

# THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

## First Midwest Bancorp, Inc. (NASDAQ:FMBI)



**MICHAEL L. SCUDDER** is the President and Chief Executive Officer of First Midwest Bancorp, Inc., and the Chairman of the board and Chief Executive Officer of First Midwest Bank. In his 30 years of service, Mr. Scudder has served in many positions of increasing levels of responsibility in leadership and management capacities, including serving as the company's President and Chief Operating Officer and its Chief Financial Officer. Mr. Scudder earned an MBA from DePaul University and a bachelor's degree in accounting from Illinois Wesleyan University. Currently, he is an active member of the American Bankers Association's CEO Council, the Mid-Size Bank Coalition of America and The Bankers Club of Chicago. Mr. Scudder is a member of the Metropolitan Planning Council of Executive Advisory Board and is a member of the Economic Club of Chicago. Additionally, he is a member of the Executive Committee of DePaul

University's Center for Financial Services. Previously, he served as an inaugural member of the Federal Reserve Bank of Chicago's Community Depository Institution Advisory Council. He serves in various leadership positions with several civic and charitable organizations in the metropolitan Chicago area.

### SECTOR — BANKING

**TWST:** Please state your name, title and company.

**Mr. Scudder:** This is Mike Scudder. I'm President and Chief Executive Officer of First Midwest Bancorp, Inc.

**TWST:** Tell me a little bit about First Midwest — what your businesses are, the areas you serve, your typical customers.

**Mr. Scudder:** First Midwest is a regionally based commercial bank of nearly \$10 billion in assets, offering a full array of commercial consumer and wealth management products, and services through a variety of integrated channels. We do so through more than 100 offices that are located primarily in Illinois, including the metro Chicago area, where we have about 90% of our business, as well as northwest Indiana and eastern Iowa. Our wealth management business has over \$7 billion in assets under care, which, on a revenue basis, makes us Illinois' third largest amongst banks headquartered in Illinois. We also offer equipment leasing and finance through our platform known as First Midwest Equipment Finance, which operates in some 40 states.

From a business standpoint, we serve the full range of clients — business and consumer. However, as we do so, our colleagues focus on a mission that emphasizes taking personal responsibility to help our clients be successful. It's our belief that if our clients are successful, our company will be as well.

**TWST:** 2015 was a pretty interesting year for your company. If I recall, you purchased The Peoples' Bank of Arlington Heights, NB&T, and then previously, I believe in late 2014, there was the Great Lakes deal. Am I correct, and were there other deals that I'm missing as well?

**Mr. Scudder:** We certainly have had an active last several years in terms of opportunities to expand and grow our company. We've always viewed that there would be opportunities to do so through acquisition, made possible by the difficult operating environment. We have been targeting partnerships that help enhance our overall ability to serve our clients and broaden our markets. You referenced a few of our most recent opportunities, but if you include our pending combination with The National Bank & Trust Company of Sycamore, which we just got Federal Reserve approval to close on and announced today, we will have consummated six transactions, representing a little over \$2 billion in assets, and also added equipment leasing and finance to our product line over a broader horizon, say, the last 10 years.

**TWST:** That's a lot. That's interesting. What drove you to be acquisitive versus more organic growth? Was it market conditions and the environment? What was the thinking behind that?

**Mr. Scudder:** When I became CEO in 2008, operating conditions for the industry as a whole were difficult, but strategically, we felt we'd have an opportunity to not only deal with the realities of the environment

but also recognize opportunities to grow and build our business. We've been doing that organically as well as through acquisitions. For example, we were able to participate in the FDIC acquired institution process, which typically brought a solid core deposit foundation but required that we work through the problem assets and then, in turn, leverage our lending teams to replace those assets. So I would say our drive has been to organically broaden and diversify our revenues, enhance our overall core deposit base and then opportunistically supplement this growth through acquisition.

**TWST: Now, you're a diverse bank. What area is your biggest growth driver right now, and where do you want to grow?**

**Mr. Scudder:** In terms of business growth, we have high expectations for our commercial and consumer banking franchises. Separately, we've really expanded our wealth management business. Our wealth management platform will grow to approximately \$8 billion after the completion of our acquisition of The National Bank & Trust Company of Sycamore. So relative to our total asset size, we have a very substantial and very profitable wealth management platform. Other growth drivers include the equipment-leasing business, which we entered through acquisition in 2014.

***"We are building a diversified revenue base and positioning ourselves to grow and expand profitably as strategic opportunities present themselves. We are not looking to grow for the thrill of it but rather to grow and generate higher overall shareholder returns."***

**TWST: You became CEO really right when the financial crisis was happening, and First Midwest navigated that very well. You are a Midwestern bank working in urban and suburban markets. Talk to me about what you're seeing as a CEO in terms of the economy in your region compared to a year ago and how things progressed since you became CEO. You have a rather unique vantage point looking at economic conditions, I think.**

**Mr. Scudder:** Sure. Certainly, as you go back seven or eight years ago, from an economic-condition standpoint, the Midwest was significantly impacted by the financial crisis and the resulting drain on property values as well as consumer business clients. At that time, because we expected the environment to remain difficult for an extended period, we wanted to be aggressive in dealing with those pressures, moving to get problems resolved as quickly as we could and then position ourselves to take advantage of the opportunities that were going to lie ahead. As I look forward today, the environment, while slower to recover here in the Midwest, is nonetheless greatly improved. Our clients are much better positioned and much stronger. In my view, the biggest challenge from a client perspective today is uncertainty.

**TWST: Yes, I was going to ask about that because it does feel like things had been pretty good, but now entering 2016, it feels a little uncertain.**

**Mr. Scudder:** I think that's fair, and uncertainty brings a hesitancy to develop and grow to any business. Again, if you look over the last seven or eight years, uncertainty has taken the form of regulatory change, business volatility, taxes and weaker municipal health, as well

as concerns about the broader markets shifting from the eurozone and to China. We also will have to navigate the unwinding historic levels of monetary easing and the impact that's going to have as interest rates rise. Clarity always helps and gives confidence of action. The absence of clarity is our biggest challenge now, and I think that's why you're seeing some of the volatility in the market as of late.

**TWST: And as a CEO, obviously, you've been through tougher times, so what is your biggest challenge now?**

**Mr. Scudder:** From my perspective, I spend most of my time on people; that's really what drives our overall success. The focus is not just in terms of the attraction of but also on the development, retention and motivation of a talented, engaged team. Away from that, you have those elements that go with the environment around you and what's changing. Cyber risks have certainly added a dimension of risk management to the operation of our business and added a responsibility that we take very seriously in terms of how we can best protect and serve our clients.

**TWST: How are rising interest rates going to affect your company, and what are your customers saying about it too?**

**Mr. Scudder:** A number of financial institutions in today's environment are what we call asset-sensitive, meaning they will benefit

as assets reprice as interest rates rise. We have an additional advantage in that we have an extremely strong core deposit base, roughly 60% of which is consumer-based. So that gives us an added advantage as interest rates rise, as those deposits tend to be more stable.

From a lending perspective, I think businesses have been preparing for higher interest rates. Also, keep in mind that the driver of higher interest rates is improved economic conditions. Unemployment levels are lower, so the clients themselves are better positioned to operate in a higher rate environment.

**TWST: Talk to me about your investors. Now that you've grown a fair amount, I imagine so has your investor base. Who are your typical investors? Are they institutionals? Are they people who have been in your business for a long time, worked for your companies for a long time? Who are they, and what are they telling you or asking you?**

**Mr. Scudder:** Ours is predominantly an institutional investor base. We're 85% institutional-owned. As the company has evolved over these last 30 years, that's transitioned from a retail investor base to an institutional one. We have a strong level of retail investors in our company, but our growth and expansion has been driven by institutional investment.

Investors focus on the same issues and ask a lot of the same strategic questions that we as business managers ask. How are you going to navigate the environment? How do you differentiate yourself within the markets? I think that is one of the great advantages of an institutional base, as they challenge you as to how you plan to create overall shareholder value.

**TWST: What should potential investors know about your bank?**

**Mr. Scudder:** We are a long-tenured commercial banking franchise and team that operates with an extremely strong funding base that supports our overall lending businesses. We are building a diversified revenue base and positioning ourselves to grow and expand profitably as strategic opportunities present themselves. We are not looking to grow for the thrill of it but rather to grow and generate higher overall shareholder returns.

**TWST: Do you offer a dividend?**

**Mr. Scudder:** We pay a dividend of 9 cents per share, which is equivalent to more than a 2% yield.

**TWST: Tell me a little bit about you. How did you come to be CEO of First Midwest? What's your background?**

**Mr. Scudder:** I've been with First Midwest almost 30 years in a variety of roles, and I became CEO in 2008. As far back as 2000, I was designated to be successor to the then incumbent CEO and have had the good fortune to have responsibilities broad enough to provide exposure to all facets of the business.

**TWST: Did you originally start out at the company?**

**Mr. Scudder:** I started off in public accounting working for what was then Peat Marwick Mitchell, which is now KPMG. I was recruited into the company during its early formation to help build an audit platform across what was then 22 independent banks. As that evolved and we continued to grow and expand, I was offered the opportunity to move into a number of positions, progressing up through the organization to become CFO of the bank and then the company, Chief Operating Officer, and then finally, I was named CEO in 2008.

**TWST: It's interesting. I feel like a lot of people now are not at companies very long. Do you try to create long-term strategies for your employees?**

**Mr. Scudder:** The mission of the company and engagement level of our teams are powerful drivers in attracting people to be a part of First Midwest. An environment where your primary focus is the relationship you have with your clients and helping them be successful is fun. Not many people get to go to work every day and help someone be successful. That's very rewarding, and in and of itself helps with retention. Additionally, as we grow and expand,

there is the opportunity to take on increasing responsibilities within the company, which is something that I certainly benefited from over the course of my career.

**TWST: Lastly, tell me something I didn't ask. Tell me something I don't know about the bank that you definitely think should be mentioned or people should know.**

**Mr. Scudder:** I could probably give you 10 things if we have the time and space. Probably, most often, we talk about the size and breadth of our wealth management platform. Oftentimes, it's not as recognized as we would like it to be, and we need to do a better job of touting that.

**TWST: Does it go by the First Midwest? Are there certain names that it goes by that people would identify?**

**Mr. Scudder:** Yes, First Midwest Wealth Management. We've been in the business for a very long time, and we are well-known in our direct markets. As we expand, the volume of people who recognize us is growing as well. So we're very pleased about that. Other aspects of our business less recognized include the fact that we have a solid agricultural-lending business — we're the number-one agricultural lender based in Illinois.

Finally, commensurate with our focus on our client relationships and service levels, we've won the J.D. Power Award for having the highest level of retail client satisfaction in the six-state Midwest region both of the last two years and three years out of the last five. Keep in mind, that's every bank that operates in the six-state Midwest, regardless of size. We are proud of that.

**TWST: Thank you. (JG)**

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