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## CORPORATE PARTICIPANTS

**Ed Bilek** *Simmons First National Corporation - EVP & Director of IR*

**Jay Brogdon** *Simmons First National Corporation - President & CFO*

**George Makris** *Simmons First National Corporation - Executive Chairman*

## CONFERENCE CALL PARTICIPANTS

**David Feaster** *Raymond James & Associates, Inc. - Analyst*

**Brady Gailey** *Keefe, Bruyette, & Woods, Inc. - Analyst*

**Jordan Ghent** *Stephens, Inc. - Analyst*

**Gary Tenner** *D.A. Davidson & Co - Analyst*

## PRESENTATION

**Operator**

Good morning and welcome to the Simmons First National Corporation fourth-quarter earnings conference call. All participants will be in listen-only mode. (Operator Instructions) Please note this event is being recorded. I would now like to turn the conference over to Ed Bilek, Director of Investor Relations. Please go ahead.

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**Ed Bilek** - *Simmons First National Corporation - EVP & Director of IR*

Good morning, and welcome to Simmons First National Corporation's fourth-quarter 2023 earnings call. Joining me today are several members of our executive management team, including our Executive Chairman, George Makris; CEO, Bob Fehlman; President, Jay Brogdon; and CFO, Daniel Hobbs.

Today's call will be in a Q&A format. Before we begin, I would like to remind you that our fourth-quarter earnings materials, including the earnings release and presentation deck, are available on our website at simmonsbank.com under the Investor Relations tab.

During today's call, we will make forward-looking statements about our future plans, goals, expectations, estimates, projections and outlook, including among others, our outlook regarding future economic conditions, interest rates, lending and deposit activity, credit quality, liquidity and net interest margin.

These statements involve risks and uncertainties, and you should, therefore not place undue reliance on any forward-looking statements as actual results could differ materially from those expressed in or implied by the forward-looking statements due to a variety of factors.

Additional information concerning some of these factors is contained in our earnings released investor presentation furnished with our Form 8-K today, our Form 10-Q for the quarter ended March 31, 2023, and our Form 10-K for the year ended December 31, 2022, including the risk factors contained in that Form 10-K.

These forward-looking statements speak only as of the date they are made, and Simmons assumes no obligation to update or revise any forward-looking statements or other information. Finally, in this presentation, we will discuss certain non-GAAP financial metrics we believe provide useful information to investors.

Additional disclosures regarding non-GAAP metrics, including the reconciliations of these non-GAAP metrics to GAAP are contained in our earnings release and investor presentation, which are included as exhibits to the Form 8-K we filed with the SEC and are also available on the Investor Relations page of our website, simmonsbank.com.

Operator, we are ready to begin the Q&A session.

## QUESTIONS AND ANSWERS

**Operator**

We will now begin the question-and-answer session. (Operator Instructions)

David Feaster, Raymond James.

**David Feaster** - *Raymond James & Associates, Inc. - Analyst*

Hey. Good morning, everybody.

**Jay Brogdon** - *Simmons First National Corporation - President & CFO*

Good morning, David.

**George Makris** - *Simmons First National Corporation - Executive Chairman*

Good morning, David.

**David Feaster** - *Raymond James & Associates, Inc. - Analyst*

I just wanted to maybe start out on the margin. You guys have been actively managing the balance sheet and done a really good job. You know, screen more rate neutral today. But just wanted to clarify some of the points on the margin guidance. It looks like you're incorporating the forward curve into that guidance. And just wanted to make sure that was correct.

And then just maybe some discussion on the margin trajectory over the course of the year. There's going to be some obvious benefit from the restructuring in the fourth quarter that should help in the first quarter. But just kind of looking at the rate sensitivity in the repricing schedule. It looks like you should, even with incorporating the forward curves, should see some margin expansion over the course of the year. But just kind of wanted to get your sense of how you think about the margin trajectory and if that was kind of jiving with the way you were thinking.

**Jay Brogdon** - *Simmons First National Corporation - President & CFO*

Yes, David, this is Jay. Let me take a crack at answering some of those questions. First of all, I'll talk about what our assumptions are. We are probably a little more conservative than the forward curve. We're kind of three rate cuts embedded in our budgeting and forecasting right now for the year. Of course, the third of those rate cuts would be pretty late in the year. So you're not going to see a lot of impact from that in the year 2024. So that's kind of how we're looking at the rate assumptions for the year.

When I think about just NIM and NIM trajectory to your second question there, I'm going to kind of stick with the guidance that we gave you in the third quarter. We were obviously pleased with some of the trends that underlie the results of this quarter and that was maybe a little favorable for the fourth quarter compared to where we thought we would be.

I still think those trends point a very good direction, but there are still a lot of puts and takes. You know, we were pleased with some of the flows and deposits this quarter, their seasonal attributes to our deposits in both the fourth quarter and early part of the year. So again, some puts and takes there.

And then again, I'll just point you to some of the disclosure we have in the deck around timing of some of our cash flows. We've still got some term deposits, a fair amount of them in Q1 that will reprice, still again in Q2, but to a lot lesser degree than Q1. So again, optimistic around NIM overall. But I think in the near term, we're sort of still in kind of the range that we're operating in and still need to fight some of the pressures that exist on the deposit front.

As we move past kind of the immediate term, move through the balance of the year this year, we feel good that the repricing of assets, again, assuming that the rate assumptions that are out there are good assumptions, we feel confident that the repricing of assets and continued efforts we have around optimizing the balance sheet will help us to see some expansion in the margin and in net interest income. So that's kind of our expectations as we look to the immediate term and then through the balance of the year.

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**David Feaster** - *Raymond James & Associates, Inc. - Analyst*

That's great. I think that makes sense. And then maybe just touching on the loan growth side, you talked about -- in the press release about demand slowing and that you guys are taking a very conservative approach. Obviously, just looking at the new origination yields in the pipeline yields, you're doing a great job pushing pricing.

But at the same time, we've seen the pipeline growth for two straight quarters. I'm just curious maybe what's driving some of the growth in the improvement in the pipeline despite slowing demand and you continue to push pricing where you see an opportunity to gain market share? And maybe just some color on what segments and geographies are driving that growth?

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**Jay Brogdon** - *Simmons First National Corporation - President & CFO*

Yes, David. One thing I want to point out, as we kind of talk about loan growth, I think it's important to remember that while we are seeing some moderating growth, we're still experiencing growth in that, I would argue that even masked a little bit in the fourth quarter, we have a very good ag production team and history here at the bank and we're seasonally low.

Ag loans were down in fourth quarter. Despite that, we still had some growth and we'll see those ag loans begin to pick back up in the early part of the year here. And so I think, overall, we feel pretty good about the results from a loan growth perspective, particularly in light of the environment.

We're staying incredibly disciplined, really on two fronts. Of course, the credit front, all of our underwriting staying very disciplined there on what we let through the system and then also continuing to be relentlessly focused on pricing and profitability. So even with that focus we saw in the fourth quarter, some expansion in the loan pipeline and will continue to make a push to see that.

I think a lot of that really depends on Fed actions throughout the year this year and just kind of the macro backdrop. And I'll use that same term I used earlier, we're optimistic, but we're cautiously optimistic about that, and we'll just stay disciplined on all the fronts that are important to us there.

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**David Feaster** - *Raymond James & Associates, Inc. - Analyst*

Okay. That's helpful. And maybe just touching on the other side, touching on the funding side of the coin, you've done a great job driving core deposits in the quarter, reduced reliance on wholesale funding. I'm curious, maybe you talked about platinum deposits being down modestly, focusing on the remixing.

Just curious, where are you seeing opportunities to drive core deposit growth? How its pricing on new core deposits since you're seeing in that interest bearing side? And then just kind of -- how quickly do you think you're going to be able to reprice some of these if rates do get cut like you're talking about? How quickly do you expect to be able to reprice some of these relationships lower?

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**Jay Brogdon** - *Simmons First National Corporation - President & CFO*

Yes. Some good questions there, David. So I'd say this, on -- we -- again, we were very pleased with the results in some of the underlying trends on the deposit side. NIBs were down again in the fourth quarter, but at a slower pace, a moderating pace. We hope that trend will continue here early in the year. So we'd love to see that NIB level troughing out. But, you know, on the interest-bearing side, savings accounts, money market accounts, et cetera, had an incredibly strong quarter there. That really bucked the trend relative to other recent quarters.

I'd tell you, if you unpack that piece of the deposit growth for the quarter, the consumer front remains very, very stable as candidly it has been for some period of time. You have a little bit maybe of downward pressure in the quarter, but it's very modest and it's probably nothing more than just kind of holiday spending, if you will, on the consumer side. So feel really stable there. But we saw some good growth on the commercial side. That's been a key focus for us, is to continue to grow in the commercial area.

So we had some nice wins in that regard in the quarter. Some of that will be timing related. Some -- we won't -- not 100% of those dollars are going to be sticky. Some of that is commercial customers planning for some things in the first part of the year, et cetera. But again, very, very good indications and good results of strategically what we've been focused on their.

The result of that, combined with the portfolio sale in the quarter allowed us to really pull down some of the higher cost wholesale funding. That will continue to be a focus for us all throughout the year here.

On your other question kind of related to timing of in a rates down scenario, what that would look like. We do scream a little bit liability sensitive right now, especially if you look at it on a 12-month basis, I think you'd see maybe a three-month to six-month period in there where we're more neutral to maybe even a little bit asset sensitive. But as you move past those first few months, you're going to see some liability sensitivity in our balance sheet. And we have some information on that on page 16 of the slide deck.

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**David Feaster** - *Raymond James & Associates, Inc. - Analyst*

That's helpful. Thanks, everybody. Great quarter.

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**George Makris** - *Simmons First National Corporation - Executive Chairman*

Thanks, David.

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**Jay Brogdon** - *Simmons First National Corporation - President & CFO*

Thank you, David.

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**Operator**

Brady Gailey, KBW.

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**Brady Gailey** - *Keefe, Bruyette, & Woods, Inc. - Analyst*

Thank you. Good morning, guys.

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**Jay Brogdon** - *Simmons First National Corporation - President & CFO*

Good morning, Brady.

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**Brady Gailey** - *Keefe, Bruyette, & Woods, Inc. - Analyst*

I want to make sure I understand that the expense guidance on slide 11. So you're basically looking at adjusted annualized expense base of $548 million and say that you could see roughly 1% growth. So that would translate into your expected 2024 expenses around that $555 million mark, is that the right way to think about total expenses?

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**Jay Brogdon** - *Simmons First National Corporation - President & CFO*

Brady, I think I think you're all over it. That's exactly right. And again, that's another one where there were a lot of puts and takes in 2023, particularly given some accrual adjustments and whatnot. We think -- what we really tried to outline on slide 11 is that when we launched into the Better Bank initiative, our infrastructure, our run rate from a non-interest expense point of view was around $566 million.

We guided the $15 million of savings as a result of those initiatives, exceeded that really throughout the year this year. And as we look at the guide, that 2024 guide is for the two-year outlook from when we initiated the Better Bank initiative and we see expenses down kind of 1% to 2% on a two-year outlook there. So we're very proud of the progress we've made there.

Again, I don't want to call that sort of finished with a bow on top. We are continuing to focus on those initiatives. We've got some, as I've alluded to in prior conversations, we have some investment opportunities that we'll continue to evaluate, but we have a very strong continuous improvement mindset, and we think we'll be able to offset a lot of the inflationary pressures that are out there. And all of this, I think, is going to result in some positive operating leverage for us as we move into the future here.

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**George Makris** - *Simmons First National Corporation - Executive Chairman*

And Brady, one thing I'd just reiterate on what Jay just said is we showed our baseline of Q4 of '22, in the savings there, but the inflationary pressure was there in '23. It will be there in '24. But yeah, we're still showing that we're going to relatively hold the line on the expenses.

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**Brady Gailey** - *Keefe, Bruyette, & Woods, Inc. - Analyst*

Yes. That's great to see. And then, my next question on the $175 million buyback authorization, I think that -- if you repurchase it today, it would be about 7% of the company. So fairly, a notable size. So is that something that you have in place that you could use on a rainy day or is that something that you really expect to be active in 2024?

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**Jay Brogdon** - *Simmons First National Corporation - President & CFO*

Yes, Brady, our prior plan was coming to the end in January of this year. So this is really just re-upping it. We have no different strategy than we did last quarter and all of last year. We still think we're in some challenging times and banking is trying to fight through. The NIM side, as we've talked about, where's loan growth going, where is the capital, where does that need to be deployed and what levels do you need to maintain?

So we focused on that and we think it's prudent to keep a stock buyback plan in place. This is a two-year plan. But our strategy is still -- our capital is to use it first for organic growth, loan growth. Second is to pay cash dividends to our shareholders, we've been paying them that for over 115 years. We don't want to be the group to mess that up, I'll tell you that. a day of that.

And then after that, it comes down to what is the best use of that capital at that point and and one of them is stock buyback. Another is, is there opportunities on balance sheet optimization with bond sales like we had this quarter. And so we'll analyze it. But I would tell you in those stock buyback, our strategy is still to stay within the realm of our earnings for the quarter, less cash dividends would be the maximum with buyback.

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**Brady Gailey** - *Keefe, Bruyette, & Woods, Inc. - Analyst*

Okay. And then finally for me, if you look at full-year 2023, and if you look at the ROA on a core basis, it was running about 75 basis points. I think Simmons in the past has talked about longer term, wanting to get to an ROA of 150 basis points. So about double that. Biut I realized profitability is under pressure for the entire industry. So you guys are not alone. But how do you think about the path to get Simmons towards a higher ROA and ROE level?

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**Jay Brogdon** - *Simmons First National Corporation - President & CFO*

Yes, Brady, I think very first and biggest aspect to that goes back to our balance sheet optimization efforts. Again, we're pleased with the results in the fourth quarter and kind of chipping away at that. That's a function of rate and [tom] at the end of the day. But we are incredibly proactive and will continue to be in our approach to accelerate that timeline where we can. And -- so we'll continue, I think, to be prudent and balanced and how we look at that.

But when you think about our ability to kind of get a loan-to-deposit ratio in the area of 90% plus or minus, you think about our expense infrastructure and what we pencil out in terms of the results of the Better Bank initiatives that we've worked on and the scalability that that's put into our system. I think those are very realistic results for us to work toward.

Honestly, when I think about that, the biggest wildcard to me really is kind of on the fee side. Fees are under pressure. Tthere are some things that are out there and being proposed that we'll just have to deal with and react to as an industry. But I still think that guidance that we've given in the past of optimized balance sheet at Simmons Bank and within our strategy and business model that that 1.25% to 1.50% range of ROAA is what we ought to be focused on when and where our goals ought to be wrapped around.

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**Brady Gailey** - *Keefe, Bruyette, & Woods, Inc. - Analyst*

Okay, great. Thanks for the call, guys.

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**George Makris** - *Simmons First National Corporation - Executive Chairman*

Thanks, Brady.

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**Operator**

Jordan Ghent, Stephens, Inc.

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**Jordan Ghent** - *Stephens, Inc. - Analyst*

Good morning, guys. I just had a few questions on the security's restructure that took place. Could you guys give any insight on when the restructure took place and the impact it had 4Q '23 NII? And then maybe what's remaining, if there is any, for 1Q '24?

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**Jay Brogdon** - *Simmons First National Corporation - President & CFO*

So the transaction that we consummated for the fourth quarter is fully past tense, nothing carries into the first quarter, albeit a good portion of the trade closed late in the quarter. So what that translates to is about 1 basis point of net interest income margin impact in the fourth quarter. So I think margin went and improve 7 bps from 261 to 268 linked quarter. You can give about 1 basis point of credit to that as a result of the trade. And again, the reason that it's only 1 basis point is a lot of the trade closed in the latter part of the quarter.

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**Jordan Ghent** - *Stephens, Inc. - Analyst*

Perfect. Thanks. And then maybe just one follow-up on that. And there were -- just to clarify, there weren't any securities repurchase with that? Did you use to pay --

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**Jay Brogdon** - *Simmons First National Corporation - President & CFO*

100% related. I mean, we were selling securities at 1.81% and paying off wholesale funding at north of 5%. That was the trade.

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**George Makris** - *Simmons First National Corporation - Executive Chairman*

And I'd just point out a couple of things on that trade for our conservative nature, for our company. First off, we did this in smaller sizes. We'll continue to look at, is there another opportunity to do another small size. We're not a rip the band-aid off and get it all done at once and take a big hit. It's really measured over time, is number one.

And the other is we thought, in this case, it was very prudent to reduce the balance sheet by paying off some of our non-core fundings. So that's what we did here. We didn't take the money go back and buy higher rate securities to offset it. It was a better to reduce the balance sheet and take risk off the balance sheet effectively.

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**Jordan Ghent** - *Stephens, Inc. - Analyst*

Perfect. Thanks for the answers.

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**George Makris** - *Simmons First National Corporation - Executive Chairman*

Thanks, Jordan.

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**Operator**

(Operator Instructions)

Gary Tenner, D.A. Davidson.

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**Gary Tenner** - *D.A. Davidson & Co - Analyst*

Thanks. Good morning. I had a couple of questions about kind of the deposit guide and thoughts around the retail and brokered CD maturities in first quarter. As you kind of looking first down deposits in 2024 and given the amount of maturities in the first quarter, should we think about kind of the runoff there being a little bit front loaded and then more stable over the course of the year? Or do you expect to kind of renew the line share of maturities coming up in first quarter?

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**Jay Brogdon** - *Simmons First National Corporation - President & CFO*

Yes, I think a lot of that actually will be a function of loan demand. If we've got loan demand in excess of other cash flows, off the balance sheet, et cetera, then you'd see us more renewing. I'd point you back to the fourth quarter, the ability to sell some securities in the quarter as well as to have some core deposit growth allowed us to reduce a lot of the wholesale funding.

So it's not going to be straight line. Gary, it's kind of the answer. It's going to be a little bit dependent on factors such as seasonality, timing of cash flows inherent in our balance sheet, loan demand, et cetera. But I wouldn't think the right expectation is to believe that it's all going to be front-end loaded. It's going to be us evaluating a really good profitability wins, the best opportunities to invest our capital and how we're going to fund those investments.

And if that is to shrink wholesale funding, that's what we'll do. If we have loan demand that we like the pricing and the credit aspects of, then we may -- that may help us or require us to stay at somewhat more elevated levels in some of those areas.

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**Gary Tenner** - *D.A. Davidson & Co - Analyst*

Jay, I appreciate that. On that same or similar topic, as it comes to those renewals or the maturities, do you think about trying to shorten the duration of what's rolling over so that, assuming the Fed does start to cut, you could reprice those lower sooner (multiple speakers) versus 12 months out or something?

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**Jay Brogdon** - *Simmons First National Corporation - President & CFO*

Yeas. In fact, we've already done that, and that was a decision we had made at some point in the year last year. I'll go back to the fourth quarter of 2022 and early in 2023, and we were actually extending liabilities at that point a little bit. And that's why you see higher volumes in the fourth quarter and first quarter in some repricing around some of that funding. So where we were making decisions then to extend, we're making decisions now -- really prior to now to shorten on some of that for the reasons that you mentioned.

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**Gary Tenner** - *D.A. Davidson & Co - Analyst*

Great. Appreciate that. And I have to admit -- I apologize if I miss that first question. But in terms of the rate sensitivities, and you provided, I think 25, 75-basis points cuts, what are you -- what's the base case that you're using internally in terms of where you actually think the Fed does the share?

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**Jay Brogdon** - *Simmons First National Corporation - President & CFO*

Three cuts is what we're kind of modeling everything to internally. And as I did mention this earlier, it's all mention it again to you here, Gary, that third cut comes really late in the year. So for all intents and purposes, it's kind of two cuts if you think of it that way.

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**Gary Tenner** - *D.A. Davidson & Co - Analyst*

Okay. So effectively in line with the dot plot, is that about right?

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**Jay Brogdon** - *Simmons First National Corporation - President & CFO*

That's -- yeah, much more aligned -- our thinking is much more aligned to the dot plot for internal assumptions then to the forward curves? That's exactly right.

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**Gary Tenner** - *D.A. Davidson & Co - Analyst*

All right. Great. Thanks, guys. Appreciate it.

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**Jay Brogdon** - *Simmons First National Corporation - President & CFO*

Thanks.

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**Operator**

This concludes our question-and-answer session. I would like to turn the conference back over to George Makris for any closing remarks.

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**George Makris** - *Simmons First National Corporation - Executive Chairman*

Okay. Thank you very much. I hope it's understandable that we've tried to be real clear about our execution in this volatile market. And I think our results reflect our success. And just want to assure you that we will continue to conservatively manage our business to create as much flexability to react in these current market conditions.

As was just mentioned, there are some discrepancy between the dot plot and forward curve, and we're not betting on either one of them at this point in time. So expect the same kind of conservative management that you come to recognize at Simmons as we go forward. And we'll look forward to having more good calls in the future. Thanks for joining us today and have a great day.

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**Operator**

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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