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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Simmons First National Corporation Fourth Quarter 2021 Earnings Call and Webcast. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Ed Bilek. Please go ahead.

Edward J. Bilek - *Simmons First National Corporation - Executive VP & Director of IR*

Good morning, and thank you for joining our fourth quarter earnings call. My name is Ed Bilek, Director of Investor Relations at Simmons First National Corporation. Joining me today are George Makris, Chairman and Chief Executive Officer; Bob Fehlman, President and Chief Operating Officer; Jay Brogdon, Chief Financial Officer and Treasurer; Steve Massanelli, Chief Administrative Officer; Matt Reddin, Chief Banking Officer; and David Garner, Chief Accounting Officer.

The purpose of our call is to discuss the information and data provided by the company in its quarterly earnings release issued this morning and to discuss the company's outlook for 2022. We will begin with prepared comments followed by a Q&A session. We have invited institutional investors and analysts from the equity firms that provide research on the company to participate in the Q&A session. All other guests on this conference call are in listen-only mode. Recording of today's call, including our prepared remarks and the Q&A session, will be posted on our website, simmonsbank.com, under the Investor Relations page for at least 60 days.

During today's call, we will make forward-looking statements about our future plans, goals, expectations, estimates, projections and outlook. I'd remind you that you should not place undue reliance on any forward-looking statements as actual results could differ materially from those projected in or implied by forward-looking statements due to a variety of factors. Additional information concerning some of these factors is contained in the company's SEC filings, including, without limitation, the description of certain risk factors contained in the company's Form 10-K for the year ended December 31, 2020, and the forward-looking information section of the company's earnings release issued this morning. The company 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 reconciliation of these non-GAAP metrics to GAAP, are contained in the company's earnings release and fourth quarter investor presentation, which are included as exhibits to the company's current report filed this morning with the SEC on Form 8-K and available on the Investor Relations page of the company's website, simmonsbank.com.

I will now turn the call over to George Makris.

George A. Makris - *Simmons First National Corporation - Chairman & CEO*

Thanks, Ed, and welcome once again to our fourth quarter 2021 earnings call. I'd like to begin my comments by thanking the associates of Simmons Bank for producing a record earnings year in 2021 despite the operational challenges associated with the pandemic and the artificial economy created over the past 2 years. Earlier today, we announced earnings of $271 million for the full year of 2021, a 6% increase over 2020. We also reported diluted earnings per share of $2.46, an increase of 6% from the previous year. Other important financial information for the fourth quarter and for the full year is available in our press release and our investor presentation published earlier today and available on the Investor Relations page of simmonsbank.com.

We simultaneously acquired and integrated Landmark Community Bank and Triumph Bank, both Memphis-based, in October of last year. So their activity is included in our fourth quarter results. The acquisition of these banks have significantly enhanced our size and scale in Tennessee, where we now rank as 8th largest bank based on deposit market share. Shortly after we completed these acquisitions, we announced a definitive agreement to acquire Spirit of Texas Bancshares. Strengthening our Texas franchise has been a strategic priority, and to partner with Spirit not only enhances our current footprint but also establishes a platform for growth in Houston, Austin, San Antonio and College Station.

Net income for the fourth quarter was $48.2 million, and diluted earnings per share were $0.42. Included in our results for the quarter were $11.3 million of after-tax, noncore items primarily related to the acquisitions of Landmark and Triumph. Excluding these items, core earnings were $59.5 million or $0.52 on a diluted per share basis. I think it is remarkable that we closed and integrated 2 acquisitions, repurchased approximately 2.6 million shares of our stock, contributed $2.5 million to our foundation, and grew our tangible book value per share by 2% during the fourth quarter alone.

The positive momentum we began to see in terms of loan growth during the third quarter of 2021 accelerated in the fourth quarter. Newly funded loans in the quarter totaled $2.6 billion. Our commercial loan pipeline rose for the fifth consecutive quarter to $2.3 billion, up 56% on a linked-quarter basis, as growth was broad-based throughout our community and metro markets as well in our new -- as well as in our new corporate banking unit. We're also encouraged by our level of unfunded commitments, considered a leading indicator of loan growth, which rose to $2.9 billion in the fourth quarter, a 31% increase on a linked-quarter basis. We believe this positive momentum, combined with the new loan producers we have added in 2021 and continue to actively recruit, positions us well in terms of loan growth in the year ahead.

During the fourth quarter of 2021, we repurchased 2.6 million shares of our stock, and in January 2022 substantially exhausted the remaining capacity under our existing share repurchase program. As a result, the Board of Directors authorized a new $175 million share repurchase program and raised a quarterly cash dividend 6% to $0.19 per share.

In closing, the significant investments we have made in technology, particularly in terms of expanding our digital capabilities, are producing solid results and will allow us to continue to help meet the ever-changing needs of our customers while improving the speed and efficiency with which we deliver products and services to our customers. The investments we made in M&A represent a meaningful geographic transformation with an emphasis on building scale in high-growth markets that significantly enhance our growth profile. Given our successful track record, we're confident in our ability to seamlessly convert and integrate Spirit later this year and capitalize on the tremendous growth opportunity this acquisition presents. As a result, we entered the year with positive momentum and are confident in our ability to respond to the ever-changing landscape and challenging economic environment. We believe we're well positioned throughout our footprint to capture growth opportunities that will lead to another successful year.

This concludes our prepared comments. I will now turn the line over to our operator and invite questions from our analysts and institutional investors.

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of David Feaster from Raymond James.

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

I just wanted to touch on the growth outlook. Appreciate the commentary in your prepared remarks. I mean it's clear originations are improving, we've made a bunch of new hires, it sounds like the pipeline is still good. And it sounds like, just looking at the guidance, we're expecting kind of the growth rate to accelerate throughout the year. I'm just curious kind of some of the puts and takes as you look at what's happening in payoffs and paydowns and everything, how you think about the pace of growth and what gives you confidence that we're going to see accelerations going forward.

Matthew Steven Reddin - *Simmons First National Corporation - Executive VP & Chief Banking Officer*

Dave, it's Matt. I'll take the first stab at that and others can join in. As we've talked about almost every quarter, we were looking for that inflection point as production really ramped up, and we saw that absolutely in the fourth quarter. And to kind of give you a key point, even in December, we closed $1 billion in new originations. And so we really saw -- we saw an inflection point in December. Now January is always an interesting month and where that looks -- what happens in January -- but as an overall pipeline, as George commented earlier, it's -- our pipeline is at $2.4 billion today and still growing. So from what we see from a production standpoint, that looks really good. Our headwinds are less and less. Will there be some early payoffs? Yes. But all indicators look to a true net positive, accelerated loan growth this year. And I'm glad to answer any specifics around certain areas. You kind of let me know where you would like me to dive in, I'm glad to.

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

I guess maybe just -- kind of just some details on where you see -- looking at the pipeline and the growth opportunities, I guess where do you see the most upside? Where are you -- how has the pipeline mix changed? And just any commentary on new loan yields and how pricing has trended. Just -- are you seeing any pricing improvement just given the steepening of the curve? Will this continue?

Matthew Steven Reddin - *Simmons First National Corporation - Executive VP & Chief Banking Officer*

Just now -- yes, David, absolutely. I would say only in the last couple of weeks as we're all very focused on where rates are moving and what the long-term rates are showing. We're starting to build that into our term sheet and we're starting to pick up a little bit. But as we finish the year, a lot of that pipeline -- it's also important to point out that from an asset quality standpoint, we were very conservative in our nature and those are great assets that are going on our books. But we're starting to see a sign of where rates are moving and we can put that into our new deals.

Where we're seeing the opportunities, at the top of the list, Texas really rebounded nicely for us in the fourth quarter. Their pipeline is very strong. We're also seeing some real nice pickups, and our production showed that in the fourth quarter with the acquisition of Landmark and Triumph. We had some nice production in Memphis and Nashville. Kansas City is still a great market for us. Northwest Arkansas has been a real shining star for us in 2021. I think that will happen in 2022.

The only other comment, we're seeing now and you can see in our deck that corporate -- our corporate banking group and a lot of the pipeline increased there. That's a new pipeline from our commercial financing. We've talked about that team, but we said that it's going to be a slow growth because we want to get them fully integrated and doing it the right way. So you're seeing a nice build there. But also within that group, our institutional banking group, that's where we have opportunity in the public sector with municipal finance. That's a group we're trying to really grow. Our asset-based lending group through Triumph, we're seeing some pipeline growth there. So that's been a nice addition, and we see that really accelerating in 2022.

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

Okay. That's great color. And then just -- so taking the guidance, so looking at loan growth in the high single digits, it sounds like deposits relatively stable, should see an improving earning asset mix. Just was hoping you could give us maybe a little bit color on the margin on kind of where you -- whether you think we've hit the trough here and should see continued expansion. And just could you maybe remind us of your asset sensitivity and how you -- on a pro forma basis and how you think of a rate hike potentially impacting the margin?

James M. Brogdon - *Simmons First National Corporation - Executive VP, CFO & Treasurer*

Yes. David, this is Jay. A couple of remarks there to maybe unpack the question. But the first thing I'd go to, just on the guide or on the outlook that you're referring to from Page 29 in our slides, as I think about net interest income, net interest margin, the real inflection in the margin from our perspective is going to hinge on sort of the timing of that growth throughout the year. So the primary driver from a true margin -- net interest margin point of view is going to be driven by asset mix, as you indicated. So as we are investing liquidity into loans this year with that growth, you're going to see some margin expansion. Now the natural headwind to that margin expansion is the roll-off of PPP in addition to just the lower rate environment, where some of the loans have been paying off versus where rates are coming on. But I think the asset mix is more than enough to offset that as we inflect on the loan growth side. So that's kind of part A to your question.

Part B as it relates to interest rate sensitivity, and I'd maybe point you to Page 21 in our slides for some additional statistics there, but keep in mind, we've got about $3.15 billion in cash at the Fed and in floating rate securities. So that's all going to be sort of fully asset-sensitive, if you will. On the loan side, we give you a lot of statistics on this page, breaking down our variable rate loan portfolio. So you can see those statistics there. But the thing I'd point you to is if we ramp this year, the way we're thinking from the Fed, just on the variable rate loan portfolio alone, we show you here that ramp would be about $9 million of incremental interest income off the loan portfolio. And that's kind of 25 basis point hikes in March, June, October, if you will. So hopefully, I gave some color to unpack the questions a bit there.

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

No. That's very helpful. And then just touching on expenses, there's a lot of moving parts here. Just curious kind of -- how much of the Landmark and Triumph synergies have been realized and are already in the run rate. And then just kind of how do you think about inflationary pressures and expense growth just given the investments that you guys are making? And maybe just kind of what a pro forma run rate once we get the STXB deal in the run rate as well.

James M. Brogdon - *Simmons First National Corporation - Executive VP, CFO & Treasurer*

Yes. So again, I'll point you to a page and give you some additional color. But on Page 11 of the slide deck, we give you the detail on the quarter up in the table at the top. But I'd point you to the kind of bottom middle of that page. If you take what we show as core noninterest expense, I call out specifically there the contribution to the foundation as well as the salary expense on non-retained Triumph and Landmark employees. So when -- as part of our integration, we don't sort of realize all of that head count reduction day 1. We retain those folks for a month, 45 days, 2 months, et cetera.

So we're fully there by the first quarter, but we had about $1 million of expense in the fourth quarter before we -- before those folks left. So that's, I think, a more normalized run rate down there in the fourth quarter, that $122.9 million. That's going to be really close to about 2% of average assets, which is what I've sort of continued to focus on as we think about our noninterest expense run rate. So I think we're continuing to kind of hold the line in that 2% area. Yes, there's wage inflation, et cetera, out there. But I think given some of our ability around M&A and the scale we've had, we've got some opportunities to continue to combat that inflation.

Robert A. Fehlman - *Simmons First National Corporation - President & COO*

Yes. And Jay, I'd just add, as you said, we think that $123 million is more of a baseline. And as we get into '22 here, we're going to have the normal raises and merit increases and other cost of inflation going up in addition to what we've been doing in the last year. So is investing on the production side that -- we'll be doing some of that. So you will see an increase in those numbers, but you should see revenue on the other side related to the production.

Operator

Our next question comes from the line of Brady Gailey from KBW.

Brady Matthew Gailey - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Maybe just to ask one other thing on loan growth. I know in some of your prior acquisitions, you've had some loans that you kind of strategically run off. When you look at the 2 that closed in the fourth quarter and Spirit of Texas that will close here in a little bit, are there anything out of those targets -- are there any buckets out of those targets that are going to be kind of put in run-off, like you've done in prior deals?

Matthew Steven Reddin - *Simmons First National Corporation - Executive VP & Chief Banking Officer*

Yes. Brady, it's Matt. There is a -- within -- nothing within Triumph. But within Landmark, there were some purchase portfolio mortgages that were not -- those are just going to amortize off. And we account for that as we think about 2022, but it was $100 million or less. But that's the only thing in that book that we just knew, hey, we're not going to be purchasing anymore and it will amortize.

Brady Matthew Gailey - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

All right. And then anything on the Spirit of Texas side?

Matthew Steven Reddin - *Simmons First National Corporation - Executive VP & Chief Banking Officer*

No, nothing that we see right now at all. Spirit looks a lot like us. Just anecdotally, their pipeline right now is over $1 billion today and really excited to get them integrated in April because a lot of what they do -- their average loan size, Brady, is a lot like ours. It's $350,000, and that's kind of right in our sweet spot. So we feel good about them coming on with no planned run-off of a certain sector.

Brady Matthew Gailey - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Yes. I saw they put up some really good growth in their fourth quarter, which was good to see. So it's great to see you're so active with the buyback and -- earlier this month. Should we think about the $175 million of new buyback being done this year? Or do you think that's too aggressive? I mean the stock is still -- it's under 12x earnings. It's 1.65x tangible book value. That's a pretty compelling price. So could we see the $175 million all be done in 2022?

Robert A. Fehlman - *Simmons First National Corporation - President & COO*

Brady, this is Bob. I would say it's going to be timed over the year. I don't know if we'll have it all in by the end of the year. There's a lot of factors in there. One is price, like you said. The other is timing when we can be in the market and when we can't be in and when we could file our 10b5s, all of that. And we also have a systematic plan that we're in over a measured period of time. So I mean I can't tell you it's all going to be in by this year, but our goal would be to utilize our capital position as best we can.

Brady Matthew Gailey - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay. And then finally for me, I know yield accretion ticked up a little bit in the fourth quarter potentially from the 2 deals that were closed, and I know Spirit of Texas is coming on. But how do you think about where accretable yield could be in 2022?

Robert A. Fehlman - *Simmons First National Corporation - President & COO*

Well, I'll tell you, the accretable yield is a little different than it was in the last deals because you're at a point that you have -- under CECL, you have a portion of it that's credit mark and then you have a portion of it that is a negative interest rate mark. So there's a lot less accretion on those deals than we had per asset size in recent deals. I don't know if we -- do we have any guidance now in there?

James M. Brogdon - *Simmons First National Corporation - Executive VP, CFO & Treasurer*

No.

Robert A. Fehlman - *Simmons First National Corporation - President & COO*

But I mean it's going to be -- it won't be as much as it was this last year.

James M. Brogdon - *Simmons First National Corporation - Executive VP, CFO & Treasurer*

Agreed. Yes, I agree with that.

Operator

Our next question comes from the line of Matt Olney from Stephens.

Matthew Covington Olney - *Stephens Inc., Research Division - MD*

I want to go back to the discussion around interest rate sensitivity. I think it was Jay that mentioned the variable rate securities that will also reprice around $1.5 billion. I'm a little bit less familiar with the structure of these and how these are priced. What else can you tell us about what these repriced on, what kind of index and how quickly do those reprice?

James M. Brogdon - *Simmons First National Corporation - Executive VP, CFO & Treasurer*

They'll reprice similar to our cash position. So there, the yield I think in the quarter on those was in the mid-30s basis points, so call it 35, 36 area basis points. But they're going to move just like our cash at the Fed right now, Matt, at 15 basis points. You're going to see that move in lockstep with any kind of increase from the Fed. So I would think of those both the same way.

Matthew Covington Olney - *Stephens Inc., Research Division - MD*

Got it. Okay. And then on Slide 14, talking about the loan portfolio, you gave us a nice graphic there as far as the new producers added in 2021. Just want to kind of dive into that. Pretty big numbers there. Are those gross or net numbers for the year? And does that include the acquired banks that closed earlier last year?

Matthew Steven Reddin - *Simmons First National Corporation - Executive VP & Chief Banking Officer*

That would not include our acquired bankers, but that is going to be replacement bankers as well as net new bankers, Matt.

Matthew Covington Olney - *Stephens Inc., Research Division - MD*

Got it. Okay. And then as far as the general outlook you guys gave, I think it's on Slide 29, you've got the pending acquisition of Spirit of Texas. Does this outlook include or exclude the impact of Spirit?

James M. Brogdon - *Simmons First National Corporation - Executive VP, CFO & Treasurer*

Yes, great question. It excludes that. So the outlook is really a stand-alone Simmons, if you will, so kind of 12/31 to 12/31. Any pending or future M&A would be incremental to that outlook, Matt.

Matthew Covington Olney - *Stephens Inc., Research Division - MD*

Okay. And then the -- I see the Spirit of Texas. It looks like expected closing date says 2022. Any more details you can give us as far as the time line there. I think I've got it, in my model, set for the second quarter, I can't recall if that was guidance or not. Just any color on that would be helpful.

George A. Makris - *Simmons First National Corporation - Chairman & CEO*

Matt, this is George. We're still optimistic in the second quarter. We filed all the necessary applications at this point. We haven't received all the approvals. We just haven't been through the requisite time line yet. Our diligence is well underway. We are in constant communication with the Spirit of Texas folks and I think having really good conversations. I think their performance in the fourth quarter is indicative of our optimism about the combination when that happens. So we're still optimistic that in the second quarter, we're going to get this deal finalized, closed, converted. There are certain things that are out of our control. There is quite a bit of disruption at the Federal Reserve these days. So we don't know exactly how that might affect approval. But we don't see anything between our 2 companies that would cause us any cause for concern. In fact, I think the deeper we get into it, the more we realize this is going to be a really good fit.

Matthew Covington Olney - *Stephens Inc., Research Division - MD*

Okay. And then I guess as we think about layering in Spirit into our forecast in 2022, can you just talk generally about that goal you guys have of maintaining operating expenses at that 2% level of average assets? Is that a dynamic where we should assume maybe that ticks higher than that level initially that over time works down? Or any color you can give on that.

James M. Brogdon - *Simmons First National Corporation - Executive VP, CFO & Treasurer*

Well, yes, I think you've got to allow for time. The same way in the fourth quarter with Triumph and Landmark, we're not going to realize all of the cost synergies, Matt, on day 1. We're going to be prudent about how we go into that. And so it's going to take a quarter or 2 to get there and -- in terms of realizing all of those cost saves. So it doesn't really budge me off the overall kind of core synergized run rate of our expense expectation, but it won't happen on day 1.

Operator

Thank you. At this time, I'm showing no further questions. I would like to turn the call back over to George Makris for closing remarks.

George A. Makris - *Simmons First National Corporation - Chairman & CEO*

Thank you. There is one point that we'd like to make that we sort of anticipated a question about, and that is our net charge-offs for the fourth quarter, a little elevated. And I'm going to ask Bob Fehlman to talk about the new accounting principles that sort of caused that to happen.

Robert A. Fehlman - *Simmons First National Corporation - President & COO*

Yes. We had about $9.5 million in charge-offs in the quarter. About $6 million of that was related to the recent acquisitions. And under the CECL rules, that is -- those charge-offs happen after the acquisition. Under the old rules prior to CECL, that would have been adjusted to fair value on that date and it would have flowed through, so no surprises for us at all. It was identified with the banks we acquired and during our due diligence. So it's just a little difference in how the accounting is on that. So other than that, it was negligible charge-offs for the quarter.

George A. Makris - *Simmons First National Corporation - Chairman & CEO*

Yes. And just to add a little to that, considering Landmark and Triumph charge-offs and the charge-off of a previously recognized synergy credit, between those 2 things, that exceeded our $9.3 million net charge-offs. So it's a little misleading, but this is really the first time that we're dealing with the new CECL requirements in our reporting. The other thing that needs to be expressed is that in our provision reversal of $1.3 million, that actually includes an addition of $22 million to the provision based on the Landmark and Triumph acquisition. So the reversal, without that $22 million charge, would have been much more than that. So just a couple of accounting issues that were unusual this quarter that we wanted to make sure that we talked about today.

So with that, once again, I want to thank the Simmons associates who have put up with a lot over the last 2 years, particularly last year, in the economy with COVID. And I think our results are extraordinary, and it's all due to the team that we've built here at Simmons. We're looking forward to 2022. We're looking forward to welcoming our new partners in the Spirit of Texas Bank. And we hope that we have really, really good news to report in April. So thank you very much for joining us this morning. We'll do this again in 90 days.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.