information contained herein has been prepared from sources and data we believe to be reliable but we make no representation as to its accuracy or completeness. The opinions expressed herein are our own unless otherwise noted and are subject to change without notice. Past performance is no guarantee of future results. This email is solely for information purposes and should not be construed as an offer to buy or sell, or a solicitation of an offer to buy or sell, any security. The securities discussed herein are not suitable for everyone; each investor should assess his or her own particular financial condition and investment objectives before making any investment decisions. FIG Partners, LLC and/or their officers may from time to time acquire, hold or sell a position in the securities discussed herein or may have a corporate finance relationship with such companies or in the case of employees or officers, may sit on the boards of such companies. FIG Partners, LLC may be a market maker, act as principal for its own account or as agent for both buyer and seller in connection with the purchase or sale of any security discussed herein.

Keep FIG Partners emails coming to your inbox by adding cmarinac@figpartners.com to your address book or safe list.

If you no longer wish to receive future email from Fig Partners, you may indicate [here](#).
If you need to change your Trading Thoughts Subscriber Profile, you may do so [here](#).
We respect your right to privacy. View the [privacy policy](#) Governing this email communication.

·
2004 Fig Partners LLC
1175 Peachtree Street NE, 100 Colony Square, Suite
Atlanta, GA, 30361, USA

Email Marketing Powered By:
coolblueinteractive