

Austin Associates Webinar Series

Strategic Planning: Shaping the Future for Your Community Bank

August 11, 2015

Presented by:

Rick Maroney

Managing Director & Principal

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Managing Director & Principal



PRESENTERS

Managing Directors of Investment Banking

Craig Mancinotti

- “ Joined the firm in 1982 and co-manages the firm’s Investment Banking and Strategic Consulting divisions.
- “ Served as an instructor at the Stonier Graduate School of Banking and the Bank Administration Institute School.
- “ Served for 10 years as a director of a \$400 million Midwest community bank.
- “ Annual speaker at *Bank Directors’ %Acquire or Be Acquired+* conferences.
- “ Licensed rep of IBS (a registered broker dealer) and holds Series 63 and 79 (Investment Banking) licenses.



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AUSTIN ASSOCIATES OVERVIEW

Consulting and Investment Bankers to Community Banks

- Community bank advisors for more than 40 years
- Specialized services through multiple practice areas

Investment Banking

Strategic Consulting

Financial Management

Technology Solutions

- Owners are consultants/managers
- Over 200 bank/thrift clients in 2014 from 26 states
- Nationally-ranked leader in community bank M&A for 3 decades

STRATEGIC PLANNING WEBINAR AGENDA

August 11, 2015

- **Industry Review** . Trends that shape the planning process
- **The Planning Process** . Roles, responsibilities, structure
- **The Plan Document** . How to make it an effective tool
- **Incorporating M&A into Strategic Planning** . Be proactive



BANKING INDUSTRY REVIEW

CURRENT BANKING ENVIRONMENT

Challenges

- Increased capital requirements
- Lack of loan growth / Margin compression
- Lack of fee income /Revenue sources
- Transaction movement away from branches
- Health care and staffing costs
- Technology requirements
- Regulatory / Compliance costs

Opportunities

- Deploying excess capital
- Economy and housing markets are improving
- Rate increases on the horizon
- Stock valuations have improved
- Asset quality concerns muted / Low provision expense
- Technology can improve efficiencies and customer experience
- M&A activity robust for next 3-5 years

INDUSTRY PERFORMANCE

Key Ratios for U.S. Banks

	All U.S. Banks - for the LTM period ending June 30, 2015			
	< \$500 Million	\$500 Mil - \$1 Bil	\$1 Bil - \$10 Bil	> \$10 Billion
Number of Charters	4,925	657	580	97
ROAA	0.76%	0.87%	0.92%	0.97%
ROAE	6.81%	8.32%	8.34%	8.07%
ROATCE	7.03%	8.77%	9.60%	10.42%
PTPP / Average Assets	1.09%	1.28%	1.42%	1.49%
Efficiency Ratio (FTE)	70.8%	67.0%	65.0%	62.3%
Revenue (FTE) Growth Rate	3.4%	5.9%	6.7%	4.5%
Loan Growth Rate	5.4%	7.8%	10.9%	6.7%
Expense Growth	2.6%	4.3%	4.7%	4.4%
Revenue / FTE Employee (\$000)	\$165.4	\$192.3	\$215.8	\$296.7
PTPP / FTE Employee (\$000)	\$44.4	\$59.1	\$69.9	\$108.8
Tier 1 Leverage Ratio	10.41%	10.17%	9.80%	9.86%
Total Risk-Based Capital Ratio	17.20%	15.01%	13.91%	13.83%

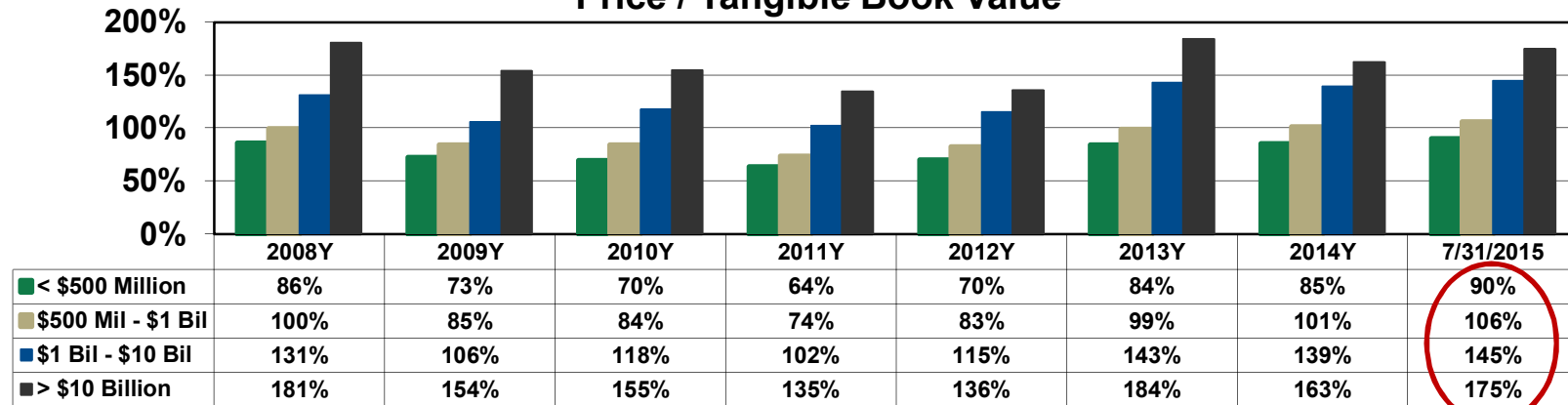
Note: Median results of all commercial and savings banks (excluding co-operative banks, industrial banks, and non-depository trusts).
Includes operating and acquired/defunct companies.

Source: SNL Financial

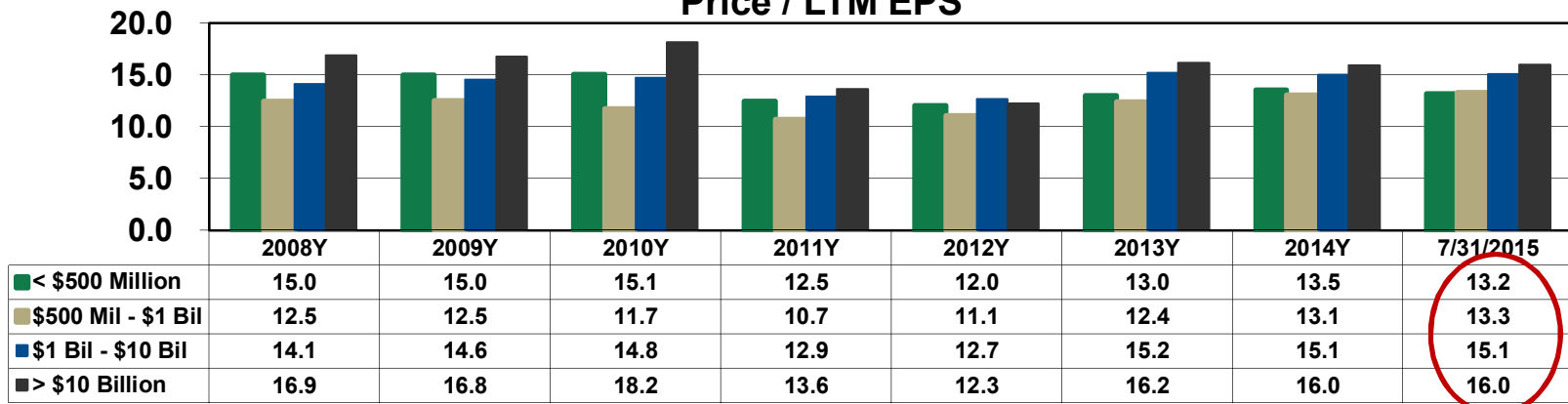
BANK & THRIFT EQUITY PRICE MULTIPLES

2008 – YTD 07/31/2015

Price / Tangible Book Value



Price / LTM EPS



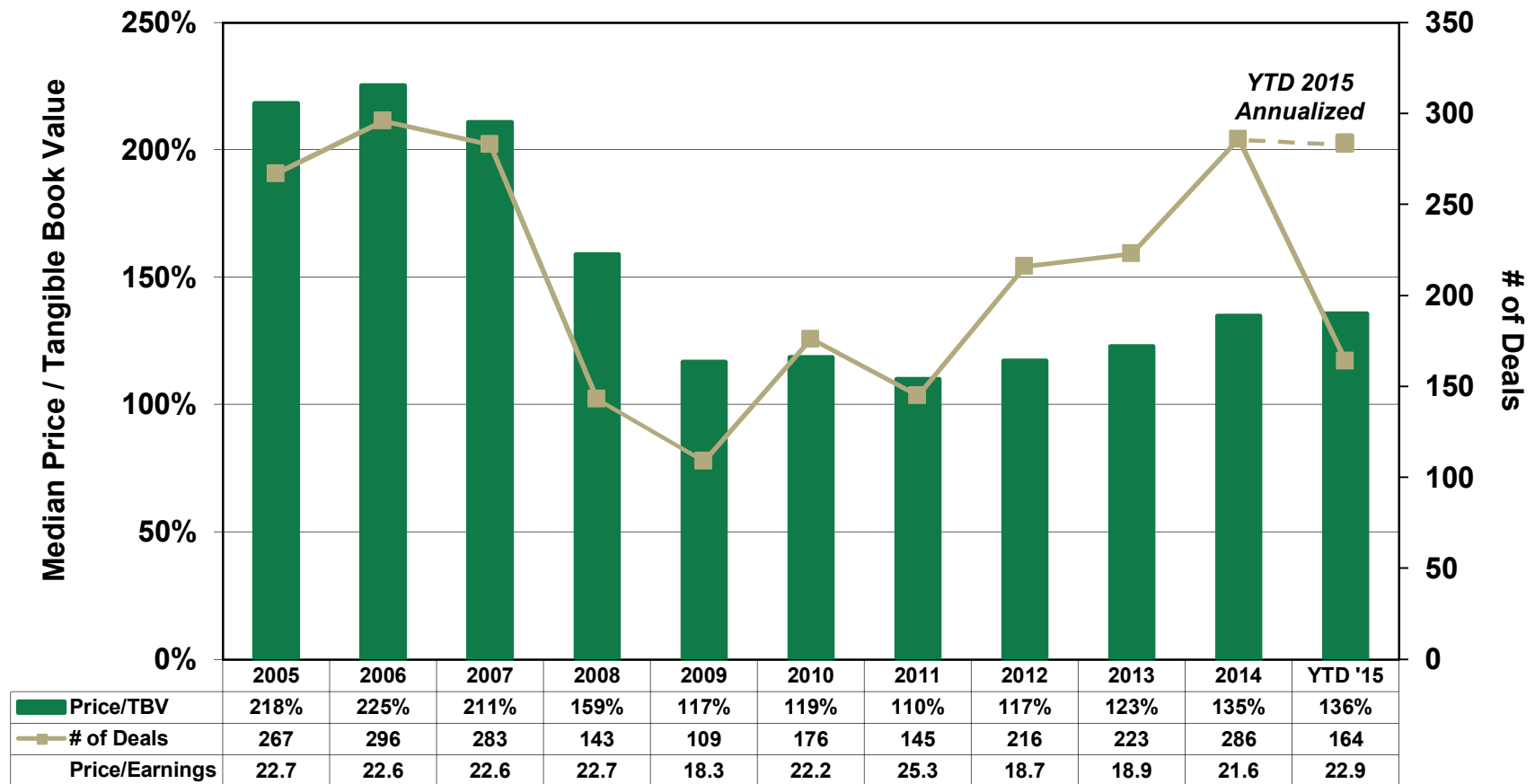
Note: Median statistics for publicly traded banks and thrifts. Earnings based on core performance, if available.

Excludes M&A targets and acquired/defunct companies.

Source: SNL Financial

ANNUAL BANK & THRIFT M&A PRICING

2005 – YTD 07/31/2015



Note: YTD q5 through July 31, 2015. Based on whole bank and thrift deals.
Source: SNL Financial

THE NEW NORMAL

Community Bank Performance and Value

	Pre-Crisis	Current
PTPP/AA	1.50%	1.20%
ROAA	1.00%	0.80%
Tier 1 Leverage	8.00%	10.00%
ROAE	12.50%	8.00%
P/E Multiple	13.0x	13.0x
Price/Book Multiple	+/-165%	+/-100%
Sale Value Multiple	200%	135%
Control Premium	21%	35%



THE PLANNING PROCESS

THE PLANNING PROCESS

Effective Strategic Plan Development

- Annual review and preparation of a formal Strategic Plan is industry best practice+
- Right-size+the planning process
- Role of Board
- Role of management
- Benefits and risks of using facilitator
- One size does NOT fit all

ROLE OF THE BOARD

Effective Strategic Planning

- Board works for shareholders & management works for the Board
- Directors direct and managers manage
- Solicit Board input at the outset
- Start the planning process with Board Strategic Planning session
- ***Board should meet at least once without management***
- Create and send a pre-meeting questionnaire
- Develop agenda based (in part) on the questionnaire results
- Approve written Strategic Plan as drafted by management
- Monitor results at least quarterly

BOARD QUESTIONNAIRE

Preparing for the Board Planning Session

- S.W.O.T. plus one
- 3 greatest **S**trengths
- 3 greatest **W**eaknesses
- 3 greatest **O**pportunities
- 3 greatest **T**hreats
- 5 most important planning priorities
- Complete and tabulate anonymously
- Use results to assist in setting the discussion agenda

WEBINAR REGISTRANT QUESTIONNAIRE

Registrant Profiles

130 registered for the Webinar

- 19 over \$1 billion in assets
- 17 between \$500 million and \$1 billion
- 94 under \$500 million

WEBINAR REGISTRANT QUESTIONNAIRE

Two or Three Most Important Planning Priorities

Top 3 responses

- Growth . organic; de novo
- Financial performance . ROA, ROE, Efficiency, Profitability, ALM
- Succession/management development . attract, retain, training

Additional priorities with multiple responses

- Technology . cybersecurity, enhance digital channel
- Capital planning . raising capital, stress testing
- Products and services . fee-based business lines
- Enterprise risk management . ERM
- M&A
- Regulatory burden

AGENDA: BOARD PLANNING SESSION

Goal: Achieve Consensus on Key Planning Issues

- Preparing foundation . Industry, bank, peer, market, M&A
- Questionnaire results
- Strategic direction (growth priority, profit focus, Should we sell?)
- Succession planning . CEO, senior management, Board
- Management development . Organization chart priorities
- Organic growth
- Geographic expansion (M&A)
- Financial performance expectations/requirements
- Products/Services
- Open discussion

ROLE OF MANAGEMENT

Preparing the Strategic Plan Document

- Tone at the top
- CEO commitment to process essential to successful plan
- Incorporate results of Board planning session
- Team approach . CEO and senior management
- Solicit input from middle management and staff
- Draft the document
- Present to Board for approval
- Monitor results quarterly and update plan annually

USING A FACILITATOR

Benefits

- Fresh perspective
- Keep the group on task
- Navigate difficult issues

Risks

- Lack of talent
- Ineffective style for the personalities on the Board
- Facilitator has their own agenda and/or is too opinionated



DEVELOPING THE PLAN DOCUMENT

THE STRATEGIC PLANNING PROCESS

Preparing the Plan Document

- Management's responsibility
- Team approach (CEO and senior management group)
- Align perspectives on %Mission+and %Mission Statements+
- %Key Strategic Priorities+should be framed based on Board consensus
- Financial projections/targets are not a substitute for rigorous annual budgeting process
- Solicit input from broader group to develop %Functional Area Tactical Action Plans+
- Monitor quarterly and update annually

SAMPLE STRATEGIC PLAN

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2015 – 2017 Strategic Plan Table of Contents

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Strategic Initiatives and Action Plan Items	Exhibit 1
Functional Area Initiatives	Exhibit 2

MAJOR THEMES FOR CURRENT PLANS

Facing Most Community Banks

- Strategies for revenue growth
 - More revenue producers
 - Focus on specific lines of business
 - Fee income
 - Wealth management
- Strategies to achieve economies of scale
 - Assessing staffing levels and responsibilities
 - Acquisitions
 - Strategic mergers
- Organizational structure/Issues
 - Job responsibilities . more specialization
 - Talent retention and recruitment
 - Management succession
 - Board succession
 - Board governance

STRATEGIC PLANNING INITIATIVES

Sample List

- Develop loan growth strategy (new lenders, LPOs, product niches)
- Evaluate capacity/structure of loan department (lending and credit)
- Evaluate existing service charge and fee income levels
- Create effective HR department
- Create more robust training programs
- Implement more reliable branch profitability reporting
- Create a customer profitability system
- Develop a long-range, focused marketing plan
- Develop a long-range technology plan
- Create a robust ERM program
- Assess bank-wide compensation structure
- Enhance shareholder relations
- Assess effectiveness of Board governance and committee structure
- Develop long-range capital plan
- Develop management and board succession plan
- Implement proactive M&A strategy

SAMPLE TRACKING REPORT (PARTIAL)

Major Initiative	Action Items	Responsible Party	Target Date	Comments/Status Report
LOAN GROWTH INITIATIVES				
1 Formalize Calling Plan	a. Identify existing customers and key prospects in each market b. Lenders assigned to specific markets to work with branch c. Initial goal of 3 calls per week per lender			
2 Develop Process for Small Business Loans	a. Develop simplified process to approve and manage small business loans of less than (\$75k) b. Process will be risk based, credit score driven, shorter application c. Centralized with a junior lender (new position)			
3 Recruit 1-2 Additional Commercial Lenders	a. Establish compensation package b. Target markets of _____ c. Develop list of potential lender candidates			
4 Evaluate Loan Production Offices	a. Demographic and competitive analysis of relevant markets b. Develop prototypical LPO strategy c. Develop list of potential lender candidates			
5 Develop Incentive Compensation Package for Lenders	a. Retain outside consultant to develop cash and equity incentive compensation program b. Start with lenders and expand to other areas of the bank			
6 Increase Responsibilities of Branch Manager Position	a. Change job description to be more business development b. Raise loan and exception authority c. Train and evaluate job performance			
7 Enhance Products and Services	a. Treasury management services (ACH, RDC) b. Mortgage products (FHA, VA, 1st time) c. HELOCS (new product) d. Home improvement loans			
ORGANIZATIONAL INITIATIVES				
1 Develop Customer Service Standards	a. Retain outside consultant to perform customer surveys b. Develop service standards - train staff			
2 Provide Sales/Leadership Training	a. Retain outside consultant to train staff			
3 Enhance Marketing Efforts	a. Develop targeted marketing plans around other initiatives			
4 Develop M&A Strategy	a. Develop relationship with priority targets b. Communicate M&A interests to professionals			
5 Develop 3-Year Financial Plan	a. Develop 2015 budget b. Develop 2015-2017 financial projections/goals c. Develop 3-year capital plan			
6 Develop Dividend Policy	a. Annual evaluation of capital plan b. Targeted dividend payout ratio (as a % of net income) c. Consider quarterly dividend			
7 Shareholder and Stock Management	a. Continued use of _____ process b. Identify new potential shareholders c. Consider stock repurchase program			



INCORPORATING M&A INTO YOUR STRATEGIC PLAN

EDUCATE THE BOARD ON M&A

First Things First

- Public bank equity markets / Bank M&A market
- Key industry factors driving consolidation
- Discuss social issues . importance of culture fit, board seats, philosophy regarding cost savings and elimination of positions
- Controlled auction versus one-off negotiation (don't take it personal!)
- Cash versus stock (ownership % dilution; pro forma capital %)
- Purchase accounting requirements and implications
- Typical transaction costs . CIC payments, severance cost, IT contract termination, BOLI, severance, professional fees, etc.
- Typical transaction steps and timeline

M&A PREPAREDNESS

Strategy and Framework for Board to Exercise Fiduciary Duty

Keys to Independence

- Strong financial performance
- High value relative to peers
- Shareholder relations . know them and keep them happy!
- Corporate governance protections . periodic legal review

Successful Acquirer Attributes

- Access to cash
- Ability to issue stock
- Excellent regulatory relationships
- Advance planning . proactive, not reactive

INCORPORATING M&A INTO THE PLAN

Getting Started

- This discussion assumes M&A is part of your Strategic Plan
- Objective assessment of capabilities
- Management and organization
- Technology
- Financial capacity
- Regulatory status
- Your %house must be in order+to play

M&A POLICY

Exception, not the rule!

- Most community banks don't have an M&A policy
- Purpose
- Authority . CEO, Executive Committee, Board
- General objectives . systematic process for M&A decisions
- Target evaluation criteria . culture, geography, financial, other
- Due diligence requirements
- Retention of professionals

PROACTIVE OUTREACH

Successful M&A is Planned and Executed

- Establish geographic area for consideration
- Identify universe of potential M&A candidates
- Start a file for each candidate
- Gather financial and nonfinancial information
- Communicate M&A interest to investment bankers, attorneys and accountants
- Prioritize markets and target-candidates
- Establish personal contact with prioritized target-candidates
- Loan participations can help build relationships!

DUE DILIGENCE

Team and Process

- Engage your internal team . Credit, Technology, Operations, Finance, Human Resources, etc.
- Due diligence checklist
- Loan review . Do you retain a loan review firm?
- Professional team - Legal counsel, Financial advisor and Accounting & Tax specialist
- Key financial metrics
 - EPS impact
 - Tangible book dilution and earn-back period
 - Internal rate of return
 - Capital impact
 - Optics . deal valuation versus peer deals

Q&A

Questions from Webinar Registrants

- What are the key financial performance indicators?
- How do you explain the cost of a common equity raise?
- Can you convince community bank CEOs and Boards they would maximize value by selling (everyone is buyer these days!)?
- When is the right time to sell?
- What is the best way to document a strategic planning session?
- How does the strategic plan need to tie into capital planning under Basel III modeling and stress scenarios?

STRATEGIC PLANNING:

Shaping the Future for Your Community Bank

Thank you for joining us today! We would appreciate hearing from you.

If you have questions or comments regarding today's webinar, or if you would like to discuss how Austin Associates can assist your bank with any aspect of Strategic Planning or M&A strategy, please contact us.

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