

# INVICTUS

GROUP

CBA of Michigan



Adam Mustafa



# INVICTUS

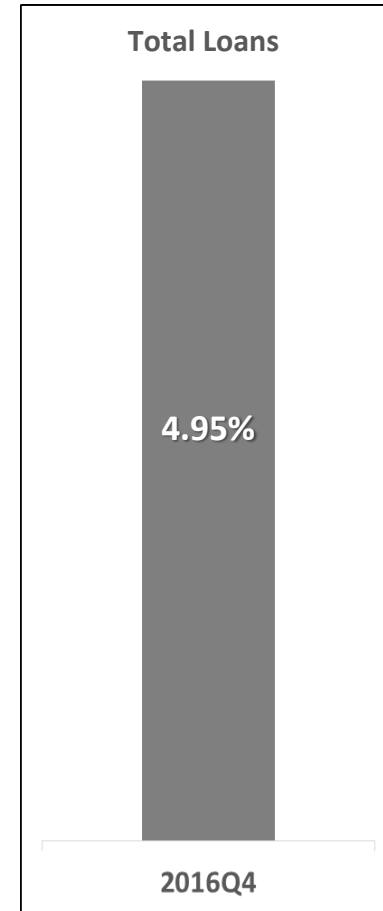
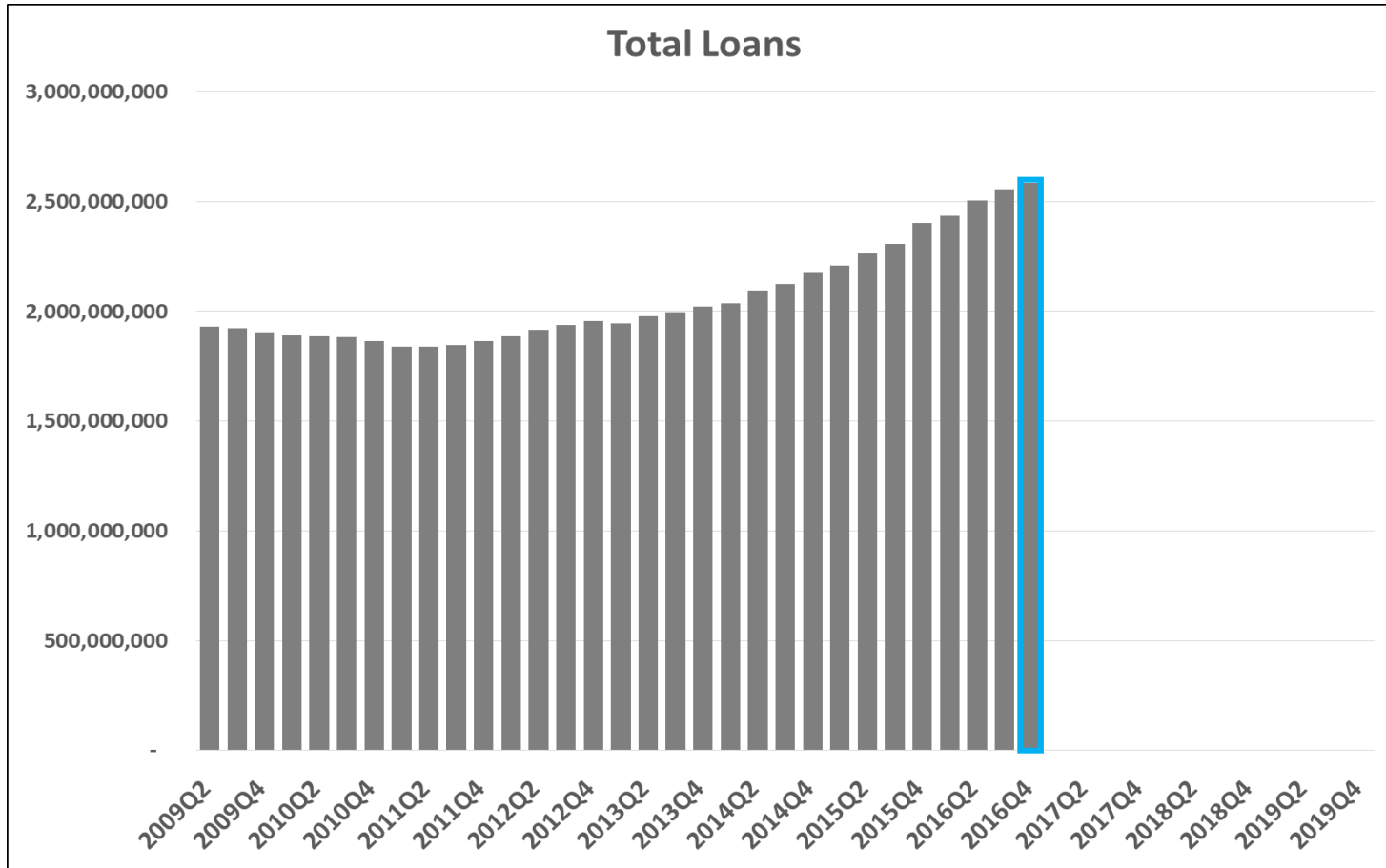
GROUP

## Disturbing Trends Heading into the Next Cycle

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# 1. Rate hikes not translating to materially higher loan yields

## All Banks in US (<\$10B) Total Loans



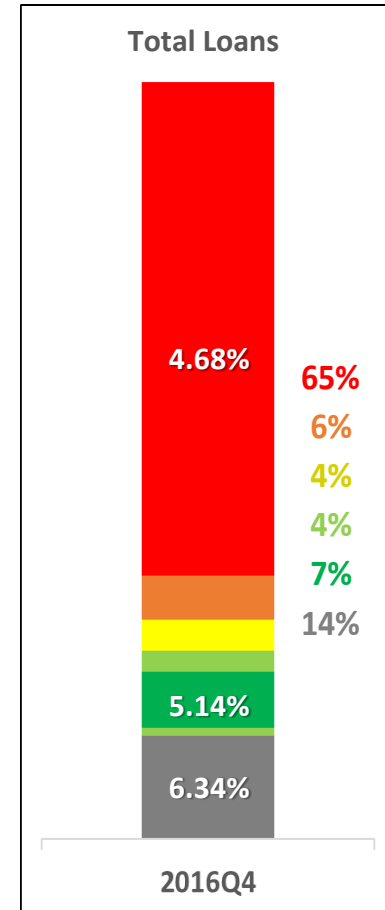
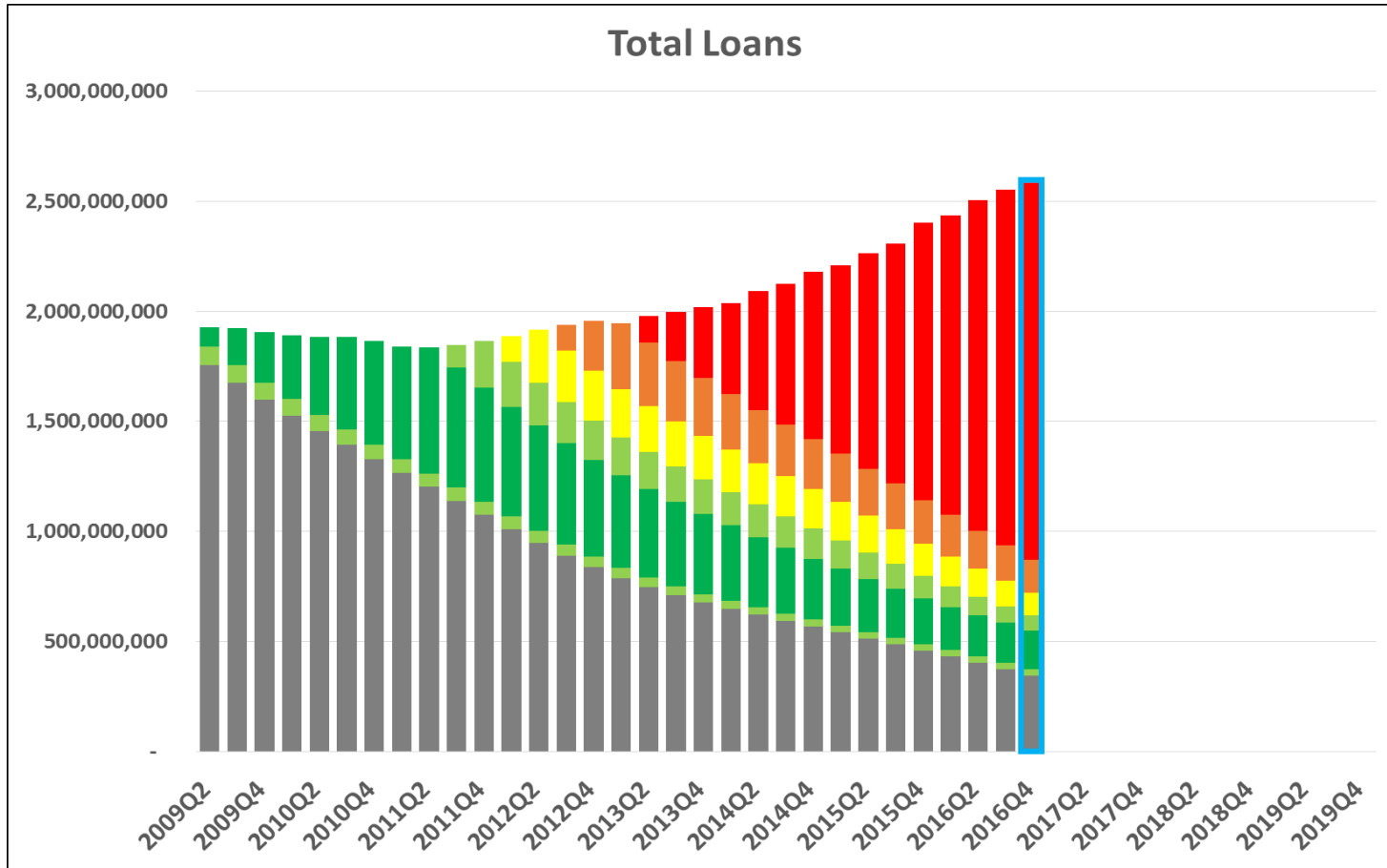
Gross Yield on Loans:

4.95%

# 1. Rate hikes not translating to materially higher loan yields

All Banks in US (<\$10B)

Total Loans *Risk/Reward*

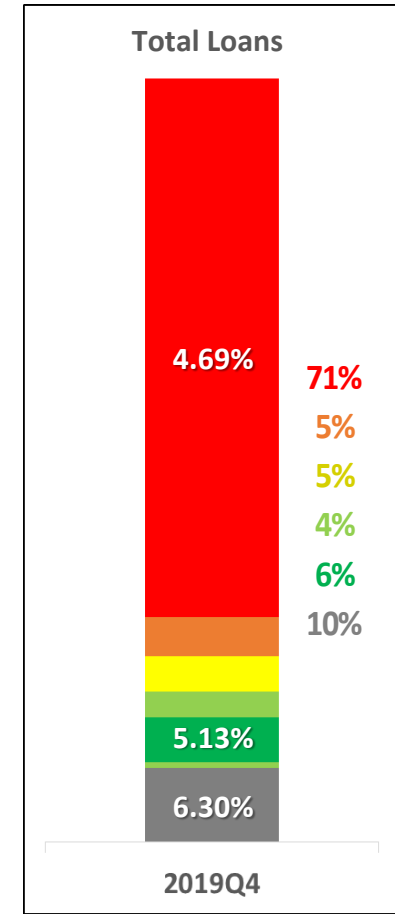
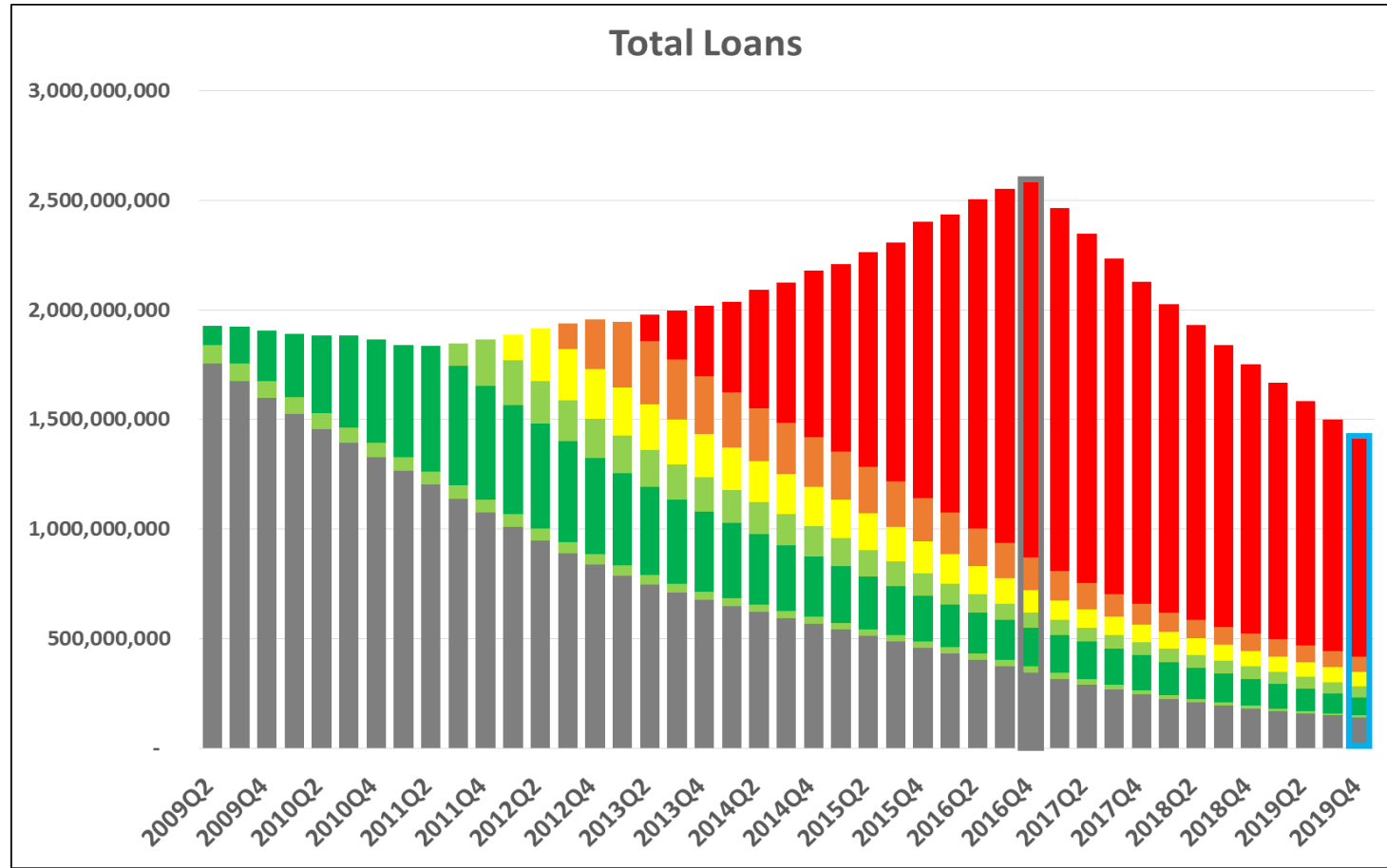


Gross Yield on Loans:

4.95%

# 1. Rate hikes not translating to materially higher loan yields

All Banks in US (<\$10B) *3 Years No-Growth*  
Total Loans *Risk/Reward*



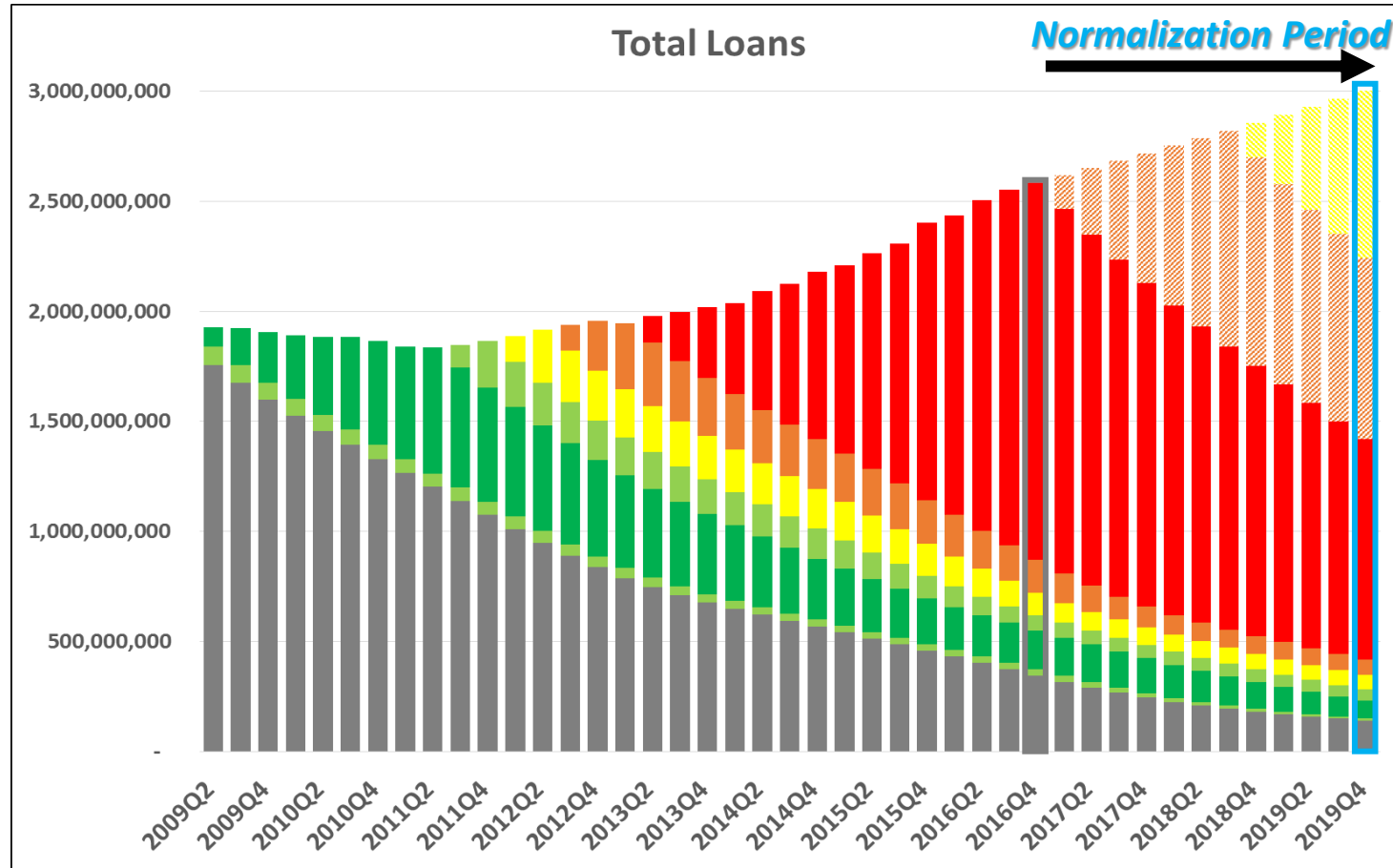
Gross Yield on Loans:

4.89%

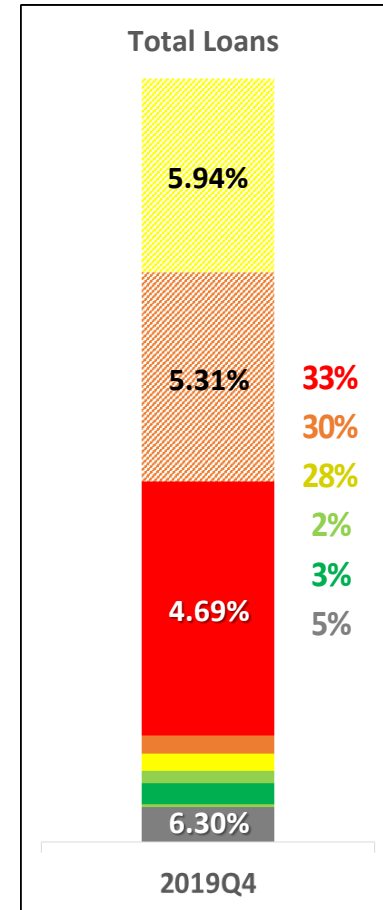
4.95%

# 1. Rate hikes not translating to materially higher loan yields

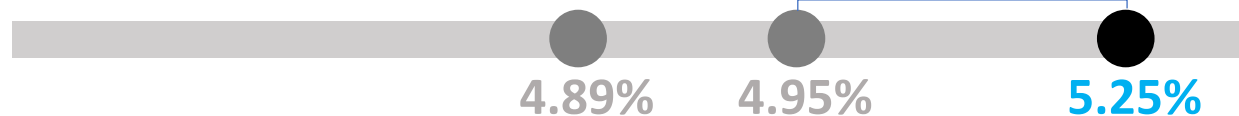
All Banks in US (<\$10B) *3 Years No-Growth*  
Total Loans *Risk/Reward*



+100 bps Rate Hike


















Gross Yield on Loans:





## 2. Strong likelihood of tepid loan demand

	High Growth Rising Rates	High Growth Flat Rates	Low Growth Rising Rates	Low Growth Flat Rates
Resi	Severe decline in refi's partially offset by purchases. 	Purchases significantly increase w/o material falloff in refi's. 	Refis disappear and purchases do not increase. 	Equivalent of today's environment. 
CRE	Rising cap rates will overpower increases in rental rates. 	Rental rates increase and cap rates remain unchanged. 	Cap rates increase and rental rates remain flat. 	Equivalent of today's environment. 
Consumer	More borrowers qualify, but rising rates acts as disincentive. 	Consumers leverage when more bullish, but household debt/GDP near historic highs. 	Rising rates disincentivizes and no increase in qualifying borrowers. 	Equivalent of today's environment. 
Ag	Upward pressure on USD crushes commodity prices. 	Driven by modest increase in demand. 	Upward pressure on USD crushes commodity prices. 	Equivalent of today's environment. 
C&I	Capex and working capital investments increase. Partial offset by higher rates. 	Capex and working capital investments increase. 	No incentive for leverage and rising rates acts as disincentive. 	Equivalent of today's environment. 

# Assessment of Loan Demand

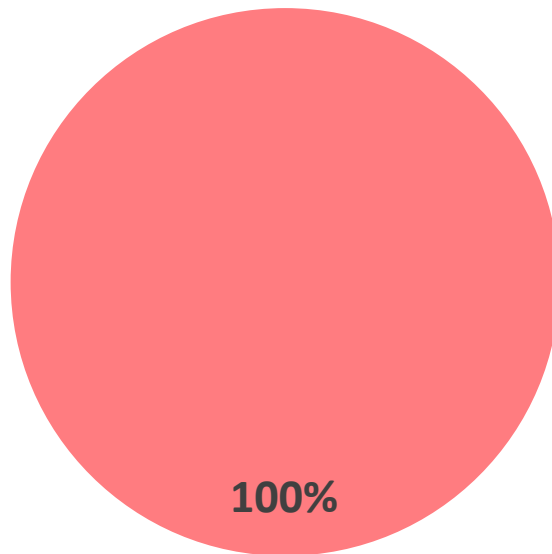
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Ag	Upward pressure on USD crushes commodity prices. 	Direct by needed increase in demand. 	Upward pressure on USD crushes commodity prices. 	Equivalent of today's environment. 
C&I	Capex and working capital investments increase. Partial offset by higher rates. 	Capex and working capital investments increase. 	No incentive for leverage and rising rates acts as disincentive. 	Equivalent of today's environment. 



### 3. Looming Deposit Turbulence?

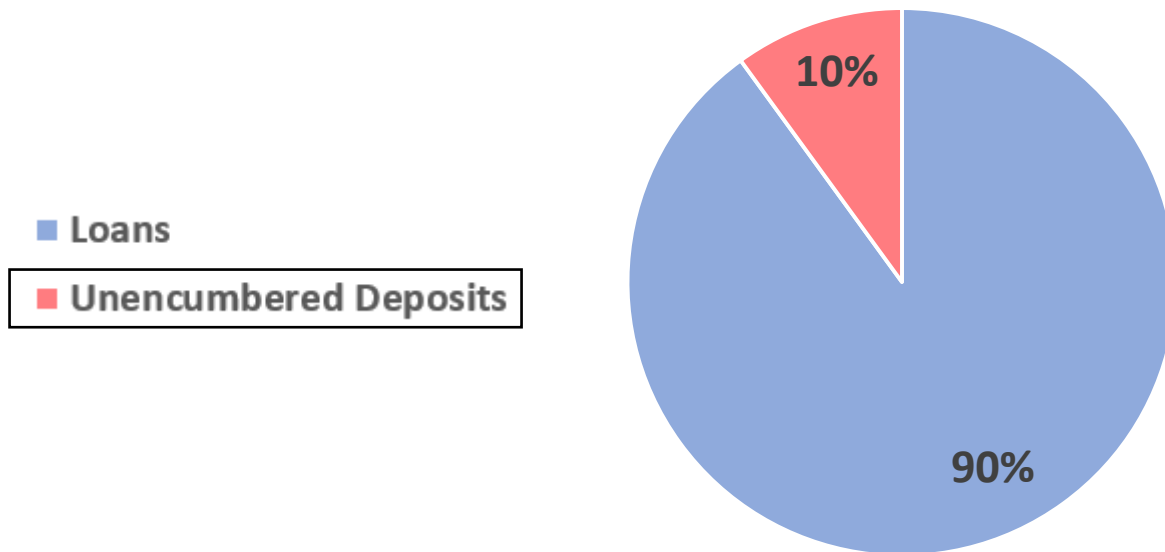
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■ Deposits



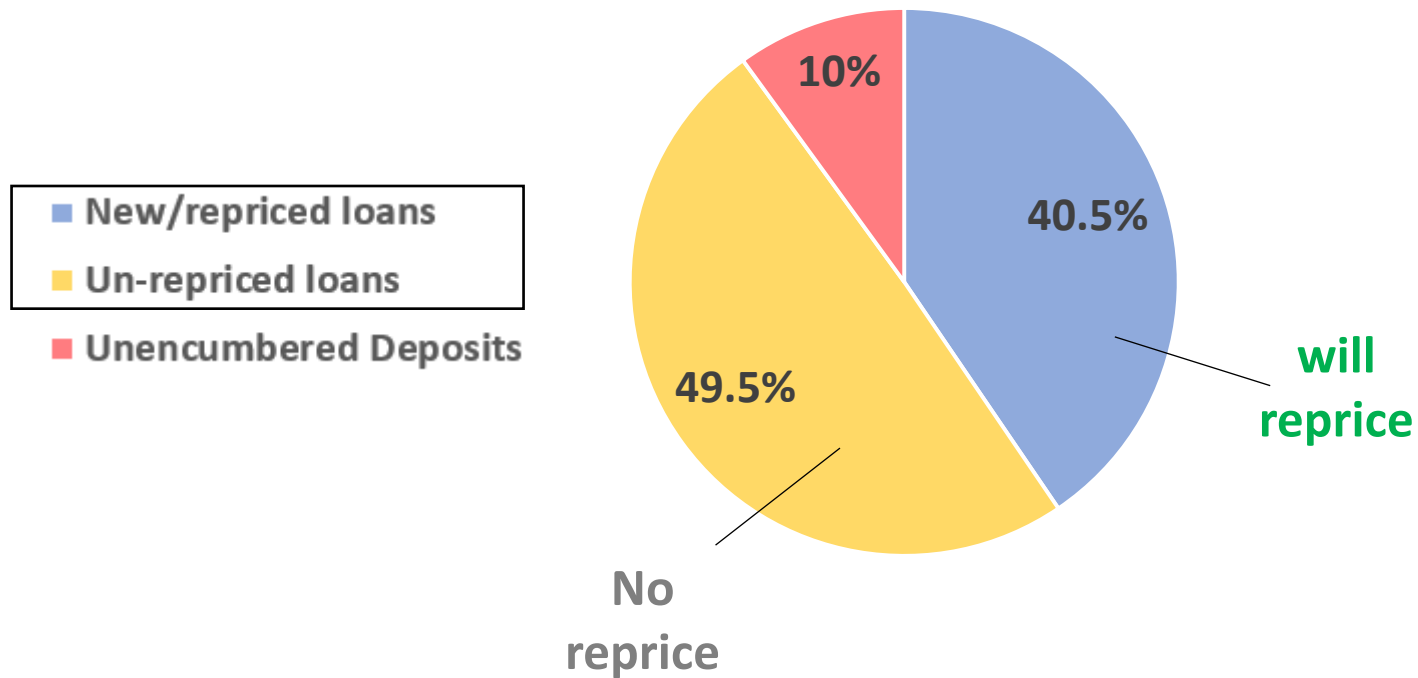
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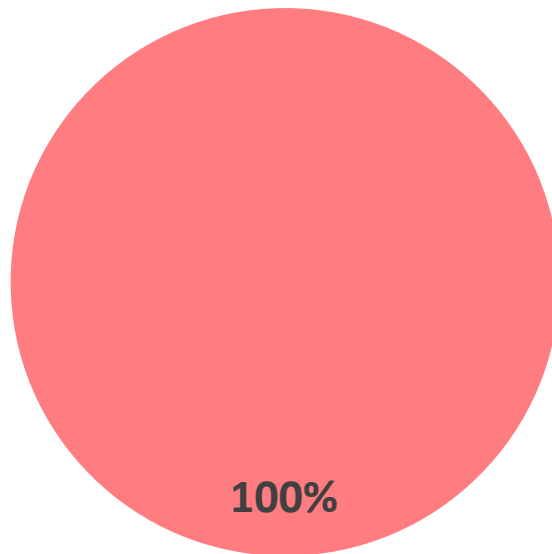
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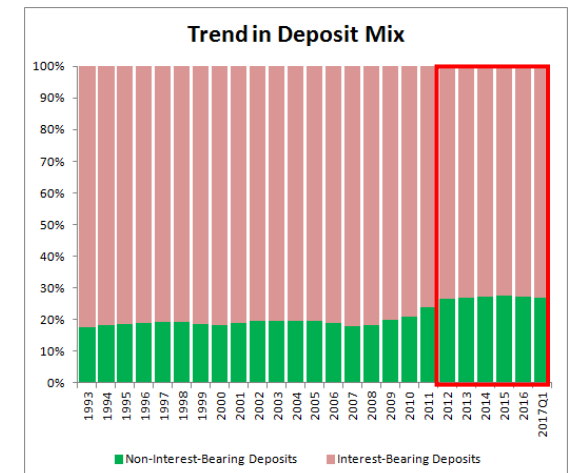
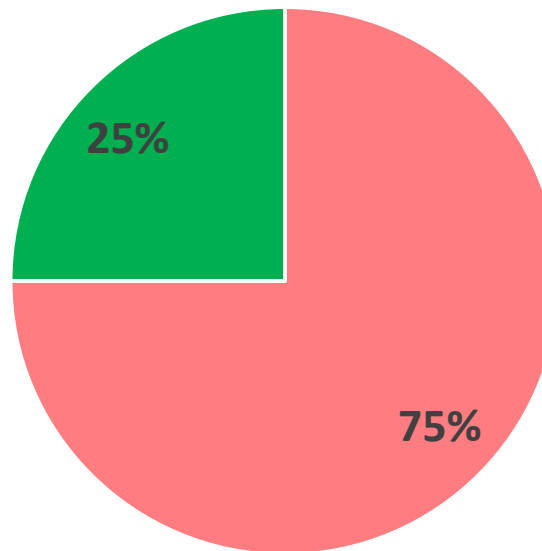
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■ Deposits



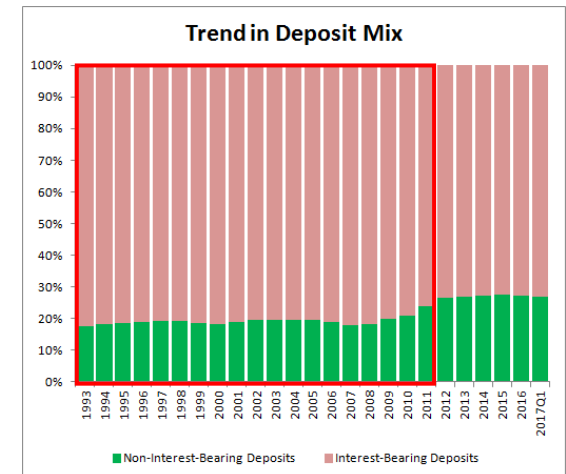
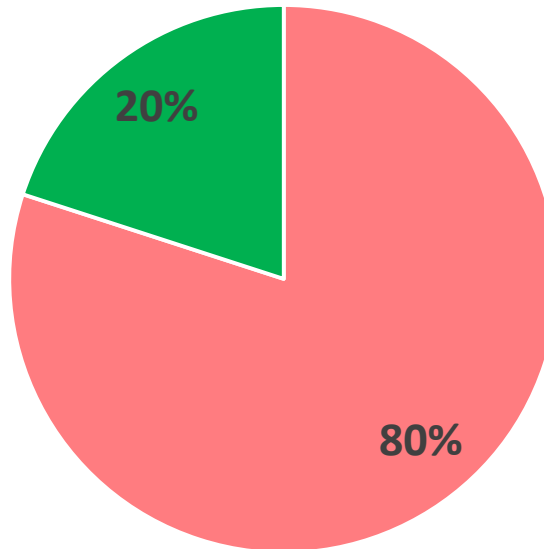
### 3. Looming Deposit Turbulence?

- Int-bearing deposits
- Non-int-bearing deposits



### 3. Looming Deposit Turbulence?

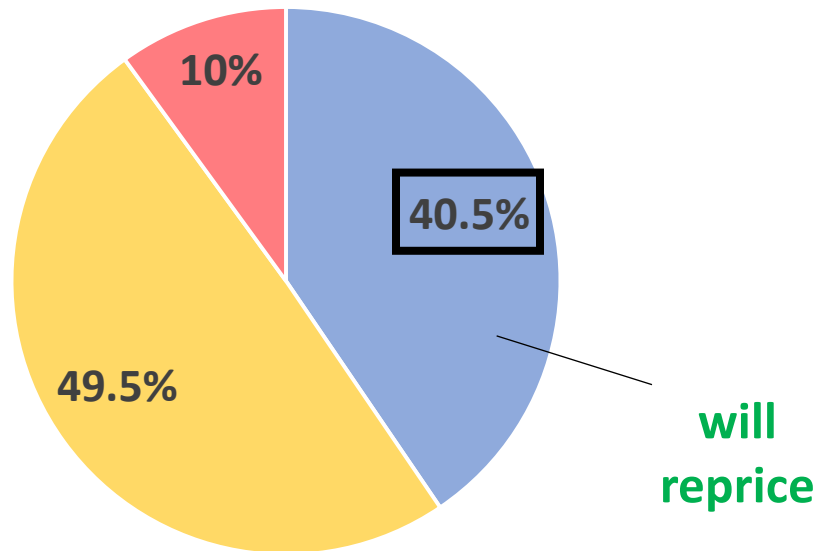
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- Non-int-bearing deposits





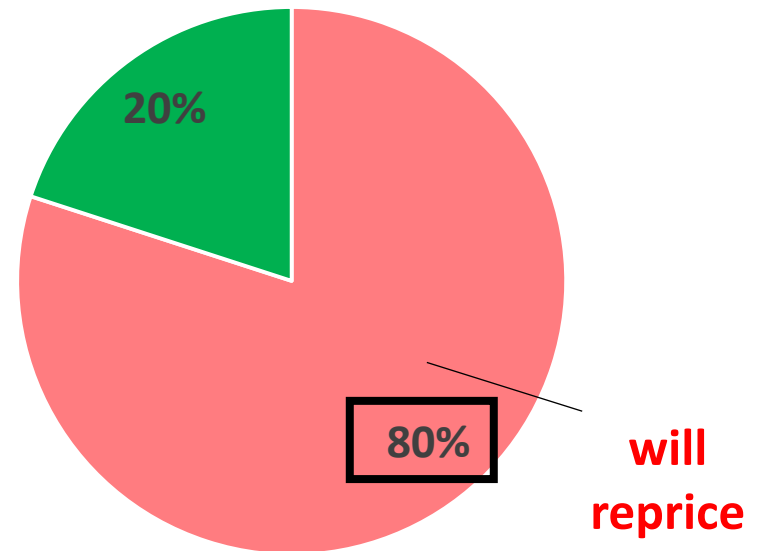
### 3. Looming Deposit Turbulence?

Repricing on the Loans



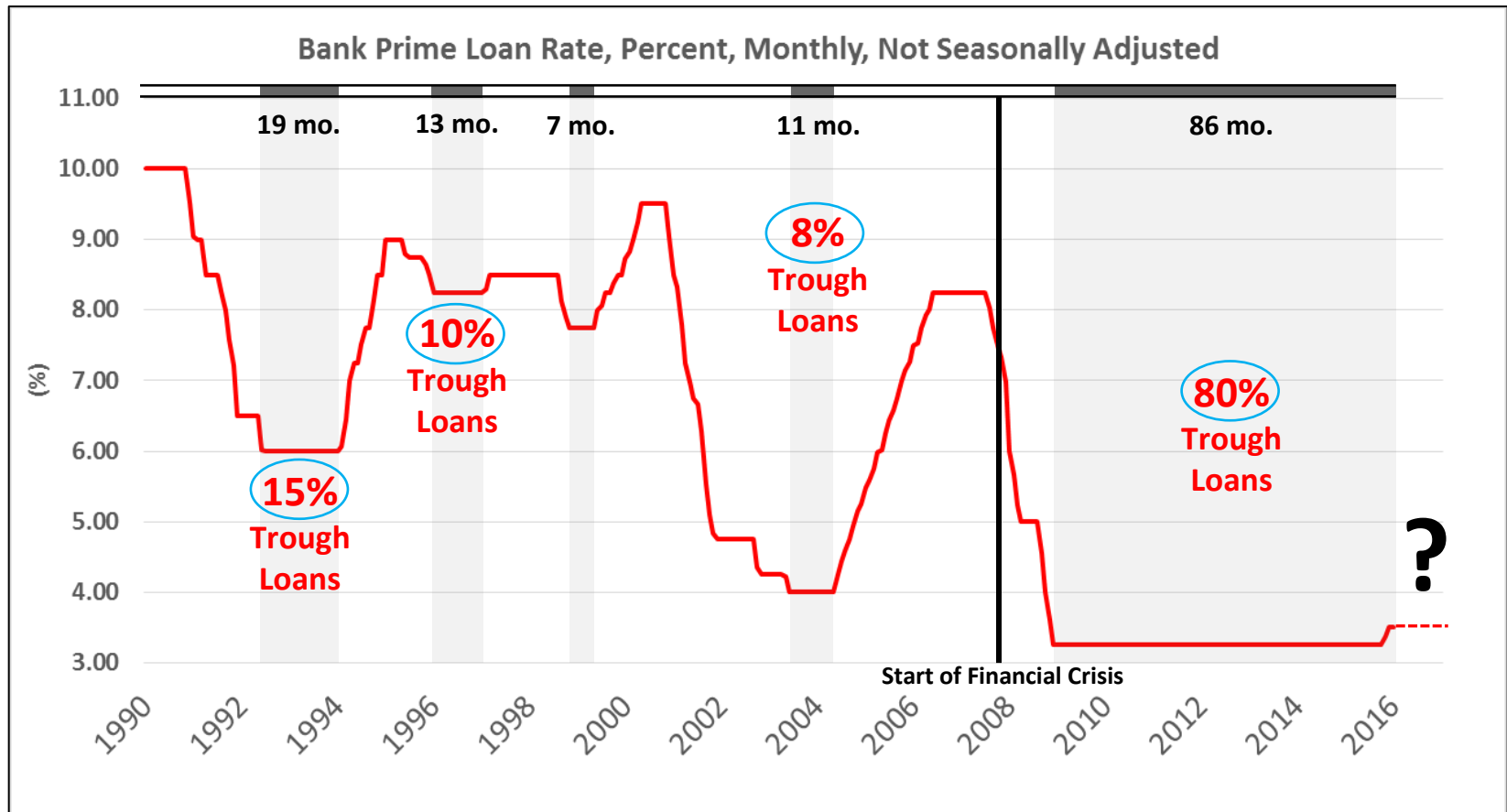
- New/repriced loans
- Un-repriced loans
- Unencumbered Deposits

Repricing on the Deposits



- Int-bearing deposits
- Non-int-bearing deposits

# Duration of Interest Rate Troughs: *A History of Prime*



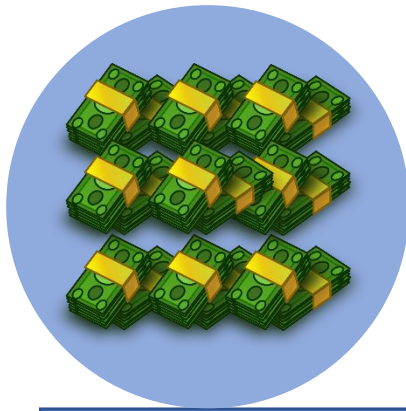
\*\*Trough loans = Low interest rate loans as a percentage of total loans assuming 5% annual growth through the low rate periods (or "troughs")

### 3. Looming Deposit Turbulence?

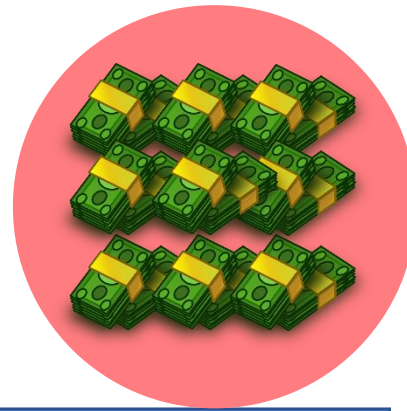
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#### Old World Scenario

New/Repriced Loans



New/Repriced Deposits



### 3. Looming Deposit Turbulence?

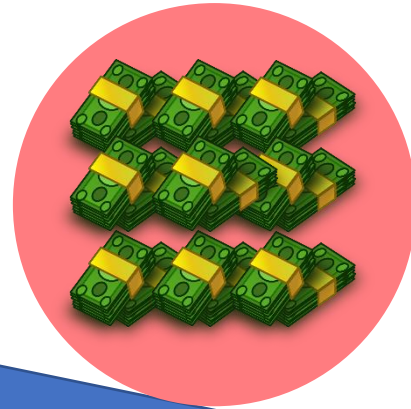
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**Today's Scenario**

New/Repriced Loans



New/Repriced Deposits



# Expected Pro Forma: Assets and Deposits

*It is critical to manage asset mix and protect deposits during normalization period, but banks must contend with the following issues:*

## ASSETS

- Low organic growth.
- Intense pricing and term competition for new loans and refinancings.
- Slow turnover of existing portfolios due to extended maturities.

## DEPOSITS

- Reduction in industry-wide deposits as Fed unwinds balance sheet
- Aggressive tactics by CCAR banks to steal core deposits from community banks
- Electronic banking facilitates poaching of deposits from community banks
- Increasing regulatory pressure on high/rising Loan-to-Deposit ratios.
- Renewed regulatory focus on brokered funds.

# Traditional Methods for Managing Assets and Protecting Deposits

## Strategy 1: Organic Growth

### ASSETS

A sample bank growing at a 10% growth rate with:

1. a 50% haircut on fixed rate loans and
2. a 20% increase on floating rate loan growth

would have minimal impact on asset mix:

	TODAY	YEAR 3
Fixed	63% →	62%
Float	37% →	38%

*This analysis assumes the bank could achieve growth in floating rate loans.*

### DEPOSITS

Pricing on deposits is set in the market. The bank has very limited ability to protect deposits in an organic growth strategy.



# **Disruptive** Methods for Managing Assets and Protecting Deposits

## Strategy 2: M&A

### **ASSETS**

A strategic acquisition can shift the acquirer's asset mix in a meaningful way with less deterioration of loan yield versus organic growth.

### **DEPOSITS**

A strategic acquisition can lower the acquirer's loan/deposit ratio & cost of funds while achieving greater asset growth than a pure organic growth.



# INVICTUS

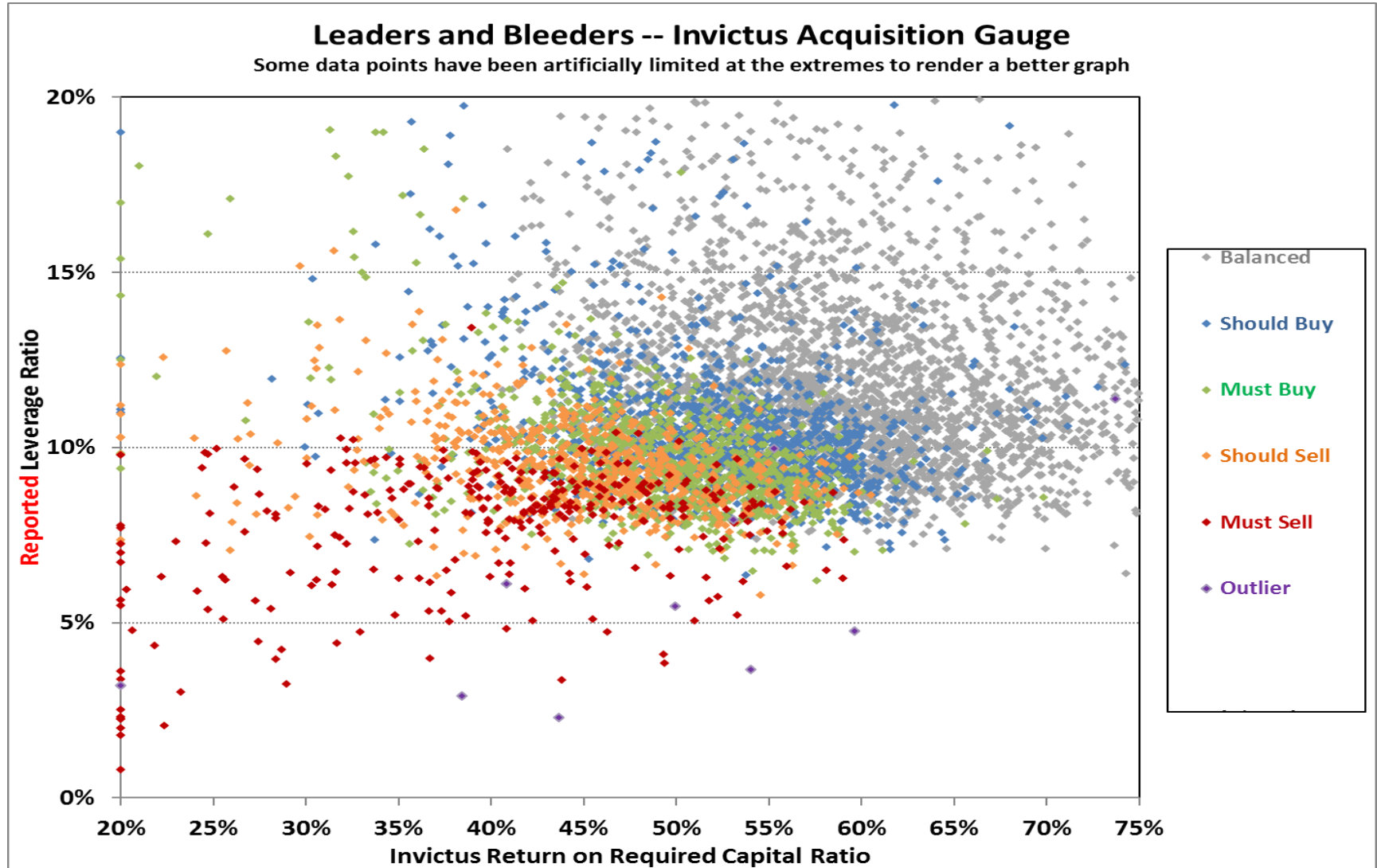
## GROUP

# Market Survey

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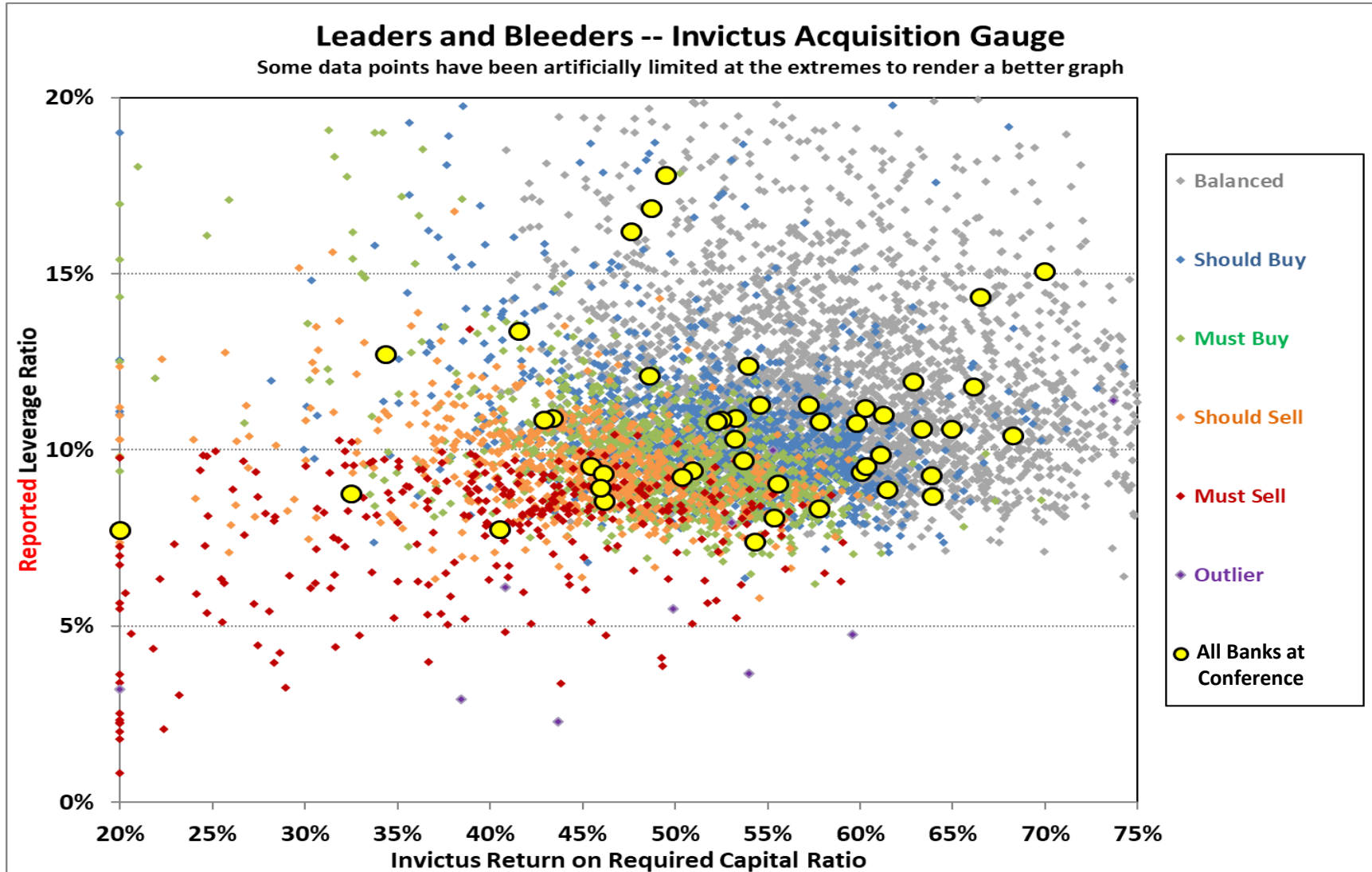
# Invictus Acquisition Gauge: All Banks USA

$$\text{Invictus Return on Required Capital Ratio} = \frac{\text{Gross Asset Return}}{\text{Regulatory Capital Required to Support the Assets}}$$



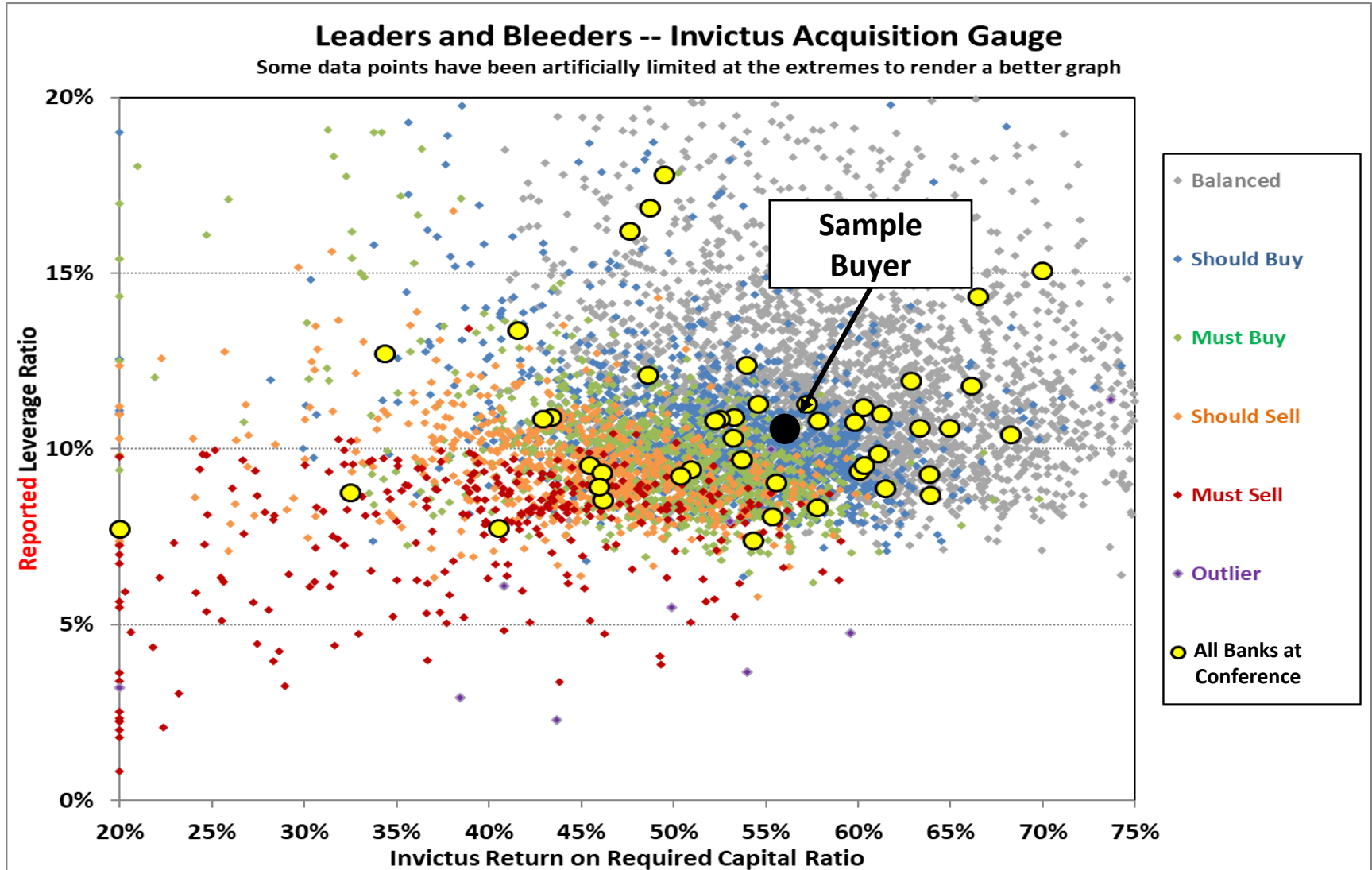
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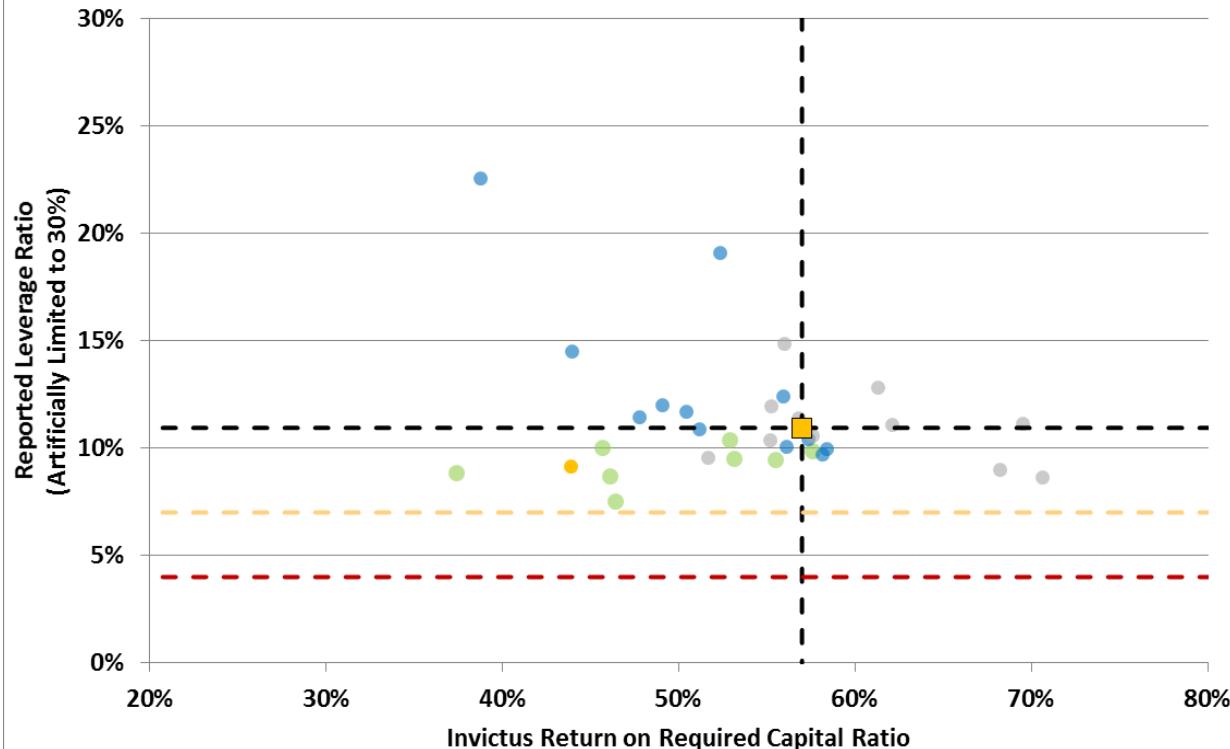




# Invictus Acquisition Gauge: Potential Targets within 150 miles

Invictus Capital Efficiency Radar  
All Banks within 150 miles

Must Sell   Should Sell   Must Buy   Should Buy   Balanced   Outlier

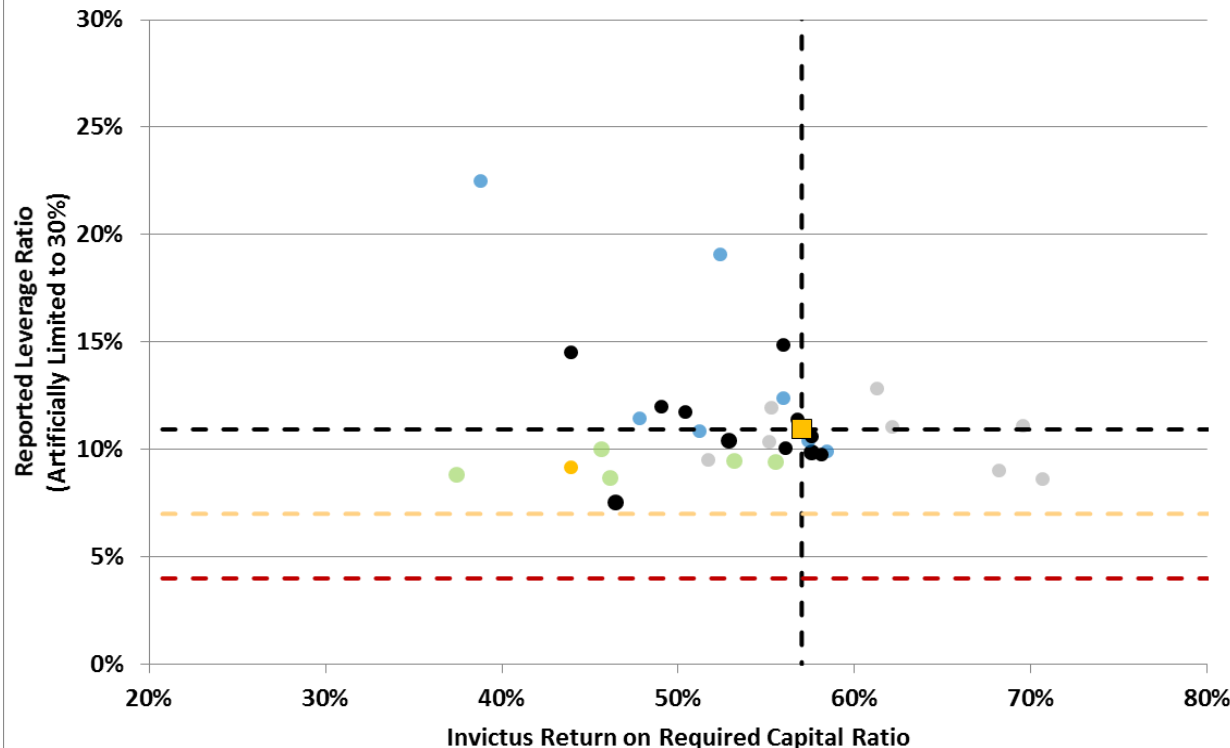




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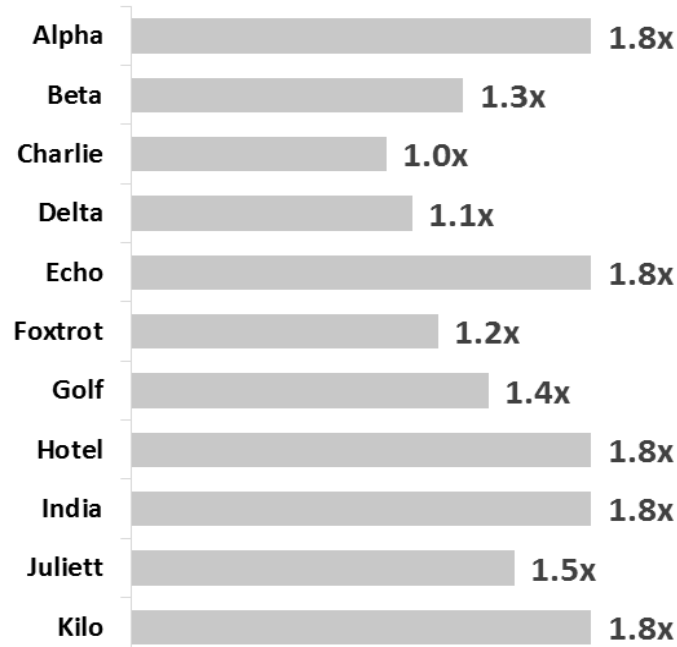
## Initial Target Shortlist:

Bank	Invictus Ratio	Leverage Ratio	Invictus Acquisition Gauge
Alpha	46%	7.5%	Must Buy
Beta	49%	12.0%	Should Buy
Charlie	58%	9.7%	Should Buy
Delta	53%	10.4%	Must Buy
Echo	58%	10.6%	Balanced
Foxtrot	44%	14.5%	Should Buy
Golf	50%	11.7%	Should Buy
Hotel	58%	10.0%	Should Buy
India	57%	11.4%	Balanced
Juliett	56%	10.1%	Should Buy
Kilo	56%	14.9%	Balanced

# Invictus Market Survey: *Market Price*

Calculate the  
Estimated Market  
Price by analyzing  
recent comparable  
transactions based  
on size, earnings,  
footprint, etc.

Estimated Market Prices



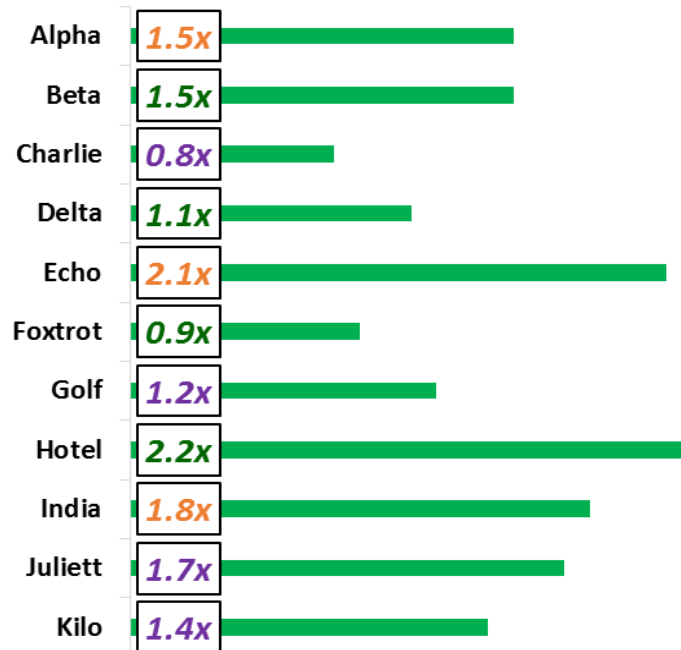
## Legend:

Expected  
Market Price

# Invictus Market Survey: *Custom Price Ceiling*

Then calculate  
what these targets  
are worth to YOU.

Pre-Due Diligence Customized Ceiling Price Rankings



## Legend:

■ Customized Ceiling Price

## Target List:

Target Group 1

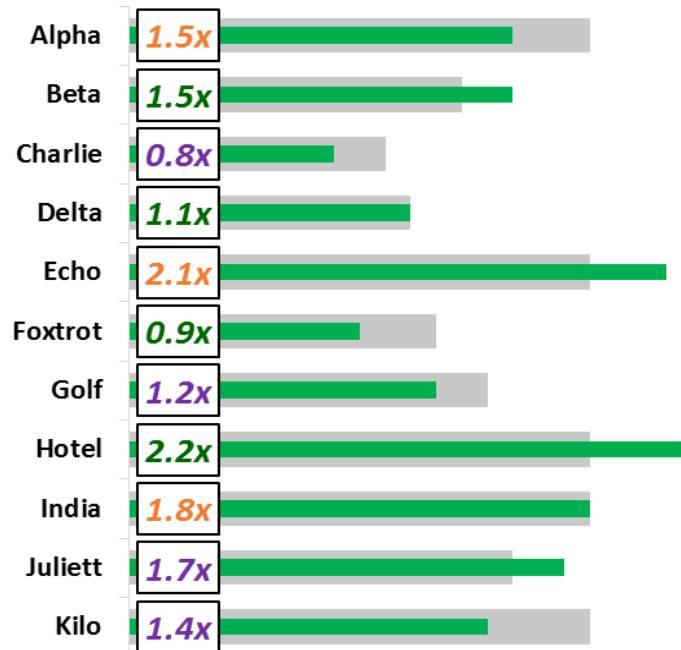
Target Group 2

Target Group 3

# Invictus Market Survey: *Custom Price Ceiling*

Compare the  
market price to  
their value to you.

Pre-Due Diligence Customized Ceiling Price Rankings



## Legend:

- Customized Ceiling Price
- Estimated Market Price

## Target List:

Target Group 1

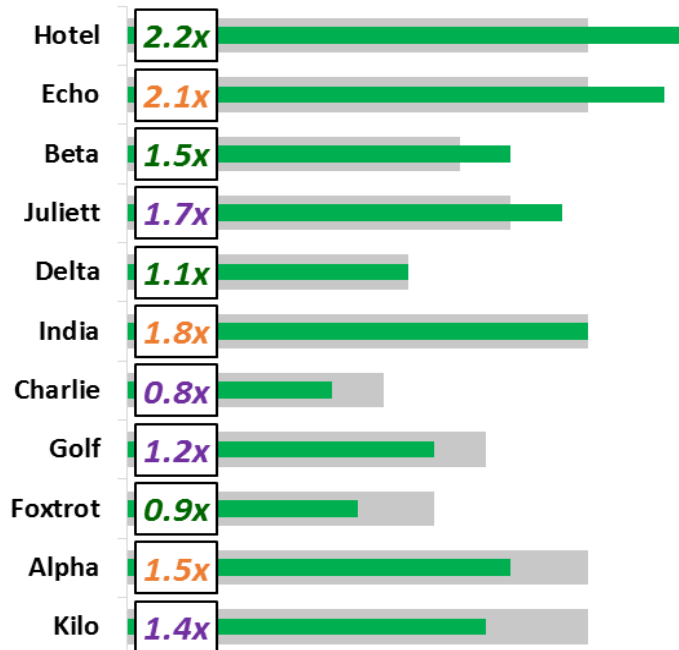
Target Group 2

Target Group 3

# Invictus Market Survey: *Bid/Ask Spread*

The targets are ranked by the spread between the price ceiling and seller expectations. This is the bid/ask spread.

Pre-Due Diligence Customized Ceiling Price Rankings



## Legend:

- Customized Ceiling Price
- Estimated Market Price

## Target List:

Target Group 1

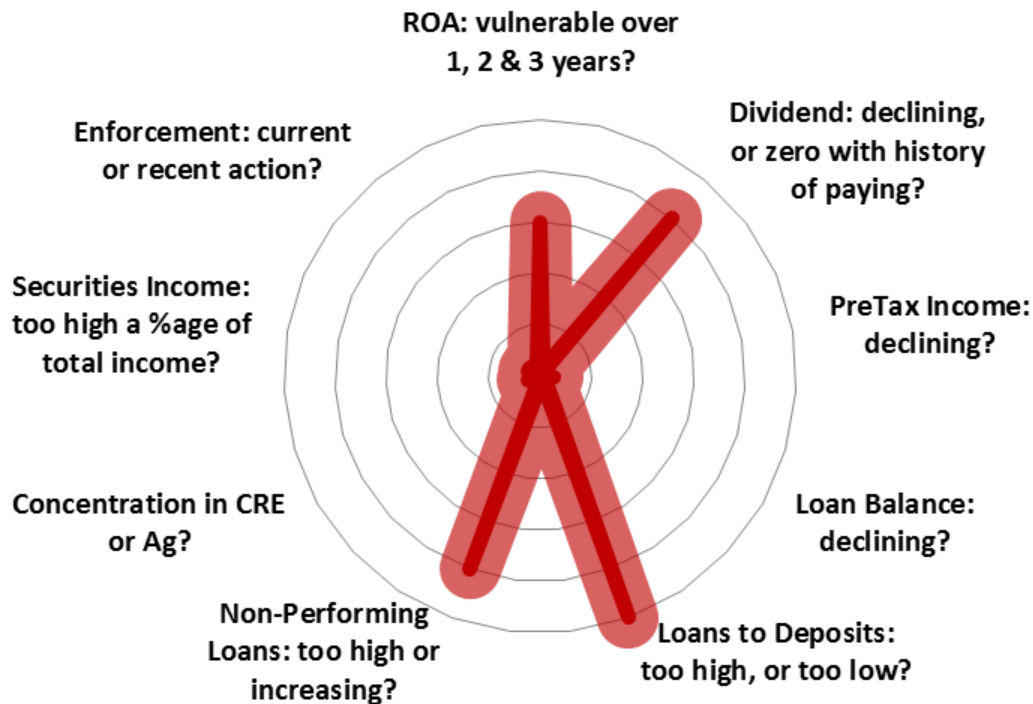
Target Group 2

Target Group 3

# Invictus Market Survey: *Vulnerability*

## SAMPLE BANK

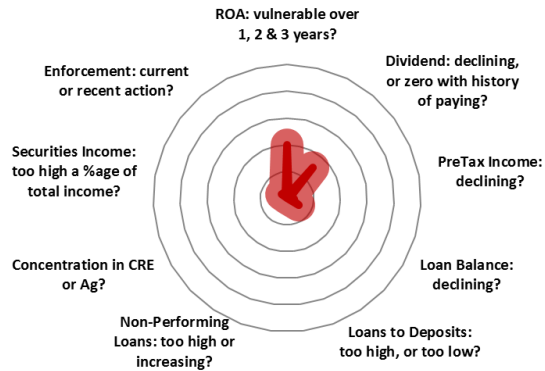
Vulnerability Score: 43





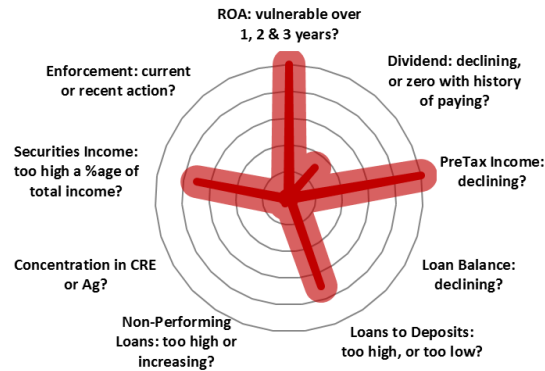
## Alpha

Vulnerability Score: **12**



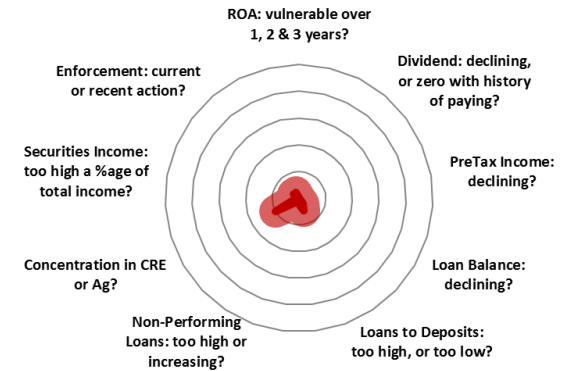
## Beta

Vulnerability Score: **47**



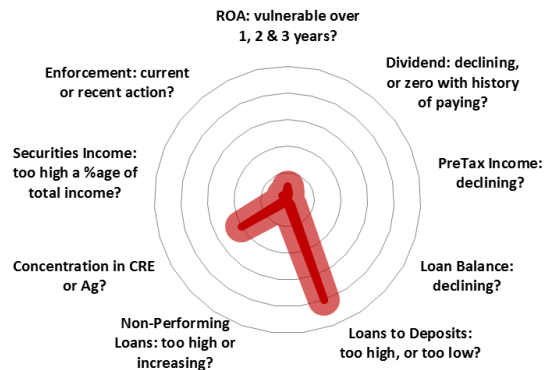
## Charlie

Vulnerability Score: **6**



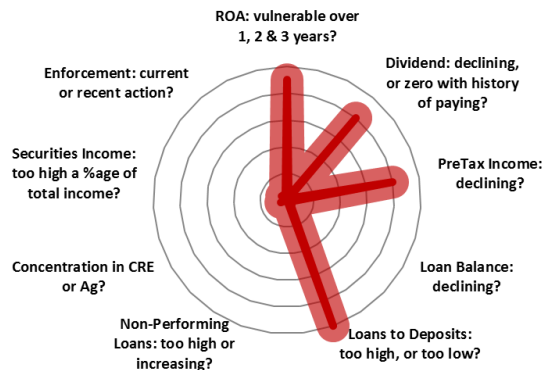
## Delta

Vulnerability Score: **14**



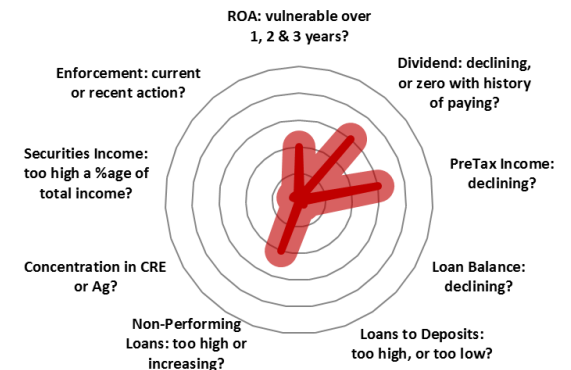
## Echo

Vulnerability Score: **44**

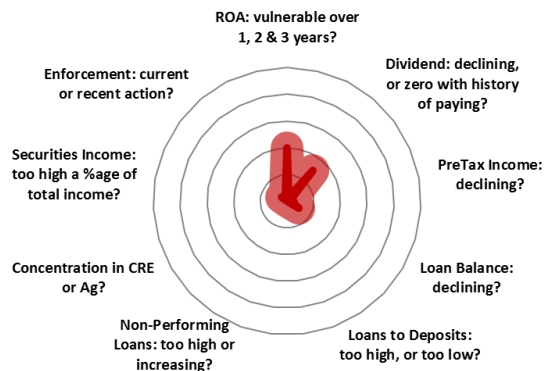


## Foxtrot

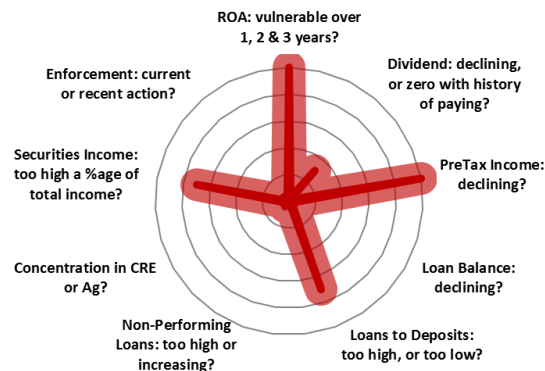
Vulnerability Score: **24**



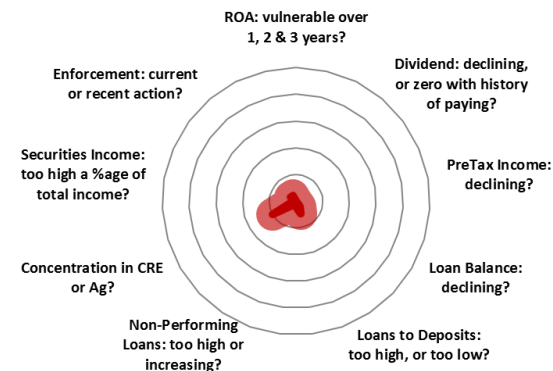
## Alpha Vulnerability Score: 12



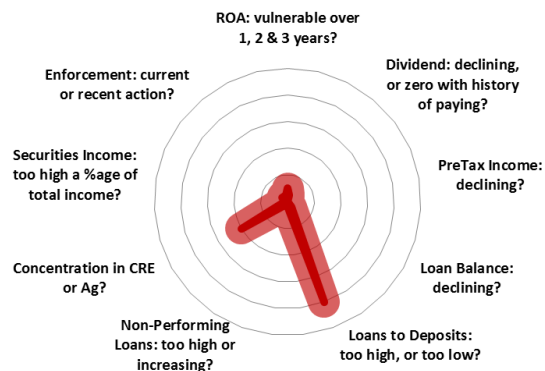
## Beta Vulnerability Score: 47



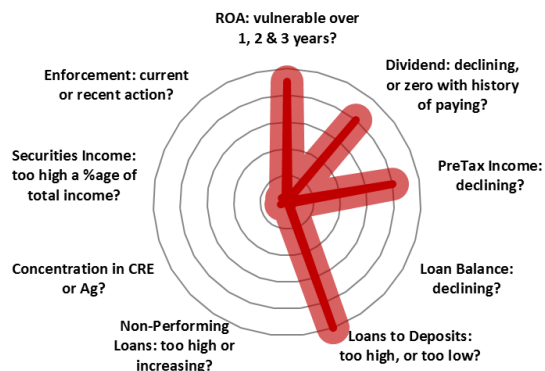
## Charlie Vulnerability Score: 6



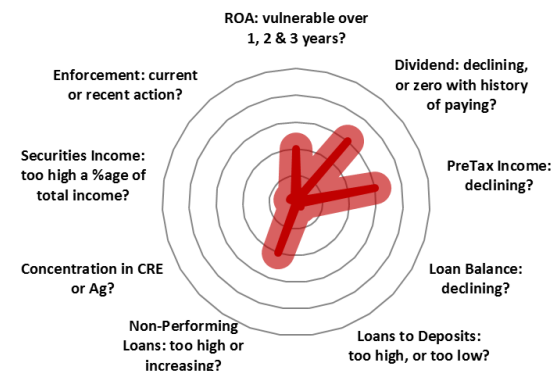
## Delta Vulnerability Score: 14



## Echo Vulnerability Score: 44



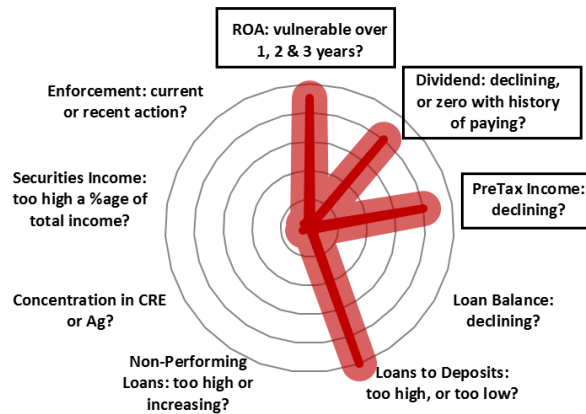
## Foxtrot Vulnerability Score: 24



# Echo: Target Reconnaissance

## Echo

Vulnerability Score: **44**



## Ownership:

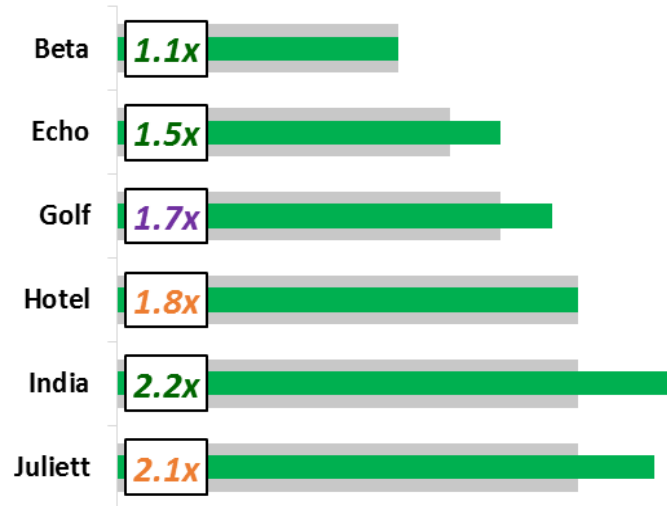
Role	Age	Ownership
Shareholder*	67	39.54%
Director*	62	10.51%
Director	58	5.38%
Director	49	5.09%
CEO	56	0.00%

\*[Shareholder], now 67, and [Director], 62, have long business ties going back to at least 1993. [Shareholder] was CEO of [REDACTED], a manufacturing firm. He resigned in 1999 and the firm was liquidated in 2000. [Director] served on his board. [Shareholder] also provided legal services to [REDACTED], which [Director] owned.

# Invictus Market Survey: *Banks with positive Bid/Ask Spreads ranked by Vulnerability*

The targets are prioritized by vulnerability and bid/ask spread.

Pre-Due Diligence Customized Ceiling Price Rankings



## Legend:

- Customized Ceiling Price
- Estimated Market Price

## Target List:

Target Group 1

Target Group 2

Target Group 3



# Traditional vs. Vintage Analytics

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# Traditional Analytics / Vintage Analytics

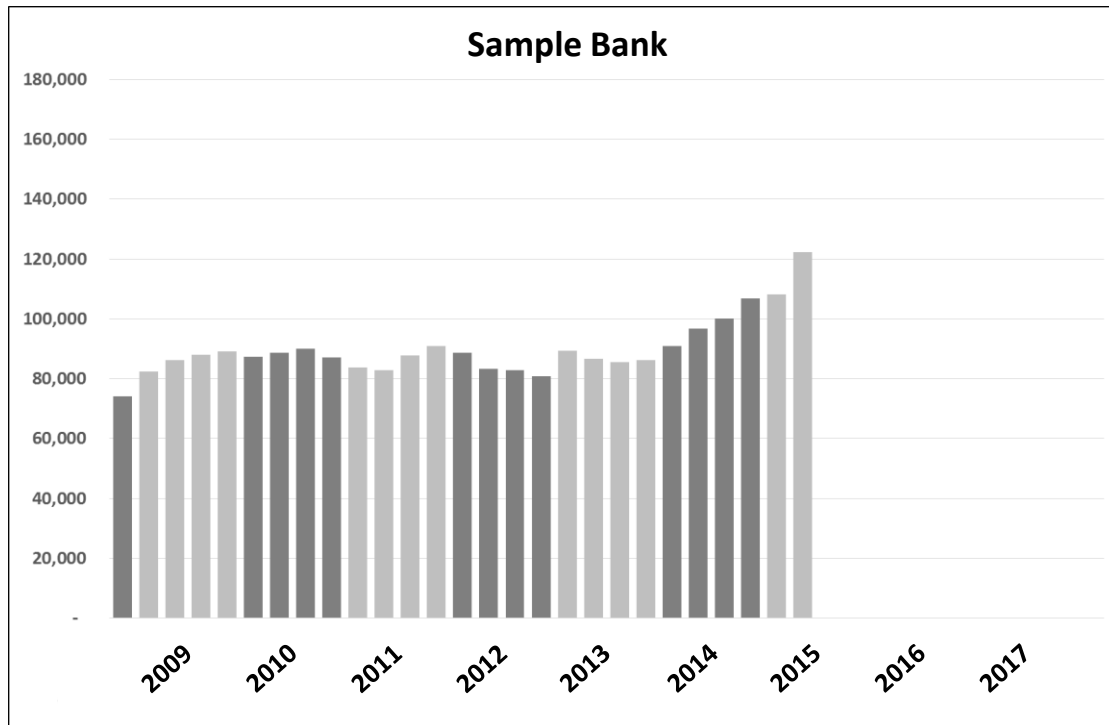
Standalone pro forma analysis

## Sample Bank Quarterly Assets/Loans Data:

Recent Historical Annual Loan Growth = 15%

NIM = 3.7%

Gross Loan Yield = 4.63%



	TTM
(\$Ms)	2015Q2
Assets	\$126.7
Gross Yield on Loans	4.63%

Interest Income \$5.4

Interest Expense\* \$2.3

Net Interest Income \$3.1

Provision Exp \$0.3

Non-Int Income \$3.2

Non-Int Expense\* \$4.6

Efficiency Ratio 73%

Pre-Tax Income \$1.4

Tax Exp \$0.5

Net Income \$0.9

ROA 0.8%

Total Assets

\*Practically always modified by acquirer

# Traditional Analytics / Vintage Analytics

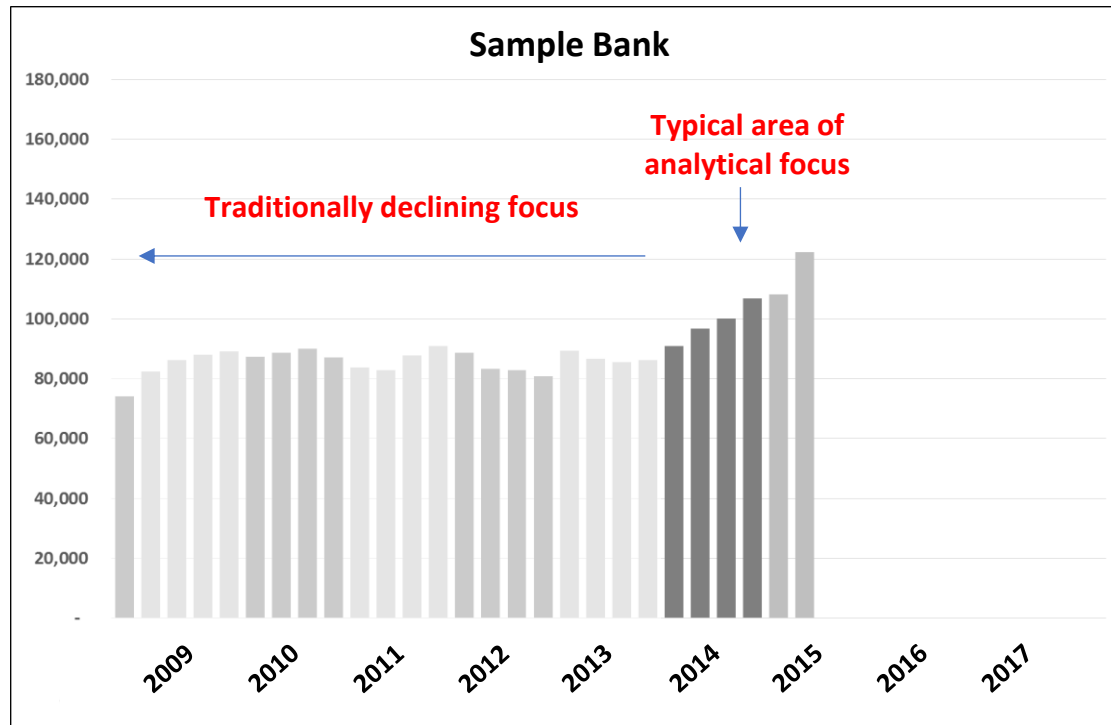
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Interest Expense*	\$2.3

Net Interest Income	\$3.1
Provision Exp	\$0.3

Non-Int Income	\$3.2
Non-Int Expense*	\$4.6

Efficiency Ratio	73%
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Pre-Tax Income	\$1.4
Tax Exp	\$0.5
Net Income	\$0.9

ROA	0.8%
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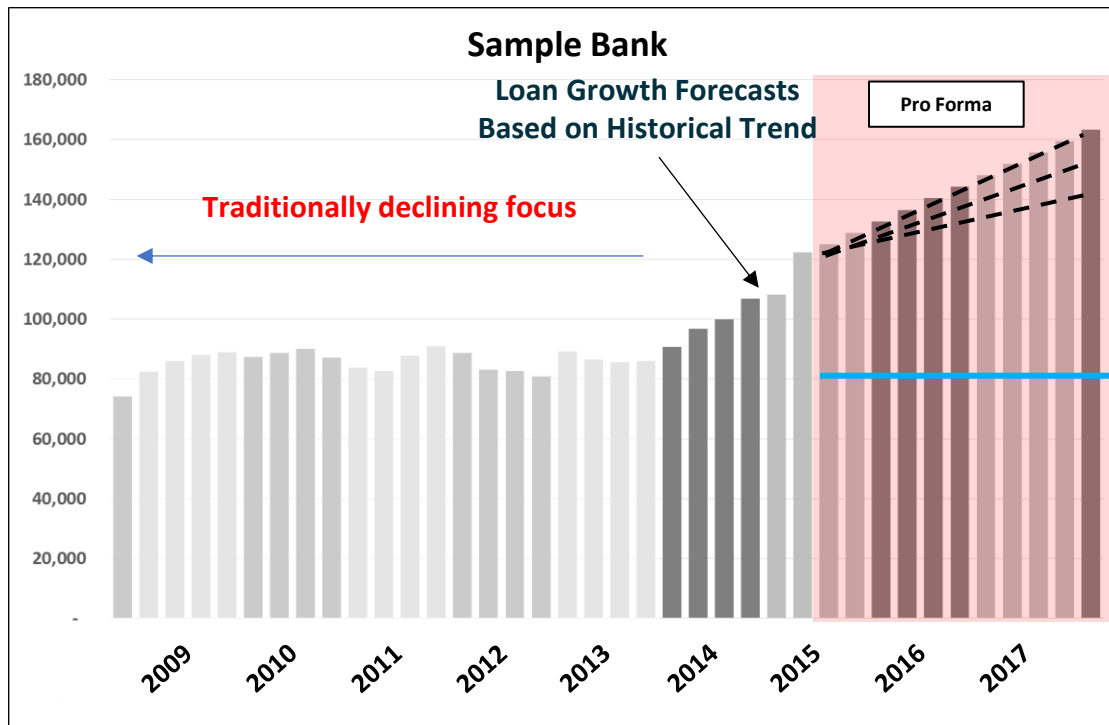
Total Assets

\*Practically always modified by acquirer

# Traditional Analytics / Vintage Analytics

Standalone pro forma analysis

## Pro Forma Loan Growth



## Pro Forma Financials

	TTM	Pro-Forma		
(\$Ms)	2016Q2	Year 1	Year 2	Year 3
Assets	\$127	\$145	\$162	\$180
Rate Increase	NM	0.25	0.25	0.25
Gross Loan Yield	4.63%	4.63%	4.63%	4.63%

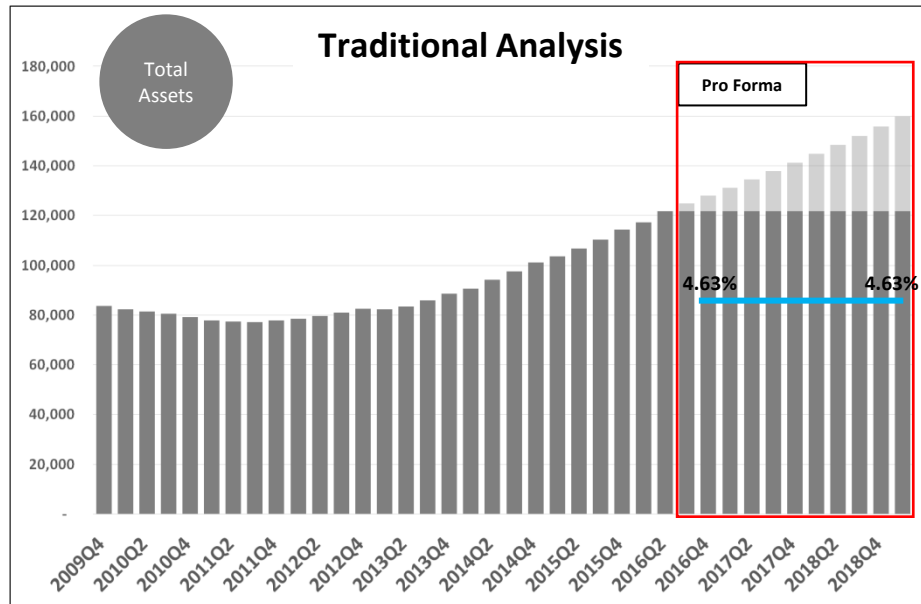
Estimated Gross Yield on Loans

Total Assets



# Traditional Analytics / Vintage Analytics

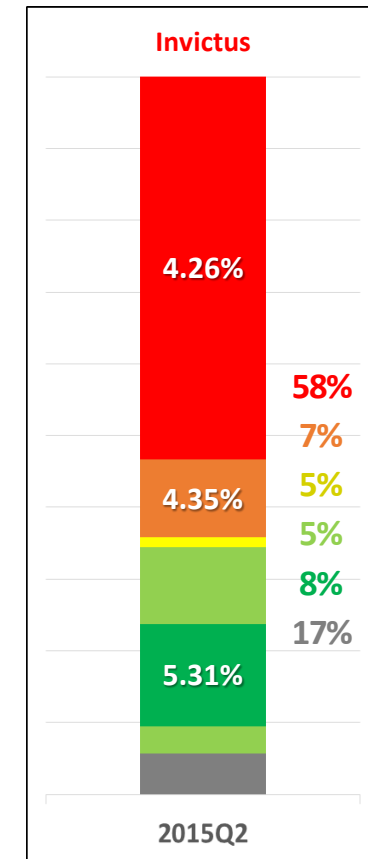
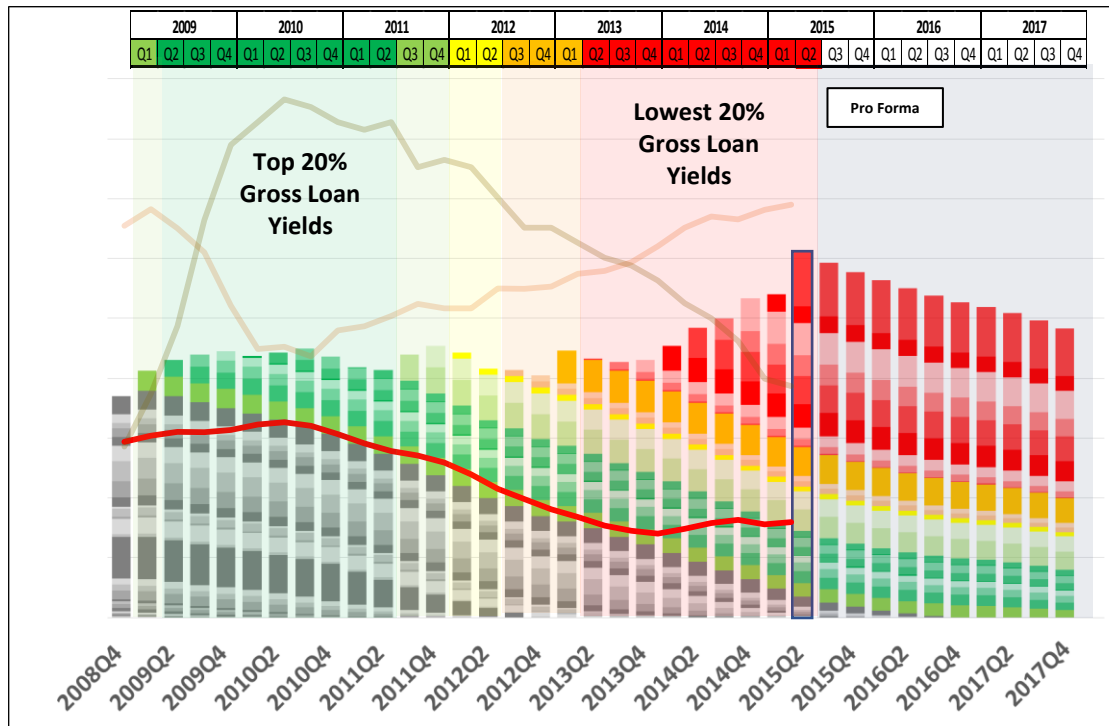
Standalone pro forma analysis



## Traditional Analytics / Vintage Analytics

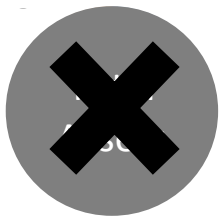
Standalone pro forma analysis

### Incorporating Vintage Characteristics

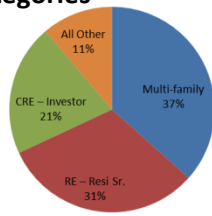


Traditional

4.63%



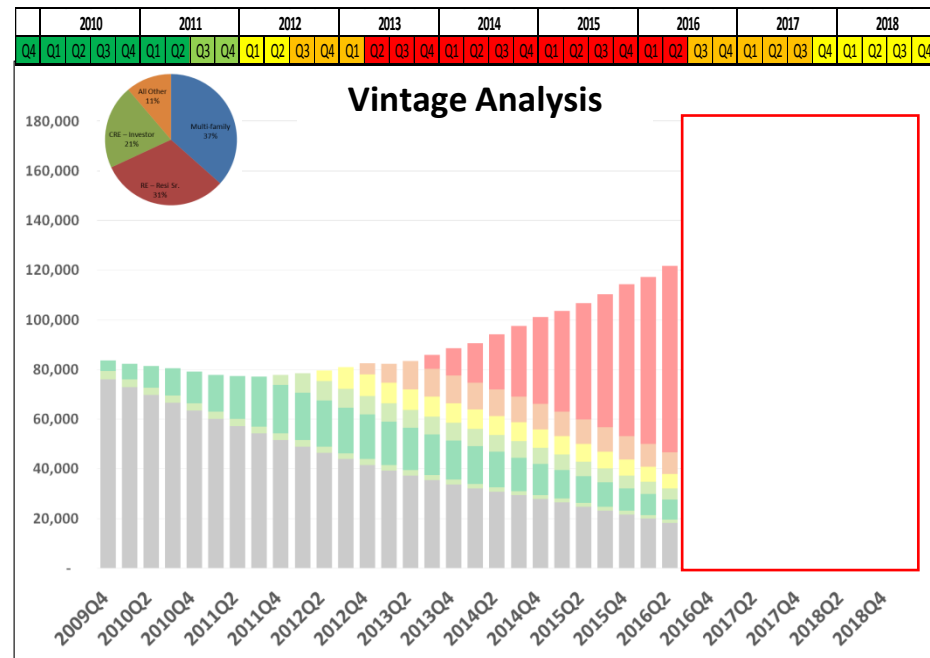
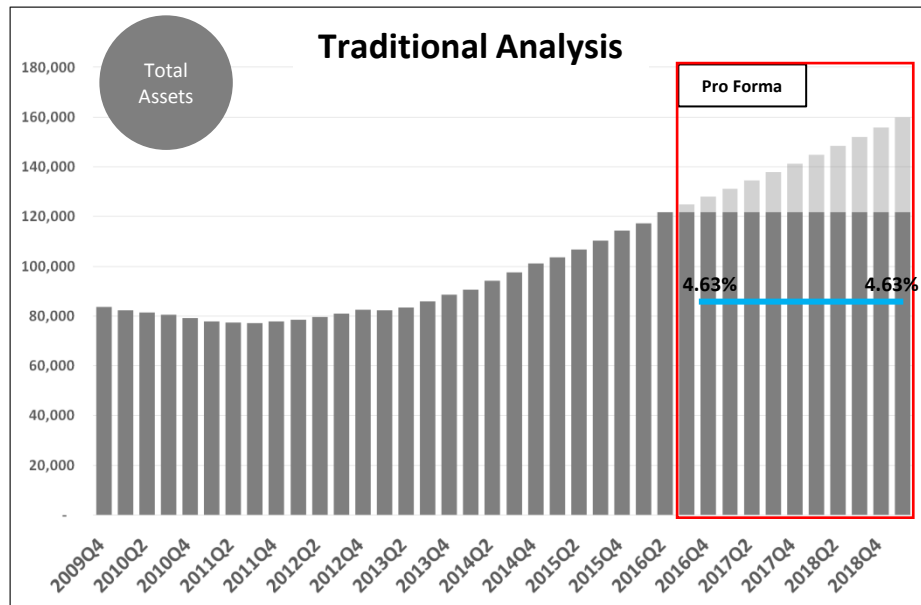
#### Loan Categories



- CRE Index (Loss Given Default)
- Unemployment (Inverse Probability of Default)
- Invictus Regional Rate

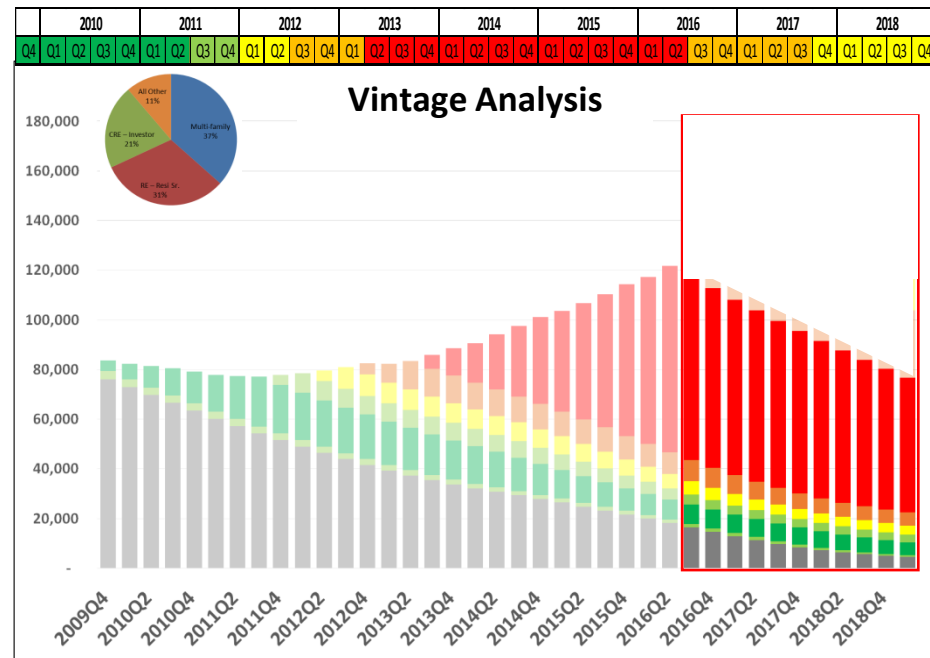
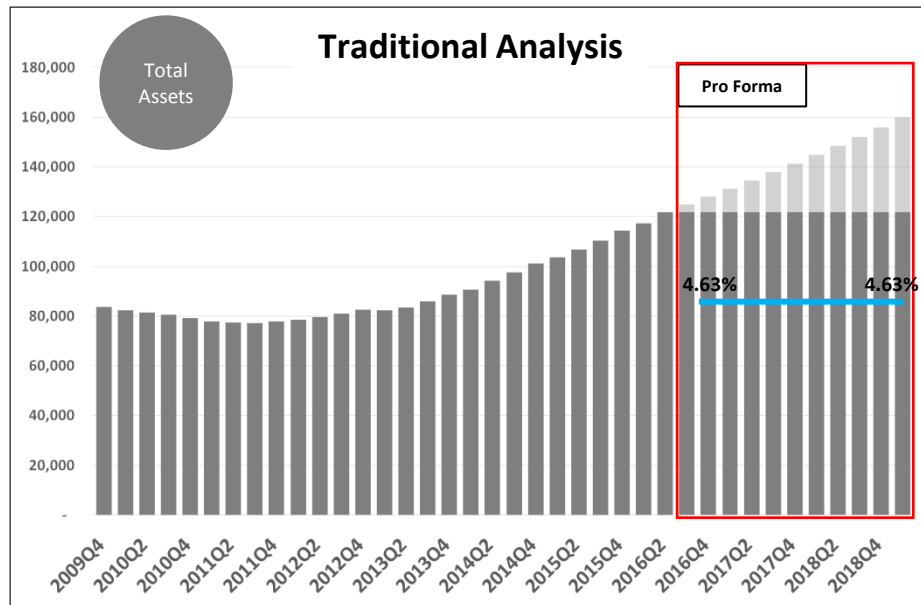
# Traditional Analytics / Vintage Analytics

Standalone pro forma analysis



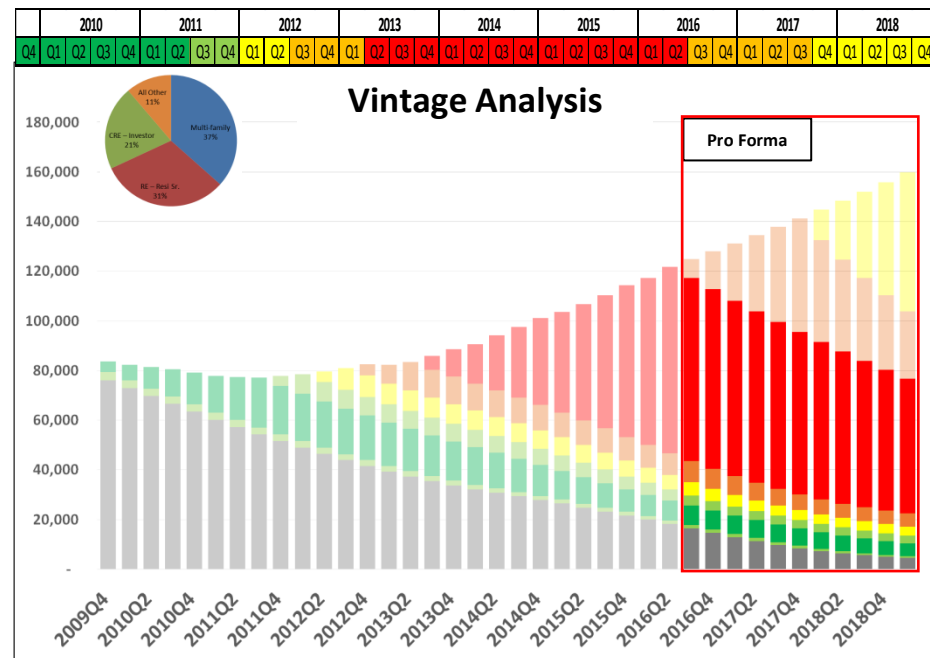
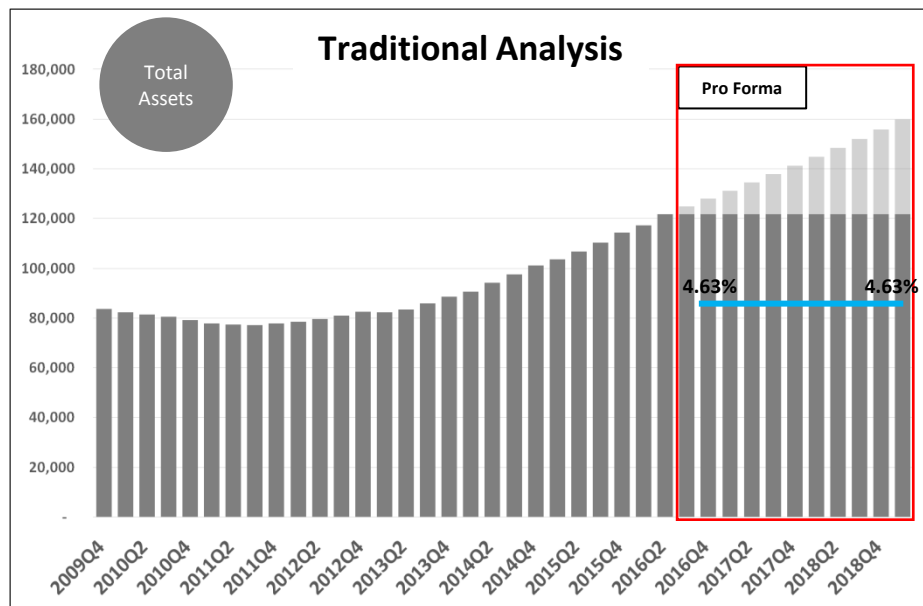
# Traditional Analytics / Vintage Analytics

Standalone pro forma analysis



# Traditional Analytics / Vintage Analytics

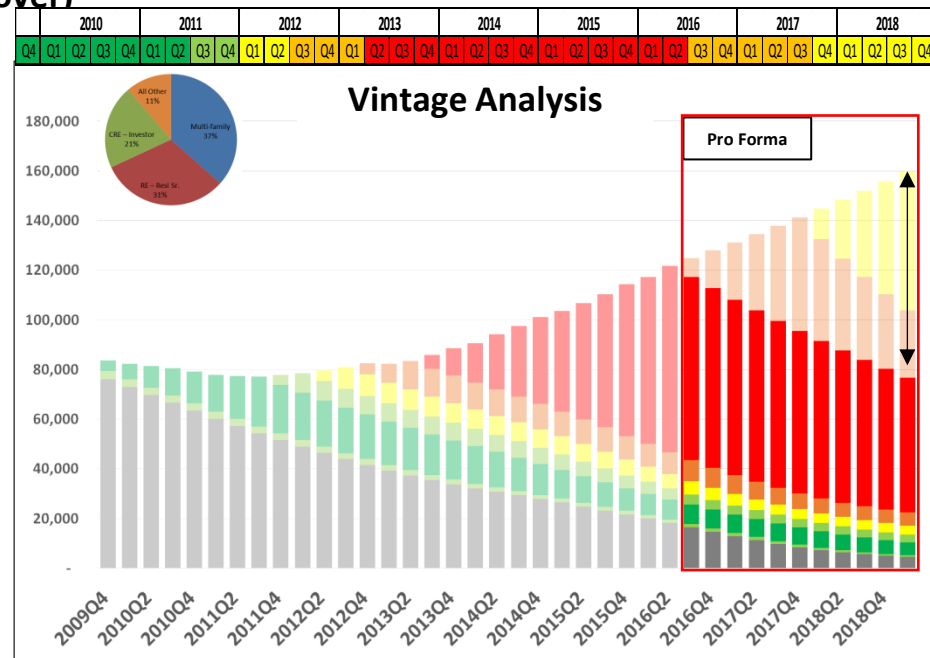
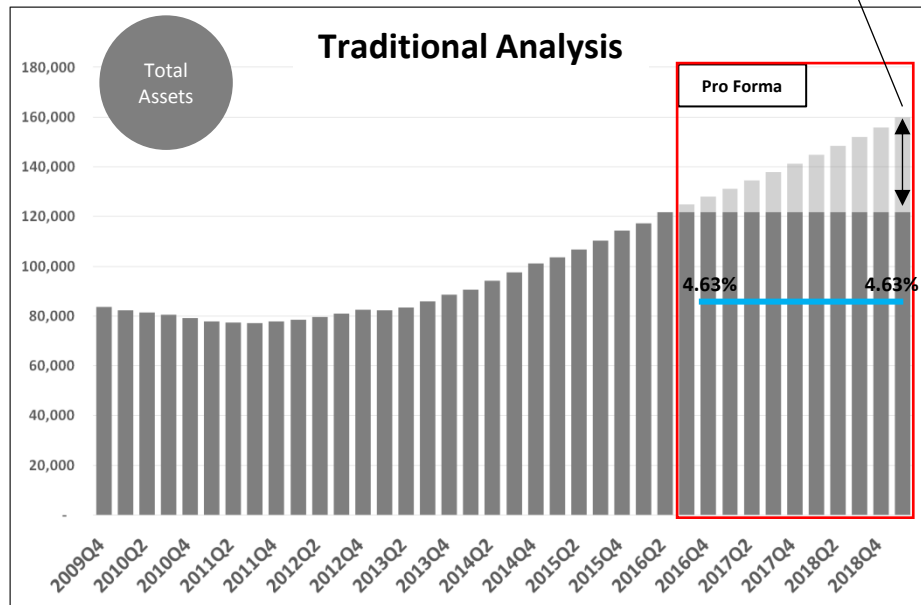
Standalone pro forma analysis



# Traditional Analytics / Vintage Analytics

Standalone pro forma analysis

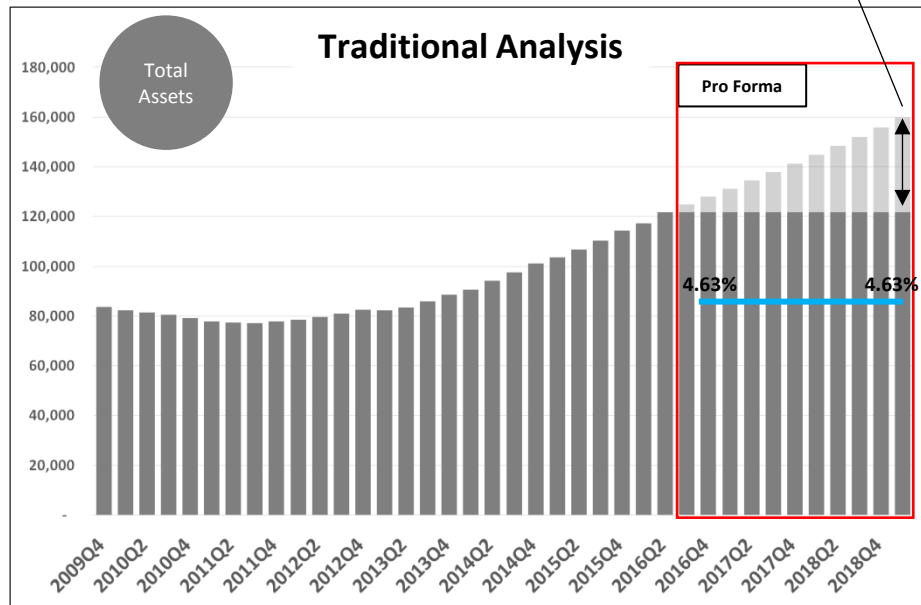
10% Net Growth  
(Ignores Portfolio Turnover)



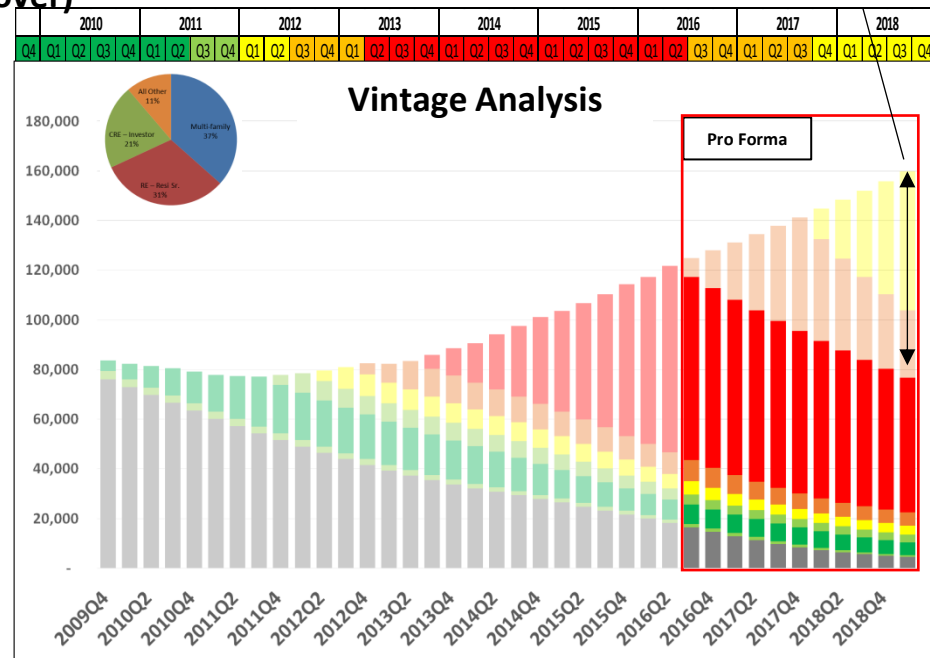
# Traditional Analytics / Vintage Analytics

Standalone pro forma analysis

10% Net Growth  
(Ignores Portfolio Turnover)



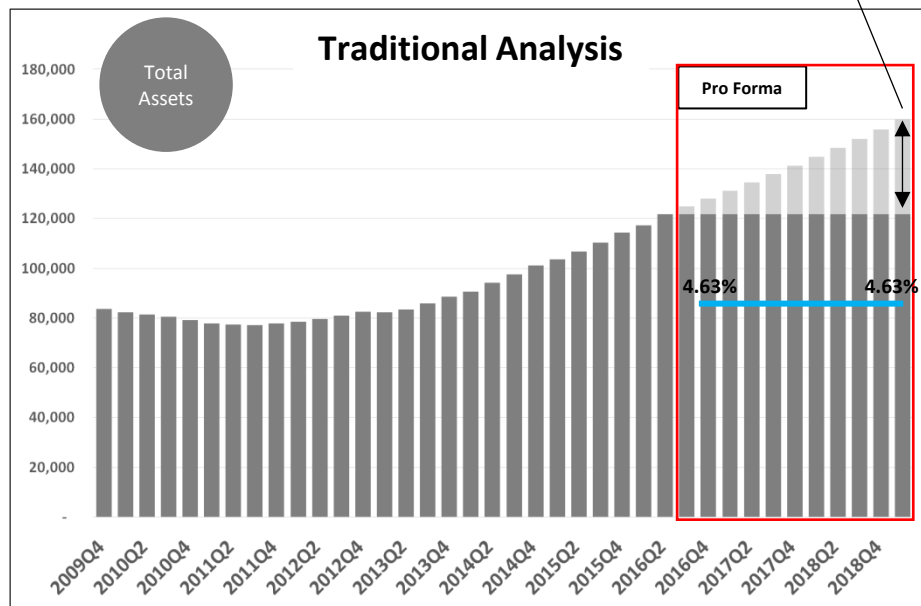
Actual Growth Requires **40%**  
Turnover of the Portfolio



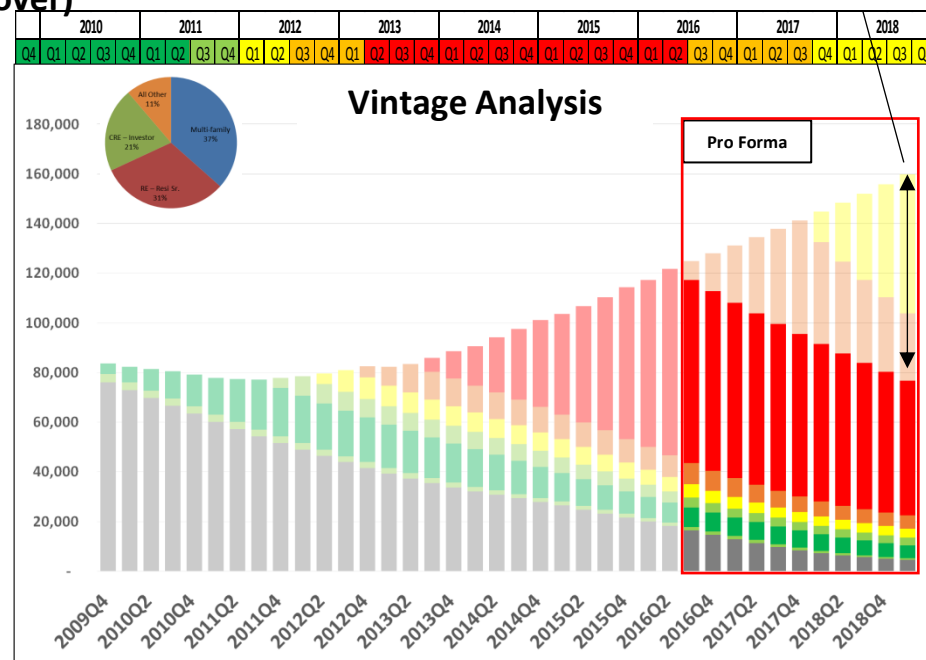
# Traditional Analytics / Vintage Analytics

Standalone pro forma analysis

10% Net Growth  
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Actual Growth Requires **40%**  
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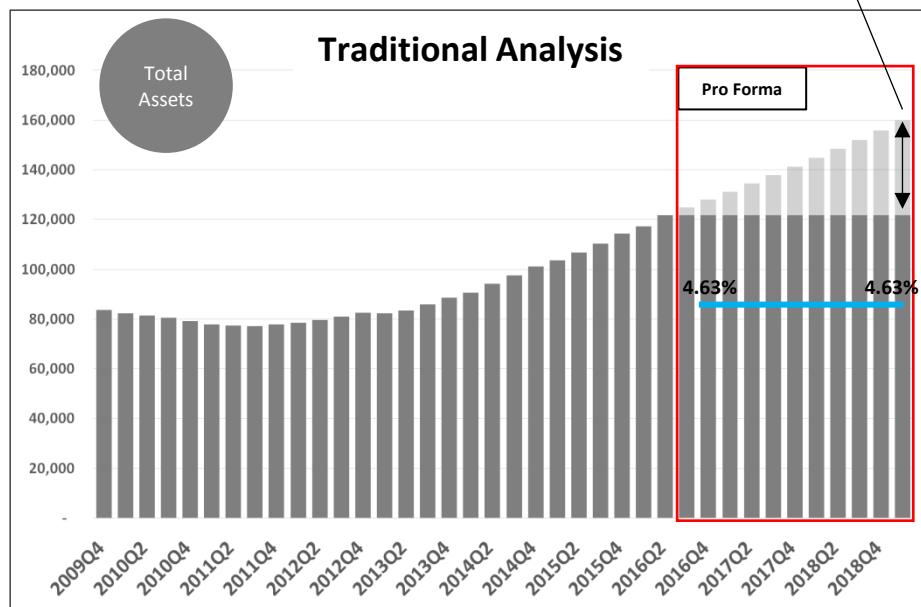
	TTM	Pro-Forma		
(\$Ms)	2016Q2	Year 1	Year 2	Year 3
<b>Assets</b>	\$127	\$145	\$162	\$180
<b>Rate Increase</b>	NM	0.25	0.25	0.25
<b>Gross Loan Yield</b>	4.63%	4.63%	4.63%	4.63%



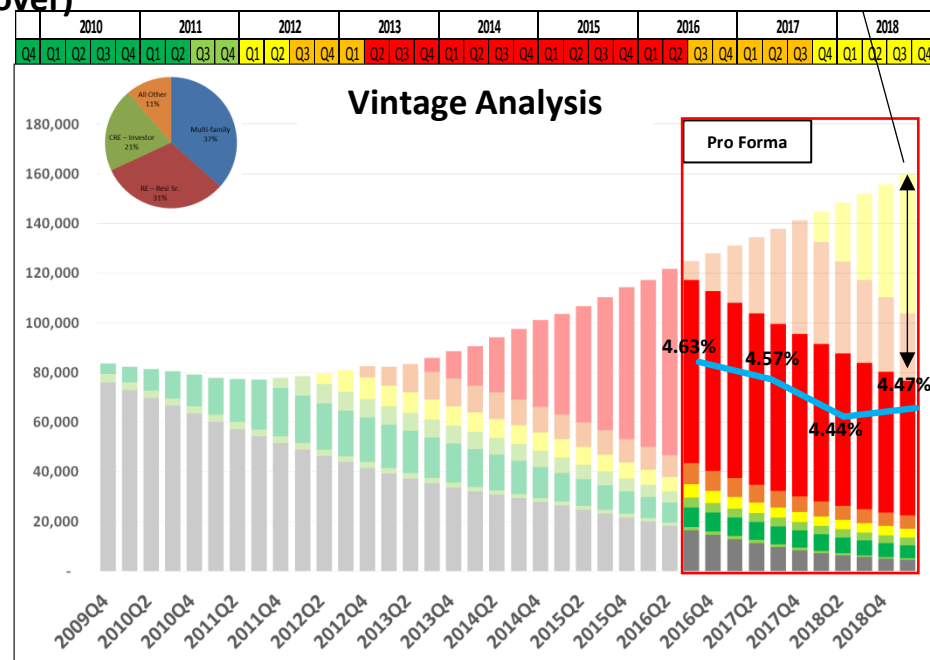
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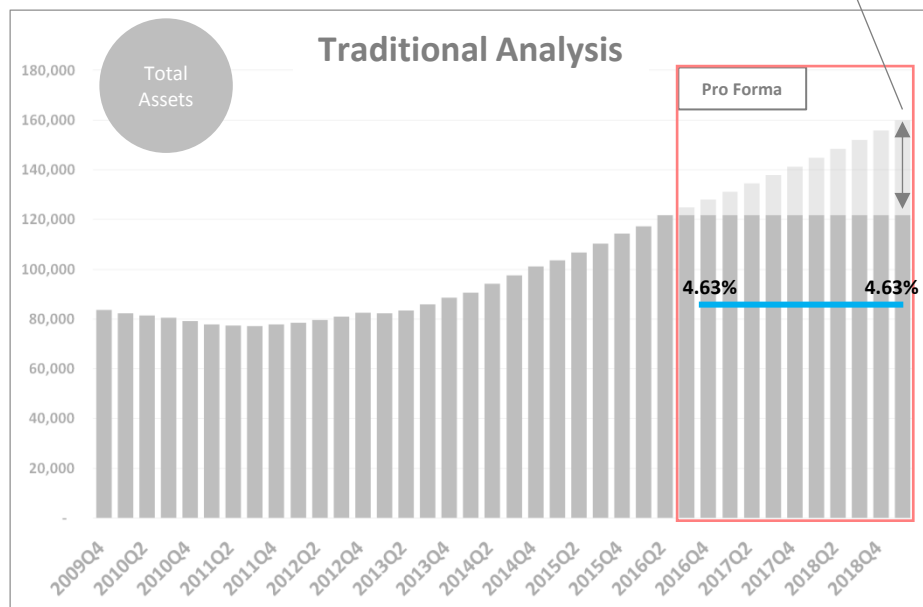
	TTM	Pro-Forma		
(\$Ms)	2016Q2	Year 1	Year 2	Year 3
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<b>Gross Loan Yield</b>	4.63%	4.63%	4.63%	4.63%
<b>Gross Loan Yield</b>	4.63%	4.57%	4.44%	4.47%



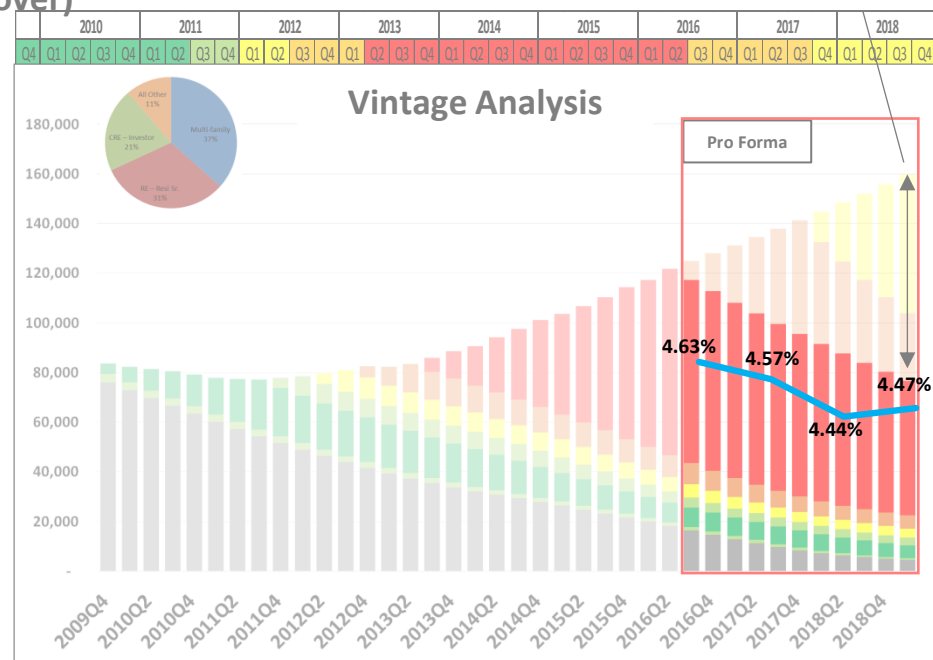
# Traditional Analytics / Vintage Analytics

Standalone pro forma analysis

10% Net Growth  
(Ignores Portfolio Turnover)



Actual Growth Requires **40%**  
Turnover of the Portfolio



	TTM	Pro-Forma		
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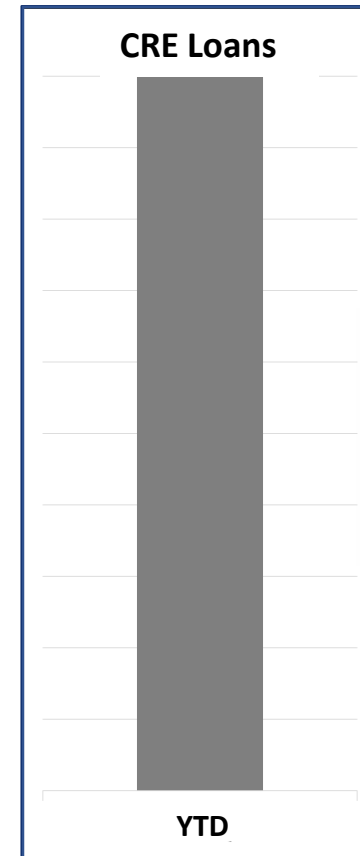
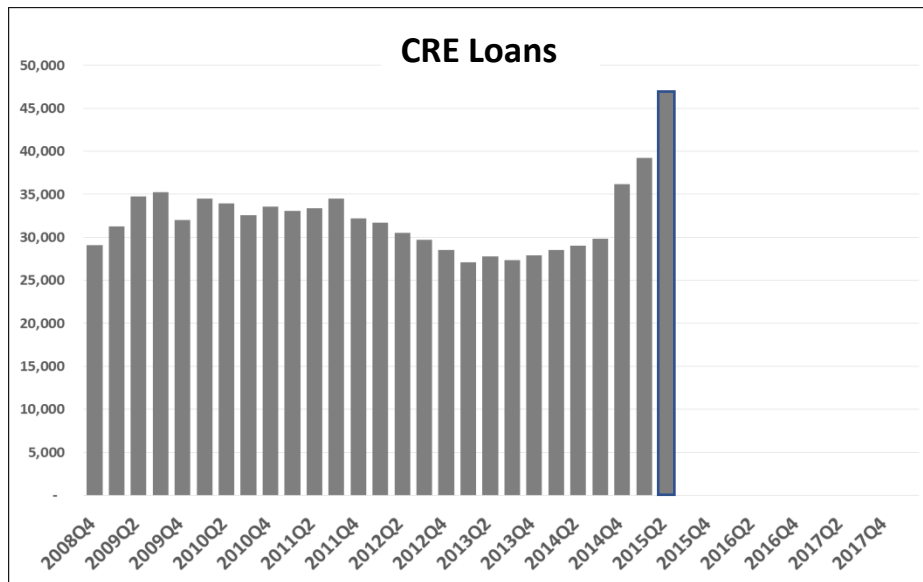


# Importance of Growth Timing

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# Impact of Different Growth Patterns over the Same Time Period

## Sample Bank Historical Growth Pattern



The bank's  
current balance  
of loans is  
**\$47M**

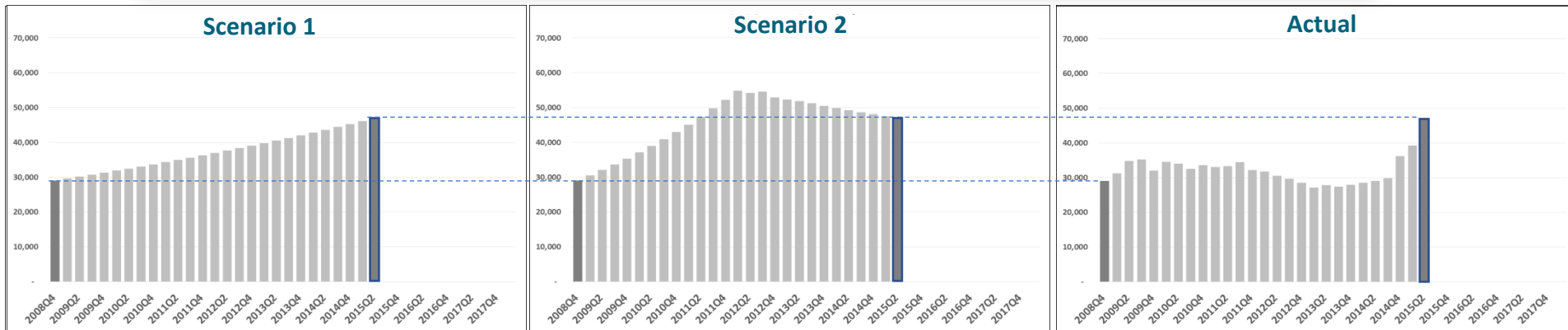
## Impact of Different Growth Patterns over the Same Time Period

In each Scenario, the bank has a beginning balance of \$30M and an ending balance of \$47M.

Scenario 1

Scenario 2

Actual



Total Loans



2015Q2

Today

Balance:  
**\$47M**

Total Loans



2015Q2

Today

Balance:  
**\$47M**

Total Loans



2015Q2

Today

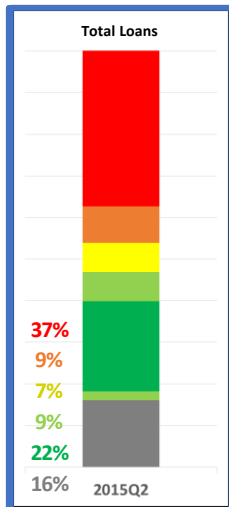
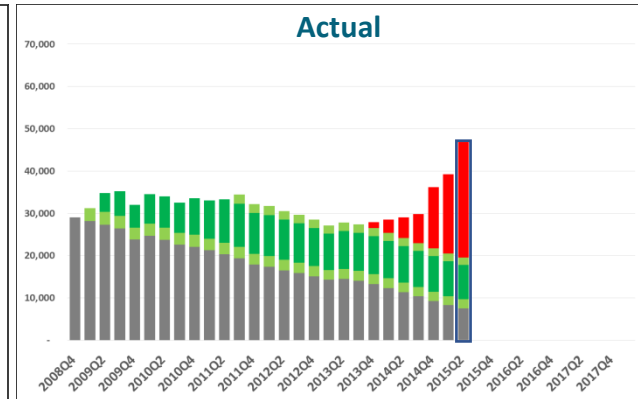
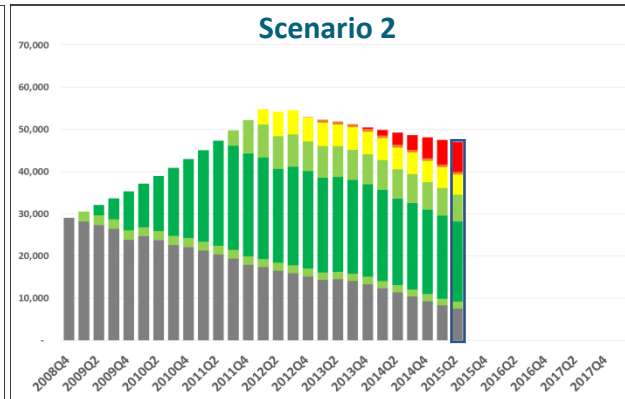
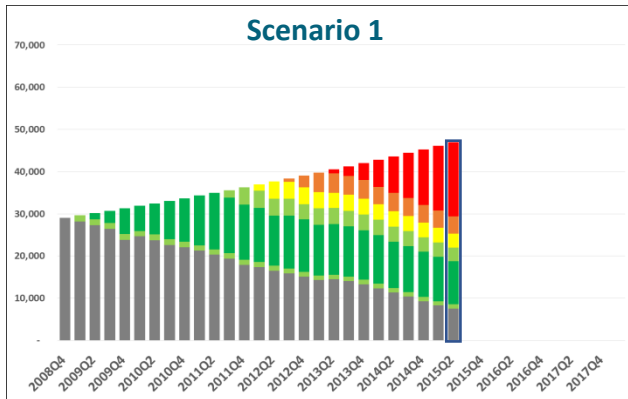
Balance:  
**\$47M**

## Impact of Different Growth Patterns over the Same Time Period

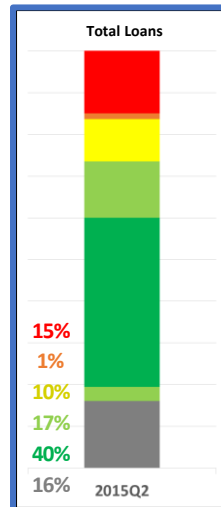
Scenario 1

Scenario 2

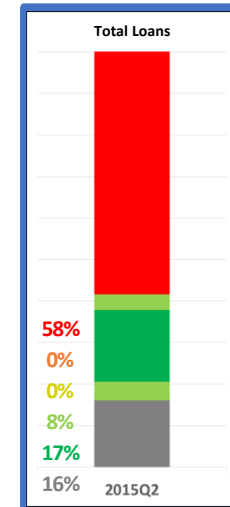
Actual



Today  
Balance:  
**\$47M**  
Yield:  
**4.96%**



Today  
Balance:  
**\$47M**  
Yield:  
**5.26%**



Today  
Balance:  
**\$47M**  
Yield:  
**4.74%**





Target Valuation:  
Key Component's Value  
Contribution to Pricing Multiple

# Value Components

Valuation must focus on the balance sheet, which is the driver of a bank's P&L

Key components of value are:

**Assets:**

- Loans

Subsets: CRE Concentrations, Ag Concentrations, etc.

**Liabilities:**

- Deposits

**Equity:**

- Capital (FreeCapital™)



# Justifying Market Value

Value Component	Premium/(Discount) to TBVx	Premium/ (Discount) to TBVx
	Target 1	Target 2
Loans	+0.26x	+0.51x
Deposits	-0.17x	+0.08x
CRE Concentration	-0.12x	+0.11x
FreeCapital™	+0.10x	-0.30x
Operating Synergies	?	?
<b><i>Potential Value Proposition</i></b>	<b>1.07xBV</b>	<b>1.44xBV</b>

# Justifying Market Value

Value Component	Premium/(Discount) to TBVx	Premium/(Discount) to TBVx
	Target 1	Target 2
Loans	+0.26x	+0.51x
Deposits	-0.17x	+0.08x
CRE Concentration	-0.12x	+0.11x
FreeCapital™	+0.10x	-0.30x
Operating Synergies	?	?
<b>Potential Value Proposition</b>	<b>1.07xBV</b>	<b>1.44xBV</b>
<b>Market Price</b>	<b>1.60xBV</b>	<b>1.00xBV</b>



# Strategic Planning: Baseline Growth vs. Consolidated Forecast

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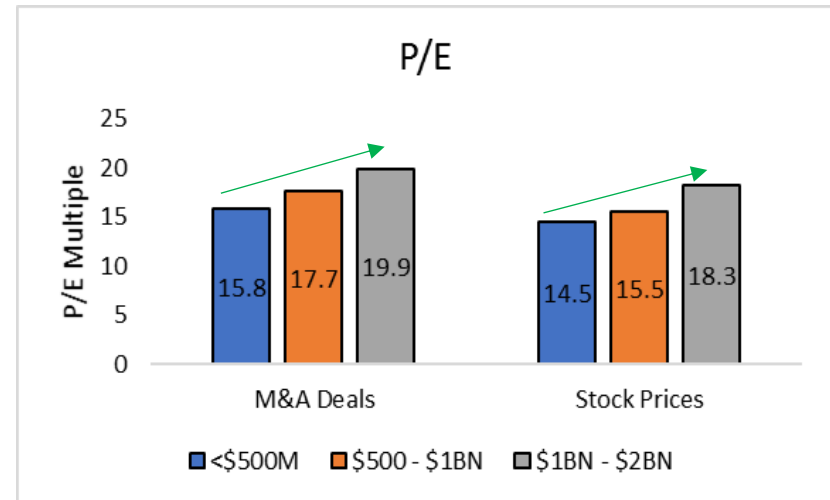
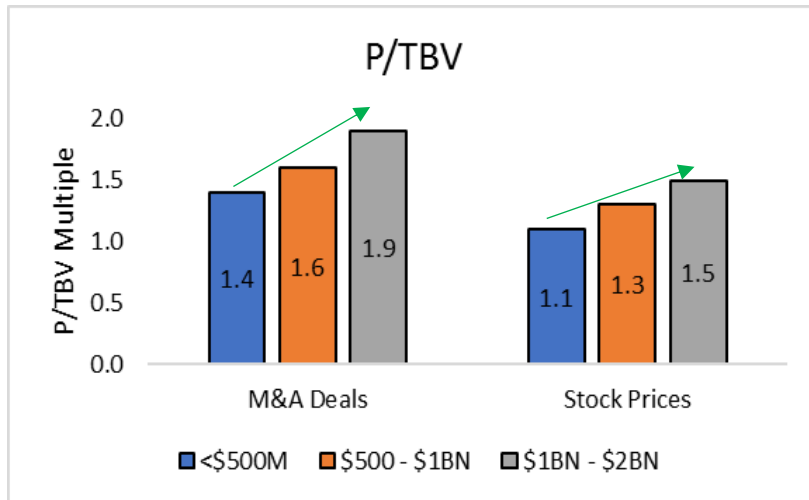
# Maximizing Shareholder Value: Size Matters

## ■ Operational

- Efficiencies/Economies of Scale
- Higher lending limits
- Stronger competitive position
- More revenue diversity
- Acquisition of talent

## ■ Valuation

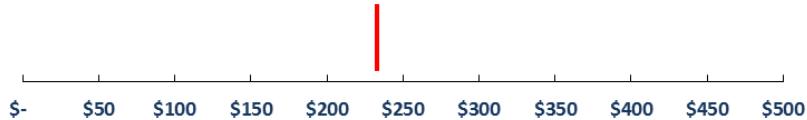
- Banks with higher assets trade and sell at higher premiums
- Increased liquidity
- Larger universe of potential investors
- Greater access to capital



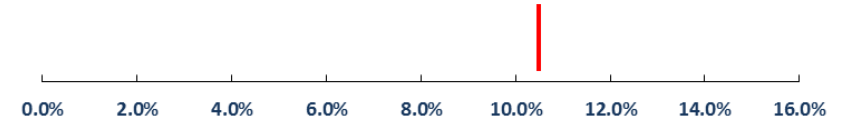
# Bank X Reported Financials

Key	
MR4Q	

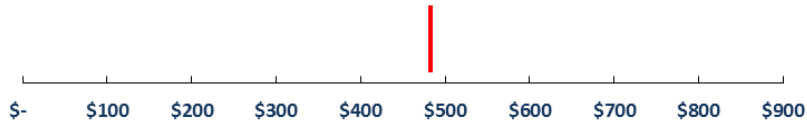
### Total Loans



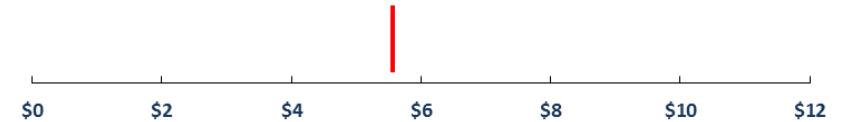
### ROE



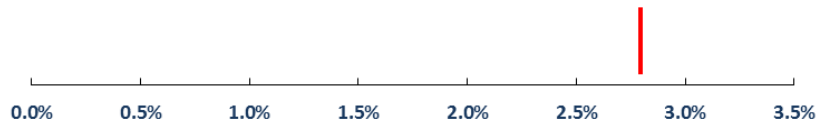
### Total Assets



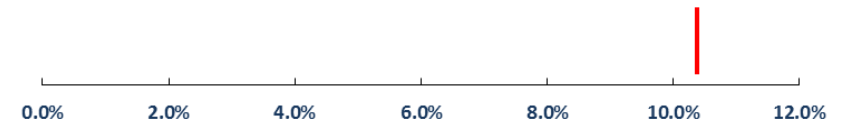
### Net Income



### NIM



### Leverage Ratio



### Total Value to Existing Shareholders



# Bank X Organic Growth (Year 3)

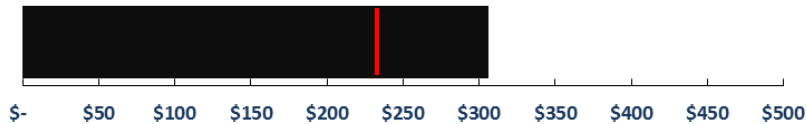
Key

MR4Q

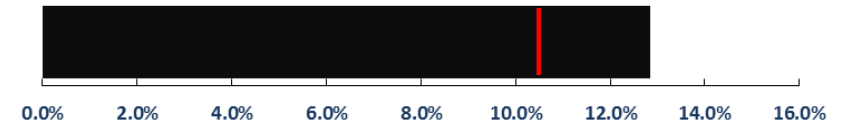
Organic Growth

I

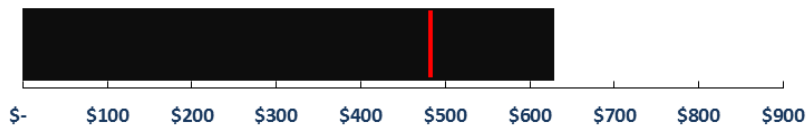
### Total Loans



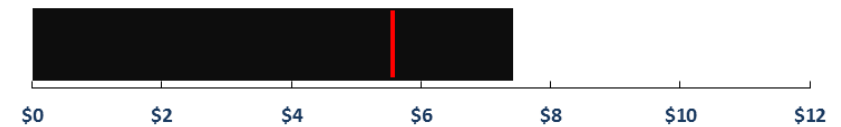
### ROE



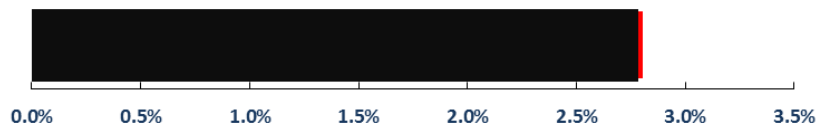
### Total Assets



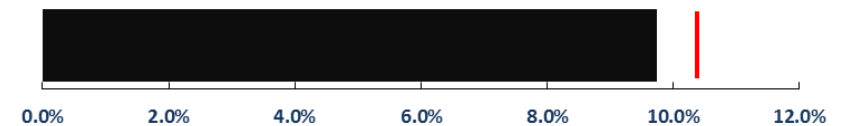
### Net Income



### NIM



### Leverage Ratio



### Total Value to Existing Shareholders



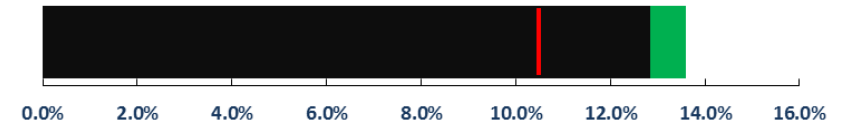
# Bank X Acquisition Scenario (Year 3)

Key	
MR4Q	
Organic Growth	
Acquisition	

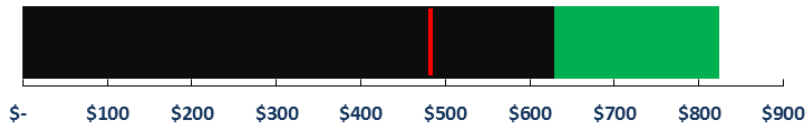
### Total Loans



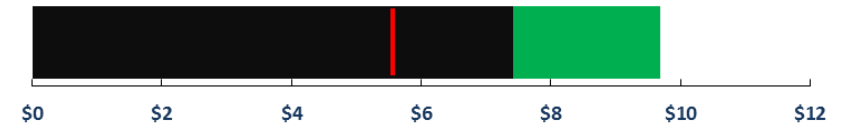
### ROE



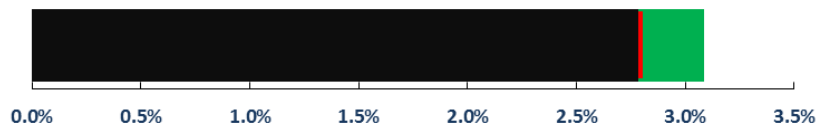
### Total Assets



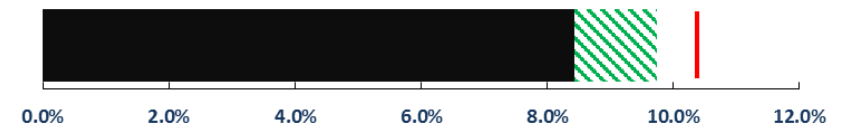
### Net Income



### NIM



### Leverage Ratio

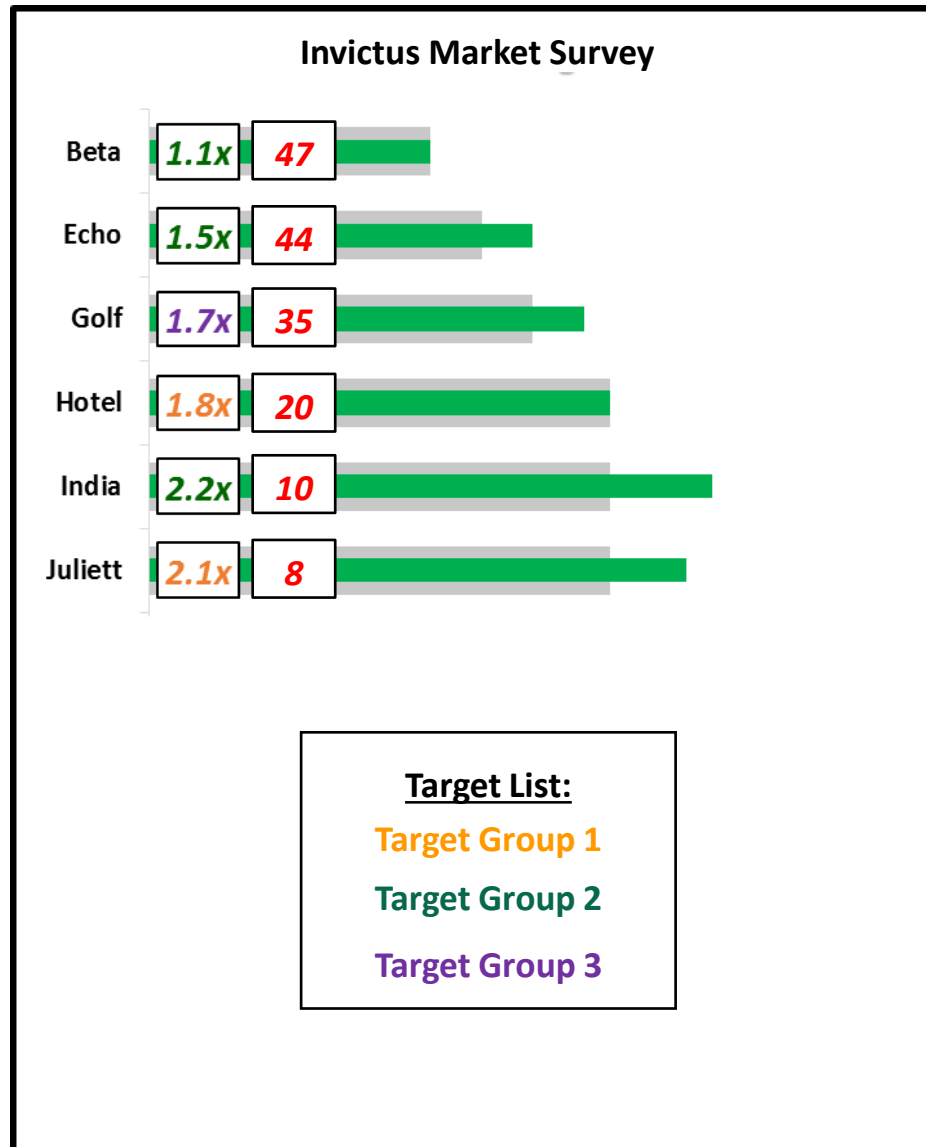


### Total Value to Existing Shareholders



# Invictus Market Survey: *Banks with positive Bid/Ask Spreads ranked by Vulnerability*

The targets are prioritized by vulnerability and bid/ask spread.



## Legend:

- Customized Ceiling Price
- Estimated Market Price
- Vulnerability



## Steps to Success in Strategic M&A

### 1. Comprehensive Market Scan

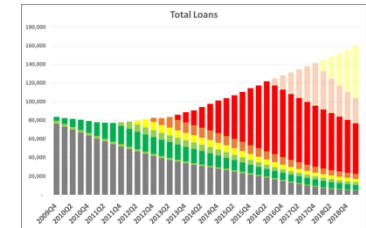
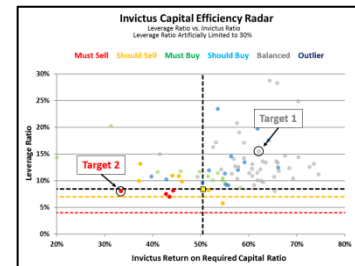
### 2. Appropriate Analytical Approach (Vintage Analysis)

### 3. Customized Valuation

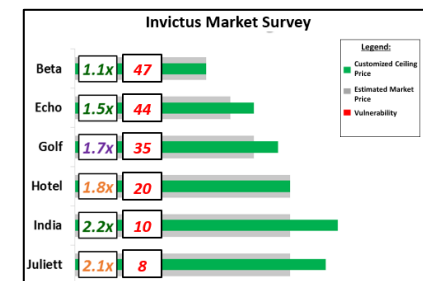
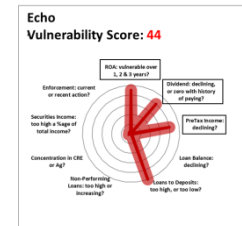
### 4. Accurate Evaluation of Shareholder Value

### 5. Strategic Prioritization

### 6. Swift and Efficient Deal Close



	Potential Value to Bank X	Applicable	Direct P&L Contribution to Multiple	Latent P&L Contribution to Multiple	Contribution within Strategic Plan
Loans	Alternative to organic growth	Yes	+0.49x	-	+0.49x
Deposits (Loan/Deposit Ratio)	Changes in constraint	Yes	-	+0.12x	?
CRE Concentration (cash transaction)	Changes in constraint / Deal structuring	Yes	-	-0.17x	?
FreeCapital™	Engine for growth	Yes	-	+0.15x	?



# *Thank You*

**For more information about  
Invictus, please contact:**

**George Callas**  
**Managing Partner &**  
**National Sales Director**  
**(718) 219-0441**  
**[gcallas@invictusgrp.com](mailto:gcallas@invictusgrp.com)**

