




Midland States Bancorp, Inc.

NASDAQ: MSBI

Fourth Quarter 2019 Earnings Call



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Use of Non-GAAP Financial Measures. This presentation may contain certain financial information determined by methods other than in accordance with accounting principles generally accepted in the United States (“GAAP”). These non-GAAP financial measures include “Adjusted Earnings,” “Adjusted Diluted Earnings Per Share,” “Adjusted Return on Average Assets,” “Adjusted Return on Average Shareholders’ Equity,” “Adjusted Return on Average Tangible Common Equity,” “Efficiency Ratio,” “Tangible Common Equity to Tangible Assets,” “Tangible Book Value Per Share,” and “Return on Average Tangible Common Equity.” The Company believes that these non-GAAP financial measures provide both management and investors a more complete understanding of the Company’s funding profile and profitability. These non-GAAP financial measures are supplemental and are not a substitute for any analysis based on GAAP financial measures. Not all companies use the same calculation of these measures; therefore this presentation may not be comparable to other similarly titled measures as presented by other companies. Reconciliations of these non-GAAP measures are provided in the Appendix section of this presentation.

Overview of 4Q19

4Q19 Earnings

- Net income of \$12.8 million, or \$0.51 diluted EPS
- 4Q19 results include a \$1.6 million, or \$0.05 per diluted share, MSR valuation adjustment in the commercial FHA business

Adjusted Earnings ⁽¹⁾

- Adjusted earnings ⁽¹⁾ of \$0.64 per diluted share excludes:
 - \$3.3 million in integration and acquisition expenses
 - \$1.8 million loss on the repurchase of subordinated debt
 - \$0.6 million net gain on sales of investment securities

Solid Balance Sheet Growth

- Loan growth of 6.7% on an annualized basis
- Deposit growth of 8.8% on an annualized basis

Continued Execution on Strategic Priorities

- Further improvement in deposit mix
- Net non-core funding dependence ratio declined to 7.8% from 17.9% at end of prior year
- Efficiency ratio ⁽¹⁾ improved to 59.5% from 60.6% in prior quarter

Capital Management

- Strong profitability continues to rebuild TCE ratio
- Long track record of increasing dividend by at least 10% annually
- 85,146 shares of common stock repurchased during 4Q19 at a weighted average price of \$25.69

Notes:

(1) Represents a non-GAAP financial measure. See "Non-GAAP Reconciliation" in the appendix.

Loan Portfolio

- Total loans increased \$72.6 million to \$4.40 billion, or 6.7% on an annualized basis
- Increase primarily attributable to growth in commercial and consumer portfolios; partially offset by a decline in the commercial real estate portfolio
- Equipment finance balances increased \$66.8 million, or 11.8%, from September 30, 2019

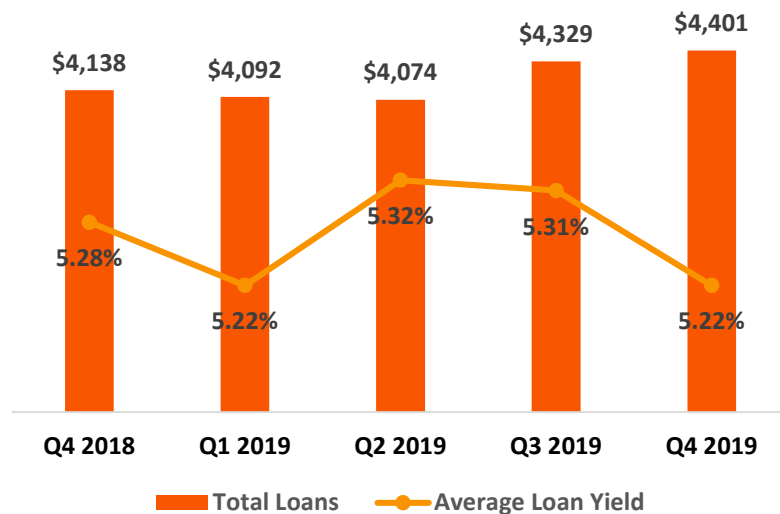
Loan Portfolio Mix

(in millions, as of quarter-end)

	4Q 2019	3Q 2019	4Q 2018
Commercial loans and leases	\$ 1,388	\$ 1,293	\$ 1,075
Commercial real estate	1,527	1,622	1,639
Construction and land development	209	216	232
Residential real estate	568	588	578
Consumer	710	610	613
Total Loans	\$ 4,401	\$ 4,329	\$ 4,138

Total Loans and Average Loan Yield

(in millions, as of quarter-end)



Total Deposits

- Total deposits increased \$99.1 million to \$4.54 billion, or 8.8% on an annualized basis
- Growth in deposits attributable to increase of \$130.9 million in core deposits, primarily from commercial customers
- Continued intentional run-off of brokered time deposits

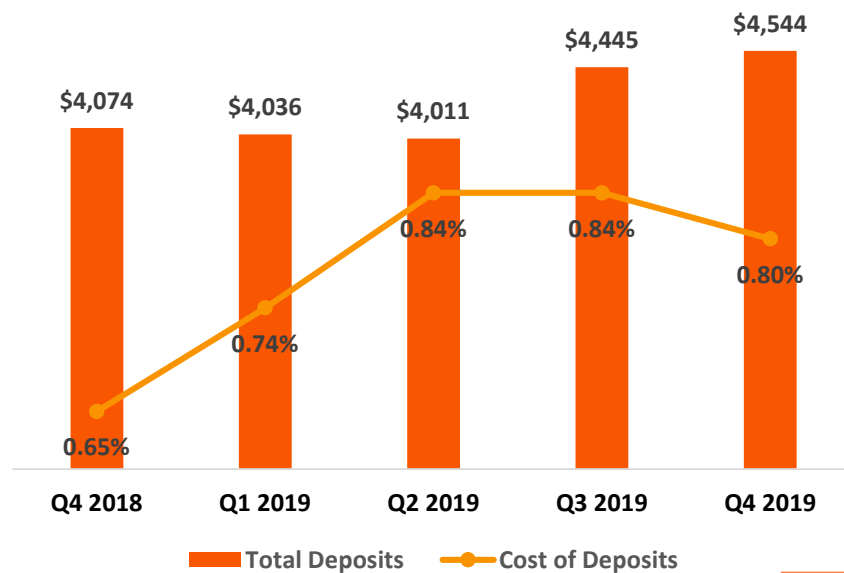
Deposit Mix

(in millions, as of quarter-end)

	4Q 2019	3Q 2019	4Q 2018
Noninterest-bearing demand	\$ 1,019	\$ 1,015	\$ 972
Interest-bearing:			
Checking	1,343	1,223	1,002
Money market	788	754	862
Savings	522	527	442
Time	822	833	634
Brokered time	50	94	162
Total Deposits	\$ 4,544	\$ 4,445	\$ 4,074

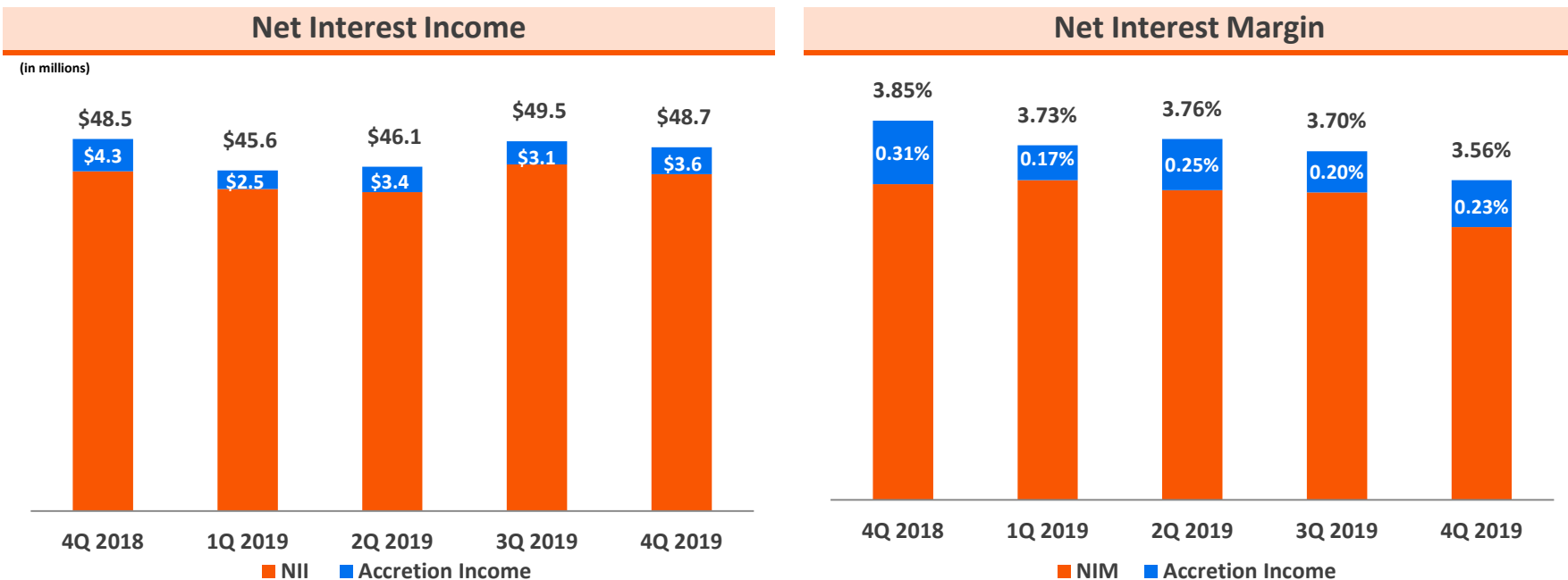
Total Deposits and Cost of Deposits

(in millions, as of quarter-end)



Net Interest Income/Margin

- Net interest income decreased 1.5%
- Excluding the impact of accretion income, net interest margin declined 17 basis points due to:
 - 8 basis point impact from increased volume of subordinated debt;
 - 7 basis point impact from increased volume and lower rate earned on cash balances;
 - 4 basis point impact from lower average loan yields;
 - Partially offset by lower rates on deposits

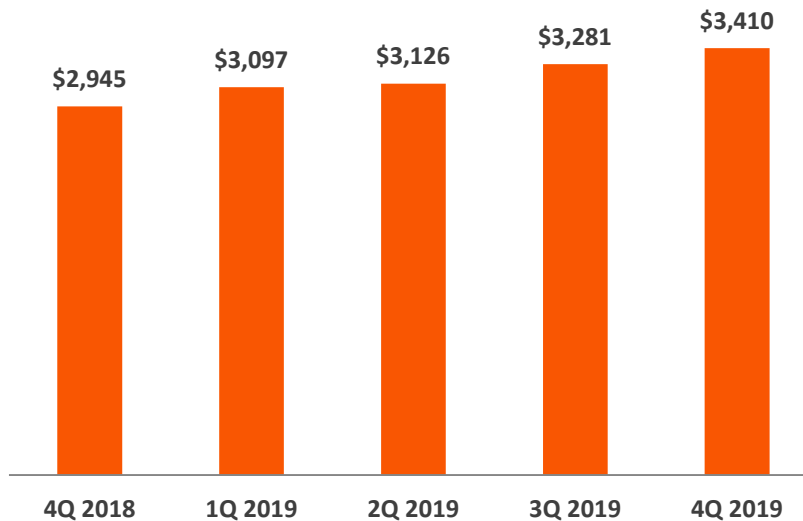


Wealth Management

- During 4Q19, assets under administration increased \$128.7 million, primarily due to improved market performance
- Total Wealth Management revenue decreased 10.4% from the prior quarter
- Decrease primarily attributable to lower estate fees

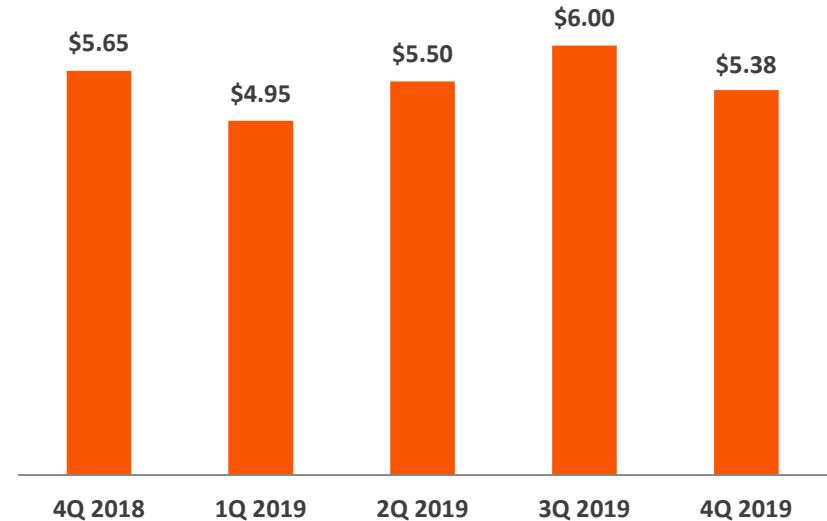
Assets Under Administration

(in millions)



Wealth Management Revenue

(in millions)

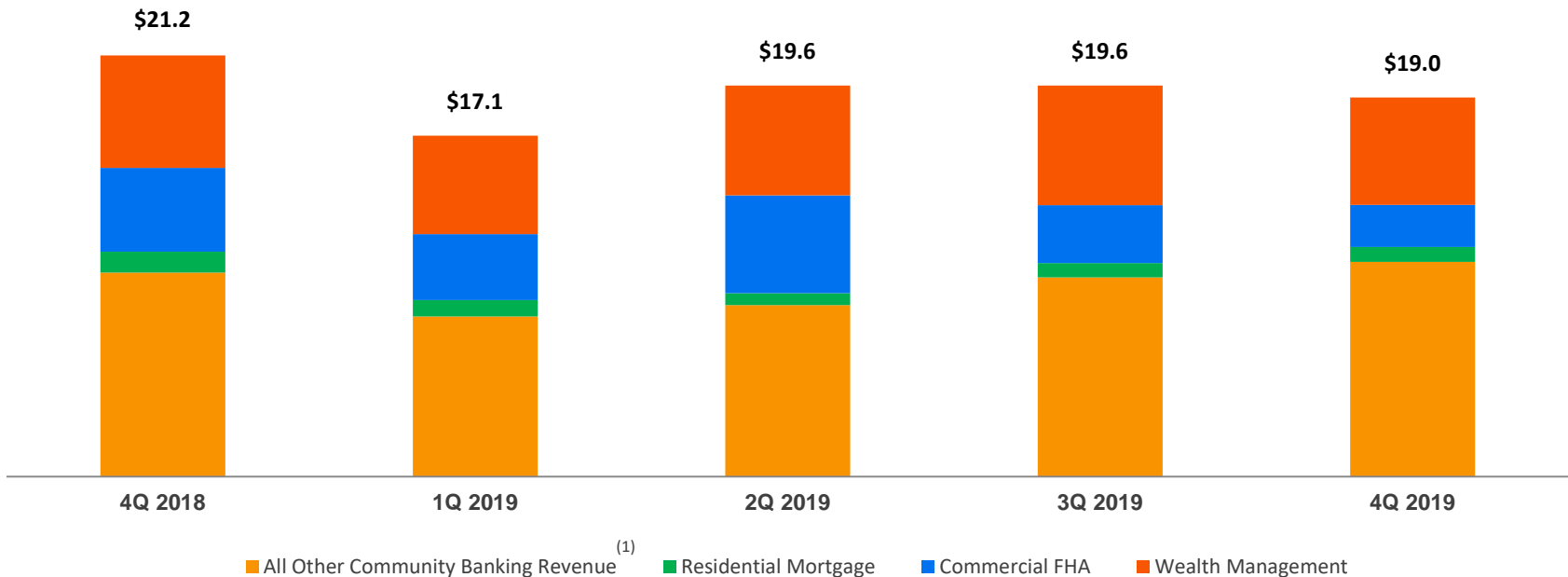


Noninterest Income

- Noninterest income decreased 3.0% from prior quarter
- 4Q19 noninterest income included \$0.6 million in net gain on sales of investment securities
- Commercial FHA revenue negatively impacted by \$1.6 million MSR impairment, compared to \$1.1 million MSR impairment in prior quarter

Noninterest Income

(in millions)



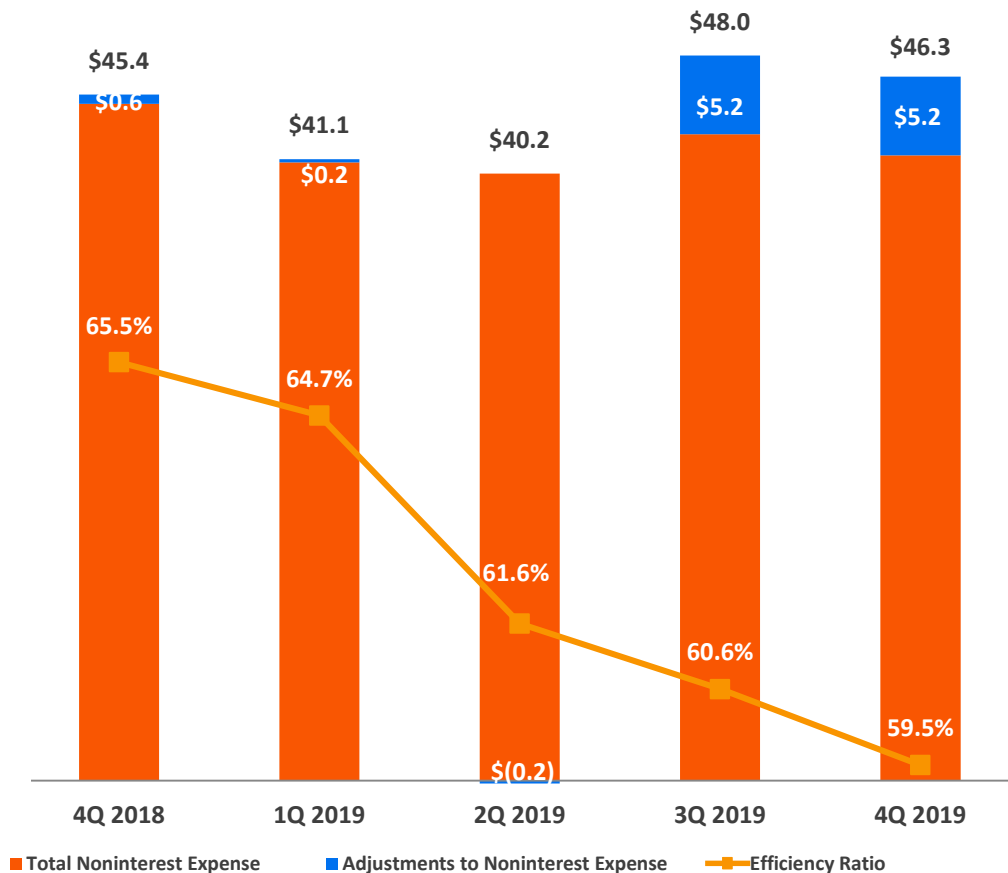
Notes:

(1) Represents service charges, interchange revenue, net gain (loss) on sale of investment securities, and other income

Noninterest Expense and Operating Efficiency

Noninterest Expense and Efficiency Ratio ⁽¹⁾

(Noninterest expense in millions)



- **Efficiency Ratio ⁽¹⁾ was 59.5% in 4Q19 vs. 60.6% in 3Q19**
- **Adjustments to non-interest expense:**

(\$ in millions)	4Q19	3Q19
Integration and acquisition related expenses	(\$3.3)	(\$5.3)
Loss on repurchase of subordinated debt	(\$1.8)	-
Gain (loss) on MSR's held for sale	\$(0.1)	\$0.1

- **Excluding these adjustments, noninterest expense decreased 3.9% on a linked-quarter basis**
- **Decrease in noninterest expense primarily attributable to additional cost savings following the HomeStar system conversion**
- **Branch network reduced by four locations in 4Q19**
- **Two additional locations to be consolidated in 1Q20**

Notes:

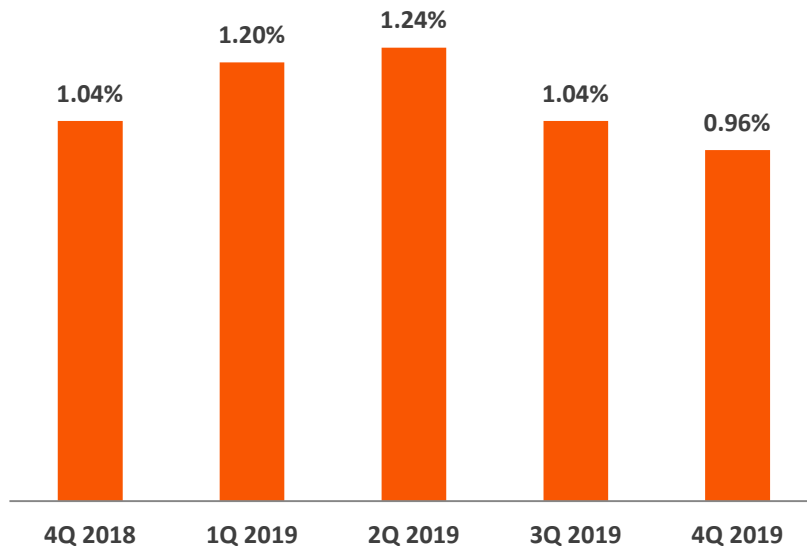
(1) Represents a non-GAAP financial measure. See "Non-GAAP Reconciliation" in the appendix.

Asset Quality

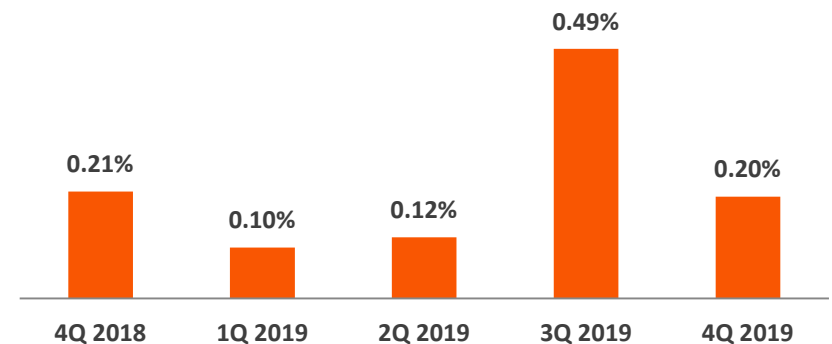
- General improvement in asset quality as nonperforming loans/total loans and net charge-offs/average loans both declined from prior quarter
- Provision for loan losses of \$5.3 million in 4Q19 includes a \$1.4 million specific reserve allocated to an existing nonperforming loan
- ALLL/total loans of 0.64% and credit marks/total loans of 0.39% at December 31, 2019

Nonperforming Loans / Total Loans

(Total Loans as of quarter-end)



NCO / Average Loans





Outlook

- **Continue to generate low-single-digit organic loan growth and further improve deposit mix**
- **Fully capitalize on synergies from HomeStar acquisition**
- **Complete branch consolidation plan and leverage technology investments to drive additional efficiencies throughout the organization**
- **Continue to optimize staffing levels and maintain non-interest expense runrate of \$42-\$43 million per quarter in 2020**
- **Expand net interest margin through a reduction in funding costs and continued growth in loans and leases with more attractive risk-adjusted yields**
- **Deliver strong earnings growth in 2020 and further improve level of returns**



APPENDIX

MIDLAND STATES BANCORP, INC.
RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES

Adjusted Earnings Reconciliation

	For the Quarter Ended				
	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018
<i>(dollars in thousands, except per share data)</i>					
Income before income taxes - GAAP	\$ 16,071	\$ 16,670	\$ 21,394	\$ 18,336	\$ 20,863
Adjustments to noninterest income:					
Gain on sales of investment securities, net	635	25	14	-	469
Other	(6)	-	(23)	-	(1)
Total adjustments to noninterest income	<u>629</u>	<u>25</u>	<u>(9)</u>	<u>-</u>	<u>468</u>
Adjustments to noninterest expense:					
Loss (gain) on mortgage servicing rights held for sale	95	(70)	(515)	-	-
Loss on repurchase of subordinated debt	1,778	-	-	-	-
Integration and acquisition expenses	3,332	5,292	286	160	553
Total adjustments to noninterest expense	<u>5,205</u>	<u>5,222</u>	<u>(229)</u>	<u>160</u>	<u>553</u>
Adjusted earnings pre tax	20,647	21,867	21,174	18,496	20,948
Adjusted earnings tax	4,537	5,445	4,978	4,398	4,551
Adjusted earnings - non-GAAP	<u>16,110</u>	<u>16,422</u>	<u>16,196</u>	<u>14,098</u>	<u>16,397</u>
Preferred stock dividends, net	-	(22)	34	34	34
Adjusted earnings available to common shareholders - non-GAAP	<u>\$ 16,110</u>	<u>\$ 16,444</u>	<u>\$ 16,162</u>	<u>\$ 14,064</u>	<u>\$ 16,363</u>
Adjusted diluted earnings per common share	\$ 0.64	\$ 0.66	\$ 0.66	\$ 0.58	\$ 0.67
Adjusted return on average assets	1.04 %	1.09 %	1.16 %	1.02 %	1.14 %
Adjusted return on average shareholders' equity	9.71 %	10.01 %	10.33 %	9.31 %	10.85 %
Adjusted return on average tangible common equity	14.15 %	14.52 %	15.19 %	13.90 %	16.46 %

MIDLAND STATES BANCORP, INC.
RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES (continued)

Efficiency Ratio Reconciliation

	For the Quarter Ended				
	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018
<i>(dollars in thousands)</i>					
Noninterest expense - GAAP	\$ 46,325	\$ 48,025	\$ 40,194	\$ 41,097	\$ 45,375
(Loss) gain on mortgage servicing rights held for sale	(95)	70	515	-	-
Loss on repurchase of subordinated debt	(1,778)	-	-	-	-
Integration and acquisition expenses	(3,332)	(5,292)	(286)	(160)	(553)
Adjusted noninterest expense	<u>\$ 41,120</u>	<u>\$ 42,803</u>	<u>\$ 40,423</u>	<u>\$ 40,937</u>	<u>\$ 44,822</u>
Net interest income - GAAP	\$ 48,687	\$ 49,450	\$ 46,077	\$ 45,601	\$ 48,535
Effect of tax-exempt income	474	502	526	543	574
Adjusted net interest income	<u>49,161</u>	<u>49,952</u>	<u>46,603</u>	<u>46,144</u>	<u>49,109</u>
Noninterest income - GAAP	\$ 19,014	\$ 19,606	\$ 19,587	\$ 17,075	\$ 21,170
Loan servicing rights impairment (recapture)	1,613	1,060	(559)	25	(1,380)
Gain on sales of investment securities, net	(635)	(25)	(14)	-	(469)
Other	6	-	23	-	1
Adjusted noninterest income	<u>19,998</u>	<u>20,641</u>	<u>19,037</u>	<u>17,100</u>	<u>19,322</u>
Adjusted total revenue	<u>\$ 69,159</u>	<u>\$ 70,593</u>	<u>\$ 65,640</u>	<u>\$ 63,244</u>	<u>\$ 68,431</u>
Efficiency ratio	59.46 %	60.63 %	61.58 %	64.73 %	65.50 %

MIDLAND STATES BANCORP, INC.
RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES (continued)

Tangible Common Equity to Tangible Assets Ratio and Tangible Book Value Per Share

	As of				
	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018
<i>(dollars in thousands, except per share data)</i>					
Shareholders' Equity to Tangible Common Equity					
Total shareholders' equity—GAAP	\$ 661,911	\$ 655,522	\$ 639,888	\$ 624,168	\$ 608,525
Adjustments:					
Preferred stock	-	-	(2,684)	(2,733)	(2,781)
Goodwill	(171,758)	(171,074)	(164,673)	(164,673)	(164,673)
Other intangibles, net	(34,886)	(36,690)	(33,893)	(35,566)	(37,376)
Tangible common equity	<u>\$ 455,267</u>	<u>\$ 447,758</u>	<u>\$ 438,638</u>	<u>\$ 421,196</u>	<u>\$ 403,695</u>
Total Assets to Tangible Assets:					
Total assets—GAAP	\$ 6,087,017	\$ 6,113,904	\$ 5,546,055	\$ 5,641,780	\$ 5,637,673
Adjustments:					
Goodwill	(171,758)	(171,074)	(164,673)	(164,673)	(164,673)
Other intangibles, net	(34,886)	(36,690)	(33,893)	(35,566)	(37,376)
Tangible assets	<u>\$ 5,880,373</u>	<u>\$ 5,906,140</u>	<u>\$ 5,347,489</u>	<u>\$ 5,441,541</u>	<u>\$ 5,435,624</u>
Common Shares Outstanding	24,420,345	24,338,748	23,897,038	23,827,438	23,751,798
Tangible Common Equity to Tangible Assets	7.74 %	7.58 %	8.20 %	7.74 %	7.43 %
Tangible Book Value Per Share	\$ 18.64	\$ 18.40	\$ 18.36	\$ 17.68	\$ 17.00

Return on Average Tangible Common Equity (ROATCE)

	For the Quarter Ended				
	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018
<i>(dollars in thousands)</i>					
Net income available to common shareholders	<u>\$ 12,792</u>	<u>\$ 12,677</u>	<u>\$ 16,321</u>	<u>\$ 13,948</u>	<u>\$ 16,302</u>
Average total shareholders' equity—GAAP	\$ 658,497	\$ 651,162	\$ 628,730	\$ 614,210	\$ 599,723
Adjustments:					
Preferred stock	-	(814)	(2,708)	(2,759)	(2,812)
Goodwill	(171,082)	(166,389)	(164,673)	(164,673)	(164,051)
Other intangibles, net	(35,745)	(34,519)	(34,689)	(36,438)	(38,394)
Average tangible common equity	<u>\$ 451,670</u>	<u>\$ 449,440</u>	<u>\$ 426,660</u>	<u>\$ 410,340</u>	<u>\$ 394,466</u>
ROATCE	11.24 %	11.19 %	15.34 %	13.79 %	16.40 %