



FOCUSPOINT RESEARCH

Company: **National Bank Holdings**
 Symbol: **NBHC**
 Analyst: **Jeffrey Miller**

Rating: **Buy**
 Report Date: **August 15th, 2016**

Mkt Cap (mil): **\$639**
 Price: **21.65**

- ❖ Management focused on creating shareholder value. 50% of shares repurchased since 2013.
- ❖ Low downside risk. Valuation support and company buyback limit downside. Favorable Risk-Reward.
- ❖ Tailwind to earnings from run-off of purchase intangible amortization.
- ❖ Denver, CO market is growing rapidly. Strong local economy provides rising tide for loan growth.

Company Overview: \$4.6 billion in assets regional bank HQ in Denver area. Operations in TX, KS and MO.
Investment Thesis: Focused on improving asset mix and driving increase in ROA to 1% and ROE to 10%.
 Upside 50% with limited long-term downside.
 Company created to acquire failed/troubled banks after 2008. Now in growth mode.

	Target:	Return %:	Price/TBV	'17 P/E	ROTA	ROTCE	Price/Book	Yield
Upside	29.51	36%	150%	29.51	0.20%	5.08%	1.04	0.9%
Base	23.60	9%	120%	23.60				
Current Price	21.65	0%	110%	21.65				
Downside	17.70	-18%	90%	17.70	TCE/A	Res/Loans	NCOs %	NIM
					11.80%	1.46%	0.53%	3.26%
Risk/Reward:	2.0							

Next 6 months Trading Range:

Buy	<21.00
Hold	22.50
Sell Half	24.00
Exit	26.00

Key Facts:

Asset Sensitivity:	High
Buybacks Remaining:	5%
Takeout Candidate:	Yes
Activist Shareholders:	No

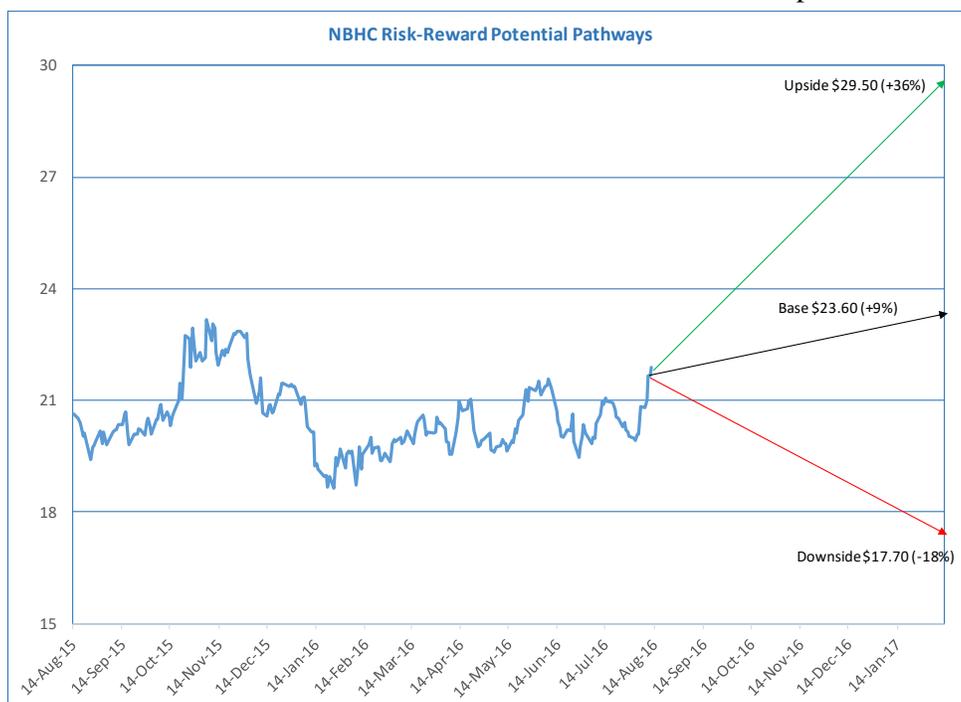
HQ: Greenwood Village, CO

States of Operation:

CO, MO, KS, TX

Website:

<https://nationalbankholdings.com/>



Summary: National Bank Holding Co. (NBHC). Pivoting to Capital Return was the Right Call

NBHC is run by Tim Laney and Brian Lilly. It was formed after the 2008 crisis to buy failing banks and fix them, a strategy that in the past has been very profitable. However, they were not able to find enough deals that met their criteria to put their capital to work, so instead they have been returning it to shareholders via share buybacks. The company completed a \$100 million tender offer for 13.3% of their shares at \$21.50 per share in the summer of 2015. They are still buying back stock, and there are quite a few catalysts coming up that could drive earnings higher. Buy this high-quality management team while you can. The stock trades at a full multiple of earnings, as it is still integrating its deals and growing, and has an odd accounting cost its running off, but its price to book is a very cheap 110%. I expect management to continue to buy back stock at current levels and then, if appropriate, sell the company to a bigger competitor, but this is probably a number of years away. The company puts together extensive investor presentations – see [this link](#) for the latest.

Bull Case: \$29.50 NBHC rapidly reduces its excess capital, driving EPS higher, either via continued buybacks or very attractive small acquisitions. Management moves into income capture mode. Eventually the company could be acquired for a price of \$30 or more.

Base Case: \$23.60 NBHC continues its large buyback program, while fears about its energy loan portfolio fade. The large discount to its peers narrows. Management's efforts to create long-term value become recognized. Stock trades at 120% of tangible book.

Bear Case: \$17.70 NBHC trades at 90% of tangible book value. Scenario unlikely unless WTI trades back under \$30 a barrel and its markets enter a regional, energy driven recession. A lower-for-longer rate outlook from the Fed could also drive sentiment to new lows for the bank sector overall, as well as NBHC.

FocusPoints:

Asset Sensitivity: High. NBHC estimates that its Net Interest Income (NII) will increase about 4% with a 100 basis point parallel increase across the treasury yield curve. We estimate a slightly larger impact due to the ability of the company to lag deposit pricing while increasing yields on earning assets faster.

Capital Management: NBHC had \$110 million of excess capital as of June 30, 2016, or 17% of its market cap. Management has been very proactive in reducing this via tender offers and open market purchases. We expect NBHC to continue to aggressively grow loans and buyback stock throughout 2016-2017.

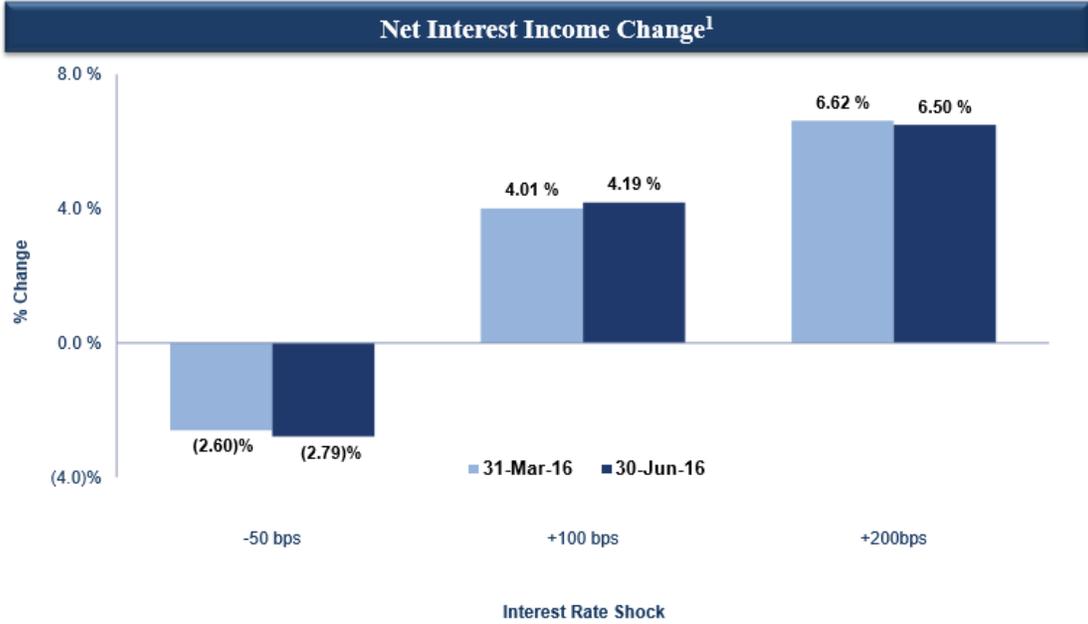
Takeout Potential: High The top three executive officers of the bank own 9.9% of the company, with CEO Tim Laney owning 5.9%, CFO Brian Lilly owning 1.3% and Chief Risk Officer Richard Newfield owning 1.5%. It is our belief that management would sell for \$30 or more per share, or over 50% upside.

Shareholder Base: NBHC does not currently have any activist shareholders except for Banc Funds with a 2.2% stake. T. Rowe Price owns 11% of the shares, while Elliot Management has 8.3%.



Net Interest Income Sensitivity

NBHC Balance Sheet Positioned to Benefit From Rising Rate Environment



¹ 12-month simulated net interest income impact using management projected balance sheet and an immediate parallel shift in the yield curve. Rate risk measures are adjusted to reflect less excess cash as a result of reducing excess capital to 9% leverage ratio.

Key Financial Targets

Fully Levered Targets

Assets	~\$6bn-\$8bn
Efficiency Ratio	<60%
ROATA	≥1.00%
ROATCE	12%–14%
Dividend Payout Ratio	25%
Tier 1 Leverage	9%



Investment Highlights

- **Successfully rebuilding failed/troubled banks with organic growth strategy:**
 - **Trailing twelve months² of loan originations of \$972 million, goal of \$1.0+ billion in 2016**
 - **Client driven deposit base of \$3.8 billion**
 - **Profitability emerging on the path to 1% ROATA**
 - **YTD Adjusted ROATA of 0.63%¹**
 - **YTD ROATA pre-tax pre-provision of 1.20%¹**
- **Single, scalable operating platform capable of handling future growth**
- **Demonstrated opportunistic manager of capital**
- **Expertise in mergers and acquisitions with future opportunities**
- **Experienced and respected management team and board of directors**

NBHC Markets and Family of Brands

Attractive and Growing Markets



Community Banks of Colorado
A division of NBHC Bank, Member FDIC
Where common sense lives.

- 47 banking centers
- Ranks #5 in deposit market share in the state of Colorado for local banks
- Population: Front Range – 4.5 million
- Favorable demographics vs. national levels in:
 - Unemployment
 - Household Income
 - Population Growth
 - Income Growth
- Business Climate & Recognition
 - Denver #1 Best Places to Live (*U.S. News*)
 - #1 in Labor Supply (*Forbes*)
 - 2nd Strongest State Economy in the U.S. (*Business Insider*)
 - 4th Best State for Business (*CNBC*)

Hillcrest Bank
A division of NBHC Bank, Member FDIC
Where common sense lives.

- 3 commercial banking locations in Texas
- Business Climate & Recognition
 - Dallas: #3 Fastest Growing City (*Forbes*)
 - Austin: #1 “2015 Best Large City to Live In” (*WalletHub*)

Bank Midwest
A division of NBHC Bank, Member FDIC
Where common sense lives.

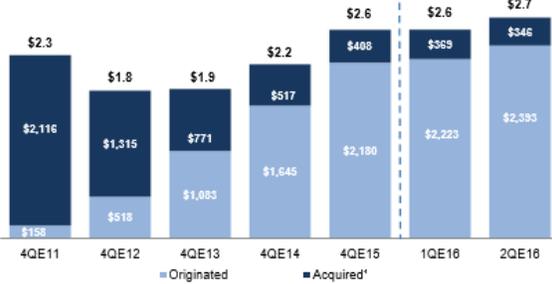
- 42 banking centers
- Ranks #5 in deposit market share in Kansas City MSA for local banks
- Population: Metro KC – 2.1 million
- Favorable demographics vs. national levels in:
 - Unemployment
 - Household Income
- Business Climate & Recognition
 - #2 Best City for Jobs (*CBS MoneyWatch*)
 - 4th “Hot Startup” City (*Entrepreneur Magazine*)
 - #15 on “50 Best Cities to Live” List (*Bloomberg*)
 - #2 “Top Five Cities with Up-and-Coming Downtown” (*Fortune*)



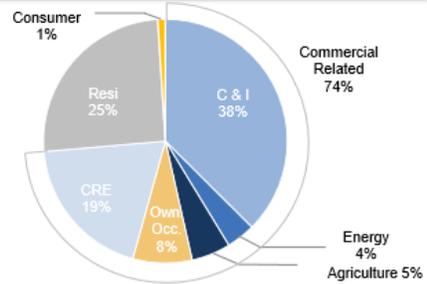
Organic Loan Growth Strategy is Accelerating

Total Loans

(\$ in millions; totals in billions)

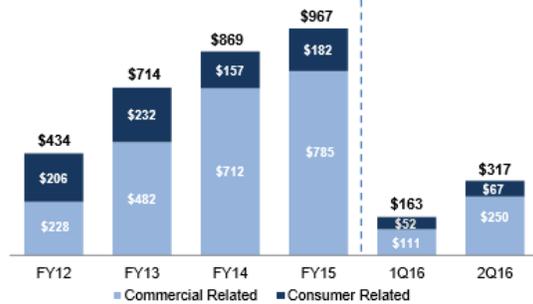


Total Loan Composition



New Loan Originations

(\$ in millions)



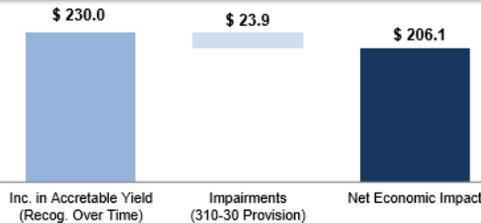
- Relationship banking model with a focus on the markets we serve
- Total loans grew 18% over prior year
 - Originated loans grew 26% over prior year
 - Acquired problem loans decreased 30% over prior year

Credit Quality

(\$ in millions)

Attractive \$169 Million 310-30 Loan Pools

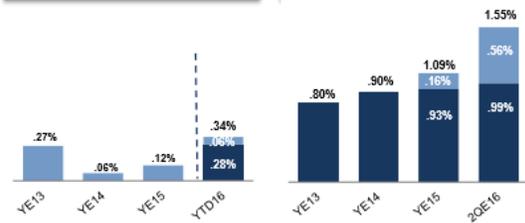
Accretible Yield Reclassification Life-to-Date



Strong Credit Quality on \$2.6 Billion of Non 310-30 Loans¹

Net Charge-offs, Annualized

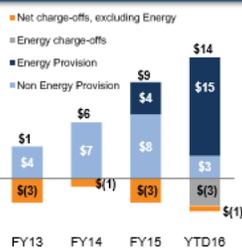
Allowance for Loan Losses



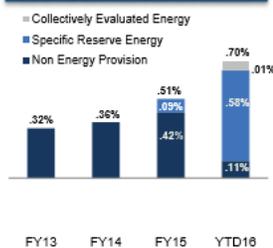
¹Does not include \$4.2 million of purchase accounting marks

Provision for Loan Losses on Non 310-30 Loans

Change in Allowance



Provision for Loan Losses as a % of Non 310-30 Loans



Strong Asset Credit Quality

- YTD net charge-offs for non 310-30 loans 34 basis points, annualized, or 6 basis points without energy loans, annualized.
- Allowance for loan losses as a percentage of non-310-30 increased to 1.55%, or 0.99% without the energy portfolio reserves.
- \$15.0 million of the \$17.9 million in the YTD16 provision driven by the energy portfolio coverage increasing to 14.8% of total energy loans.

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