



First Horizon Corp is a bank holding company headquartered in Memphis, TN. The bank was founded in 1864 as First National Bank of Memphis. As of December 31, 2020, FHN had total consolidated assets of \$84 Billion. As a result of a recent merger of equals with IBERIABANK Corporation in 2020, the company operates through three segments: regional banking, specialty banking and corporate. It also has six principal businesses: Banking & Financial Services, Fixed Income/Capital markets, Mortgage Lending, Title Services, Insurance Brokerage & Management Services, Wealth Management & Brokerage Services.

#### Thesis

The integration of the IBERIABANK merger of equals in mid-2020 is the long-term catalyst for the company. First Horizon has greater size and a more diverse set of products that allows it to effectively compete against its larger rivals. There also are significant opportunities for revenue synergies and cost savings as the integration of the two banks continue. FHN considers the combined entity to have the necessary scale to make the technology investments that are needed to remain competitive. The firm is also redeploying capital into higher growth, higher return products in specialty areas such as asset-based lending and equipment finance.

#### Positives

- Primarily located in Southeast, a high growth area of the country
- Diversified business model includes businesses such as Fixed Income trading, Fixed Income underwriting, and lending to mortgage warehouses that can thrive in lower interest rate environment.
- Exited national mortgage banking and national specialty businesses in 2008, two areas that caused significant problems for the bank during the Great Financial Crisis, while focusing on its fixed income and regional banking businesses.
- Significant potential for cost and revenue synergies as a result of IBERIABANK merger. Management expects to generate \$200 million in cost savings through the course of the bank integration.
- Willingness to do opportunistic small acquisitions even during IBERIA ANK integration. Purchased 30 Truist branches primarily in North Carolina (20), Virginia (8) and Georgia (2) with \$22 billion in deposits. According to FHN management, this was the equivalent to 30 years of branch building.
- Fee income was over 47% of total revenue in 2020. (excludes securities gains and losses from both fee income and total revenue). Fee revenue helps to provide better cashflow in lower interest rate/lower NIM environments.
- The bank has an historically strong risk and credit culture and a proven commitment to expense discipline.
- Through FHN Financial Capital Markets/Securities Corp (both wholly owned subsidiary of First Horizon Bank) these two entities underwrite, issue & trade taxable and tax-exempt bonds. They average \$7 billion of trades per day, represent 19% of the SBA pol issuance market and rank in the top 3 issuers of callable agency debt since 2000. This division has grown 10.70% annualized over the last three years and is expected to benefit from the IBERIABANK merger.

## Negatives/Risks

- There is the potential that the integration of IBERIABANK does not go as well as planned. Since this is a very large acquisition for FHN, any difficulties could have a significant impact on the company's performance.
- Businesses such as Fixed Income underwriting and mortgage warehouse lending could be negatively impacted by higher interest rates. This may not be offset by expansion of net interest income in a higher rate environment.
- Another bank acquisition before IBERIABANK is assimilated.
- Approximately 45% percent of fee income tied to capital markets ((Fixed Income, brokerage and Trust & Wealth Management). Any disruption/downturns in the capital markets could negatively impact the firm.
- Weak economic growth/recession that could both reduce the demand for loans regardless of interest rates and weaken the credit quality of the loan portfolio.

## Valuation Summary

Valuation Measurement	Current	Trailing 5 Year High, Low & Average			Versus the Industry Average
		High	Low	Avg	
P/E Last 12 Months	9.1	43.8	7.14	14.4	.5
Forward PE	11.9	19.2	5	12.5	.8
P/BV (Price to Book Value)	1.3	2.1	.4	1.3	.9
P/TBV (Price to Tangible Book Value)	1.7	2.6	.6	1.7	.9
Dividend Yield	3.5	8.9	1.3	3.0	1.5

### **Note:**

*The securities identified and described do not represent all the securities purchased, sold or recommended for client accounts. The reader should not assume that an investment in the securities identified was or will be profitable. All material of opinion reflects the judgement of Morgan Dempsey Capital Management at this time and are subject to change. This material is not intended as an offer or solicitation to buy, hold or sell any financial instrument or investment advisory services.*