




Midland States Bancorp, Inc.

NASDAQ: MSBI

Third 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 3Q19

3Q19 Earnings

- Net income of \$12.7 million, or \$0.51 diluted EPS
- Integration and acquisition expenses of \$5.3 million impacted net income by \$0.15 per diluted share
- Adjusted earnings⁽¹⁾ of \$0.66 per diluted share

HomeStar Acquisition

- Closed on July 17, 2019
- System conversion completed in mid-October
- Provides low-cost deposit base and leading position in Kankakee, Illinois market

Solid Execution on Strategic Priorities

- Strong inflows of core deposits – growth of \$153.2 million
- Efficiency ratio⁽¹⁾ improved to 60.6% from 61.6% in prior quarter
- Relatively stable net interest margin (excluding accretion income)

Capital Management

- Issuance of \$100 million in subordinated notes provides flexibility to reduce borrowing costs
- Authorization of \$25 million stock repurchase program
- Long track record of increasing dividend by at least 10% annually

Notes:

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

Loan Portfolio

- Total loans increased \$255.3 million, or 6.3%, to \$4.33 billion
- Increase primarily attributable to addition of HomeStar loan portfolio
- Organic loan growth of \$44.1 million, or 1.1%, during 3Q19, primarily due to growth in commercial portfolio
- Equipment finance balances increased \$57.1 million, or 11.2%, from June 30, 2019

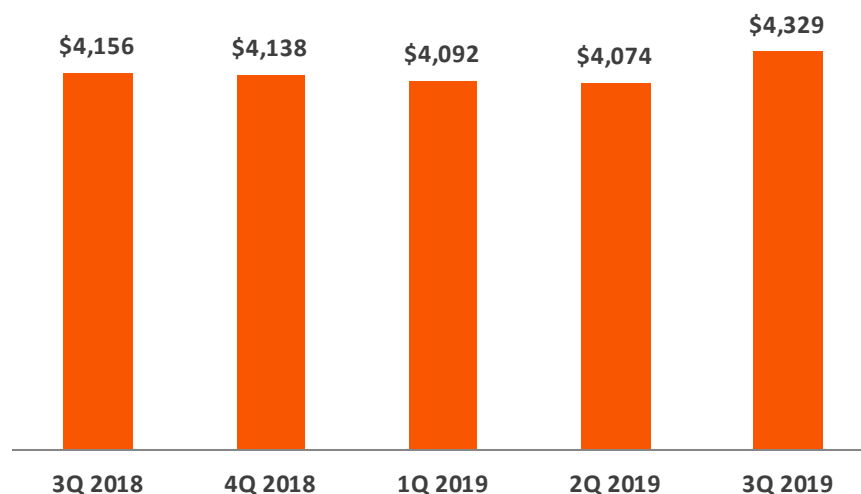
Loan Portfolio Mix

(in millions, as of quarter-end)

	3Q 2019	2Q 2019	3Q 2018
Commercial loans and leases	\$ 1,293	\$ 1,149	\$ 1,035
Commercial real estate	1,622	1,524	1,712
Construction and land development	216	250	239
Residential real estate	588	552	586
Consumer	610	597	584
Total Loans	\$ 4,329	\$ 4,074	\$ 4,156

Total Loans

(in millions, as of quarter-end)



Total Deposits

- Total deposits increased \$434.0 million, or 10.8%, to \$4.45 billion
- Increase in deposits primarily attributable to addition of HomeStar deposits
- Organic deposit growth of \$112.2 million, or 2.8%, during 3Q19, driven by \$153.2 million increase in core deposits
- Continued intentional run-off of brokered time deposits

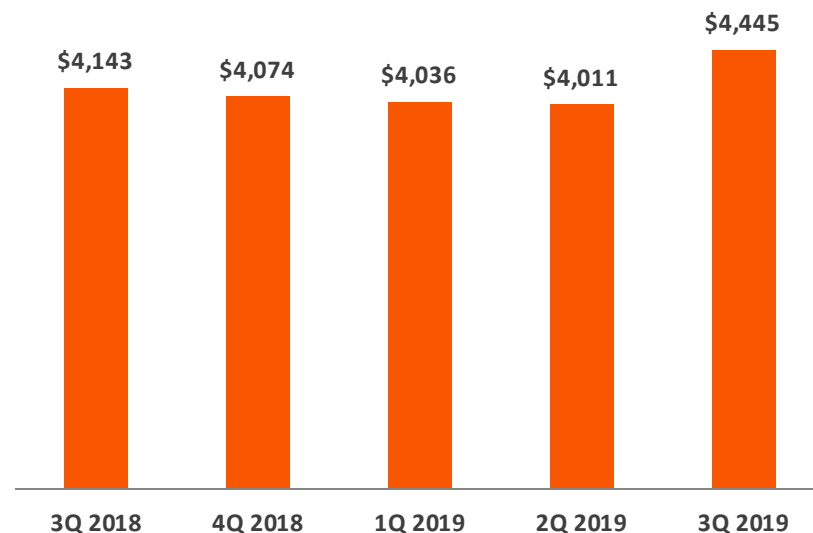
Deposit Mix

(in millions, as of quarter-end)

	3Q 2019	2Q 2019	3Q 2018
Noninterest-bearing demand	\$ 1,015	\$ 902	\$ 991
Interest-bearing:			
Checking	1,223	1,009	1,047
Money market	754	733	836
Savings	527	442	446
Time	833	785	634
Brokered time	94	140	189
Total Deposits	\$ 4,445	\$ 4,011	\$ 4,143

Total Deposits

(in millions, as of quarter-end)

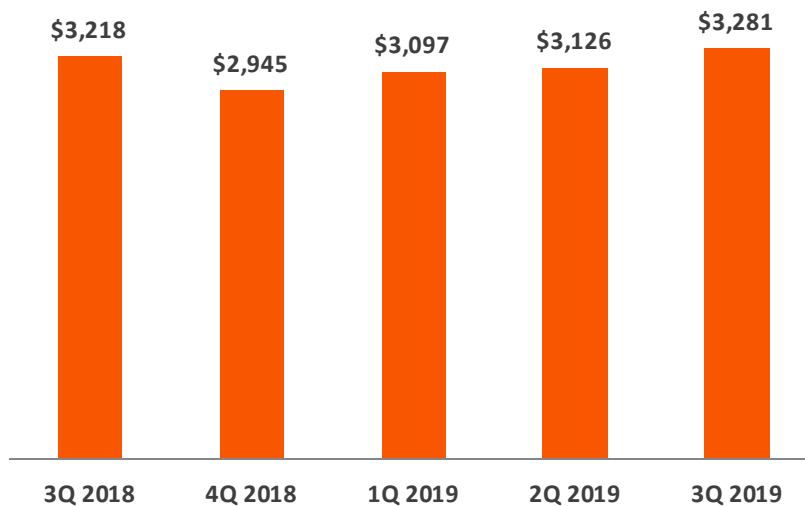


Wealth Management

- During 3Q19, assets under administration increased \$155.4 million, primarily due to the addition of HomeStar's assets under administration
- Total Wealth Management revenue increased 9.0% from the prior quarter
- Increase attributable to an increase in estate fees and the contribution from HomeStar

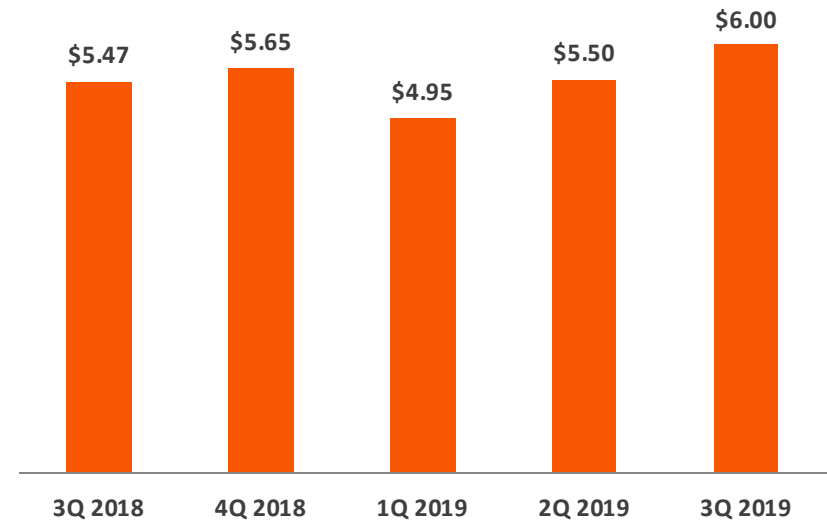
Assets Under Administration

(in millions)



Wealth Management Revenue

(in millions)

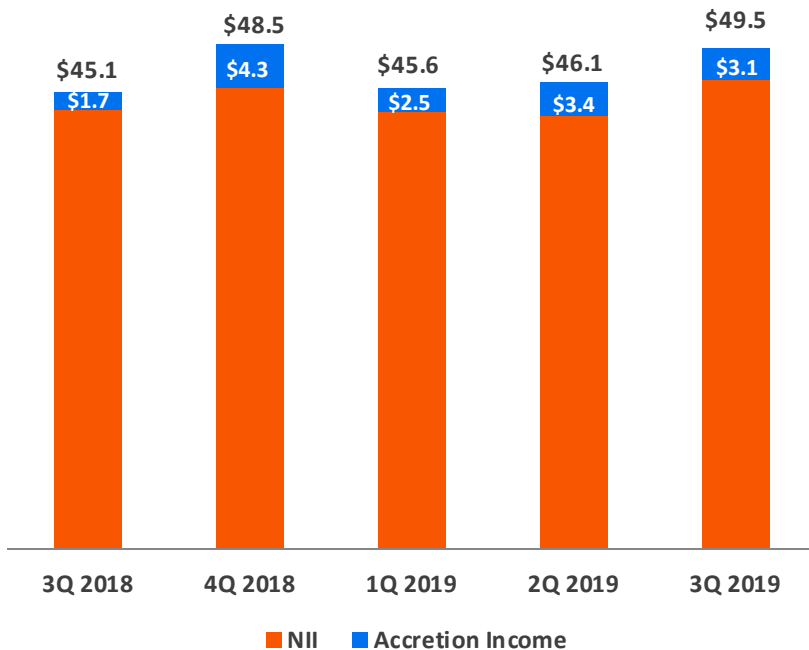


Net Interest Income/Margin

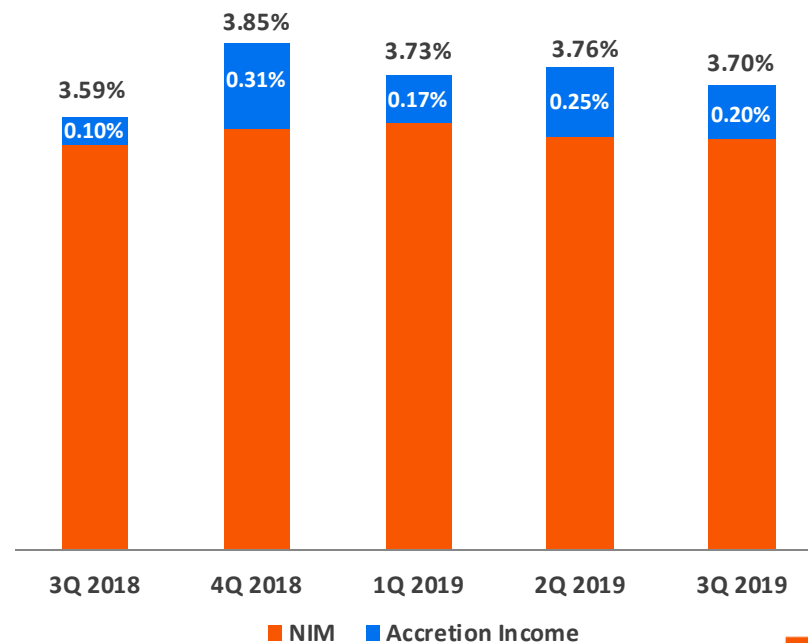
- Net interest income increased 7.3%, primarily due to contribution from HomeStar
- Excluding the impact of accretion income, net interest margin was relatively unchanged
- Average rate on new and renewed loans was 5.39%
- Expected scheduled accretion income: \$2.4 million in 4Q19

Net Interest Income

(in millions)



Net Interest Margin

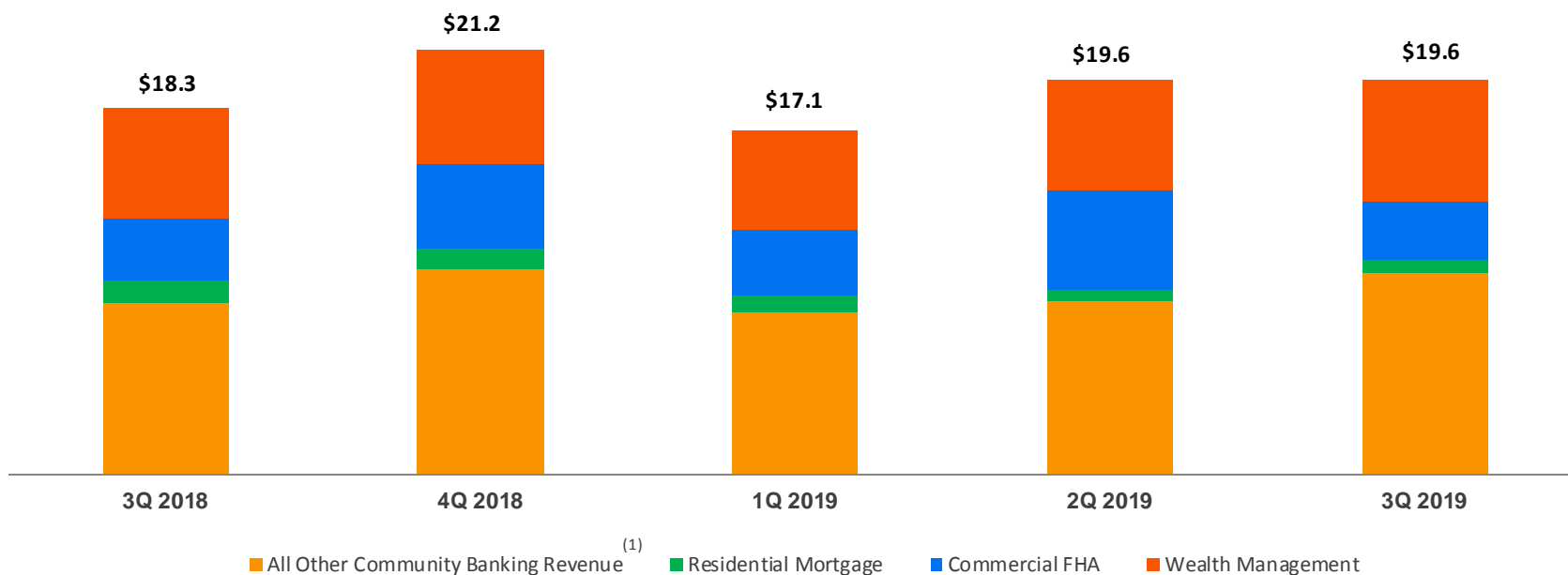


Noninterest Income

- Noninterest income unchanged from prior quarter
- Wealth management remains largest single contributor to noninterest income
- Commercial FHA revenue negatively impacted by \$1.1 million MSR impairment

Noninterest Income

(in millions)



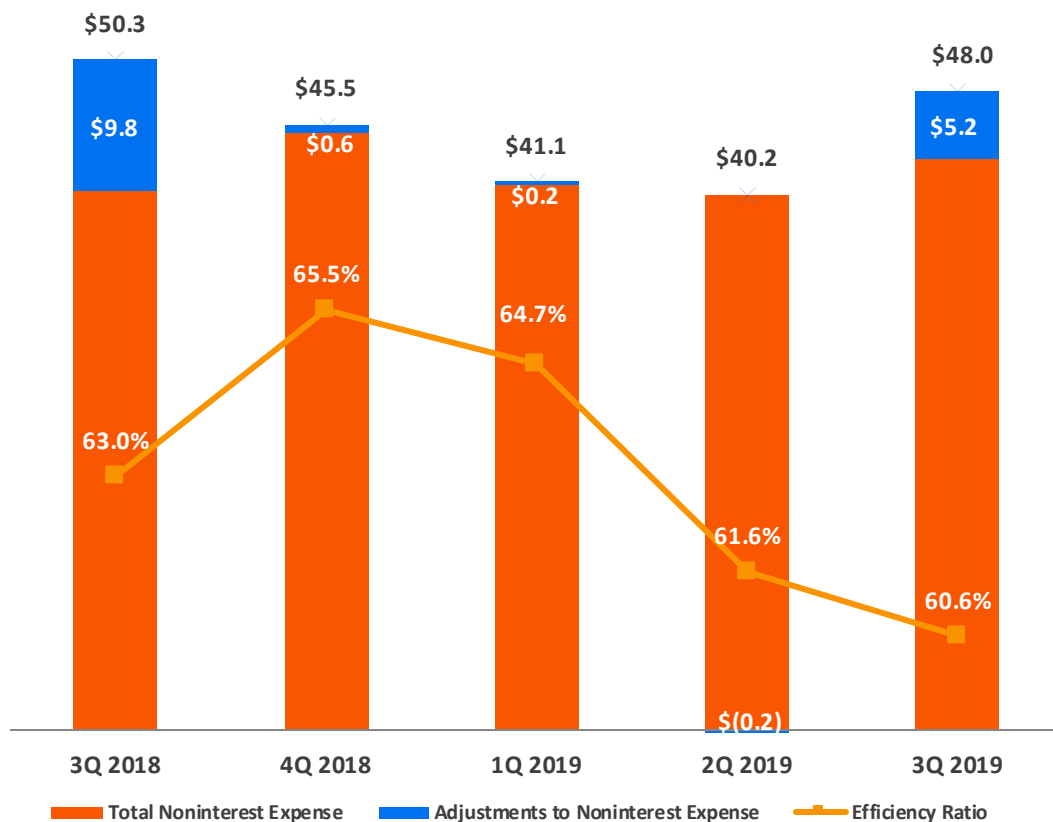
Notes:

(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 60.6% in 3Q19 vs. 61.6% in 2Q19
- Adjustments to non-interest expense:

(\$ in millions)	3Q19	2Q19
Integration and acquisition related expenses	(\$5.3)	(\$0.3)
Gain on MSRs held for sale	\$0.1	\$0.5

- Excluding these adjustments, noninterest expense increased 5.9% on a linked-quarter basis
- Increase in noninterest expense primarily attributable to addition of HomeStar's operations
- Branch network to be reduced by six locations, which includes three related to the HomeStar acquisition, by the end of the first quarter of 2020

Notes:

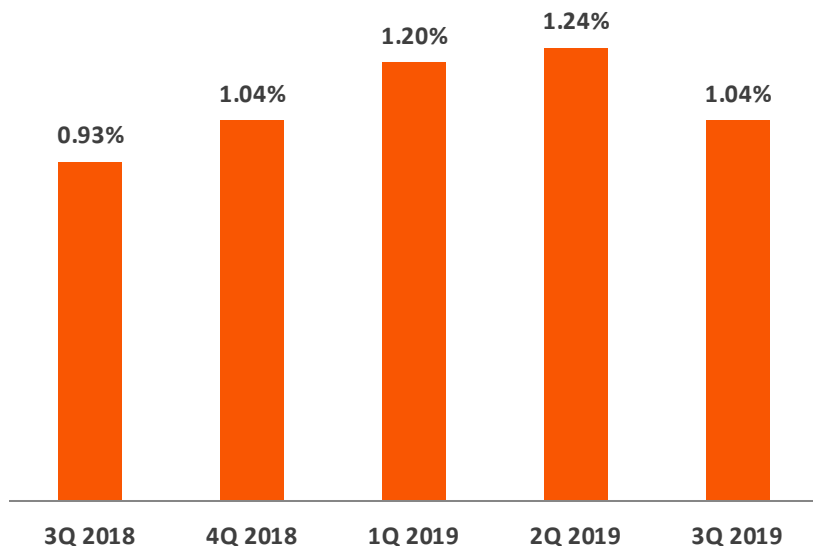
(1) Represents a non-GAAP financial measure. See "Non-GAAP Reconciliation" in the appendix.

Asset Quality

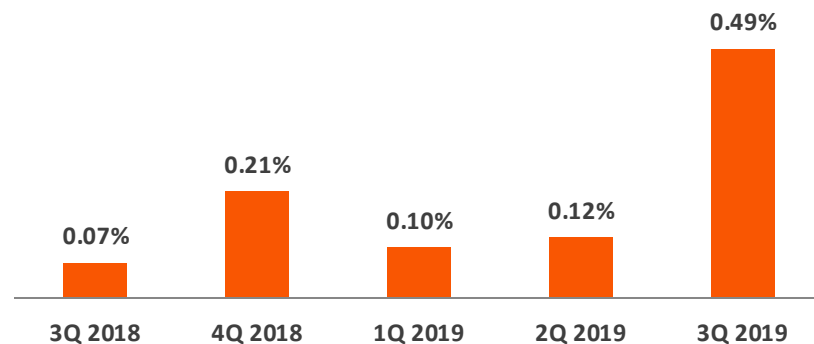
- Net charge-offs for 3Q19 was 0.49% of average loans on an annualized basis, driven by the resolution of nonperforming loans
- Provision for loan losses of \$4.4 million in 3Q19 includes an additional \$2.3 million specific reserve allocated to an existing nonperforming loan
- ALLL/total loans of 0.58% and credit marks/total loans of 0.51% at September 30, 2019

Nonperforming Loans / Total Loans

(Total Loans as of quarter-end)



NCO / Average Loans





Outlook

- **Focus on integrating HomeStar acquisition and fully capitalizing on synergies**
- **All cost savings from HomeStar acquisition expected to be phased in by start of 2020**
- **Additional branch consolidation efforts will further enhance efficiencies**
- **Continue to generate low-single-digit organic loan growth**
- **Earnings accretion from HomeStar acquisition and continued efficiency improvements expected to drive earnings growth in 2020**



APPENDIX

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

Adjusted Earnings Reconciliation

	For the Quarter Ended				
	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018
<i>(dollars in thousands, except per share data)</i>					
Income before income taxes - GAAP	\$ 16,670	\$ 21,394	\$ 18,336	\$ 20,863	\$ 10,933
Adjustments to noninterest income:					
Gain on sales of investment securities, net	25	14	-	469	-
Other	-	(23)	-	(1)	(12)
Total adjustments to noninterest income	<u>25</u>	<u>(9)</u>	<u>-</u>	<u>468</u>	<u>(12)</u>
Adjustments to noninterest expense:					
(Gain) loss on mortgage servicing rights held for sale	(70)	(515)	-	-	270
Integration and acquisition expenses	5,292	286	160	553	9,559
Total adjustments to noninterest expense	<u>5,222</u>	<u>(229)</u>	<u>160</u>	<u>553</u>	<u>9,829</u>
Adjusted earnings pre tax	21,867	21,174	18,496	20,948	20,774
Adjusted earnings tax	5,445	4,978	4,398	4,551	5,142
Adjusted earnings - non-GAAP	<u>16,422</u>	<u>16,196</u>	<u>14,098</u>	<u>16,397</u>	<u>15,632</u>
Preferred stock dividends, net	(22)	34	34	34	35
Adjusted earnings available to common shareholders - non-GAAP	<u>\$ 16,444</u>	<u>\$ 16,162</u>	<u>\$ 14,064</u>	<u>\$ 16,363</u>	<u>\$ 15,597</u>
Adjusted diluted earnings per common share	\$ 0.66	\$ 0.66	\$ 0.58	\$ 0.67	\$ 0.64
Adjusted return on average assets	1.09 %	1.16 %	1.02 %	1.14 %	1.09 %
Adjusted return on average shareholders' equity	10.01 %	10.33 %	9.31 %	10.85 %	10.45 %
Adjusted return on average tangible common equity	14.52 %	15.19 %	13.90 %	16.46 %	16.02 %

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

Efficiency Ratio Reconciliation

	For the Quarter Ended				
	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018
<i>(dollars in thousands)</i>					
Noninterest expense - GAAP	\$ 48,025	\$ 40,194	\$ 41,097	\$ 45,375	\$ 50,317
Gain (loss) on mortgage servicing rights held for sale	70	515	-	-	(270)
Integration and acquisition expenses	(5,292)	(286)	(160)	(553)	(9,559)
Adjusted noninterest expense	<u>\$ 42,803</u>	<u>\$ 40,423</u>	<u>\$ 40,937</u>	<u>\$ 44,822</u>	<u>\$ 40,488</u>
Net interest income - GAAP	\$ 49,450	\$ 46,077	\$ 45,601	\$ 48,535	\$ 45,081
Effect of tax-exempt income	502	526	543	574	585
Adjusted net interest income	<u>49,952</u>	<u>46,603</u>	<u>46,144</u>	<u>49,109</u>	<u>45,666</u>
Noninterest income - GAAP	\$ 19,606	\$ 19,587	\$ 17,075	\$ 21,170	\$ 18,272
Loan servicing rights impairment (recapture)	1,060	(559)	25	(1,380)	297
Gain on sales of investment securities, net	(25)	(14)	-	(469)	-
Other	-	23	-	1	12
Adjusted noninterest income	<u>20,641</u>	<u>19,037</u>	<u>17,100</u>	<u>19,322</u>	<u>18,581</u>
Adjusted total revenue	<u>\$ 70,593</u>	<u>\$ 65,640</u>	<u>\$ 63,244</u>	<u>\$ 68,431</u>	<u>\$ 64,247</u>
Efficiency ratio	60.63 %	61.58 %	64.73 %	65.50 %	63.02 %

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				
	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018
<i>(dollars in thousands, except per share data)</i>					
Shareholders' Equity to Tangible Common Equity					
Total shareholders' equity—GAAP	\$ 655,522	\$ 639,888	\$ 624,168	\$ 608,525	\$ 594,146
Adjustments:					
Preferred stock	-	(2,684)	(2,733)	(2,781)	(2,829)
Goodwill	(171,074)	(164,673)	(164,673)	(164,673)	(164,044)
Other intangibles	(36,690)	(33,893)	(35,566)	(37,376)	(39,228)
Tangible common equity	<u>\$ 447,758</u>	<u>\$ 438,638</u>	<u>\$ 421,196</u>	<u>\$ 403,695</u>	<u>\$ 388,045</u>
Total Assets to Tangible Assets:					
Total assets—GAAP	\$ 6,113,904	\$ 5,546,055	\$ 5,641,780	\$ 5,637,673	\$ 5,724,612
Adjustments:					
Goodwill	(171,074)	(164,673)	(164,673)	(164,673)	(164,044)
Other intangibles	(36,690)	(33,893)	(35,566)	(37,376)	(39,228)
Tangible assets	<u>\$ 5,906,140</u>	<u>\$ 5,347,489</u>	<u>\$ 5,441,541</u>	<u>\$ 5,435,624</u>	<u>\$ 5,521,340</u>
Common Shares Outstanding	24,338,748	23,897,038	23,827,438	23,751,798	23,694,637
Tangible Common Equity to Tangible Assets	7.58 %	8.20 %	7.74 %	7.43 %	7.03 %
Tangible Book Value Per Share	\$ 18.40	\$ 18.36	\$ 17.68	\$ 17.00	\$ 16.38

Return on Average Tangible Common Equity (ROATCE)

	For the Quarter Ended				
	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018
<i>(dollars in thousands)</i>					
Net income available to common shareholders	\$ 12,677	\$ 16,321	\$ 13,948	\$ 16,302	\$ 8,462
Average total shareholders' equity—GAAP	\$ 651,162	\$ 628,730	\$ 614,210	\$ 599,723	\$ 593,457
Adjustments:					
Preferred stock	(814)	(2,708)	(2,759)	(2,812)	(2,859)
Goodwill	(166,389)	(164,673)	(164,673)	(164,051)	(164,044)
Other intangibles	(34,519)	(34,689)	(36,438)	(38,394)	(40,228)
Average tangible common equity	<u>\$ 449,440</u>	<u>\$ 426,660</u>	<u>\$ 410,340</u>	<u>\$ 394,466</u>	<u>\$ 386,326</u>
ROATCE	11.19 %	15.34 %	13.79 %	16.40 %	8.69 %