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

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August 8, 2018

Price:	\$28.45	EPS *	2016A:	\$ 1.24	P/E	2016A:	22.9 x
52 Wk. Range:	\$23.99 - \$29.49	(FY: DEC)	2017A:	\$ 1.54		2017A:	18.5 x
Div/Div Yld:	\$0.00 / 0.0%		2018E:	\$ 3.00		2018E:	9.5x
Shrs/Mkt Cap:	3.0mm / \$86 mm	Book Value: **		\$ 25.11	Price/Book Value:		1.13 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 \$14.96 per share; price to tangible book value is 1.90x.

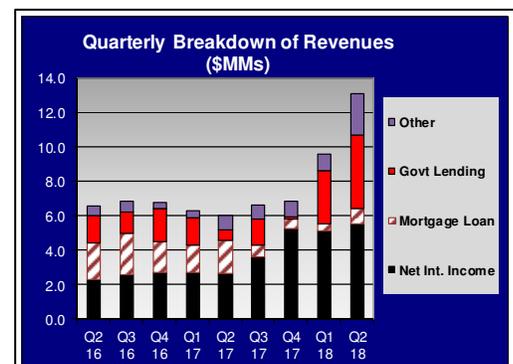
Background

With \$544 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.

Second Quarter Results Were Quite Strong Even Excluding a Large Nonrecurring Gain

West Town Bancorp reported record earnings in the second quarter of 2018. While some of that strength was due to a one-time gain, it was also the result of solid trends in the Bank’s core operations. The one-time pretax gain totaled \$4.8 million and resulted from the completion of the purchase of Windsor Advantage, LLC, 43.5% of which had been acquired in February 2017. Even excluding this gain, though, earnings were sharply higher in the quarter, partly from the wrapping up of a “originate and hold” strategy that began in late 2017 on the Company’s government guaranteed loans. Simply put, the selling off of “stockpiled” loans led to a surge in government income in the quarter. In addition to being a great quarter from an earnings standpoint, it was also solid from a balance sheet growth standpoint and an asset quality perspective.

Reported net income (including the gain relating to the Windsor purchase) in the second quarter of 2018 was \$7,671,000, or \$2.47 per diluted share, versus \$514,000, or \$0.34 per diluted share, in the year-ago quarter. Excluding the one-time gain, net income was \$4,079,000, or \$1.31 per diluted share, still well above the year-ago figures. As can be seen from the adjacent chart (which excludes the gain), revenue comparisons were quite strong for all of the major revenue categories, with the exception of mortgage income, which has been affected by a nation-wide moderation



ASSETS: \$544 MM

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2ND QUARTER HIGHLIGHTS:

EPS: \$2.47 vs. \$0.34

EARNINGS INCLUDED A \$4.7 MILLION GAIN RELATING TO THE PURCHASE OF THE REMAINING INTEREST IN WINDSOR

THE UNWINDING OF THE GOVERNMENT LENDING “ORIGINATE AND HOLD” STRATEGY BOOSTED INCOME IN THIS AREA

ALL MAJOR CATEGORIES OF INCOME WERE STRONG EXCEPT FOR MORTGAGES, WHICH HAVE BEEN AFFECTED BY A NATIONWIDE DROP IN MORTGAGE ORIGINATIONS

**NONINTEREST INCOME
EXCLUDING THE ONE-TIME GAIN
MORE THAN DOUBLED**

**NONINTEREST EXPENSE WAS UP
54%, MUCH OF WHICH WAS DUE
TO THE ADDITION OF SOUND
BANK**

**KEY PROFITABILITY METRICS
WERE QUITE STRONG AS WELL**

FIRST HALF HIGHLIGHTS:

**EPS: \$0.91 VS. \$1.04 (EXCLUDES
GAIN)**

**WINDSOR ACQUISITION WAS
COMPLETED**

**WINDSOR ANNUALIZED INCOME
IS ABOUT \$3 MILLION**

**BALANCE SHEET GROWTH HAS
BEEN QUITE GOOD**

**TANGIBLE EQUITY/TANGIBLE
ASSETS: 8.8%**

NPAS/ASSETS: 1.26%

RESERVES/LOANS HFI: 0.95%

**EPS:
2016A: \$1.24
2017A: \$1.54
2018E: \$3.00 (EXCLUDES \$1.15
PER SHARE IN NONRECURRING
GAIN)**

in originations. Net interest income was quite strong, more than doubling to \$5,519,000 in 2018's second quarter from \$2,590,000 in 2017's second quarter. While part of that increase came from the addition of Sound Bank (acquired August 31, 2017), it also came from strong organic growth (roughly 36%) at West Town Bank & Trust. Core noninterest income (excluding the gain) increased to an impressive \$7,580,000 in the second quarter of 2018, versus \$3,412,000 in 2017's second quarter. More than half of this income was from the Government Lending Division. While we expect income from the Government Lending Division to remain strong, it is expected to decline from the second quarter level. The other category of noninterest income that is worth noting is from Windsor. We continue to be intrigued by the growth potential in this area, as we view it as being a highly scalable operation with a unique offering that helps community banks capitalize on SBA and USDA lending opportunities. Windsor is currently operating at an annual run rate of more than \$8 million in revenues, or more than \$3 million in earnings, and is expected to be a stable and growing source of earnings going forward. Finally, noninterest expense was up 54% to \$7,415,000 in 2018's second quarter, versus \$4,806,000 in the year ago, mainly due to the addition of Sound Bank.

For the first half of 2018, West Town Bancorp earnings excluding the aforementioned gain were \$6,560,000, or \$2.12 per diluted share, versus \$1,393,000, or \$0.91 per diluted share, in the year-ago period. Net interest income increased 100%, core noninterest income was up 74% and noninterest expense was up 43% from the first half of 2017.

Windsor Acquisition Completed

As was stated earlier, the Company completed its acquisition of Windsor on April 30, 2018. West Town acquired its initial interest of 43.5% in early 2017, with the option to purchase the remaining interest at an established price. The \$4.8 million gain discussed previously essentially relates to consolidating the results (from an accounting perspective), as opposed to accounting for the results on an equity method basis. We would note that the transaction did create \$12.7 million in goodwill and \$9.0 million in other intangible assets. So while the Company's stated book value per share increased about 9% from the level at March 31, 2018, tangible book value declined about 25% over the same period.

Balance Sheet Growth Remains Strong

Balance sheet growth remains excellent. From June 30, 2017 to June 30, 2018, loans held for investment were up 102%, while deposits grew 68% and total assets increased 92%. Particularly noteworthy has been the growth in noninterest bearing deposits, which increased from \$24 million at June 30, 2017 to \$88 million at June 30, 2018. West Town Bancorp's total equity at June 30, 2018 was \$75.7 million, or 13.9% of assets, while tangible equity was \$45.1 million, or 8.8% of tangible assets.

Asset Quality Improved From the Year-Ago Level

At June 30, 2018, nonperforming assets (including nonaccruing loans, accruing loans more than 90 days past due and OREO) were \$7.1 million, or 1.31% of assets, versus \$6.9 million, or 1.26% of assets, at March 31, 2018 and \$7.2 million, or 2.55% of assets, at June 30, 2017. The allowance for loan losses totaled \$3.8 million, or 0.95% of loans held for investment, at June 30, 2018, as compared to \$2.6 million, or 1.28% 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 Increased

Based on the strength of the second quarter results, we are increasing our 2018 earnings estimate to \$9.3 million, or \$3.00 per diluted share. 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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