OCEANFIRST FINANCIAL CORP
Form 10-Q
August 08, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-11713

OceanFirst Financial Corp.
(Exact name of registrant as specified in its charter)

Delaware	22-3412577
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
110 West Front Street, Red Bank, NJ	07701
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (732) 240-4500

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ý NO o.
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ý NO o.
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	ý	Accelerated Filer	o
Non-accelerated Filer	o	Smaller Reporting Company	o
		Emerging Growth Company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO ý.

As of August 3, 2018 there were 48,314,556 shares of the Registrant’s Common Stock, par value $.01 per share, outstanding.

Table of Contents

OceanFirst Financial Corp.
INDEX TO FORM 10-Q

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FINANCIAL SUMMARY	At or for the Quarters Ended		
(dollars in thousands, except per share amounts)	June 30, 2018	March 31, 2018	June 30, 2017
SELECTED FINANCIAL CONDITION DATA[1]:			
Total assets	$7,736,903	$7,494,899	$5,202,086
Loans receivable, net	5,553,035	5,413,780	3,868,805
Deposits	5,819,406	5,907,336	4,176,909
Stockholders' equity	1,012,568	1,007,460	587,189
SELECTED OPERATING DATA:			
Net interest income	61,447	55,711	42,174
Provision for loan losses	706	1,371	1,165
Other income	8,883	8,910	6,973
Operating expenses	50,904	56,818	37,133
Net income	15,702	5,427	7,679
Diluted earnings per share	0.32	0.12	0.23
SELECTED FINANCIAL RATIOS:			
Stockholders' equity per common share at end of period	20.97	20.94	18.05
Tangible stockholders' equity per common share[2]	13.56	13.51	13.18
Cash dividend per share	0.15	0.15	0.15
Stockholders' equity to total assets	13.09 %	13.44 %	11.29 %
Tangible stockholders' equity to total tangible assets[2]	8.87	9.11	8.50
Return on average assets [3] [4]	0.84	0.32	0.59
Return on average stockholders' equity[3] [4]	6.23	2.54	5.25
Return on average tangible stockholders' equity [2] [3] [4]	9.64	3.80	7.19
Net interest rate spread	3.57	3.58	3.48
Net interest margin	3.70	3.70	3.57
Operating expenses to average assets [3] [4]	2.71	3.37	2.86
Efficiency ratio [4] [5]	72.38	87.92	75.55
Loan to deposit ratio	95.42	91.65	92.62
ASSET QUALITY:			
Non-performing loans	$18,106	$18,251	$16,261
Non-performing assets	25,960	26,516	25,159
Allowance for loan losses as a percent of total loans receivable	0.30 %	0.31 %	0.42 %
Allowance for loan losses as a percent of total non-performing loans	92.18	92.14	101.82
Non-performing loans as a percent of total loans receivable	0.33	0.34	0.42
Non-performing assets as a percent of total assets	0.34	0.35	0.48

(1) With the exception of end of quarter ratios, all ratios are based on average daily balances.

(2) Tangible stockholders' equity and tangible assets exclude intangible assets relating to goodwill and core deposit intangible.

(3) Ratios are annualized.

(4) Performance ratios include the net adverse impact of merger related and branch consolidation expenses of $8.4 million, or $6.7 million, net of tax benefit, for the quarter ended June 30, 2018; and $18.3 million, or $14.6 million, net of tax benefit, for the quarter ended March 31, 2018; and $8.6 million, or $5.6 million, net of tax benefit, for the quarter ended June 30, 2017.

(5) Efficiency ratio represents the ratio of operating expenses to the aggregate of other income and net interest income.

3

Table of Contents

Summary
OceanFirst Financial Corp. is the holding company for OceanFirst Bank N.A. (the “Bank”), a regional bank serving business and retail customers throughout New Jersey and the metropolitan areas of Philadelphia and New York City. The term “Company” refers to OceanFirst Financial Corp., OceanFirst Bank N.A. and all of their subsidiaries on a consolidated basis. The Company’s results of operations are primarily dependent on net interest income, which is the difference between the interest income earned on interest-earning assets, such as loans and investments, and the interest expense on interest-bearing liabilities, such as deposits and borrowings. The Company also generates non-interest income such as income from bankcard services, wealth management, deposit accounts, the sale of investment products, loan originations, loan sales, and other fees. The Company’s operating expenses primarily consist of compensation and employee benefits, occupancy and equipment, marketing, Federal deposit insurance, data processing and general and administrative expenses. The Company’s results of operations are also significantly affected by general economic and competitive conditions, particularly changes in market interest rates, government policies and the actions of regulatory agencies.

Over the past two years the Company has grown significantly through the acquisitions of Ocean Shore Holding Co. (“Ocean Shore”), and Sun Bancorp. Inc. (“Sun”). These acquisitions added $3.0 billion in assets and $2.5 billion in deposits. Additionally, effective January 31, 2018, the Bank converted to a national bank charter and the Company became a bank holding company.
Highlights of the Company’s financial results and corporate activities for the three months ended June 30, 2018 were as follows:

Total loans grew $137.4 million while asset quality improved as non-performing loans decreased to $18.1 million, or 0.33% of total loans. At the same time, the loan pipeline increased substantially to $239.7 million.

The cost of deposits increased only two basis points from the prior linked quarter, to 0.35%, while the net interest margin remained steady at 3.70%.

The integration of Sun National Bank was completed in June. The consolidation of 17 branches and the elimination of Sun’s duplicate operating systems is expected to result in cost savings in future periods.

Net income for the three months ended June 30, 2018, was $15.7 million, or $0.32 per diluted share, as compared to $7.7 million, or $0.23 per diluted share, for the corresponding prior year period. Net income for the six months ended June 30, 2018, was $21.1 million, or $0.45 per diluted share, as compared to $19.7 million and $0.59 for the corresponding prior year period. Net income for the three and six months ended June 30, 2018, included merger related and branch consolidation expenses, which decreased net income, net of tax benefit, by $6.7 million and $21.3 million, respectively. Net income for the three and six months ended June 30, 2017 included merger related and branch consolidation expenses, which decreased net income, net of tax benefit, by $5.6 million and $6.6 million, respectively. Excluding these items, net income for the three and six months ended June 30, 2018 increased over the same prior year period, primarily due to the acquisition of Sun and the expense savings from the successful integration during 2017 of Ocean Shore which was acquired on November 30, 2016.

Net interest income for the three and six months ended June 30, 2018, increased to $61.4 million and $117.2 million, respectively, as compared to $42.2 million and $83.7 million, respectively, for the same prior year periods, reflecting an increase in interest-earning assets and a higher net interest margin, as a result of the acquisition of Sun.

For the three months ended June 30, 2018, other income increased to $8.9 million as compared to $7.0 million for the corresponding prior year period, including an additional $2.3 million relating to Sun. Operating expenses increased to $50.9 million for the three months ended June 30, 2018 as compared to $37.1 million in the same prior year period. Operating expenses for the three months ended June 30, 2018, included $8.4 million of merger related and branch consolidation expenses, as compared to $8.6 million in the same prior year period. Excluding the impact of merger and branch consolidation expenses, the increase in operating expenses over the prior year was primarily due to the Sun acquisition, which added $11.0 million.

The Company remains well-capitalized with a tangible common equity to assets ratio of 8.87% at June 30, 2018.

The Company declared a quarterly cash dividend on common stock. The dividend for the quarter ended June 30, 2018 of $0.15 per share will be paid on August 17, 2018 to stockholders of record on August 6, 2018.

Analysis of Net Interest Income

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends upon the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rate earned or paid on them.

The following tables set forth certain information relating to the Company for the three and six months ended June 30, 2018 and June 30, 2017. The yields and costs are derived by dividing the income or expense by the average balance of the related assets or liabilities, respectively, for the periods shown except where noted otherwise. Average balances are derived from average daily balances. The yields and costs include certain fees which are considered adjustments to yields.

For the
Three
Months
Ended