

Camden National Corporation

Third Quarter 2018 Earnings Conference Call

Tuesday, October 30, 2018, 3:00 PM Eastern

CORPORATE PARTICIPANTS

Greg Dufour - *President, Chief Executive Officer and Director*

Deborah Jordan - *Executive Vice President, Chief Operating Officer and Chief Financial Officer*

PRESENTATION

Operator

Good day and welcome to the Camden National Corporation Third Quarter 2018 Earnings Conference Call. My name is Austin and I will be your operator for today's call. All participants will be in listen-only mode during today's presentation.

Following the presentation, we'll conduct a question and answer session. If you require operator assistance at any time during the call, please press "*" then "0." Please note, that this presentation contains forward-looking statements, which involve significant risks and uncertainties that may cause actual results to vary materially from those projected in the forward looking statements.

Additional information concerning factors that could cause actual results to differ materially from those in such forward-looking statements are described in the company's earnings press release, the company's 2017 annual report on Form 10-K and in other filings with the SEC.

The company does not undertake any obligation to update any forward looking statements to reflect circumstances or events that occur after the forward-looking statements are made. Any references in today's presentation to non-GAAP financial measures are intended to provide meaningful insights and are reconciled with GAAP in our press release.

Today's call presenters are Greg Dufour, President, Chief Executive Officer and Director and Deborah Jordan, Executive Vice President, Chief Operating Officer and Chief Financial Officer. Please also note that today's event is being recorded.

At this time, I would like to turn the conference over to Greg Dufour. Please go ahead.

Greg Dufour

Good afternoon and thank you for joining the Camden National Corporation third quarter earnings conference call. We are pleased to announce record quarterly earnings of \$14.1 million for the third quarter of 2018 or \$0.90 per diluted share. This brought year-to-date earnings to \$39.1 million or \$2.50 per diluted share.

We're really happy with our third quarter performance with solid loan and deposit growth, strong asset quality and an increase in our net interest margin for the third quarter of 4 basis points to 3.14%, as well as, our efficiency ratio at 58.14% on a year-to-date basis.

We continue to expand our products and services during this past quarter and we recently introduced Business Touch our online loan application and instant decisioning product for small business. At this point in time we are using this for commercial loan request up to \$75,000, but it has the potential to be leveraged to higher levels as we grow into that system.

This is an important part of our digital suite of products which meets our customers' demand to online services, while at the same time provides us internal efficiencies. I would be remiss not to mention the recent stock market activity that has impacted all stocks and bank stocks, in particular, including Camden National.

We believe we are positioned well in this turbulent market with strong asset quality, a focus on maximizing our net interest margin through our deposit gathering efforts which complements our loan teams and a consistent ability to be efficient which will serve us and our investors well over

the long-term. We've backed this up by also increasing our dividend over the past few quarters and consistently think in terms of how our actions will benefit shareholder value.

I would now like to turn the discussion over to Debbie who will give you some more details on the results.

Deborah Jordan

Thank you Greg, and good afternoon everyone. We are pleased to report net income of \$14.1 million for the third quarter of 2018 which drove a return on average assets of 1.34% and a return on average tangible equity of 17.84%. In comparing our financial results to the second quarter of 2018, we experienced net income growth of \$1.8 million or 15% as a result of total revenue growth of 5%, a lower loan loss provision and a slight increase in operating expenses.

Linked quarter revenue growth of \$1.8 million was due to an increase in net interest income of \$942,000 and fee income of \$891,000. Net interest income was up 3% over the previous quarter due to solid average loan and deposit growth and an increase in our net interest margin of 4 basis points.

Fee income growth was primarily related to an increase in security gains of \$633,000. We benefited from our deposit generation efforts, as well as, our seasonal deposit inflow where we peak in deposit balances typically in the third quarter of each year.

We are particularly pleased to see average demand deposit and checking account growth of \$204 million or 17% compared to the third quarter of last year. Our loan portfolio grew \$41 million between quarters, representing a 6% annualized growth rate.

We continue to experience growth in the residential loan portfolio which increased \$33.6 million between linked quarters due to expanded mortgage offerings and capabilities in Southern Maine and Northern Massachusetts. The commercial real-estate portfolio grew \$25.9 million between linked quarters, while our C&I portfolio declined \$20.7 million, primarily due to one large loan pay-off of \$18 million.

Our loan loss provision for the quarter of 5 basis points on average loans was primarily the results of strong asset quality with net charge offs for the third quarter of 7 basis point combined with loan upgrades and resolutions that drove lowered non-performing asset levels.

Our operating expenses increased 1% between quarters to \$23.2 million for the third quarter. Our efficiency ratio of 57.3% for the quarter help bring the year-to-date efficiency ratio closer to our 58% target level.

That concludes our comments on the third quarter financial results. We'll now open the call up for questions.

QUESTION AND ANSWER

Operator

Thank you. We will now begin the question and answer session. To ask a question, you may press "*" then "1" on your touchtone phone. If you are using a speakerphone, please pickup your handset before pressing the keys, to withdraw your question, please press "*" then "2."

And our first question today will come from Matthew Breese with Piper Jaffray. Please go ahead.

Matthew Breese

Good afternoon.

Greg Dufour

Hi, Matt.

Matthew Breese

Yes, Greg, I thought it was a pretty straightforward quarter. I don't want to queue too many questions, but maybe just a couple. The first one is really points to some of the seasonality in the deposit lines. Non-interest bearing deposits were up – very strong this quarter. As those roll-off, could you just give us an idea of how much we should expect to roll off; and then, two when you backfill it, what are you backfilling it with and what kind of margin pressure do you think that could cause?

Deborah Jordan

Sure Matt and good afternoon. Typically, in third and fourth quarter we will have higher core deposit levels, and in the first quarter we will supplement that with borrowings. So it will either be brokered deposits or overnight funding. When I look at the quarter, about 4 basis points of the margin improvement really is due to that seasonality of the deposit outflow. And so, when you look at the first quarter of next year, you could expect about a 4 basis points decline...or a range of 3 to 5...

Matthew Breese

Got it. Okay, and then going to expenses, just a hair higher than what I was anticipating, it looked like the salaries line picked up a little bit. What were the drivers there? Did it have anything to do with mortgage, which also bumped up?

Deborah Jordan

Yes, typically, the third quarter is our lowest expense base. We did see a little pick up on the salary, commission and incentives side. We're also hiring lenders, not just on the mortgage side but the commercial side. So we are adding to staff so that's contributing. Legal fees and consulting fees were a little higher this quarter also. I really think we'll be above that \$23 million run rate on a quarterly basis, but we are still managing to that 58% efficiency ratio.

Matthew Breese

Okay. Could you just give us an idea to extent your hiring, the successes you are having, and you know, and what impact? I think your longer term loan growth outlook is 5%, and whether or not that'll maintain or expand with the hires?

Greg Dufour

Sure, Matt. Well, you know, again, we look at our hiring strategically. If we can find a good solid revenue producer, whether it's a lender, mortgage originator or even a wealth manager, we'll hire them. Really that reflects the shortage of great talent that's out there, especially in our markets, including New Hampshire and Massachusetts and of course Maine. We anticipate that after a ramp up period, those folks start contributing positively to the bottom line. So as long as we keep on having that wave of people come in, that will help. Some of that is to just maintain the growth factor that we have, and as we continue to grow our balance sheet we need more hands on deck to maintain our growth level. We do monitor portfolio levels, especially on the

lending side to ensure that our people can maintain the customer service and experience as their portfolios grow. So we always need a churn of new people building portfolios for us. The other aspect of hiring, of course, is in our support areas, and that also is a reflection of our growth. As we bring in more digital products that requires more technology people, more information security people. And as we know, those people are pricey in the market, so we keep up with that as well. What we try to do though, is to look at how we can leverage that, so we look at it more on that efficiency ratio basis.

Matthew Breese

Okay, understood. Okay, my last one, Greg, you just pointed to some of the recent stock market action compared to the solid fundamental grounds that you look to be on. Would you think about buybacks if the stock doesn't perform the way or appears undervalued in your eyes?

Greg Dufour

We would. And if you look at our history, even though not recently because of the trading that we've been at, we have a very good track record, I believe, of buybacks. When the opportunities present themselves to us, our first step is considering our need for capital, call it, to invest into the business directly. Then, if that's not the case, we look at it is the value there in the market. And obviously, when the price goes down a little bit and we are still confident in what we have, that's an opportunity for us to buy. This is how we view it. So we would always keep that as an option and as a tool as we have in the past.

Matthew Breese

Understood, okay. Maybe just one more, Deb, just going back to your commentary on the deposit front, as demand deposits and non-interest demand deposits fall out in the beginning of next-year that would be a 4 basis points drag on the NIM which might put you back to where you were on a core basis during the first half of the year. Is that a good place to be in 2019 or at least the first half?

Deborah Jordan

Yes.

Matthew Breese

Okay, perfect. That's all I had. Thank you.

Greg Dufour

Great. Thank you, Matt.

Operator

And again, if you would like to ask a question, please press "*" then "1." And our next question will come from Damon DelMonte with KBW. Please go ahead.

Damon DelMonte

Hi, good afternoon, how are you doing today?

Greg Dufour

Great, Damon, how are you?

Damon DelMonte

Great, Greg. Thanks. So just to touch on loan growth, decent quarter for you guys. Can you just talk a little bit about your outlook as you go into the end of the year and kind of how the pipeline is shaping up for 2019?

Greg Dufour

Sure. What I would say is, overall, we do give the guidance in mid single-digit range for overall loan growth, and we are tracking to that. What we are seeing probably more from a loan activity perspective, as you probably hear from all bank CEOs...especially community bank CEOs, it's very competitive out there. A lot of different things and competitors coming into the various markets looking for volume. What I would say from our pipeline perspective is we are pleased with what we are seeing, especially as we make that final push into the fourth quarter. And then very quickly, maybe in a matter of days, we start looking and saying what's happening in the fourth quarter and how we are going to kick off the first quarter 2019. And right now, the pipelines look pretty good, both on the commercial and retail side.

Damon DelMonte

Okay, great. And then, could you help us, Deb talk a little about the provision and what we could expect in the upcoming quarters after this quarter's level?

Deborah Jordan

Yes, you know, the guidance I have been saying is roughly 15 basis points, but with the improvement we had, some loans were upgraded and some pay-offs we were able to back down the provision this quarter. When I look at 2019, I think assuming that 15 basis points make a lot of sense, going forward.

Damon DelMonte

Okay, great. And then, I guess, just lastly on the margin this quarter. I apologize if you had said this, but what was the accretion from purchase loans?

Deborah Jordan

For the third quarter, it was \$434,000 for the quarter. So, it was about 5 basis points.

Damon DelMonte

And then should we kind of assume that same level, going forward?

Deborah Jordan

That's ramping down quite a bit. And so, when I take a step back and look at the year, I think it will be at 50% of the 2018 run rate for next year.

Damon DelMonte

Okay. That's all I had. Thank you very much.

Greg Dufour

You're welcome. Thank you.

Deborah Jordan

Thanks, Damon.

Operator

As we have no further questions, this concludes our question and answer session. I would like to turn the conference back over to Greg Dufour for any closing remarks.

CONCLUSION

Greg Dufour

Great, thank you. Well, first of all, obviously we are very pleased with a great, strong quarter. I would like to just recognize a lot of that is by the great staff that we have here, not only from the revenue side, but also from the support side and the teams that really make this happen for us. And obviously, I want to thank all of you for your interest in Camden National. Have a great day.

Operator

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