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

**John A. (Buddy) Howard, CFA**  
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107 Windel Drive, Suite 211

Raleigh  
North Carolina  
27609

919-876-8868 ph

[www.equityresearch.com](http://www.equityresearch.com)

<b>Price:</b>	\$14.80	<b>EPS *</b>	<b>2018A:</b>	\$ 2.75	<b>P/E</b>	<b>2018A:</b>	5.4 x
<b>52 Wk. Range:</b>	\$14.50 - \$23.12	(FY: DEC)	<b>2019A:</b>	\$ 2.41		<b>2019A:</b>	6.1 x
<b>Div/Div Yld:</b>	\$0.00 / 0.0%		<b>2020E:</b>	NA		<b>2020E:</b>	NA
<b>Shrs/Mkt Cap:</b>	2.2 mm / 33 mm	<b>Book Value: **</b>		\$ 30.25	<b>Price/Book Value:</b>		0.49 x

\* 2018 EPS excludes \$1.15 per share in a nonrecurring gain. 2019 EPS excludes recapitalization related gains, net of merger expenses, of roughly \$1.79 per share. For at least the next quarter or two, we are suspending our earnings projections given the difficulties of assessing the impact of COVID-19. We anticipate resuming earnings projections once economic conditions become clearer.

\*\* Tangible book value is \$20.88 per share; price to tangible book value is 0.71x.

### Background

West Town Bancorp, Inc. (“West Town”) is the Raleigh, NC based holding company for West Town Bank & Trust, a North Riverside, IL based state-chartered bank. The Company is also the parent company of several subsidiaries, two of which are Windsor Advantage, LLC, (“Windsor”) a loan servicing company, and West Town Insurance Agency, Inc., an insurance agency. (We will discuss more about the other subsidiaries in our next report.) 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. The Company’s web site is located at [www.westtownbank.com](http://www.westtownbank.com). *Note: On May 6, 2019, the Company sold the majority of its interest in Sound Bank, and it currently retains slightly less than 10% of Sound Bank’s ownership, half of which is non-voting.*

### First Quarter Results Affected By COVID-19

West Town Bancorp boosted its provision for loan losses (wisely, in our view) in the first quarter of 2020, reflecting the higher risks associated with the COVID-19 crisis and the Company’s increase in delinquencies. As a result, the Company reported a net loss in the quarter. However, there were a number of positive developments in 2020’s first quarter. For example, mortgage related income more than tripled, and the favorable rate environment (the Fed dropped short-term rates 150 basis points, which may ultimately result in lower mortgage rates) could bode well for future strength in this area. Additionally, the Company’s recently launched SBA Loan Documentation Services division was highly active, helping to document and review 580 Paycheck Protection Program (“PPP”) loan packages on behalf of numerous bank clients. And of course, Windsor Advantage, LLC, the Company’s loan servicing company, authorized more than 10,600 applications totaling more than \$2.0 billion in funding for about 40 of its institutional lender clients. The Windsor success is especially notable, both in terms of effort and financial impact. Assuming a midpoint of the published rates by the SBA of 0.50%, the fee earned on the amount originated could approach \$10 million. Finally, we would note that West Town itself closed and funded about 200 loan applications totaling \$21.5 million, the fees of which should be about \$500,000. So while the loss was disappointing, there is a significant amount of income that should be recognized relatively soon.

In terms of specific results, the net loss for the first quarter 2020 was \$832,000, or \$0.37 per diluted share, as compared to earnings of \$1,065,000, or \$0.34 per diluted share, in the year-ago quarter. As mentioned earlier, West Town Bancorp significantly increased its provision in the quarter to \$3,460,000 in 2020’s first quarter from \$173,000 in the year-ago quarter. Between the higher provision and a number of other nonrecurring/unusual items, there was a good deal of “noise” in the comparisons. If we add back the provision, a large one-time gain on the deconsolidation of Sound

**ASSETS: \$312 MM**

**CONTACT:**  
**ERIC J. BERGEVIN**  
**PRESIDENT & CEO**  
**(252) 482-4400**

**1<sup>ST</sup> QUARTER HIGHLIGHTS:**

**PROFITABILITY WAS DOWN  
DUE TO A COVID-19 BASED  
INCREASE IN THE PROVISION**

**WEST TOWN BANCORP WAS  
QUITE ACTIVE IN RESPONDING  
TO THE FALLOUT FROM THE  
PANDEMIC**

**NOT ONLY DID IT DIRECTLY  
PARTICIPATE IN PROCESSING  
PPP APPLICATIONS, BUT ITS  
SUBSIDIARIES/DIVISIONS  
WERE ALSO ACTIVE IN  
ASSISTING OTHER  
COMMUNITY BANKS IN DOING  
THE SAME**

**EPS: (\$0.37) vs. \$0.34**

**EXCLUDING THE PROVISION AND SEVERAL NONRECURRING ITEMS, PRETAX, PRE-PROVISION INCOME WAS NOT FAR OFF FROM RECENT QUARTERS AND WAS UP FROM THE YEAR-AGO LEVEL**

**NET INTEREST INCOME WAS UP FROM THE LINKED FOURTH QUARTER OF 2019**

**WINDSOR AND MORTGAGE BANKING CONTINUE TO BE STRONG IN THE QUARTER**

**TANGIBLE EQUITY/TANGIBLE ASSETS: 15.9%**

**WEST TOWN BANCORP CONTINUES TO BE HIGHLY CREATIVE IN ESTABLISHING NICHE BASED BUSINESSES**

**WE BELIEVE THE LAUNCH OF SUCH INITIATIVES, PARTICULARLY WHEN DONE EFFICIENTLY, CAN PAY LONG-TERM DIVIDENDS**

**NPAs/ASSETS: 4.16%**

**RESERVES/LOANS HFI: 2.27%**

**EPS:\***  
**2018A: \$2.75**  
**2019A: \$2.41**  
**2020E: NA**

**\* 2018A EPS EXCLUDES \$1.15 PER SHARE IN NONRECURRING GAINS, WHILE 2019E EPS EXCLUDES \$1.79 PER SHARE IN RECAPITALIZATION GAINS, NET OF MERGER EXPENSES**

Bank last year, and transaction and special asset expenses, we see that the pretax adjusted earnings were actually not that far out of line with recent quarters, and were, in fact, higher than the year-ago quarter. (Even with these adjustments, comparisons to the year-ago figures are still a bit “apples to oranges,” in that the year-ago figures included the Sound Bank operation.) Net interest income was \$3,776,000 for 2020’s first quarter, up 16% on a linked quarter basis from \$3,269,000 in 2019’s fourth quarter (the year-ago net interest income was higher due to Sound Bank’s inclusion). The net interest margin was notably strong, increasing to an impressive 5.72% in the first quarter of 2020 from 4.61% in the year-ago quarter and 4.84% in the linked fourth quarter of 2020. A good deal of that increase came from higher rate government guaranteed commercial loans being a larger percentage of the portfolio. Noninterest income was up 45% to \$4,641,000 in 2020’s first quarter, from \$3,206,000 in the year-ago quarter, with the strong growth due to solid performance at both Windsor and the mortgage operation. In terms of expenses, noninterest expense (excluding loan/special asset expenses and transaction-related expenses) totaled \$5,771,000 in 2020’s first quarter, up from \$5,427,000 in the linked fourth quarter of 2019. In terms of the balance sheet, year-ago figures were obviously distorted by the inclusion of Sound Bank, though we would note that growth has and will likely remain modest. The Company remains well capitalized. Tangible shareholders’ equity was \$46.3 million, or 15.9% of total assets at March 31, 2020.

Quarterly Results (\$000s)	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1
Net Income	1,065	5,919	2,154	1,731	(832)
Pretax Income	1,462	8,093	2,841	1,768	(1,073)
Adjustments:					
Provision (Add)	173	477	200	1,155	3,460
Gain - Sound Bank (Deduct)	-	6,425	-	-	-
Transaction-related costs (Add)	43	916	1	16	17
Loan & Special Asset Expenses (Add)	179	510	(523)	318	242
<b>Pretax Inc. Bef. Nonrec/Credit Charges</b>	<b>1,857</b>	<b>3,571</b>	<b>2,519</b>	<b>3,257</b>	<b>2,646</b>

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### West Town Bancorp Continues to Establish Niche Divisions/Subsidiaries

One thing that continues to intrigue us about the Company is its creativity in setting up niche-based service areas. For example, last October, the Company established the previously mentioned SBA Loan Documentation Services division, which charges a fixed amount per loan to provide the closing documentation for SBA loans. The division made a great deal of progress building its clientele during this pandemic, and we view the division as having compelling long-term growth opportunities. The Company also started Glenwood Structured Finance, a loan syndication arm, as well as Patriarch, LLC, a real estate company to facilitate the resolution of problem assets at the Bank. The timing for establishing some of these businesses could not have been better. Not only has the Company captured a tremendous amount of future fee income, but it has also better established itself as the “go to” provider of loan documentation, servicing and processing. Moreover, while many of the larger banks have struggled to process applications on a timely basis, West Town’s technology enabled documentation and processing platform has enabled many community banks to be highly responsive.

### Asset Quality and Reserve Coverage

Nonperforming assets (“NPAs”) have been trending up, though the Company has been doing a good job of boosting reserves. At March 31, 2020, NPAs (including nonaccruing loans, accruing loans more than 90 days past due and OREO) were \$13.0 million, or 4.16% of total assets, versus \$12.6 million, or 3.99% of assets, at December 31, 2019 and \$8.2 million, or 1.40% of total assets, at the year-ago date. The allowance for loan losses at March 31, 2020 was \$4.9 million, or 2.27% of loans held for investment, up from \$4.1 million, or 0.98% of loans held for investment, at the year-ago date.

### Projections Suspended Due to COVID-19

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ADDITIONAL INFORMATION UPON REQUEST

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