Regions Financial Corporation NYSE:RF

Company Conference Presentation

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EXECUTIVES

Anil D. Chadha
Head of Corporate Finance & Controller

David Jackson Turner
Senior EVP & CFO

John M. Turner
President, CEO & Chairman

Unknown Executive

ANALYSTS

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Presentation

Gerard Sean Cassidy
RBC Capital Markets, Research Division

[Audio Gap] let me just get my papers in order. We have Regions Financial Corporation. To my immediate left, we have John Turner, who is Chairman and President and CEO, of regions, which has about $160 billion in assets. He joined -- or he became President of Regions back in 2011, and he's been obviously managing and running the company for quite some time.

Moving on to Anil Chadha if I said that right, okay. He's the incoming Chief Financial Officer. Prior to that, he was the Controller and he will be taking over the official rains, I think, March 31. -- it. Is that correct? and he's replacing, of course, David Turner, who is at the end of the podium here. And many of you know David, he's been to our conferences in the past.

He joined Regions in 2005. And and he's been there for over 20 years and has been CFO since 2010. The other change in management is out front here, Dana Nolan, She's been with Regions for 37 years, doesn't look it, but she's been there 37 years. and she's been heading up Investor Relations since 2016, and she would join the Investor Relations department in 2010. However, replacement sitting to her left is David Spear -- he joined Regions in 2009. And prior to taking over the Head of Investor Relations, he headed up the strategy and corporate development area.
And when he joined Regions in '09, he joined it in the treasury department. So gentlemen, thank you for joining us today.

Question and Answer

Gerard Sean Cassidy
RBC Capital Markets, Research Division

And maybe John, we could start off with questions directed towards you. Obviously, you're in a dynamic economy in the southeastern part of the United States. Maybe you could talk to us what's going on now? I know it's earlier in the year, but what are the some of the economic trends you're seeing down there, behaviors by your corporate and consumer customers.

John M. Turner
President, CEO & Chairman

So despite some of the recent volatility, customers remain, I think, optimistic. We have businesses continue to demonstrate really good, I think, management of their balance sheets and income statements, good liquidity, good capital position. So businesses are generally positive.

We're seeing continued job growth in our markets. nice announcements of job creation, north of Bermingham, 1,500 jobs, as west of Bermingham, 1,000 jobs down in Lower Alabama, 2,000 here, 2,500 there. Same thing repeats itself in Georgia, in Tennessee and South North Carolina, where we do business.

So good economic activity. Consumer is generally in pretty good shape. We're seeing more pressure probably on the lower income customer, consumer customer we -- those customers bank, they have a checking accounts with us. We don't provide a lot of credit to that customer. So we're not seeing much change in our consumer credit metrics, but we do know -- there's a little stress on the lower end, but a lot of good job creation.

So we expect continued economic expansion across our primary markets, which, again, are 7 Southeastern states in Texas. We also new business in the Midwest, which is -- that economy is pretty solid, too.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Yes. When you think about profitability, you guys are at the top of the heap amongst your peer group, of course, with a return on tangible common equity about 18% when you look at it through the cycle, and I don't like that expression, but what's the reasonable number that when you kind of look back and as we look forward of return on tangent our target.

John M. Turner
President, CEO & Chairman

Stated now a number of years ago, it was 16% to 18% return on average tangible common equity. And we've outearned that for the most part over that period of time, particularly over the last 5 years. Our stated goal is to be the top quartile amongst our peer group. And we've been fortunate enough to perform at the top of the peer group just based on positioning and I think really good interest rate risk management, among other things.

But I believe somewhere between 16% and 18% is going to consistently be our target, absent some changes -- and again, our focus is on being in the top quartile amongst our peer group.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Yes. Anil, in the fourth quarter earnings call, you guys spoke about fee revenue growth. And if I recall, it was 3% to 5% type of growth through 2026. Can you give us some of the drivers behind what you expect to drive that growth?

Anil D. Chadha
Head of Corporate Finance & Controller

Sure. I'll start with capital markets. So we've espoused a range of $90 million to $105 million a quarter. We stated that we expect to start the year towards the lower end of that range. We still feel like that business is going to continue to grow year-over-year. We're seeing good activity in that business. Pipelines are building. As you know, with that business, it's always about timing of when deal activity will close, but we're very optimistic in terms of saying year-over-year growth there.

Wealth Management was a really strong business for us last year. It's a place where we're making a lot of investments and FAs and financial advisers. We're going to continue to do that, and we're going to continue to see growth in that business from production, but also to the extent the market is in our favor, will grow even more. then, of course, just growing accounts, treasury management, consumer checking accounts, fee-based revenue will grow because of that.

Treasury Markets was another really important business for us last year. It's a place we'll continue to make investments to drive capabilities for our customers. And so when we make all these investments, we expect to see revenue to grow, and that's what's embedded in our guidance for the year.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Got it. Go back to the last question you asked.

John M. Turner
President, CEO & Chairman

I want to be clear. 16% to 18%, we expect to operate at the top end of the range over the next 3 years, the next planning cycle. So just to be clear, I don't want anybody to think that we believe that our returns are going to decline over the next 3-year period, we do not at this point.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Sure. And maybe, John, there's been a number of mergers and acquisitions in your folks footprint. What are some of the opportunities that you guys see as a result of your competitors being focused on integrating their deals successfully.

John M. Turner
President, CEO & Chairman

Well, as we often say about M&A is hard and it creates disruption. One of the reasons that we've not been attracted to M&A is we think that we have a plan that will allow us to continue to execute well and deliver the kinds of returns as I just suggested that we have been.

So hard for us to go acquire a bank, and that's going to, in some way negatively impact the returns that we believe we can generate for our shareholders. So for us, that disruption creates opportunity to win new customers. It creates opportunity to hire bankers to come to work with us. And we are seeing those opportunities and enjoying the benefits of some of that.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

And the similar vein, JPMorgan and some of the big money center banks, which really were not opening branches 10 years ago and some of your strongest markets, particularly Alabama, let's say. Now they're expanding. Can you share with us the competition? Is it going to intend to -- and can you tell us how you think you're going to approach that?

John M. Turner
President, CEO & Chairman

Well, definitely intensifying. And with respect to the likes of JPMorgan, who are building branches in our footprint. And we're always looking at branch applications across our footprint. So we know who's opening what branches when and where. We're able to look at our customer base and know whether or not our customer has an ancillary relationship with that bank. So as an example, customer maybe has a credit card with JPMorgan.

We can see that payment through the activity in their account and we know to target our focus on that customer because we believe that's who they're going to try to win. So we anticipate that. And as they begin opening their branches, we're countering that activity with outreach with different kinds of offers and things to ensure that we maintain those relationships.

Now I'd like to say, even in our best markets, we have 30% market share. That means 70% of the customers are banked by somebody else. And so remind our investors that we've been a hometown bank in so many of these markets, we've had long relationships with our customers. We have a strong local brand, our bankers have a strong local brand, and we're not actively working with our customers every day. We believe that, that 70% of customers who are not banking with us but with someone else, are at as much risk or more of leaving the institution they bank with and our customers are leaving us. So I feel good about what we're doing.

Clearly, more competition in our markets makes us up our game and get better at what we do. And we like the challenge.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Good. David, since I know you got 20 days left, and you're not just a handsome face up here. You have to ask you a question. obviously, you joined the bank about 20 years ago. We had a really rough time in '08, '09. You and I have compared notes on that. When you think back over your 20 years, what has changed the most that you -- for the better, of course, at regions and just banking in general.

David Jackson Turner
Senior EVP & CFO

Well, we learned a lot from mistakes that we made. If you go back and look at interest rate risk management, we had probably the highest net interest margin in 2007, over 4%. And -- and we were asset sensitive and we wrote that right into the ground and our margin was 250 something. We learned that volatility out of our income statement because it's 2/3 of our revenue. And if you aren't good interest rate risk managers, you really can't be in banking. And so we learned how with our low-cost deposit base, how to hedge that risk, which is a low rate environment. we started putting that on, and it's been one of the key reasons why we've outperformed peer group, in particular when when rates fell.

So we weren't particularly good at credit risk management. And we learned the concentration management is important. We had too much land, too much real estate now in part. We put 2 real estate banks together in '06. So it took -- we knew we had a concentration, but we had to move much quicker because the financial crisis hit us.

So we learned from mistakes. We had really good leader, Gracia, started out, leading the bank and having us really focus all of our people on the mission, what we were trying to do. And he served us for 9 years, and then John took over and has taken it up another notch. So we've had really good leadership. We have really good people working together.

And if I had to say -- what's the single most important thing it'd be that. We've had some hugely talented people that have come through regions. Some retire, some still there. And I think understanding what we're trying to accomplish -- we've talked about being a top quartile performer. There's a reason for that because that gives us control over our destiny. And so having everybody focus on executing their part of our strategic plan, we remind them all the time, this is your part, play your part.

And when they do that and everybody runs in the same direction, you get the results that we're getting. So -- there's no 1 thing, but we really did learn from our mistakes. We made some doses and the reason we're here is because of our deposit base. And it continues to be the competitive advantage that we have that's very, very difficult for anybody to replicate.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Anill, following up on David's comments, particularly about the margin and hedging, which regions truly stands out. Can you share whether now David is obviously retiring has been part of the team that put that together. Can you share with us how you're going to continue to carry the ongoing

Anil D. Chadha
Head of Corporate Finance & Controller

Absolutely. So I joined the bank in 2011. So right, when this was coming to an end. And then the rebuild, if you will, was starting. So I saw firsthand the impact of being all sides did to the bank. We've had a great team in place for many years who have worked on this together. So we've learned the lessons from the past. We've seen the benefit of having a well-hedged portfolio, capitalizing on the strength of our deposit base. and we're not going to go back against that.

So our strategy going forward is going to be the same because we've learned our lessons before, we've seen the benefit and allows us to extract the benefit from our franchise. And so I'm 100% convicted it's the right strategy going forward and you shouldn't see anything else from us.

John M. Turner
President, CEO & Chairman

Very good. David, a little credit, too. The other thing I think has been really important to us is focus on capital allocation and understanding of risk-adjusted returns in our business and a willingness to exit businesses, portfolios, relationships that didn't generate appropriate risk-adjusted returns. And as a result, we've seen the benefits of that, I think, in our returns as we've been much more effective at managing the capital that our shareholders are kind enough to give us.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Sure. Absolutely. John, regions has a number of systems upgrades that you're going through. Can you share with us where we stand there and what's -- how it's going to roll out. And what it means to the profitability going forward?

John M. Turner
President, CEO & Chairman

Yes. So the first, I guess, big delivery is in May when we convert from 1 AFS platform to another, and that's going well. We're sort of in the last stages of that as we think about the conversion. And I think that will give our -- we'll make the experience for our customers and our bankers better and will help reduce complexity. We're going from 3 systems to 1, which will be important. And again, I think, give us some contemporary capabilities we don't have, followed by a conversion of our deposit system, and we're in the user acceptance testing phase now all the work to connect our platform with our -- at the application layer has been done. And now so we're testing to see if everything is going to work like it's supposed to.

We've gone through the phase of account origination, which is the first step in our user acceptance testing. Money movements next, and that's the more complicated part of the business. And so we'll see. But today, we feel good about where we are. Assuming we're still on track, we'll begin a pilot in the third quarter of this year with the idea that we begin conversion in the first quarter of 2 and and we complete all that by the mid-part of 2027. No big bang for us.

So it will be a fairly measured approach to ensure that there's not a lot of disruption to our customers. But we're excited about the Temenos relationship platform and what that new deposit system will give us in the future.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Simply what was like the major -- I mean the advantages you're going to get now versus the old system? What just.

John M. Turner
President, CEO & Chairman

Well, the first thing was the old system was sunsetted, and we're the last bank on it. So there was really we didn't have much -- we did not have much choice. We had to do something. And so we chose Temenos. We think it gives a on cloud-based platform will allow us to bring products to market much more quickly. It's forced us to organize our data in ways that we think now we've cleansed our data. It's well organized. That's going to be a key advantage, we think, in the future.

The whole process we're going through of of essentially converting ourselves strengthens our whole program management program. And so if we were ever interested in M&A, we'll have a team that's converted -- we've already converted about 5 million customers, our own customers. And so we know how that process works. We certainly know our system well. And so I think it gives us a lot of advantages, both currently and in the future when the work is done.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Maybe 1 thing I'd add to that is the other capabilities it gives us, as we think about deposit pricing opportunities in a highly competitive environment we're able to better segment our data and have bespoke offerings, in particular markets customer segments, as John mentioned, how granular we get with customers who we really want to target, we are much better capable of doing that off of the new platform. So we're excited about that. The other thing that's out there for -- in the industry is tokenized deposits, and it provides us a platform there as well. So we're excited about those opportunities looking forward also. Tying into the systems, can you share with us how you're implementing artificial intelligence, AI and some of the benefits could be for your organization? We'll talk about that.

Unknown Executive

So we have multiple use cases that we're investigating across the company. I think before you all heard me talk about what we've done in the developer space, so we've deployed the developer tool copilot get up copilot -- thank you callable community. Through the end of the year, we had deployed that to approximately 10% of our developers -- we expect to have that fully deployed to 100% of our developers by the end of this year. Where we've deployed that up until now, we've seen 30%, 60%, 90% lift in test case development.

So we think that's a huge opportunity for us going forward, especially as we continue to invest in technology. So it's not a reduction in head count story. It's how do we really grow the business and grow the use cases in a far more efficient manner. So we're really excited about that. Each of our businesses are also looking for opportunities to better enable revenue generation.

So focused on hiring the right bankers, making sure they have the right technology capabilities to deliver products and services to customers. And so -- we've deployed tools in the past across our commercial banking and wealth space. There's opportunities for us to expand that as well. They were also investigating places where we have high turnover. So call center in places like that where you can deploy chat bots and potentially manage your turnover risk in a more efficient way. So there's a lot of use cases out there.

We're glad to see some of them start to produce some early returns, especially in the developer space. like you have to continue to invest and stay up today as to the opportunities that are available.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

One of the stories or themes in the investment world is how a genic AI could possibly force deposits, low-cost deposits into higher-yielding deposits -- and David touched on your asset of the low-cost deposit base. Can you share your thoughts on how that might impact those customers? I think some people don't fully appreciate a $500 depositor may not necessarily run to...

John M. Turner
President, CEO & Chairman

The certain segment of the deposit population or our customer base, who are rate shoppers we know that Yes. an agent may make it easier for them to rate shop they're already pretty good at it. I promise.

And so -- and that customer and those funds, we're not competing for on a regular basis. Remember, we're operating in a 72% to 74% loan-to-deposit ratio.

Our focus is on low-cost transactional, primary deposit relationships operating accounts of small businesses and middle market companies. That's the core of our deposit base. And so yes, I think it may make it easier for some customers to shop rate -- our deposit base is very granular to your point. Average consumer customer account balance about $5,500. So I just think, yes, it will have an impact on the industry Yes, it will have some impact on us, but I don't see it as being a real threat to our business because of the very core nature of it.

And we continue to grow it and we grow it amongst our -- a much more core customer. So it's -- if you look at our track record over the last couple of years, we've grown deposits almost as fast as any of our peers and at a cost that's significantly lower than our peers. So we'll continue to do that.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Yes. And sticking with the nonbank competitors, if you will, -- can you tell us some of the competitive dynamics that you're seeing from the nonbank lenders or the fintech players -- how is that shaping up in terms of competition for you folks?

John M. Turner
President, CEO & Chairman

Yes. I mean we've had nonbank lending competitors for some time. And the way we've viewed those, we try to learn from them, understand what they're offering, what customers like. We've actually acquired -- we've actually acquired 2, I think, right? Ascentium and Interbank now we call high fire home improvement finance group. And we did that after studying what we saw in those particular segments and deciding that we wanted to have those capabilities, but we thought acquiring rather than building them out suited us.

And we believe that's been true. In the case of Ascentium has been a great product offering for our small business customers. We now leverage it through our branches, which has been really helpful -- we're about to introduce some digital account opening capabilities to our small business customers. We think will allow us to leverage that Ascension platform in depository relationships that didn't exist -- so there are a lot of things that -- advantages we think we've gained.

But the key is study what they're doing, understand what customers prefer, determine whether or not you can offer those capabilities or you need to acquire -- we're seeing that in the payment space as well, where we have entered into some relationships in treasury management that give us some payment capabilities like in health care payments that we think are going to be really important to our customers. And so that's been our approach, and I think it served us well.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Regions has been very good in giving us color and insights on credit quality. And you've identified in the past certain segments of the portfolio you're watching extra carefully. Can you update us on what you guys are thinking on credit and in particular, the segments of the portfolio that you're putting in the.

John M. Turner
President, CEO & Chairman

Yes. In our case, credit continues to improve. Charge-offs were elevated in the fourth quarter. May be elevated again in the first quarter, but we're guiding to 40 to 50 basis points for the year, and we think that's a good range. We have identified some problem credits in office and in transportation, to name 2 sectors that we continue to work through.

There are some -- a couple of credits that are related to the digital space that we're also working on, working out of -- but over that period of time, over the last couple of quarters, you've seen level of criticized classified assets come down later nonperforming assets come down, and we believe that's a trend that is -- will be sustained -- what you'll see as that occurs is our provisioning will likely come down as well. And over time, we'd expect the allowance to return toward what we'd call a CECL day 1 portfolio, which was about 163, 164 stating like that. So credit quality is good, and we don't see really any new emerging areas of problem for us.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Very good. Coming back to the branches that people are expanding with -- can you share with us your branch expansion strategy -- and for maybe a generalist PM, it's counterintuitive. You touched on digital, but everything is going digital, who goes into a branch, that kind of stuff. -- maybe some thoughts on that.

John M. Turner
President, CEO & Chairman

Yes. We find customers still associated with branches. They want to come into branches when they need advice and guidance when they have a problem when they are doing something that they don't have a lot of experience doing or it's the first time event. We think branches still provide an important connection to our brand.

People see our branches in markets. They know we're making investments there, monothemof who the bank is. We think the way branches look and feel is a really important reinforcement of who our brand is. And so they're important. To your question, we're going to build 135 to 150 branches over the next 5 years. We just made the decision to pull that forward a little bit. It was a 7-year plan. Now it's 5 and might be 4 if we can acquire properties faster, and we think we have the opportunity to make investment.

Simultaneously, we'll probably close about as many because what we see is population shifting. We see opportunities to combine branches, 2 for 1, 3 for 1. And all that both gives our customers more opportunities to bank with us. gives us access to new customers and at the same time, to help us manage the costs associated with continuing to expand our footprint.

So what we found is branching in existing markets where we have a presence already, is highly profitable. Entering de novo markets where we have a very limited presence is much more challenging. And that's because, again, we're focused on building core relationships with customers, not just buying deposits. And that's hard work. But where you have a presence you're known in a market, you got a lot of -- you've got a big tailwind and it helps a lot.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

And in those 160-plus branches, geographically where the -- was the concentration

John M. Turner
President, CEO & Chairman

Looking at some numbers the other day, I would say maybe 16 to 20 in Florida, maybe 6 to 10 in and around Atlanta. -- in Tennessee across markets. It's again, maybe in these numbers are I'm trying to -- for memory, let's say, 12 to 16 in Tennessee -- so pretty widely distributed across our footprint. And no concentration of more than in, let's say, Miami, 6 to 9 in Nashville, 5 to 7 as an example.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

So no branches in Portland, Maine. Not yet.

John M. Turner
President, CEO & Chairman

Not yet. -- maybe a wealth of I know where all the money is.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Very good. When we look at bank M&A, we touched on it briefly -- it's going to continue, we think, -- what's your guys' view just from that standpoint, not the existing deals that have been done, but just a...

John M. Turner
President, CEO & Chairman

I think clearly will continue. I mean we've been a consolidating industry going back to the beginning of time, I guess. But certainly, over the last number of years, we've seen consolidation. The regulatory environment appears to be quite favorable. The turn time on approvals has been really amazing surprising and great for the industry.

The certainty of a transaction lends to, I think, more confidence, both on the part of the buyer and the seller, which is a really good thing and very appropriate in my opinion.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

We're winding down here in the last couple of minutes. And maybe John, you can share with us and David also like you to answer this, what message do you want to leave with investors today? And David, I know this is your last public appearing. So any last thoughts as well I would like to hear. But Stern, do you want to sell the...

John M. Turner
President, CEO & Chairman

Okay. Well, I would say we're focused on continuing to make it. We're in really great markets. We're focused on continuing to make investments in people, in technology, in process to ensure that we're building a bank that performs consistently resilient and that consistent performance is sustainable over time.

We're not going to be the fastest horse in the race. -- often refer to us as a little bit of the -- where the Tordis in a lot of respects. But we're focused on managing our business for the benefit of our shareholders, our customers, our associates and our communities over time. And I think we have -- because of that, we've been able to build a business that has, over the last 5 years, delivered top returns in our peer group, and we think we'll continue to do that with a focus on capital allocation, risk-adjusted returns. -- doing the right thing, the right way.

And I feel good about what we've accomplished, great about the team that we're building. And again, we're in really good markets. So I think we'll execute well. And notwithstanding the fact that we'll have a new CFO, I think we'll be okay. David, any just last...

David Jackson Turner
Senior EVP & CFO

Anil is going to do fine. No, it's been a great run for the past 20 years. And Listen, it's the regions people ask what misunderstand about regions. We really have a good team. We have. We're in great markets. We have a great foundation in terms of our deposit base that we can leverage. We know how to make money.

We learned a lot of that from all the mistakes that we made, but we're very good at what we do. And capital allocation is critically important to us. And we don't have to do anything -- it doesn't have to be real special. -- just execute the plan. We don't have a very complicated strategic plan. Our Board signs off of it on at every October and and we all know our partner. We just execute that plan to John's point, we're going to have 1 of the highest returns.

We don't have to be #1 in return. We just need to be top quartile, and we stay fixated fixed on that and -- we're going to be efficient to have to continue to monitor cost. We're going to pay a fair dividend. I had to get that in. fixed income I need debt -- they voted me down on the increase. I wanted to have the day by the way. But anyway, it's been a great run, and thank you guys for all the support and meetings that you've given me.

Gerard Sean Cassidy
RBC Capital Markets, Research Division
And it hasn't been a great run. You'll be missed both personally and professionally and from everybody. So what I did was I had a T-shirt made up -- and it has obviously the green logo regions. But what I did was I had the stock performance under your tenure been a great run. But what's even better everyone David and I share stories about grandkids. So I have -- and so the little guys are has been doing. So David, thank you so much. Thank you. I got share for a bunch of you. So I know John is going to want to wear here on the office. But please round of applause for the guys from -- thank you.