# Origin Bancorp

## Q3 2018 Earnings Conference Call

## Thursday, October 25, 2018, 9:00 AM Eastern

**CORPORATE PARTICIPANTS**

**Chris Reigelman** - *Investor Relations Officer*

**Drake Mills** - *Chairman, President, and CEO*

**Steve Brolly** - *Chief Financial Officer*

**Lance Hall** - *President*

**PRESENTATION**

**Operator**
Good morning, and welcome to the Origin Bancorp, Incorporated 2018 Third Quarter Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*" then "1" on a touchtone phone. To withdraw your question, please press "*" then "2." Please note, this event is being recorded.

I will now turn our conference call over to Mr. Chris Reigelman, the floor is yours, sir.

**Chris Reigelman**
Good morning, and thank you for being with us. Before we begin, I'd like to remind you that this presentation may include information about our management's view of our future expectations, plans, and prospects that constitute forward-looking statements. Actual results may differ materially from historical results and those indicated by these forward-looking statements due to risks and uncertainties. For discussion of these risks and uncertainties, please refer to the Forward-Looking Statement section of our earnings release and the risk factors included in our prospectus filed with the SEC on May 9, 2018, pursuant to Section 424(b) of the Securities Act and our most recent quarterly reports on Form 10-Q, as well as other documents we periodically file with the SEC. The company undertakes no obligation to publically revise any forward-looking statement.

If you're logged into our webcast, please also refer to our slide presentation, which includes our Safe Harbor Statement beginning on Slide Two. For those joining by phone, please note, the Safe Harbor Statement and the presentation are available on our website at www.origin.bank. All comments made during today's call are subject to that Safe Harbor Statement. Finally, in this presentation, we will discuss certain non-gap financial metrics. Please note that the reconciliation of these non-gap financial metrics to their closest comparable gap metrics are contained in our current report on Form 8-K, filed with the SEC.

We believe that certain non-gap financial measures can provide meaningful information to investors. These non-gap disclosures should not be viewed as a substitute for operating results determined in accordance with gap; nor are they necessarily comparable to non-gap performance measures that may be presented by other companies.

I'm joined this morning by Origin Bancorp's Chairman, President, and CEO Drake Mills, our Chief Financial Officer Steve Brolly, and Lance Hall, President of Origin Bank. After the presentation, we'll be happy to address any questions you may have. At this time, I'd like to turn the call over to Drake.

**Drake Mills**
Thank you, Chris, and good morning, everyone. As we begin, I want to touch on a few key highlights for the quarter; and then Steve will cover the financial results; and Lance will talk about loans, deposits, and credit quality. I will end with closing remarks and open it up for questions.

Overall, Origin Bancorp had a strong quarter with reported net income of 12.3 million or 52 cents diluted earnings per share. For the second straight quarter as a public company, our net interest income was at a historic high, increasing by 2.3 million or 6.3% over the previous quarter. We saw continued improvement on our net interest margin, and our teams have done a great job in driving loan growth, remaining focused on building relationships, and increasing low-cost core deposit.

I am very proud of our teams and the strong loan growth we experienced during the quarter. Annualized loan growth for the third quarter was 26.9%, and without our lift-out teams was 19.7%. Lance will discuss the specifics around our loan and deposit growth later in the presentation. Our lift-out teams have been active in the markets for a few months now, and we are very pleased with their production. We look forward to what they will continue to accomplish in the coming quarters. Our teams continue to drive strong loan and deposit growth and remain confident that each team will continue to move toward projected profitability.

Our company was built on relationships and remain committed to relationship building throughout all our markets. Now I will turn it over to Steve to provide additional details around the financial results for the quarter.

**Steve Brolly**
Thanks, Drake. Let's begin with Slide Five, the financial highlights for the quarter. Our net interest margin was 3.76% for the quarter on a tax equivalent basis, which was up two basis points from the prior quarter. During this quarter, we saw yields on loans increase by 11 basis points, while the cost of total deposits increased ten basis points. Due to our strong loan growth and short-term liquidity needs, we borrowed $250 million from the Federal Home Loan Bank. These funds were used to repay other higher rate advances and to fund loan growth. On a pro forma basis without disbarring, our net interest margin would have increased approximately ten basis points, as compared to the two basis points reported increase.

As loans continue to grow, the credit quality of our portfolio continues to improve resulting in a modest provision for credit losses. Our provision for the quarter was $504,000, an increase of 193,000 for the prior quarter (inaudible) our expectations.

Looking at key ratios, our return on average assets for the current quarter was down slightly to 1.08%, compared to 1.17% for the linked quarter. The return on average equity for the current quarter was 9.15%, compared to 9.94% for the linked quarter. These ratio decreases were a direct result of our insurance acquisition and investment in our lift-out teams.

Going into third quarter, we completed an acquisition of an independent insurance agency, headquartered in North Louisiana. The acquisition had a positive effect on non-interest income, and increased our non-interest expense, as well. This acquisition, together with the expansion of the Houston lift-out team increased salaries and benefit expense by $2.1 million, and was a major driver of our increases in non-interest expense during the quarter. This also had an impact on our efficiency ratio, as it increased to just over 69% for the quarter, up from approximately 67% in the linked quarter.

Moving to Slide Seven, you can see that we continue to be well-positioned to benefit from additional interest rate increases. At quarter end, we had a minimal amount of variable rate loans below a four. On Slide Eight, our total non-interest income remained stable, while the mix has changed due to the acquisition of the insurance agency. While our sources of non-interest income are diverse, we continue to generate more than three-quarters of our revenue from spread income. Lance will now give an overview of our loan deposit results and credit quality.

**Lance Hall**

Thanks, Steve. As Drake alluded to in his opening comments, we have continued to show strong growth in our core deposit base. We have increased our total deposits by 7.9% over the last four quarters, while our non-interest bearing deposits have increased 12.3% during the same period. Our average non-interest bearing deposits as a percentage of total deposits year-to-date is 25.6%. As you can see at the bottom of Slide Ten, we have continued to increase the percentage of non-interest bearing deposits over the last several years.

Like others in our industry, we have felt pressure on deposit costs across our footprint, but our bankers remain committed to managing deposit costs while building lasting relationships. As we look at year-to-date total deposit growth of $215 million, 67% of that is non-interest bearing. This speaks to the focus that our bankers have on core deposits and managing deposit (inaudible).

Our loan volume has been extremely impressive in the third quarter, with loans held for investment increasing $229 million or 6.8% compared to the previous quarter. And over the last 12 months, total loans held for investment has grown 11.5%. Even with our increased loan growth, we've been able to maintain our desired portfolio mix with continued emphasis on seeing our relationship building as seen on Slide 11. Our loan pipelines remain strong across our markets, with growth coming from both our legacy and lift-out teams.

We pride ourselves on the experience we create for our customers. This is embedded in all of our bankers across our markets. We believe this emphasis on relationship development and the customer experience, along with our return on relationship marketing campaign is a key driver in our growth over the past year. This has and will remain a key focus for us moving into 2019.

Finally, while our loan growth has increased, we continue to experience improved credit quality with favorable metrics across the portfolio. Now I'll turn it back over to Drake.

**Drake Mills**
Thanks, Lance. Our outlook for growth is strong, and we are optimistic as we move into the fourth quarter. While we're growing our business organically, we are always looking for ways to improve efficiency throughout our company. One, in particular, is our mortgage business. I've been transparent about our desire to focus on a mortgage platform that reflects a community bank model, serving our customers and prospects within our existing footprint.

We took an additional step this quarter in creating a more efficient model by streamlining our operational support team through a reduction in force. While this reduction increased expenses by $133,000 this quarter due to severance payments, we expect a reduction in force to result in a $1.5 million annual savings. Moving forward, our mortgage team continues to focus on expanding our relationships to drive core deposit growth and additional banking opportunities throughout our markets.

At Origin Bancorp, our employees, management team, and board remain focused on providing long-term value and building a franchise that is committed to a culture and a way of doing business that is impactful and differentiates us. Our strategic plan keeps us focused on the future and the opportunities that lie ahead. Really appreciate you joining the call today. And we'll now open the line for questions.

**QUESTION AND ANSWER**

**Operator**
Thank you, sir. We will now begin the question and answer session. To ask a question, you may press "*" then "1" on your touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. If anytime a question has been addressed and you would like to withdraw your question, please press "*" then "2." Again, it is "*", then "1" to ask a question. At this time, we will just pause momentarily to assemble our roster. The first question we have will come from Matt Olney with Stephens. Please go ahead.

**Matt Olney**
Thanks. Good morning, guys.

**Drake Mills**
Good morning, Matt.

**Matt Olney**
I want to start with the FHLB advances that was mentioned in the press release, I think it was $250 million that were added during the quarter and impacted the margin by eight bits. I'm curious, did we get the full impact of this trade in the third quarter, or incrementally what else could we see from this trade going forward? Thanks.

**Steve Brolly**
So we didn't get the full impact. It was about, out of 250, it was closer to about 150 million on average for the quarter. And the impact of the ten basis points was using a spread of 55 basis points. That 55 was assuming that we went into cash right away. So during the next few quarters, that cash will be replaced by investments. So the impact will not be as high as it was this quarter.

**Matt Olney**
And, Steve, can you try to quantify kind of what that impact could be? Are you saying that the impact from just this trade would be positive the next few quarters?

**Steve Brolly**
On an income perspective, yes, absolutely. On a NIM (sp?) prospectus, it is going to take about two quarters to get back to where we would've been.

**Matt Olney**
All right, so it was incrementally eight BPS negative impact in 3Q. But are you saying going forward, the incremental impact will be more or less than the eight BPS?

**Steve Brolly**
It'll be less. One of the things we'll do is we'll use the cash that we had and then use it for lending activities. And that lending activity is going to have a higher yield than the cash we have right now. So just over time, that $250 million will be replaced in a normal NIM environment.

**Matt Olney**
Got it. Okay. And then switching gears, we saw some really good growth on the non-interest bearing deposit snap, I think for the second consecutive quarter. That's challenging in this environment. I'm curious where this is coming from within your footprint, and how much more opportunity is there going forward?

**Lance Hall**

Yeah, hey, Matt, this is Lance. We've seen tremendous growth in our Texas markets. And I think that's part of the lift-out strategy is they're delivering clients that they've had for years versus us going out and creating that through new prospecting. So we're doing a combination of both. But that strategy's really working for us.

**Matt Olney**
Okay. And then, I guess the last question for me in terms of capital, you've done a nice job to pull in some capital here through organic loan growth. But I guess in light of lower valuations in the industry, your stock's been volatile. I'm curious at this point what your views are on stock with purchase plans. Do you have an authorization? Just in general, what's the board's view about capital deployment with respect to a outright purchase program?

**Drake Mills**
Yeah, Matt, this is Drake. We certainly are having those conversations. This, our board meeting yesterday continued those conversations. There is a feeling that, you know, this quick off the IPO and the strong loan growth that we have that we should continue the direction we're headed with plans to put a stock repurchase program in place in 2019.

**Matt Olney**
Got it. Okay, thanks, guys. I'll hop back on the queue.

**Drake Mills**
Thank you, Matt.

**Operator**
And the next question I have comes from William Wallace of Raymond James.

**William Wallace**
Morning, guys.

**Drake Mills**
Hello, Wally, how you doing today?

**William Wallace**
Very good, thank you. I want to circle back on the FHLB. When did that, when was that purchased?

**Steve Brolly**
It was during the quarter. It was in August, towards the middle of August.

**William Wallace**
So if you had eight basis points of pressure to NIM from that for something that was purchased halfway through the quarter, you're saying that we're not going to have another eight basis points in the fourth quarter. But it will be somewhere between zero and eight.

**Steve Brolly**
That's correct. Because had we kept it in cash, you would think that NIM pressure would be higher. But we're going to obviously take that cash, move it into loans. We move some into investments. And so, we do not feel that eight basis points--I think that is the maximum. And matter of fact, if we had for the full quarter, we don't believe it would've been eight basis points. It would've been a little bit less.

**William Wallace**
Okay, and so how much of the cash is left to deploy as we sit today?

**Steve Brolly**
Well, very little right now. We have, I think the average is about 150 million that we have. We did have a very large loan growth period. And we expect next quarter to have the same almost identical loan growth. And so, we think that cash is almost at the minimum right now.

**William Wallace**
Okay, so you think the fourth quarter loan growth could be near 6-7% again?

**Steve Brolly**
Yes.

**William Wallace**
Okay.

**Drake Mills**
Well, at this point, our pipelines are showing with high percentage between 175 to 215 million.

**William Wallace**
Okay. So you've done a lot of team lift-outs in Texas, and clearly, it's benefitting the loan growth. Maybe, how should we think about 2019? I would anticipate that loan growth would be elevated. But there's some period where I assume the new hires, their rate of addition to the pipeline slows. So can you maybe just kind of help us think about what you think would be a fair target for loan growth incorporating the positive benefits of all these lift-outs?

**Drake Mills**
Yeah, now we're just, we're really just now starting to see the impact from our Houston team. Did not see a full impact, a quarter impact on the Dallas lift-out. But I think what's impressive at this point is you take out, as I said earlier, you take out the lift-outs, we still had 19.7% loan growth annualized over the quarter throughout our markets. And we're seeing that loan growth pretty consistently with not only our mix of loans, but the type of concentrations that we've seen in the past, very similar. So what we're projecting at this point is that we think sustainability is somewhere in the mid--let's just say the low to mid double-digit loan growth annually and for 2019. And we think that's sustainable in our model.

Certainly, putting significant strategies in place around deposit growth now to be able to fund that. But feel comfortable as we see our municipal deposits come in in the next two months. We think that we're going to continue with the loan deposit ratios as we communicated before.

**William Wallace**
Okay, okay. Great, thank you. And then, moving to the commentary that you had around mortgage. You said there was a riff, and what was the severance number?

**Drake Mills**
133,000 for the quarter.

**William Wallace**

So if I take that out of the third quarter expense, say call it 34.1 million or 34.2 million is what you end up with; and then you get a one and a half million in savings annualized. And so, will we see that starting in the fourth quarter? I mean, that's immediate, I assume, correct?

**Drake Mills**
That is immediate. Now one aspect of it, as I talked about earlier, we will continue to organically grow, and we see deploying capital pretty efficiently through that. We have added eight mortgage loan officers, production officers during that period of time. So we'll have a three-month ramp-up period with those eight officers that will somewhat dilute that over the next three months. But then, you'll start seeing the full effect of that. So we're committed and continuing to, especially in the Texas markets, to enhance our retail loan, mortgage loan production.

**William Wallace**
Okay, so if I look at maybe, just kind of think about an efficiency ratio, you're at 69% by my model in the third quarter. How do you--based on, you know, your growth expectations and ramp-ups, et cetera, you know, what do you think is a reasonable expectation for efficiency as we move forward, say in the next year to maybe even two, three years from now?

**Drake Mills**
Yeah, I think we're going to get back on track pretty quickly with our efficiency ratio. And still, the numbers that we discussed during the IPO for '19, I still believe are in line for the direction we're going. For instance, if you look at our current efficiency ratio without our core--what I call core efficiency ratio, without mortgage and insurance, it's 58.97% at this, today. So the majority, if you look at the increase in expenses, 950,000, especially on the comp side, was just the RCF. That was 40 employees at the insurance agency that we brought on. A million one was the two lift-outs.

So if we look at the production and how quickly--for instance, we talked about during the IPO, Houston's projected ROA for year-end, and it was 50 basis points pre-lift-out. Well, today, we are at 50 basis points in Houston with the lift-out. So we're ahead of schedule there. So I do believe that we'll get back on track from the efficiency ratio by year-end.

**William Wallace**
And remind us, what was the target that you had communicated during the road (sp?) show?

**Drake Mills**
Wally, don't do that to me. (Inaudible.)

**William Wallace**
I'm putting you on (inaudible).

**Drake Mills**
I think it was 65. And I'll come back to you, Wally. I believe it was between 65 and 66.

**William Wallace**
Okay.

**Drake Mills**
And then, we were shooting for the mid, low 60s for the end of '19.

**Unknown**

Correct.

**William Wallace**
Okay.

**Drake Mills**
Total efficiency ratio, not core.

**William Wallace**
Right, okay, great. All right, I'll step out and let somebody else ask a question. Thank you.

**Drake Mills**
Thank you, Wally.

**Operator**
Next, we have Brady Gailey of KBW.

**Brady Gailey**
Hey, good morning, guys.

**Drake Mills**
Good morning, Brady.

**Unknown**
Morning.

**Brady Gailey**
Maybe this one last one on the margin. I mean, you take a step back from all the moving pieces, it sounds like the NIM will increase from here. Is that the right way to think about the margin?

**Unknown**
Yeah.

**Drake Mills**
The way we see, you know, our core deposit growth and the type of deposits, and there's some strategies that we are implementing. Our team actually is in town today to have a strategy meeting around deposits, and we're implementing a couple of opportunities that we think are going to continue to allow us to see a positive NIM expansion through the fourth quarter.

**Brady Gailey**
Okay. All right, and then y'all've done a lot of work on the mortgage group, especially this quarter. Is there anything left to do strategically? Any strategic changes in mortgage, or do you think that group is kind of setup how it needs to be for the future?

**Drake Mills**
We think there's still opportunities. We're taking it, you know, we--as I said on the road, we are pushing to be at a breakeven run rate on the mortgage side by year end. We're running that direction. I think what the hurdle point for us is managing mortgage servicing. As I discussed earlier, we have a, for a couple of years, we took on some AOTs and wholesale, and we seen a faster prepayment speed on that book of business. So we have implemented during this

quarter a very robust retention program and door-knock program, and have seen some early benefits of that to hopefully slow down the prepayment speeds and not see as much impairment. So I think there is still opportunity from efficiency, people, production, and also the mortgage servicing impairment side.

**Brady Gailey**
Okay. All right, and given where the stock price is, I guess you're more likely to get asked the buy-back question than the M&A question. But I mean, anything new on the M&A front? I know y'all have been looking around, especially in Mississippi. Do you feel like activity has picked up on that front, or is it about the same?

**Drake Mills**
It's about the same. The opportunities that we believe we have, we're still focused on. And again, these are, would be significant enhancements to funding as we look at the M&A opportunities. And you know, one aspect of the market, there were some opportunities for some of these institutions to look at potential IPOs. And you know, I certainly believe that's off the table. So it could enhance our opportunity to continue to build these relationships, and maybe speed up some of those opportunities.

**Brady Gailey**
Yeah, thanks for the (inaudible), guys.

**Drake Mills**
Thank you.

**Operator**
The next question we have will come from Brad Milsaps of Sandler O'Neill. Please go ahead.

**Brad Milsaps**
Hey, good morning, guys.

**Unknown**
Morning, Brad.

**Brad Milsaps**
Just wanted to follow up on maybe loan yields. Looks like they're up about 11 basis points in the quarter. Steve, do you think that's pretty typical for what you'll see, you know, from future, you know, moves in fed funds or LIBOR? Just kind of curious, you know, kind of what the pricing environment is like out there and kind of where the new loans are coming on the books kind of relative to the current yield.

**Steve Brolly**
The new loans are coming along really strong. So we are still expecting about a 60% beta. So 25% increase on rates, we're going to get between 15 and 17. And we still feel that's accurate for the next few quarters.

**Brad Milsaps**
Great, that's helpful. And you know, with the growth as strong as it's been in the loan book, you know, you guys have also been increasing the securities portfolio, as well. I know you've got a

lot of excess capital, but you know, deposits are being, you know, sopped up pretty quickly. Do you think that kind of levels out from here, or do you expect to kind of continue to push forward with some of the increases on the securities book?

**Steve Brolly**
We'll increase securities just a little bit. Some of the increase we have is because of the $250 million Federal Home Loan Bank. We put some securities on the books to match that. So when we have to pay it off, we'll have some liquidity there. Other than that, we expect the growth to be back to the normal growth, nothing extraordinary.

**Brad Milsaps**
Got it. And what is the rate and the duration on the FHLB advance?

**Steve Brolly**
1.65. It is a 15-year, but a one-year callable. So we are--

**Brad Milsaps**
--At their option or yours?

**Steve Brolly**
Yes. Their option.

**Brad Milsaps**
Okay. Great. And then, final question. You know, you guys have improved credit metrics a lot. You had net recoverage this quarter. Only about a half a million dollar provision against, you know, over $200 million in loan growth. Just kind of curious on directionally kind of where you see the reserve leveling out, and kind of what to think about in terms of, you know, provisioning against--you know, it sounds like you're going to have another, you know, really strong quarter of loan growth. And you've maybe even upped guidance a little bit from '19. So just want to kind of think about how you guys are thinking about reserving going forward.

**Lance Hall**
Yeah, this is Lance. I would think we're going to get back to a normalized provision because of the strong growth that we continue to see. That being said, our credit quality metrics continue to improve really across the board. We actually spent some time on that yesterday, looking through substandards, and opportunities for upgrades; and I think we have some significant opportunities there. But because of the growth, I think from a modeling perspective, we'll get back to a normalized provision.

**Brad Milsaps**
Great, thank you.

**Unknown**
Thank you.

**Operator**
And again as a reminder, if you'd like to participate in today's Q&A, please press "*" then "1" on the touchtone phone. Again, that is "*" then "1" to ask a question. The next question we'll have is a follow-up from Matt Olney of Stephens.

**Matt Olney**
Yeah, just to follow-up on recruiting bankers and team lift-outs. You've had great success there for a number of years, especially in the Texas market. I'm curious what the opportunity is today, as far as incremental team lift-outs and bank recruiting. Thanks.

**Drake Mills**
Yeah, and Matt, we have additional opportunities. I think what I would like our investors to understand is that we are trying to balance our expense growth and production. And so, we're focused, the team lift-outs that we're looking at today, and we have one that could be announced, I think, into the first quarter. That is has significant deposit presence and relationships in the Texas markets. And so, we're looking, as I think we should, at first off, the profitability opportunities from the standpoint of breakeven that timeframe, and then funding opportunities for these teams. So we slowed that down a bit because of the strong asset growth we have, and also the production we're seeing in our core markets. So I believe that if we announce something in the first quarter, it's going to be, it's going to have some real funding opportunities in that group.

**Lance Hall**
Hey, Matt, this is Lance, if I could add on. Trying to make sure we're being really smart about the teams that we bring on. For example, the group of five in the North Texas market that we brought on this quarter, I think it creates a lot of granularity for us in our portfolio. That they truly are a small business, lower middle market banking team. A lot of NIV, a lot of small business operating companies. We really like the granularity that created for us in North Texas. In Louisiana and Mississippi, it's getting more about bankers here and there versus teams. The big team opportunities, we believe, still are going to be in Texas.

**Matt Olney**
Got it. Thanks, guys.

**Drake Mills**
And if I could, I'd like to go back to Wally's question, concerning what we communicated on the road from an efficiency ratio standpoint. And we communicated that we'd be in the mid-60s by the end of 2018. With that, we'll certainly deteriorate a little bit or become a little higher because of our last activities. But I do think that we'll be in that 66 range. We also communicated by the end of 2020, we'll be in the low 60s, high 50s. Think that we can accelerate that. So Wally, hope that answers your question.

**CONCLUSION**

**Operator**
And actually, so it appears that we have no further questions.  And if okay, we'll go ahead and conclude the question-answer session.  And Mr. Mills, I would like to hand the conference back over to you, sir, for any closing remarks.

**Drake Mills**
So first off, thank everyone for their time today.  We appreciate the support.  Feel that as we were on the road and successful IPO that we're being able to focus on exactly what we brought to the street, and continue to feel like our success will come through the fourth quarter. And it's been very important to us that the first three quarters out of the box, that we hit our numbers, and we focus. So again, why we're taking a little bit of slow start on additional lift-out opportunities and really focusing on being a good public company, a good reporter.  So appreciate the support.  And if there aren't any questions, then we'll end this call.

**Operator**
All right, and we thank you, sir; and to the rest of the management team, for your time also today.  Again, the conference call is now concluded.  At this time, you may disconnect your lines.  Thank you again, everyone.  Take care and have a wonderful day.