

Why 'transformational' BB&T-SunTrust deal is a big win for Charlotte — and the banking industry

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A proposed merger to create a super-regional powerhouse set off shock waves across the Southeast today.

BB&T Corp. (NYSE: BBT) and SunTrust Banks Inc. (NYSE: STI) announced this morning they plan to merge in the fourth quarter under a new name and move the new bank's headquarters to Charlotte. The so-called "merger of equals" was an all-stock deal valued at \$66 billion.

The addition of the BB&T-SunTrust bank to the Charlotte region's list of Fortune 500 corporations with headquarters here would bring the total to eight. Already based in the region are Bank of America Corp. (NYSE: BAC), Lowe's Cos. Inc. (NYSE: LOW), Duke Energy Corp. (NYSE: DUK), Nucor Corp. (NYSE: NUE), Sonic Automotive Inc. (NYSE: SAH) and Sealed Air Corp. (NYSE: SEE). Honeywell International Inc. (NYSE: HON), which announced about three months ago that it would bring its headquarters to Charlotte in the near future, will be No. 7. And the soon-to-be-merged bank would be No. 8.

Two companies, Domtar Corp. (NYSE: UFS) and Family Dollar, fell off the region's list of Fortune 500 companies during the last three years, bringing that current number to six. Family Dollar was removed from the list when Dollar Tree Inc. (NASDAQ: DLTR) purchased the Matthews-based retail chain in July 2015. That deal was valued at about \$10 billion. And Domtar dropped to 505 from 489 on the ranking in 2016 when its revenue slipped.

Ernie Reigel, interim CEO of the Charlotte Regional Business Alliance, says not just Fortune 500 companies, but Fortune 500 companies that are active in the community and have excellent corporate cultures, will add a lot to the city.

"It's a great win for Charlotte," he says. "What we're about is attracting great businesses that contribute to our region."

The BB&T-SunTrust deal solidifies Charlotte's spot as the No. 2 city for financial services. But more importantly, it gives the Queen City another banking headquarters to go along with Bank of America, says Tony Plath, a banking professor at UNC Charlotte.

"Financial-centers headquarters towns tend to be places where there's a concentration of similar competitive banks. And so, I've been worried for the last 15 years that we're going to lose Bank of America because Wells isn't headquartered here," Plath says. "What I care about is the fact that the people at BofA have someone to talk to."

Plath says the deal took many in the financial industry by surprise. A merger of this size is out of character for BB&T, he says.

BB&T, in recent years, has refocused its efforts toward a more technology-heavy business. Bank insiders knew a shift was coming — especially as CEO Kelly King nears retirement age — but no one guessed that shift would involve merging with a \$215.5 billion bank, Plath says.

He notes this particular deal is about as close to a true merger of equals as one can get. Moving the headquarters to a neutral location like Charlotte was purely strategic, and neither Winston-Salem nor Atlanta ever really stood a chance, he says. (Those cities are home to the current headquarters of BB&T and SunTrust, respectively.)

"I'm thinking it's probably where people want to live, where the talent pool is the greatest and where you can recruit the best," says Lee Burrows, chief executive officer at Banks Street Partners.

Burrows says the merger is good news all around for the banking industry. There hasn't been a transaction of this magnitude since before the economic recession, he notes.

"I think it's a transformational deal that really creates a much, much more efficient company," Burrows says. "I think the cost savings are going to be great for both shareholders."

Burrows believes there will be more transactions like this in the coming year as the 2020 presidential election approaches. The 2020 election could create regulatory uncertainties, he says, similar to when the Trump administration sought to relax much of the Obama-era bank regulations.

The BB&T-SunTrust merger set a Charlotte Regional Business Alliance event Thursday morning abuzz with possibilities, sources at the event say. But information about the deal was lacking, except the fact that Charlotte was again benefitting from a super-regional bank merger.

The Alliance says the pro-forma addition of banking assets to Charlotte headquarters companies would boost the assets for banks in Charlotte by 20% to \$2.7 trillion, according to Alliance research. That's figuring that the BB&T-SunTrust deal would add \$442 billion in assets to Charlotte-based banks.

Tariq Bokhari, executive director of Carolina Fintech Hub, says BB&T is already a partner in the region's growing financial-technology community, and the decision to create an innovation hub here will only increase the bank's relevance in the space.

He is optimistic when it comes to questions of tech talent — especially with an influx of millennials.

"They are the target market, and they want to live here. Connecting the education and training programs to shape the workforce skills to where they need to be becomes a lot easier when you have that as a foundation," Bokhari says.

The announcement is a blow to Winston-Salem and the Triad region. BB&T is the largest publicly traded company in the region, which is already smarting from the impending loss of its second-largest public company, Greensboro-based VF Corp. (NYSE: VFC). That company is slated to move its headquarters to Denver in the next few weeks.

And Winston-Salem has lost out to Charlotte before. In 2001, Charlotte's First Union Corp. bought Winston-Salem's Wachovia Corp. SunTrust attempted a rival bid in that takeover.

Plath argues, however, that Winston-Salem will actually gain more from the merger, with the planned community banking hub, than it has now.

"They're picking up the largest employment concentration in retail banking in being the center of retail banking for a \$450 billion bank," Plath says.

He emphasizes again that the appeal for Charlotte is having another headquarters on its list. It's not necessarily about employment numbers here, Plath says, but rather about the potential business it could bring in the future.

"It cements us as a financial-services center again," he says.

As for the Triad, Burlington-based LabCorp (NYSE: LH) will become the region's largest publicly traded company. And the region's two largest cities now are home to just two of North Carolina's 25 largest public companies — semiconductor manufacturer Qorvo Inc. (NASDAQ: QRVO) in Greensboro and Hanesbrands Inc. (NYSE: HBI) in Winston-Salem.

BB&T is the Triad's ninth-largest employer, with 4,500 people there. The numbers will suffer a little, as corporate jobs move west, and the banks will shed some branches in the region, where they are both well represented. But Winston-Salem will have the corporate office for the new bank's community banking center.