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Nashville Ramblings

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THE TUNE HAS CHANGED IN NASHVILLE DURING THE LAST 20 YEARS, AND GROWING COMMUNITY BANKS ARE PART OF THE SCENE.

Wow – when did this happen? That was the question that occurred to us one recent morning as we pulled back the curtains in our Nashville hotel room, to be greeted by blazing sunlight bouncing off the mirrored skyscrapers, reflecting back onto the myriad construction cranes standing among them. The last time that we had encountered Nashville was a couple of decades ago – at least – and at that time it was a nice quiet town, anchored by the Ryman Auditorium and long acknowledged as the home of country music – and was also home to a whole lot of banks of varying quality and size.

Well, a few things have changed in the last 20 years. While the Ryman Auditorium (home of the Grand Ole Opry, for the non-cognoscenti) remains the spiritual center of Nashville, there is that and a whole lot more. Middle Tennessee, anchored by Nashville, has grown into one of the nation's centers of job creation and is certainly showing a new way to do business in the South. One need only to type "Nashville economy" into the search bar of the website of the Federal Reserve Bank of Atlanta (www.frbatlanta.org) to see a multitude of reports detailing the many successes of the Nashville economy.

In a time when in-migration floundered in parts of the South (even Florida), Nashville managed to bring in 200,000 new residents in the years 2010-2014, as automakers Nissan and GM continued to turn out cars in nearby Smyrna and Spring Hill and growth in the healthcare and tourism sectors continued apace. Housing has grown robustly as a result, with home sales up 12.2% in the first half of 2015 versus the same period of 2014, and the median home price increasing 8% in year-over-year comparisons. And overall jobs growth in the Nashville MSA was 3.6% YOY in June, versus 2.2% for Tennessee as a whole and 2.1% for the nation.

Why such positive trends in the midst of an economic recovery that has been much more subdued in formerly hot growth centers like Atlanta? The lack of an income tax in Tennessee is widely cited as one factor, as is a more coordinated and friendly business climate than is seen in many other Southern states. That Nashville long

ago merged its city and county governments – and thus avoids the competing economic agendas seen in many large Southern cities – is another important piece of the growth equation.

But we also heard much during our visit about the positive impacts of the music business, and we were reminded that country music is no longer just a Southern regional phenomenon but long ago went global (Thanks to Taylor Swift, Dierks Bentley, and a legion of others). Nashville's centrality to this important business has fed the city's ability to attract a "creative class" – many of them young – that will help drive the growth there well into the future. And we were very happy to see that the Nashville city fathers learned from Atlanta what NOT to do, as they have not taken down the lovely old brick buildings in their downtown but have made their center city an attractive and hospitable place in which to not only work, but in which to live.

And as one would expect from all this growth and positive momentum, there are a number of good banks in Nashville, with the community banking sector claiming the lion's share of the growth there. While **Bank of America**, **Regions** and **SunTrust** claim the top three market share spots respectively in Nashville, **Pinnacle Financial Partners (PNFP)** clocks in at number four within the top 10 and, at \$8.5 billion in assets, tends to dominate the conversation about Nashville community banking.

Pinnacle's story is a good one indeed, and CEO Terry Turner and his team remain dedicated to their stated mission – to dominate banking within their four urban markets (Nashville, Knoxville, Chattanooga, and Memphis) and seem quite content (for the moment, anyway) to remain a Tennessee-only bank. And why not? They feel confident that they can add \$1 billion per year in loans through organic growth in their home markets, and they are attracting both business and employees (in large numbers) from the city's larger banks. While they may choose to do additional deals as they approach the magic \$10 billion mark (at which they leave the community banking segment for regulatory purposes), they need only add \$2 billion in assets to offset the loss of debit card fee revenues that will result. So they have lots of options for growth, and with a stock selling at close to 3x tangible book value, lots of ways to exercise them.

Very occasionally, a bank analyst will encounter a management that is approaching the banking business in a very different and utterly original way, and we had that experience on our Nashville trip. The bank is **Avenue Bank (AVNU)** and the CEO is Ron Samuels, and we can only characterize Avenue as a company akin to **Northern Trust** (but in the South.) The company, which went public earlier this year, concentrates on three business "verticals" – Healthcare, Music, and Non-Profits – and has developed its board leadership from these industries. The company is intensely devoted to a service model of banking – both in terms of concierge service to customers and to service to the community – and we give them extra kudos for having the coolest bank headquarters in the business (a beautiful old 19th-century train station.) While AVNU is presently about \$1.1 billion in assets, we would expect that footings will grow smartly, mainly through organic growth but also with the possibility of some smaller, easily acculturated deals.

We must also say that Nashville seems to contain more private banks per square mile than any market that we have experienced, and we were fortunate to be able to speak with a couple of them. **CapStar Bank**, with \$1.1 billion in assets, was founded in 2007 by a group of private investors who saw a need for better options for middle-market commercial customers, and CEO Claire Tucker came there with a background in healthcare banking to establish that unit at CapStar. The company has added expertise in the C&I and CRE spaces, as well as private banking services for its middle-market business owners. In 2012, it began to expand its operations into Sumner County (a contiguous county to Davidson) and seems poised for more expansion opportunities for its high-touch approach to the middle market.

FirstBank is another of Nashville's private banks, and is unusual in that it has only one shareholder, the investor and philanthropist Jim Ayers. It is not a private bank in the traditional sense of the word – we're not talking about oaken-paneled room and hushed tones – but is a \$3 billion company with 46 offices in Tennessee, northern Alabama and northern Georgia. The bank has been strongly growing through acquisitions in the past few years and has unique opportunities for capital flexibility due to its sole ownership nature. FirstBank is also a major mortgage originator (\$790 million in 3Q15) with offices throughout the Southeast. It's sui generis – what else can we say?

And we concluded our Nashville sojourn with a visit with yet another unique bank in perhaps the loveliest little town in Tennessee – **Franklin Synergy (FSB)**, located in Franklin, best described as a very upscale bedroom suburb of Nashville, with rolling pastures, beautiful horse farms and gorgeous houses. And when was the last time that you heard a bank CEO say that his company specialized in lending for commercial real estate – and that it did so happily and profitably?

CEO Richard Herrington and Chief Credit Officer Myers Jones walked us through their history and strategy, and it was clear that the success of an emphasis on commercial real estate (aimed at residential construction) depends upon the continued growth of the area and upon long and closely monitored relationships with a very select and small group of local builders (And with this CRE exposure goes a close working relationship with the Atlanta Fed, FSB's major regulator). Franklin Synergy is working diligently to lessen its exposure to CRE to 70%-75% of its loan portfolio (from 80% presently) and is beginning to emphasize other areas of lending (like healthcare, where it has lifted out a team from a local competitor.) The company did a 2014 acquisition of a Murfreesboro bank (\$270 million in assets) and just announced a small deal for **Civic Bank & Trust** in Nashville. They will be doing more deals, primarily to aid with core funding and to speed diversification. It's definitely a different approach, and an intriguing one.

So – we found that it's good to get out of Madison occasionally, and what we have found is a South that is devolving away from dependence on Atlanta as its locus of growth. That is an unreservedly good thing, in our view, as it will both make Atlanta up its game in terms of governance and development, and it will allow the world to see a side of the South other than just the clogged roads and busy airport of our hometown. Good job, Nashville...and on to the new and evolving Charlotte next.

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