S&P Global
Market Intelligence

Landmark Bancorp, Inc. NasdaqGM:LARK

Shareholder/Analyst Call

Wednesday, May 20, 2020 8:00 PM GMT

Table of Contents

Call Participants

EXECUTIVES

Mark A. Herpich
VP, Secretary, CFO & Treasurer

Michael E. Scheopner
President, CEO & Director

Presentation

Operator

Hello. And welcome to the Annual Meeting of Stockholders of Landmark Bancorp, Inc. Please note that today's meeting is being recorded. [Operator Instructions]

It is now my pleasure to turn today's meeting over to Michael Scheopner, President and Chief Executive Officer of Landmark Bancorp. Mr. Scheopner, the floor is yours.

Michael E. Scheopner
President, CEO & Director

Thank you. Good afternoon, ladies and gentlemen. Welcome to the 2020 Annual Meeting of Stockholders of Landmark Bancorp, Inc. I'm Michael Scheopner, President and Chief Executive Officer of the company and it is my pleasure to serve as Chair of this meeting. Thank you for your time and attendance today.

We are holding our Annual Meeting of Stockholders virtually this year for the first time ever because of the COVID-19 pandemic. We are taking measures to protect the health and well-being of our employees and stockholders, and holding this meeting virtually is one of those steps.

Before we move to the business at hand, there are a few housekeeping items that I will address related to today's virtual meeting. To vote your shares or submit questions, you will need the control number provided on your proxy card. If you have not yet voted and wish to vote or if you wish to revoke a previously submitted proxy, you may do so by clicking, cast your vote.

Stockholders who have already voted by Internet, telephone or mail need not vote again online at this meeting. Your voting instructions will be carried out at this meeting by Mark Herpich and myself as your appointed proxies.

If you would like to submit a question, please click on the messages icon at the top of your screen now or at any time during the meeting. We encourage you to submit any questions as soon as possible to ensure that your question is received. We have reserved time after the adjournment of the meeting to address any questions that don't directly relate to today's proposals.

At this time, I will call the meeting to order.

Landmark's executive leadership team and directors are all in attendance at the meeting today. We are very proud of the members of our management team and our Board of Directors, and we are grateful for their dedicated service. Thank you all.

Also in attendance today is a representative of our independent registered public accounting firm, Crowe LLP. Andy Gripp is here today to represent Crowe and is also available to respond to appropriate questions during the general question-and-answer period.

We will now conduct the formal part of the annual meeting. Mark Herpich will act as the secretary of this meeting, Mark has advised me that a quorum is present at this meeting, so I declare this to be a properly constituted meeting, duly organized and ready for business.

Mark has also delivered an affidavit from Computershare, which states that mailing of the notice and proxy statement originally commenced on April 16, 2020, and was mailed to all shareholders of record as of the close of business on April 1, 2020, the record date for the annual meeting. Jeremy Hinkle is serving as the inspector of election at this meeting. And that completes the necessary formalities.

The purpose of our meeting is to conduct the following business matters to elect 3 Class I directors who will each serve a 3-year term and to ratify the appointment of Crowe LLP as the company's independent registered public accounting firm for the year ending December 31, 2020.

We will now take stockholder questions related to the proposals presented. If you have not done so already at this time, please submit any questions that you have. If you would like to submit a question, please click on the messages icon at the top of your screen.

We have not received any questions regarding the business before this meeting. So the question-and-answer session is now closed. If you have not already done so, please submit your vote now on each matter by clicking cast your vote. Voting on these matters is about to be closed.

[Voting]

Michael E. Scheopner
President, CEO & Director

I now declare that the polls are closed on all matters before the stockholders, and that concludes the voting on the proposals considered at this meeting.

The results of the votes are as follows: each of the nominees has been elected as a Class I director of the company and the appointment of Crowe LLP was ratified.

That completes the formal business items on today's agenda. And I declare that this meeting is adjourned.

I would now like to ask Mark Herpich to make some comments regarding a brief review of the company's financial performance. After that, I will provide my comments regarding the company and our strategies for driving value for our stockholders, after which we can then take any stockholder questions.

Let me direct your attention to the forward-looking statements slide for today's meeting.

Mark A. Herpich
VP, Secretary, CFO & Treasurer

Thank you, Michael. And good afternoon. It is my pleasure to share with you some of the financial information of the company for 2019 and the first quarter of 2020. The information as of December 31 is obtained from the audited financial statements and the information as of March 31 is unaudited.

Let's begin by taking a look at an overview of Landmark Bancorp, which is the holding company for Landmark National Bank. We currently have 30 locations, serving 24 communities across Kansas, with our most recent banking location opening in Prairie Village, Kansas during July of 2019. As of March 31, Landmark's total assets have increased to $989 million along with $831 million in total deposits. And based on our closing stock price as of April 30 of $21.62, our market capitalization approximates $98 million.

This next slide presents a variety of Landmark stock performance metrics as of March 31, 2020. As you can see, once again, based on the LARK stock price for April 30, Landmark's price to tangible book value was 107% as our tangible book value was roughly $20.14 at March 31.

Another typical industry multiple in comparing stock values is the price-to-earnings multiple in which banks historically have traded in the 13x to 15x earnings range. Based on our 2019 earnings, we are still only trading at a 9.4x earnings ratio. Each of these valuation metrics mentioned have felt the impact of the economic downturn associated with the COVID-19 pandemic as they are all based on our stock price.

Hopefully, this means we still have room for improvement in our stock price based on our announcements of record earnings in each of the past 2 quarters. Lastly, our dividend yield to our shareholders based on our April stock prices compute to 3.7%.

Over the years, including the recessionary years and continued low interest rate cycle, Landmark has continued to pay a cash and stock dividend. As this slide shows, we have paid 75 consecutive quarterly cash dividends, an annual 5% stock dividend since we became Landmark in October 2001. This streak would even be longer if we included our former company dating back to the mid-1990s. And not only did Landmark continue their dividends, SNL Financial cited Landmark as 1 of only 16 banks that increased dividends greater than 3% annually between 2010 to 2017. Landmark has actually increased our cash dividends by 5% each year as a result of the 5% stock dividend.

Turning to some financial highlights. As we look back over the last 5 quarters for Landmark, we have been able to grow loans steadily, resulting in a $63 million loan growth since the first quarter of 2019.

As the next slide shows, the loan growth has helped steadily improve our net interest margin over the past 5 quarters as well due to the higher interest rates from loans as compared to the alternative of purchasing lower-yielding investment securities. Along with our changes in our asset mix between loans and investments, the lowering of interest rates beginning in August 2019 has also accelerated our net interest margin improvement as we were able to quickly lower our cost of funding.

This next slide shows our net earnings trend over the past 5 years, culminating in 2019's previously reported record net income of $10.7 million. Landmark's core earnings element, net interest income, also show steady increases over the past years. And Landmark has followed up the 2019 record earnings year with another record with our recently announced first quarter 2020 earnings of $3.4 million.

A couple of ratios that banks are traditionally analyzed on are the returns on average assets and returns on average equity. As the presentation illustrates, our return on average assets has exceeded 1%, all but 1 year over the past few years and the first quarter ended March 31, 2020, which is the standard for designating high-performing banks.

2017 was a year which doesn't track with our core performance trends. As we discussed during our past couple of annual meetings, we experienced a fraud loss of roughly $5 million after-tax in 2017, and we are continuing to work with authorities on this event. Additionally, our ROE has remained above 10% for all but 2017 and has reached 12% for a couple of the recent periods.

While we haven't acquired another financial institution in recent years, we have been able to achieve growth organically and supplemented with the acquisition of a couple of lending teams in the Kansas City metro area during 2018 and early 2019. Our net loans have increased by $133 million since 12/31/16, reaching $554 million at March 31, 2020. Our lending efforts are focused on relationships instead of individual transactions, which has helped grow our deposits to $831 million.

An earlier slide showed the record quarterly earnings of $3.4 million for March 31, 2020, and the net improvement in net interest margin to 3.67%. Landmark's first quarter earnings were aided by increases in various categories of our diverse noninterest income, but in particular, a $1.8 million increase in gains on sales of investments as we anticipated -- as we strategically sold some of our higher coupon mortgage-backed investments as we anticipated accelerating prepayments given the drop in mortgage interest rates currently resulting in a high-volume of mortgage refinancing.

One of Landmark's most valuable attributes is our deposit portfolio, of which noninterest-bearing deposits comprise approximately 25%. This is a key driver enabling us to achieve a 0.61% cost of funds.

Our efforts to achieve consistent earnings over the years has resulted in Landmark achieving a strong capital base as exemplified by our risk-based capital ratio shown here, exceeding 17%. Our capital strength and our solid low-cost deposit base position us well to meet the financial needs of families and businesses across Kansas during this unprecedented time.

To wrap up my comments, I would like to thank my associates in their various operational departments with whom I work for all their hard work over the past year. We have a very knowledgeable and professional group of associates who are willing to do whatever is necessary to ensure Landmark's success.

And while we are pleased with the company's performance in 2019 and the first quarter of 2020, we are working diligently to navigate Landmark through the economic uncertainties brought about by the COVID-19 pandemic, which has resulted in the closing of various Kansas businesses beginning in March 2020, which will represent a variety of challenges to Landmark during the remainder of 2020 as we continue our efforts to grow and diversify our company with shareholder value, our foremost goal.

Thank you. And I would now like to turn the virtual podium back over to Michael Scheopner.

Michael E. Scheopner
President, CEO & Director

Mark, thank you for your comments, and I want to thank you also for your efforts over the past year.

I want to start my comments this afternoon by saying our thoughts go out to all of those impacted by the coronavirus pandemic. We understand that Landmark plays a vital role as part of the critical infrastructure of our economy, and we take that responsibility seriously.

We have seen firsthand the impact of this crisis, that it has had on our clients and communities, and we are committed to helping them through these troubled and uncertain times. I also want to take a moment to thank all of our associates at Landmark National Bank who have embraced their role as part of the nation's essential workforce.

As part of our pandemic response plan and with the safety and well-being of our associates and customers foremost in our mind, we began limiting access to our traditional bank lobby network, following the presidential declaration of a national emergency in mid-March. Since that time, we have continued to follow appropriate guidance from the Centers for Disease Control and Prevention, the Kansas Department of Health and Environment, and the Kansas governor's plan to reopen the state.

As of today's meeting, the state of Kansas is currently in Phase 1.5 of a 4-phase reopening effort. This interim phase was ordered by the governor last week and further adjusted yesterday. Late June is now projected as the timing for what the state is referring to as phase out, where the stay-at-home orders are lifted and mass gathering limits are significantly relaxed.

Our bank lobbies are currently open by appointment only, and we continue to have a significant portion of our associates working from home. For those that are present in our bank facilities, we have enhanced precautions in place for their safety, and we are actively implementing additional safety protocol in expectation of reopening our bank lobbies during the month of June.

To ensure that we are meeting our customer needs, we have repositioned associates to support our customer care call center to handle increased volumes of client questions and to support client access to our digital banking platforms. As a preferred lender with the Small Business Administration, we were able and prepared to immediately respond to help existing and new clients access the Paycheck Protection Program authorized by the CARES Act during these challenging times.

As of April 30, we have assisted 739 customers in securing approximately $123.6 million of funding through the Small Business Administration Payroll Protection Program. 78% of these loans were for existing Landmark clients with the remaining loans provided to new Landmark customers.

Similar to my earlier comment, we repositioned internal resources to support our response to the SBA PPP effort. The PPP loan forgiveness application process was released late last week, and we will be actively working to assist our clients as they navigate through this phase of the program.

One of Landmark's key risk disciplines is to maintain a good geographic and industry mix for diversification in the loan portfolio. Looking at our exposure to credit concentrations, as of the end of the first quarter 2020, our commercial real estate portfolio totaled 25.3% of our total loan portfolio. This was additionally diversified by the mix of owner-occupied versus nonowner-occupied CRE. Commercial and industrial loans represented 21.6% of the portfolio, and our agricultural loan portfolio accounted for 17.1% of total loans as of first quarter end.

Taking a deeper dive into the makeup of these portfolio segments, the commercial real estate portfolio is further detailed on this slide. The COVID-19 pandemic impact, specifically on the hospitality sectors was immediate, as stay-in-place orders were implemented and businesses were ordered to close in support of social distancing measures. Our exposure to the hotel, retail and restaurant sectors is detailed here and as noted represents 5.3% of our total loan portfolio.

Similar to the CRE analysis, this slide details the commercial and industrial segment of our loan portfolio. As noted, the retail and restaurant exposure in the C&I loan bucket totals 2.5% of our overall loan portfolio.

In addition to the SBA PPP efforts that I previously detailed, we are working with clients who have requested payment deferrals or loan modifications on a case-by-case basis so that these solutions are specific to their capital and liquidity needs. As of April 30, we have provided modifications to 111 loans, representing $43.5 million. The industry outline associated with these loan modifications is detailed on this slide. These modifications, as I said, have been customized on a case-by-case basis, and all of the approved modifications have been consistent with the interagency regulatory guidance that was issued in late March.

During the first quarter of 2020, we recorded a $1.2 million provision for loan losses, primarily as a result of the projected economic impact of COVID-19 on our loan portfolio. Our current allowance for loan and lease losses to outstanding gross loans is 1.33% as of first quarter end and represents 98.93% of our total nonperforming loans.

I noted the allowance level as compared to total nonperforming loans, and this slide provides some additional asset quality details related to our nonperforming loans. We saw a slight uptick in 1Q '20 in our nonperforming asset balances. This was attributed primarily to 2 separate credit relationships, both involving commercial real estate. We were in the process of collection actions on both of these credits with an expectation that we had limited loss exposure. However, these collection efforts have been temporarily suspended as a result of the courts in Kansas being closed due to the COVID-19 pandemic. We will immediately resume collection actions at the point in time the courts are reopened.

The overall impact of the COVID-19 pandemic on our loan portfolio is yet to be seen. Much will depend on the duration of the economic uncertainty. But it is certain that our clients and their business operations have been negatively impacted. As previously noted, we recorded a $1.2 million provision for loan losses during the first quarter. And we may need to make additional increases to our provision for loan losses in future periods.

Mark commented earlier on our operating results for 2019, and I want to wrap up my remarks today by focusing on a few of our successes from last year. We continue to enjoy positive organic growth trends, which included expansion of our branch network with the opening of our Prairie Village branch to accommodate the addition of a successful team of commercial bankers in the Kansas City metropolitan area. The 2019 KC metro expansion followed our midyear 2018 addition of a team of commercial bankers with a specialty in small business lending in our Overland Park, Kansas market.

The strategic efforts in the Kansas City area are just part of the story. We have realized commercial banking loan growth across all of our markets. Our commercial banking teams continue to focus on client relationships that meet our credit portfolio standards versus trying to buy transactions through low price or credit structure compromise. And during these uncertain economic times, that strategy has served us well, and we will continue this disciplined approach.

As of the end of 2019, our $998 million in total assets places us as the 11th largest bank headquartered in the state of Kansas. While my expectation is that merger and acquisition activity will be on hold for the remainder of 2020, when the economic environment stabilizes, our ability to pursue acquisitive growth remains an appropriate strategy.

There are currently 215 banks chartered in the state of Kansas, with 76% of those less than $250 million in asset size. We will continue to approach acquisitions strategically with respect to locations that offer growth opportunities, pricing that is competitive but provides an appropriate return to our shareholders, and organizational culture that fits our historic disciplines.

Overall, our management strategies have proved successful. This chart reflects our total stock return compared to the SNL Midwest U.S. bank index that dates back to 2006, which was prior to the great recession period.

Obviously, these are very uncertain times. I believe that our risk management disciplines have positioned us as well as possible. I mentioned earlier our focus on loan portfolio diversification. One thing that deserves mention and will be significantly impactful in 2020 is our historic success in 1-4 family mortgage lending. The current low rate environment that we are experiencing has resulted in record volumes of mortgage lending activity.

For the first time in my 24 years at Landmark, our mortgage loan refinance activity currently exceeds our purchase money volumes. As we have historically done, from a risk management perspective, essentially all of our mortgage loan production is produced at investor-grade level for sale into the secondary market.

Our performance last year and year-to-date in 2020 is truly a credit to the efforts of our associates throughout the organization who practice good banking fundamentals and deliver high-quality customer service, consistent with our corporate vision, that everyone starts as a customer and leaves as a friend. Your management team remains focused on managing the organization in a conservative and disciplined manner that will prepare us to respond as well as possible during these economic times.

In closing, I want to acknowledge and express my appreciation to my fellow Landmark associates. They have been doing great work. They are highly talented community bankers dedicated to exceeding the expectations of Landmark customers, and I am proud to be associated with this team.

I also want to express my thanks to our Board of Directors whose leadership, knowledge of our banking markets and contributions to developing Landmark's strategic plan helped set the stage for continued success.

Lastly, thank you also to each of our Landmark customers and shareholders. Your support and confidence have made our team's successes possible. We look forward to continuing to contribute to your success in the years to come.

We'd now like to take time to answer any questions that you might have. We will do our best to address any questions that have already been submitted. If there are any other questions, please click on the messages icon at the top of your screen now.

We have not received any questions. So the question-and-answer session will be closed. Thank you again for your time and for taking the time to attend this year's annual meeting. Good afternoon.

Operator
This concludes the meeting. You may now disconnect.