A New Approach to Credit Union Growth

John Dearing, Partner & Managing Director
MAXX Annual Convention
October 25, 2017
Spokane, Washington
Dear NWCUA,

THANK YOU for the OPPORTUNITY!

The CAPSTONE Team
How Did Capstone Get Here?

*Growth Engineers*: 22 years, helping organizations grow!

Identify & prioritize the best fit *external growth* options

Collaborating for 12 years with credit unions & CUSOs

Opening eyes & minds…

NWCUA & Strategic Link Partner!
3 Simple Objectives

1. Generate **new ideas** as you consider your credit union’s strategic growth & options

2. Share a (hopefully) thought-provoking perspective regarding **proactive, growth through M&A**

3. Provide **useful tools** for exploration & execution
“Have one reason to buy, and many companies to choose from.”

“Every company is for sale — for the right equation.”

“It is far more expensive to buy the wrong company than overpay for the right one.”
Passion!
The Credit Union Market Today
Members Want More, Want It Now

- Culture of instant gratification
- Demand / technologies / products environment is changing rapidly
- Security requirements
- Keeping up with member demand is key
Credit Unions Acquiring Banks

Credit union – bank acquisitions announced as of 10/3/17
Grow or Die
A Few Market Observations

- Member growth continues
- More credit unions using M&A as a proactive growth strategy
  - Increase market footprint
  - Scale with vendors & partners
  - Cost of compliance
  - Boost technology & security
  - Expand product/service breadth for members
- Credit unions exploring new ways to generate non-interest income
- Plethora of external growth opportunities abound – Beyond consolidation…

New Ideas for Strategic Growth
Five Options for Growth

1. Organic Growth
2. External Growth
3. Exit Market
4. Minimize Costs
5. Do Nothing
1. Build the Foundations
2. Build the Relationship
3. Build the Deal
Partnered with client since 2008

- Acquisitions – IT & Cloud Technology

“Our goals are more clearly defined. Before, we would have just been reactive. Now, we take a more objective view of each opportunity.” – CEO
External Growth Options

DEGREE OF CONTROL

LOW

- Resell Spot Transaction or Contract
- Distributor/Channel Partner
- Licensing
- Minority Share
- Joint Ventures

HIGH

- Majority Share
- Acquisition

Transactional  Direct Investment

All of these options are available to you!
If Not Now, WHEN?
Take a Snapshot of Your Business
Know Thyself: THE STRATEGIC AUDIT
# The Strategic Audit Tool

<table>
<thead>
<tr>
<th></th>
<th>Today</th>
<th>5 Years</th>
<th>10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Executives</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Where do the different members of your organization see the business going?
How Do You Make Decisions?
## Cultural Assessment Tool

<table>
<thead>
<tr>
<th>Always</th>
<th>Most of the Time</th>
<th>Aspects of Both</th>
<th>Most of the Time</th>
<th>Always</th>
</tr>
</thead>
<tbody>
<tr>
<td>Centralized Decisions</td>
<td></td>
<td></td>
<td></td>
<td>Dispersed Decisions</td>
</tr>
<tr>
<td>Quick Decision-making</td>
<td></td>
<td></td>
<td></td>
<td>Deliberate Decision-making</td>
</tr>
<tr>
<td>Short Term Focus</td>
<td></td>
<td></td>
<td></td>
<td>Long-Term Focus</td>
</tr>
<tr>
<td>Individual Focus</td>
<td></td>
<td></td>
<td></td>
<td>Team Focus</td>
</tr>
<tr>
<td>Risk Taker</td>
<td></td>
<td></td>
<td></td>
<td>Risk Avoidance</td>
</tr>
<tr>
<td>Confrontational</td>
<td></td>
<td></td>
<td></td>
<td>Avoid Conflict</td>
</tr>
<tr>
<td>Results-Focused</td>
<td></td>
<td></td>
<td></td>
<td>Process-Focused</td>
</tr>
<tr>
<td>Performance Measured Often</td>
<td></td>
<td></td>
<td></td>
<td>Performance Measured Sporadically</td>
</tr>
<tr>
<td>People Held Accountable</td>
<td></td>
<td></td>
<td></td>
<td>Lack of Accountability</td>
</tr>
<tr>
<td>Work Across Org.</td>
<td></td>
<td></td>
<td></td>
<td>Stay in Silos</td>
</tr>
<tr>
<td>Low Political Climate</td>
<td></td>
<td></td>
<td></td>
<td>Highly Political Climate</td>
</tr>
<tr>
<td>Open Communication</td>
<td></td>
<td></td>
<td></td>
<td>Cautious Communication</td>
</tr>
<tr>
<td>Speedy Communication</td>
<td></td>
<td></td>
<td></td>
<td>Slow Communication</td>
</tr>
<tr>
<td>Verbal Communication</td>
<td></td>
<td></td>
<td></td>
<td>Written Communication</td>
</tr>
</tbody>
</table>
Know Your Risk Tolerance Tool

- What is your risk tolerance?
  ___________________________________________

- How would you rate the risk tolerance of different levels of your organization?
  ___________________________________________

- What differentiates your company from others (e.g., speed, agility and flexibility)?
  ___________________________________________

- How do you make CAPEX decisions?
  ___________________________________________
Vision:
PAINT A PICTURE 1ST
What is Your GrowthCast™?

![Chart showing expected growth over years]

**Success Metric of Choice**

- Desired Growth
- Organic Growth
- External to Fill Gap

Why Acquire?
Common Reasons to Buy

- More Products/Services
- Scale & Growth
- Follow Customers/Members
- Leverage Technologies
- Consolidate
- Stabilize Financials
- Add Talent
- Defensive
- Position for Future
Have ONE Reason
The Old Way vs. The New Way
Traditional Approach

Organization Presented to You

Due Diligence

- Competitors/Custumers
- Operations
- Financials

Merge / Acquire
Market-Driven Approach

- **Prospects**
  - Candidate A
  - Candidate B
  - Candidate C

- **Market Players**
  - Organizations

- **Customer Needs**
  - Technology
  - Niche Products
  - Ease of Use
  - Distribution

- **Markets**
  - Communities
  - Healthcare
  - Insurance
  - Demographics
  - Midwest
  - West Coast
Strategy: Considering Options
## Opportunity Matrix Tool: Example

### MARKETS: CUSTOMERS / GEOGRAPHY

<table>
<thead>
<tr>
<th>CAPABILITIES</th>
<th>EXISTING</th>
<th>NEW</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Consolidation</strong></td>
<td><strong>Distribution</strong></td>
</tr>
<tr>
<td></td>
<td><em>Get deeper in current markets/customers; acquire competitors in current market</em></td>
<td><em>Bring services and/or competencies to new markets</em></td>
</tr>
<tr>
<td></td>
<td>Changes in the Market</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Breadth</strong></td>
<td><strong>Diversification</strong></td>
</tr>
<tr>
<td></td>
<td><em>Add complementary products/services to existing markets/customers</em></td>
<td><em>Offer new products and technologies to new markets (typically more risky)</em></td>
</tr>
<tr>
<td></td>
<td>Expanded with New Solution</td>
<td></td>
</tr>
</tbody>
</table>
Market & Prospect Funnels

10+ Potential Markets

3 Pursue Markets

2 Segments

100 Candidates

50 Candidates Profiled

24 Interested

12 Meetings

4 Negotiate

***1 DEAL***

1st, Markets

Then, Prospects
Creating Your Prospect Database

What else can you do to expand your universe of prospects?

- Trade Shows / Associations
- Internal Input (e.g. Sales team)
- ‘For-sale’ Organizations
- Other
- Market Research
- “Usual Suspects”

Prospect Pipeline
Criteria Development

1. Identify Characteristics
2. Develop Metrics
3. Prioritize & Weight
4. Refine Through Examples
<table>
<thead>
<tr>
<th>Criteria</th>
<th>Prospect A</th>
<th>Prospect B</th>
<th>Prospect C</th>
<th>Prospect D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Criteria 1 (%)</td>
<td>Meets criteria</td>
<td>Does not meet criteria</td>
<td>Meets criteria</td>
<td>Partially meets criteria</td>
</tr>
<tr>
<td>Criteria 2 (%)</td>
<td>Does not meet criteria</td>
<td>Partially meets criteria</td>
<td>Meets criteria</td>
<td>Does not meet criteria</td>
</tr>
<tr>
<td>Criteria 3 (%)</td>
<td>Meets criteria</td>
<td>Partially meets criteria</td>
<td>Meets criteria</td>
<td>Does not meet criteria</td>
</tr>
<tr>
<td>Criteria 4 (%)</td>
<td>Meets criteria</td>
<td>Partially meets criteria</td>
<td>Partially meets criteria</td>
<td>Does not meet criteria</td>
</tr>
<tr>
<td>Criteria 5 (%)</td>
<td>Meets criteria</td>
<td>Partially meets criteria</td>
<td>Partially meets criteria</td>
<td>Does not meet criteria</td>
</tr>
</tbody>
</table>
Plan for YES
Key Takeaways: Strategic M&A

1. Vision & strategy 1st
2. Assess your situation, both internal & market
3. Be proactive
4. Use an objective process
5. Know your “ideal”
6. Criteria, criteria, criteria
7. Develop “tools”
8. Explore options
9. Make prioritization standard course of business
10. External GROWTH is FUN 😊
Questions

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