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Issue: November 4, 2019



Creating Shared Success Helps Nicolet National Bank Thrive



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Interview conducted by:
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CEOCFO: *Would you give us a little background and how the bank came to be where you are today?*

Mr. Daniels: My partner, Bob Atwell and I both worked for a larger regional player that was and still is based out of Green Bay. At the core we were community bankers operating in the C&I (Commercial and Industrial Loan) space. He was senior lender and I ran one of the groups. This bank was, in our opinion, chasing bright shiny things in big cities, I do not know if the big cities necessarily needed them or wanted them but they felt they had to be there.

We had two choices; either do what you are getting paid to do and do it well or do something about it. We decided to do something about it and we quit in March of 2000 and decided to start Nicolet National Bank. We quit early before we had done anything. I do not think you plan your next career while you are being paid by somebody else. We had talked to a bank out of Atlanta and did a little research and decided we were going to do it and resigned on March 20th of 2000. We then started talking to people locally, telling them what we were going to do and asked them if they wanted to be involved. Fast-forward nineteen years and we have an acquisition closing in two weeks that will make us a \$3.5 billion NASDAQ publicly traded company.

CEOCFO: *What is the vision and focus at Nicolet Bank, today?*

Mr. Daniels: We started primarily in the C&I space when we started the bank. In contrast with your large corporate players, we are very well positioned. The purpose of this company is to serve the communities, customers and employees in which we operate. We look at the results of what we produce as the scorecard not our purpose. At the shareholder meeting, my partner and I say every year "If you think the purpose of this company is to make you money, you might want to own another stock." The purpose of our company and the reason we founded it is to serve the customers, communities and employees. The result will be to make you money. We did not say we were not going to make you money, we just said that is not the purpose for which this company was founded.

CEOCFO: *What is different about the customer experience at Nicolet?*

Mr. Daniels: I think that it starts with our people. The hard part is that everybody talks the talk, it is whether or not you can walk the walk. Everybody says their biggest asset is their people. Can you create the followership, can you hire good people? Then honestly get the hell out of the way and let them do their job. You need to provide guidance, leadership, and build a culture and a direction that foster those three things – customer, community and employee. You cannot treat your customers like they are an earnings stream. You need to build a relationship, you need to be their trusted advisor.

We do not play where we do not differentiate. We hardly do any car loans. We do a lot of mortgage lending and retail banking, C&I lending, and we do a lot of wealth management. Those three lines are where our people can be a differentiator.

We are the largest mortgage lender in Brown County where we sit today, but our comp structure is we pay zero commission to anybody. We are firm believers that commission revenue and financial services provide a conflict at point of introduction. That has been our premise since day-one. If mortgage lenders do not understand that and do not want to be part of that, then they are going to go someplace else which is fine but I do not want that conflict at point of introduction. It also does not mean that this is Burger King, where rule one, the customer is always right and rule two, see rule one. That is not what that means. It means creating Shared Success. We call it the three circles, if you look at any of our annual reports that are out on our website, you will see everyone talk about the three circles, which are customers, employees and shareholders. We purposefully work to integrate the three circles so that all can win. When our people are guided to create Shared Success, our customers really feel what we are all about.

In the end, we are responsible to the shareholder, which is why they are an integral part of our three circles. About 70% of our company is owned in the markets in which we serve. We have never done a public capital offering. We have been an aggregator of capital through the acquisitions we have done using our own paper. We are owned in those communities by either the banks we have acquired or by the people who when Bob and I started the bank we sold stock to on the street.

"The purpose of this company is to serve the communities, customers and employees in which we operate."- Mike Daniels

CEOCFO: *Do your customers recognize the difference when they are talking with a mortgage lenders? Do they realize that a commission is off the table?*

Mr. Daniels: We do not go out there and advertise that. Maybe we would be more widely successful if we did. Our mortgage lenders are not just mortgage lenders. Our commercial lenders are not just commercial lenders. That is their jobs but we need them to be bankers and relationship managers. Being bankers means you do not own a customer, you earn a customer and you earn their business. You may be the primary relationship manager but the more touches you can get whether it is the commercial lender referring to mortgages, referring to wealth or however that circle works. Too many people in financial services think it is my customer, my customer, my customer, because they get paid on their customers.

The compensation structure is in my opinion less based on success and more based on size. The bigger your bank is, the more you get paid whether you are performing it or not. The bigger your portfolio is, the more you get paid. I do not want to download that to a younger person because my comps rely on it. We want everyone pointed in the same direction. The first thing bonuses are determined on is not the individual and what they do, it is whether the company met its goal. Everyone at Nicolet looks at the customer as an object of service, someone to be served and the relationship to develop, not an object of profit. Not that we do not expect to make money and expect our people to deliver a value proposition, but it is about whether we can make a difference and whether we can communicate our value proposition when we are face-to-face in the market either calling or trying to attract a new customer or in maintaining a relationship that has been here a long time. Our track record of results would say that that has resonated.

CEOCFO: *Would you tell us about your recent earnings?*

Mr. Daniels: The quarter was absolutely another real strong quarter. Being a public company is kind of new to us with the analyst calls. Our institutional ownership publicly looks like it is 36% but a big chunk of that is our trust department where all of our directors stock and my stock are held. A real institutional ownership is only 20% to 22%. That gives us a big step up right away, because we are working for the people in our community and all of our shareholders. I think we posted \$13.5 million but about 20%-25% up from last year third quarter, and we are on an annualized basis, probably running 175 ROA.

Our people have done a nice job in what I would call a choppy rate environment, meaning you have rate increases at the beginning of the year and then decreases. Then the question we get from analysts is, "What is going to happen to your

net interest margin”? Our net interest margin to date is best in class. It is a lot of hard work. It is the discipline on both the asset and liability side of the balance sheet. The question of whether you are going to be able to maintain that depends on how choppy the rate environment is. However, it is about fairly balanced but a little asset sensitive. If there are a lot of rate cuts it is going to be hard to maintain that margin, but our mortgage revenue and our wealth revenue both have very strong quarters. Our value proposition in the market, using these results as the scorecard, all indications are all three revenue lines are clicking on all cylinders. We had mid-single digit loan growth mostly in the C&I space, which is important because we are a true C&I lender, we have very little what I would call investment CRE.

CEO CFO: *What is happening with your upcoming acquisition?*

Mr. Daniels: The acquisition is of a community bank in Oshkosh with two locations, and it is called Choice Bank. It has a little over \$400 million, which makes its lead local in Oshkosh. One of the things we try to do here at Nicolet Bank, is in the markets we are in, we try to be the lead local community alternative, meaning like in Brown County we are the lead local, in Door County, Kewaunee County. We are going to be that also in Winnebago County and we are working our way now to Outagamie County, which is basically all in northeast Wisconsin. We want to be the lead community bank in the markets we serve. The Choice acquisition does that in Oshkosh.

There are some personal reasons to be in Oshkosh, I was born and raised there. It is only an hour south and it is the same media market, it is very adjacent. It is the lead community bank there now. A \$400 million community bank trying to compete with larger commercial banks is tough. With Nicolet being more prominent in that market, I expect the opportunities will present themselves. We have good people and we are very much looking forward to better serving the market. We are not going to screw this up. I do not need my mom calling me telling me everything that is going wrong.

CEO CFO: *How is Nicolet Bank giving back to the community?*

Mr. Daniels: The approach we take is that the community is more than just giving money. When you look at our donations, our donations are probably twice the amount of our media spend in advertising. We give to probably over 600 nonprofit organizations. About seven years ago we started a foundation called the Nicolet Foundation. Our employees give and the bank matches that amount. We have an employee group with representation from all of our regions that decide where to give that money away, as well as the other projects we do in the community.

We also follow our people. Where our people give of their time and where it matters to them, our money follows. If they are involved, we are involved, if it matters to them, it matters to us. Let’s say in one of our smaller communities like Colby, Wisconsin, which is a small community but we have a \$40 million office there. Those people know the market, and where they spend their time and talent, we will put money behind them. Those decisions are made locally, not by a corporate committee in Green Bay. Any community bank or any bank for that matter, can only be as strong as the community in which it operates. We preach to our people and we back it up with our checkbook, that what you do matters and you matter, not only what you do when you show up here but what you do outside of these walls with whatever it is. Whether it is a food bank, the Y, Big Brothers, Big Sisters, or breast cancer awareness, what you do outside the walls and give of your time and talent, our treasure will follow. If it is important to you and you are out there making a difference, we want to help you make that difference.

