

## First Carolina eyes doubling assets, could use M&A to grow to USD 5bn, CEO says

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First Carolina Financial Services aims to expand its assets from around USD 500m to between USD 2bn and USD 5bn with only a handful of branches, CEO Ronald Day said.

The Rocky Mount, North Carolina-based commercial bank is focused on growing organically past USD 1bn in assets in 2021, but reaching the USD 5bn mark would likely involve one or two acquisitions, the CEO said. The privately-held bank is not actively seeking an acquisition at this time, Day said.

A merger would make sense for First Carolina to take advantage of an expanded geographic presence or if it identifies a bank with a management gap, Day said. The surviving operating model of the combined institution would be the most important factor for First Carolina to consider in a deal, he added.

The bank is not interested in selling to a larger institution, particularly one based outside of North Carolina, but a merger with another in-state bank similar in size to First Carolina could be attractive, Day said.

It has had informal discussions with potential buyers and with banks that fit its potential merger-of-equals criteria, but pricing has not been part of those talks, he said, declining to specify further.

There are 11 banks based in North Carolina between USD 300m and USD 700m in assets, according to Federal Deposit Insurance Corporation data. First Carolina, Albemarle-based Uwharrie Bank, and Granite Quarry-based Farmers & Merchants Bank are the only three between USD 500m and USD 700m.

First Carolina grew assets 50% last year and expects to come close to that pace in 2019. The bank expects to eclipse USD 1bn in assets in late 2021. Its deposits have grown at a similar pace to USD 461m at the end of 2018, up from USD 302m a year earlier. Day expected that to continue through targeting commercial clients. Brokered deposits, which are collected through a third party, have represented half of the deposit growth over the past year, increasing USD 83m during 2018 to USD 147m.

The bank can grow into the billions of assets and have a footprint in seven or eight markets with fewer than 10 branches, Day said. First Carolina currently has five locations. The organic growth strategy is focused on hiring bankers in new locations and increasing lending in its existing footprint in the North Carolina areas surrounding the cities of Rocky Mount, Raleigh, Wilmington and Reidsville.

The bank is increasing staff in Raleigh and Wilmington, and it is seeking a team or banker based in Charlotte, North Carolina's largest city and the home of Bank of America [NYSE:BAC].

First Carolina wants to grow its asset size in order to increase value for its shareholders. Management and regulatory costs are similar for banks between USD 500m and USD 5bn in assets, Day noted, so a larger bank within that range enjoys economies of scale without a sharp rise in those expenses.

Banks with about USD 500m in assets usually are valued around 135% of tangible book, which is the value of a bank's assets without intangibles such as goodwill, Day estimated. He said banks between USD 1bn and USD 5bn in assets trade around 170% tangible book.

First Carolina is owned by 316 individuals, including Day. No investor owns more than 7% of the institution, which removes pressure for a sale, Day said. Because many of the bank's current shareholders have expressed an appetite for larger stakes, there is a sufficiently liquid market for the bank's owners to recoup their investment without a sale of the bank, Day said.

First Carolina has raised capital three times since 2016. Its most recent raise was a USD 18.6m sale of debt that will mandatorily convert to equity in three years. The company solicits investment from its existing shareholders without using an investment bank and considers capital raises on an opportunistic basis, Day said. Existing owners are the vast majority of investors in its capital raises, and board members generally buy about 30% of each equity sale.

Wyrick Robbins is First Carolina's legal counsel.

By Joshua Armstrong in Charlottesville, Virginia

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Grade: Confirmed

**BIDDERS**

[First Carolina Financial Services, Inc.,](#)

**Lawyer**

[Wyrick Robbins Yates & Ponton LLP](#)

**Competitors**

Uwharrie Bank

F&M Bank

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**Countries**

USA

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**States**

North Carolina (NC)

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**Sectors**

Financial Services

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**Sub-Sectors**

Banking

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**Topics**

Bolt on/Opportunistic

Growth Capital Raise

Large/Transformational

Acquisitions

Other M&A Intelligence

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Intelligence ID:

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