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# Texas Capital Bancshares, Inc.

# TCBI ANNOUNCES THE SALE OF ITS INSURANCE PREMIUM FINANCE BUSINESS

## Tuesday, September 6, 2022, 10:00 AM Eastern

**CORPORATE PARTICIPANTS**

**Rob Holmes** - *President, Chief Executive Officer*

**Matt Scurlock** - *Chief Financial Officer*

**Jocelyn Kukulka** - *Director of Investor Relations*

## PRESENTATION

**Operator**

Hello and welcome to today's TCBI Announces Sale of Its Insurance Premium Finance Business.

I would now like to hand over to Jocelyn Kukulka, Head of Investor Relations. The floor is yours, please go ahead.

**Jocelyn Kukulka**

Good morning. I'm Jocelyn Kukulka, Head of Investor Relations and Corporate Development. Thank you for joining our call regarding the divestiture of our insurance premium finance business, Bank Direct Capital Finance.

Our call today will be hosted by Rob Holmes, CEO and President of Texas Capital Bancshares, and Matt Scurlock, our CFO. After prepared remarks, we will have a question-and-answer session.

Before we begin, please be aware that this call will include forward-looking statements that are based on our current expectations of future results or events. Forward-looking statements are subject to both known and unknown risks and uncertainties that could cause actual result to differ materially from these statements. Our forward-looking statements are as of the date of this call, and we do not assume any obligation to update or revise them.

Statements made on this call should be considered together with the cautionary statements and other information contained in today's 8-K, our most recent annual report on Form 10-K, and subsequent filings with the SEC. We will refer to slides during today's call, which can also be found along with the press release in the Investor Relations section of our website at texascapitalbank.com.

Now I'll turn the call over to Rob.

**Rob Holmes**

On the week of the one-year anniversary of our strategic plan rollout call on September 1, 2021, I am pleased to announce another very important step in our journey to build a flagship full service financial services firm in Texas. We have entered into a definitive agreement with Truist Financial Corporation to sell our insurance premium finance subsidiary, BankDirect Capital Finance, for total consideration of approximately $3.4 billion. The transaction is not subject to any financing contingency, but is subject to regulatory review. We expect to close the divestiture in the fourth quarter of 2022.

The sale consists of all business operations, including an associated loan portfolio of approximately $3.1 billion as of June 30, 2022. The purchase price represents a premium of 8.5% on the divested loan portfolio. BankDirect Capital Finance has been an important contributor to Texas Capital since it was acquired in 2005. The team has built a well-run and valuable national franchise that has continually generated strong through-cycle loan growth with superior asset quality. I want to thank them for their partnership and their commitment in supporting this important transaction.

To describe our strategic rationale for divesting the business, I would like to refer to some of the remarks I made last September. We detailed that our strategy centers on building a full service financial services firm to bank the best clients in our markets, focused on businesses where we can be relevant through a broad relationship grounded in banker expertise and a full suite of competitive products. We have also said we would do so while being conservatively capitalized and that, over time, as we earn the right to become our clients' preferred operating bank, we would improve our core funding and diversify our earnings mix.

This transaction enables strategic reallocation of expenses, liquidity, funding and capital directly in support of our stated strategy, further increasing our ability to sustainably deliver value-accretive growth in our Texas-focused offering. Furthermore, we believe it maximizes shareholder value while balancing timing, certainty of execution, and our demonstrated ability to redeploy resources against our defined strategic objectives. This coupled with our emerging platform capabilities are driving progress toward a target balance sheet composition that will generate sustainably higher returns on allocated capital.

When I joined the bank in January of 2021, 28% of the loan portfolio excluding premier finance was C&I loans, comprised of client types which the bank was founded to serve. Over the last year and a half, we have demonstrated a disciplined re-allocation of capital for the standalone national business lines to focus on these core commercial customers. Year to date as of June 30, C&I loans excluding premier finance grew $1.5 billion or approximately 20%. Giving effect to this divestiture, our pro forma loan portfolio will be predominantly C&I loans, approximately 44% of total loans, significantly more than the peer group, providing greater balance with our mortgage finance and real estate franchises.

The equity returned to our balance sheet through this transaction will have the immediate effect of bolstering both our tangible common and risk-based capital ratios and increasing our tangible book value per share by approximately 6.5%. The accretive impact to our balance sheet includes a reduced loan to deposit ratio as no deposits will be transferred to the buyer, and an increased highly liquid assets ratio as cash proceeds will be held in liquid assets in the near term.

Looking forward, we believe our opportunity to generate high-quality organic growth is significant and differentiated. Importantly, investments made to expand our product set, including the launch of our investment bank, ensure that going forward we have an offering necessary to be relevant to each client on our platform. Our disciplined approach to capital allocation will inform our deployment strategy into earning assets in the coming quarters, but our intent remains the same: we want to bank the best clients in our markets and remain firmly dedicated to this effort as the best way to create long-term value for our shareholders.

A core tenet of our vision is to be a flagship financial services firm in Texas. Financial resiliency means we serve our clients, access markets, and support our communities through cycles, full stop. We are now in the most favorable capital position in the history of our firm, well in excess of our internally observed risk profile. We stand ready to be a resilient financial partner to our clients consistent with our long term philosophy and a necessary component of earning the trust of each of our important stakeholders.

Nearly one year after our September 1 strategy update, our belief in our strategy is exceeded only by our resolve to see it through. This transaction marks another meaningful step towards building the bank we told you we would. With the enhanced capital flexibility created from this transaction, we have the capacity to continue the transformation of Texas Capital into the flagship full service financial services firm headquartered in Texas.

Thank you for your interest in the firm. We will now open the lines to questions.

Operator.

## Question & Answer

**Operator**

Thank you. Our first question comes from Michael Rose from Raymond James. Your line is open. Please go ahead.

**Michael Rose**

Hi, good morning, and thanks for taking my questions.

Just wanted to get some thought process around the timing of the transaction, why now, were there other interested parties, and then maybe if you can kind of discuss how quickly you expect to deploy the excess capital into your various initiatives. That would be helpful, thanks.

**Rob Holmes**

Sure, thanks Michael.

The timing was just a logical linear thought process, so when I started, we looked at the Company as a whole and decided upon a strategic plan. You've got to understand a business before you can make a decision on it. This business was not self-funding. It was broad across America, it wasn't our target clients, it wasn't clients we could have relevant relationships with through a number of products through cycles. It was a transaction business, if you will. It was really good granular, safe loans, but that's not consistent with the strategy. It's not a loan-only strategy anymore.

Once we came to that conclusion, then it was obvious that we needed to divest the business, and as you know, these processes take a long time, so it was a linear thought process, not a moment in time of why we did it. We've been working on it for some time, as you know. In processes like this, the redeployment of the capital will be the same. It will be done with discernment over time as soon as we can on-board good clients. There is not a rush to redeploy the capital. It will be part of the strategy.

Remember on the last earnings call we talked about recycling capital. We have a lot of capital that we need to redeploy that is already on our balance sheet now that will be coming due from clients that we won't bank any longer, so we have capital there before we even need to deploy this. We're not in a rush to redeploy it, but we know that we will have opportunity to, given the response to our strategy by our clients across our markets.

**Michael Rose**

Okay, thank you, and then maybe just as a follow-up—

**Rob Holmes**

Sorry Michael, I didn't answer your other question. Yes, we ran a full process, and there was a number of parties in it.

**Michael Rose**

Great, thank you for answering that.

Just one follow-up question. Are there any other—as you look at the business as a whole, and Rob, you've been there, you know, it's hard to believe we're coming up on two years, but it'll be here before we know it. Are there any other business lines that you could potentially look at to maybe reallocate those capital dollars? Thanks.

**Rob Holmes**

I want to make sure your question was specific. We're reallocating dollars every day across the business lines. There is not a wholly owned sub that we could divest like this, it would be a little harder.

But as you know, I think it's great that the core C&I focus, the density of the balance sheet is greater and the mortgage warehouse is down a little bit, but as you know, we view the mortgage warehouse as an industry vertical, not a mortgage warehouse, because we have a number of products in value-add transactions that we do with those clients now. Two years ago, it was a mortgage warehouse; today, we have three, four, five relevant touch points with those clients, so I think it's just a great industry vertical with a safe loan, kind of like a corporate revolver.

But anyway, we do want that to be small as a percentage, smaller as a percentage of our earnings and capital, but that's as a goal for the bank, not the shrinking of that business, and we think that's a very valuable business, so we think that the geography of the balance sheet may change over time, but not through a divestiture or sale of a business, and as you know we have tolerances on real estate in terms of exposure, etc., and we'll adhere to those tolerances.

**Michael Rose**

Great, and just one final quick one, any updates at this point to either the longer targets, or the timing of achievement of those targets, with this transaction? Thanks.

**Rob Holmes**

No, we're sticking with original guidance.

**Michael Rose**

Great. Thanks for taking my questions.

**Rob Holmes**

That's a good one question, Michael.

**Operator**

Our next question comes from Jennifer Demba from Truist. Your line is open. Please go ahead.

**Rob Holmes**

Hi, Jennifer.

**Jennifer Demba**

Good morning. Hi. Just wondering if you have any associated loan loss reserves for these loans that are being sold.

**Matt Scurlock**

Yes, Jennifer, this is Matt.

There's about $3.5 million of reserve allocated to the portfolio. As Rob mentioned in his opening comments, it's an extraordinarily low credit risk portfolio that's proven to have very low charge-offs over the duration of our ownership.

**Jennifer Demba**

Great, okay. Rob, this is on a different topic, I guess, but how are you feeling about business momentum right now as Fed funds continue to go up? Are you still seeing a lot of opportunities in lending, or are you sensing any slowdown in the economy yet at this point?

**Rob Holmes**

I think we want to keep the questions in this call related to the transaction and provide quarterly updates commensurate with the earnings, etc.; but I would say that, Jennifer, it's a long conversation that depends on the industry, it depends on the asset type of real estate, a number of different things, but we have not seen a slowdown.

**Jennifer Demba**

Okay, thank you.

**Operator**

Our next question comes from Brandon Berman from Bank of America. Your line is open.

**Brandon Berman**

Hi, thank you for taking my questions. Good morning.

Rob, in your prepared remarks, you mentioned upon allocating this capital to seeing higher returns, based on my rough estimate, it seems like the business you're selling is about 20% ROE. Can you just quickly talk through what businesses you expect to reallocate some of this capital in and where you expect to see the higher returns? Thank you.

**Rob Holmes**

Hi, Matt, I'll let you talk about that.

**Matt Scurlock**

Yes, Brandon. This is Matt.

I think it'd be helpful just to ground in the overall financial impact of the transaction, which is likely best represented on Page 4 of the presentation. As of 6/30, we have $3.1 billion in loans, generated $53 million in interest income year to date. As we said in the opening comments, there are no deposits associated with this business, so if you use our observed year-to-date cost of funds, which is 38 basis points, annualized net interest income on the business is about $96 million. If you then subtract the $36 million of disclosed full year direct operating expense, which is shown on Page 4, that gets you to about $59 million in run rate full year PPNR of $44 million when tax affected.

We noted in the comments that the purchase price of $266 million, once that is adjusted for transaction-related expenses and tax affected, your pro forma increase in common equity is $160 million or $3.51 a

share, which is more than three and a half times the annual net income of the business. You'll also note on that slide that 61% of the portfolio is fixed with terms generally inside of one year, and then you've got about 39% that's variable and tied to 12-month LIBOR, so that results in an asset beta for the business that is less than the remaining C&I businesses.

With all that said, if expectations for the forward curve are realized, simply redeploying these proceeds into cash, coupled with the offset and forecasted non-interest expense, results in a relatively neutral impact to 2023 EPS, so that's our starting point with the transaction.

Then to Rob's earlier comments, we've got a proven ability six quarters in a row of growing C&I in excess of peers, which as you know is sort of the initial transaction with the clients that we want to bank, ultimately resulting in a full service relationship which drives the operating deposits that we're after.

That's in general when I think of the economics of the transaction, and then our priorities for redeployment, we're redeploying exactly consistent with the strategy laid out on September 1 and consistent with the actions you've observed since (phon).

**Brandon Berman**

Great, thank you, guys. That's all my questions.

**Rob Holmes**

Thanks.

**Operator**

Our next question comes from Gary Tenner from DA Davidson. Your line is open. Please go ahead.

**Gary Tenner**

Thanks, good morning.

Just a follow-up, Matt, on what you just ran through in terms of the financial impact for 2023. You kind of stressed its neutral, but that assumes full redeployment of the expenses, and that's kind of the question I wanted to get to, because I know obviously there is a lot of expense savings as you reduce the mortgage business, but very rapidly redeployed over these past several quarters. So I'm just wondering is the assumption that those expenses get redeployed very rapidly as we're looking at 2023?

**Matt Scurlock**

Yes, thanks for the question, Gary.

I just want to be as clear as I can. If you realize the benefits of the forward curve, you pocket the direct, the $36 million of direct operating expense and you just put the proceeds of this transaction in cash, we believe it's EPS neutral in 2023. Today, we don't see immediate—

**Gary Tenner**

Zero redeployment (inaudible)? Okay.

**Matt Scurlock**

Say that again? Deployment of that expense, so today we don't—

**Gary Tenner**

So that—

**Matt Scurlock**

Go ahead.

**Gary Tenner**

Sorry, Matt, I was just going to say, so you were saying that's with zero redeployment of expenses if you pocket the expense savings in that scenario?

**Matt Scurlock**

Exactly, exactly.

**Gary Tenner**

Okay. Okay, I appreciate that.

Then just given the reduction and the cash you'll have on hand, is there any opportunity to accelerate the reduction of any of those higher beta wholesale deposits, or are those more purely contractual?

**Matt Scurlock**

Yes, they're not contractual, so we'll evaluate balance sheet positioning on close and you can expect a continuation of the strategy we've employed over the previous few quarters, so. We want to primarily invest in the Texas-based C&I franchise and we want to reduce our asymmetric rate exposure, so the transaction will increase our IRR sensitivity, takes you from a published 9.9 and 100 basis point shock up over 11, so you will see us take action against that increased asset sensitivity.

**Gary Tenner**

Thank you for taking my questions.

**Operator**

This concludes our Q&A. I'll now hand back to Rob Holmes for final remarks.

**Rob Holmes**

Thank you, everybody, for your interest, continued interest in the firm. Appreciate the questions, especially on short notice.

I'd just say, at the close of this transaction in the fourth quarter, Texas Capital will be better capitalized than it's ever been with great liquidity, a sound strategy, a new platform, more than two times the revenue producers, a very strong loan book, and we're really excited about where we are in the completion of this strategy and look forward to updating you after the third quarter.

Thank you.

**Operator**

Today's call has now concluded. We'd like to thank you for your participation.