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Pacific Mercantile Bancorp is using a Consultative Approach and trademarked Horizon Analytics process to Foster the Success of their Operating Company Customers in Southern California

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"The kind of banking relationships we have, we are investing in the success of those businesses and as they grow, we grow."- Curt Christianssen

CEOCFO: ***Mr. Christianssen, what is the vision behind Pacific Mercantile Bancorp?***

Mr. Christianssen: We are a public company and we make periodic investor presentations, so if you go to our website on the investor relations page, there is a presentation that we did at our last investor conference with KBW, which has some good content on how we differentiate ourselves. The primary thrust of our bank, Pacific Mercantile Bank, is that we are a full-service consultative business bank here in Southern California.

We are very narrowly focused, as we are working with operating companies generally with revenue between $10 and $70 million. We are very consultative in our approach to the companies we serve. We have trademarked a process and approach that we use in dealing with these operating companies, which is something we call Horizon Analytics. If you think about these operating companies, they are typically companies that do not have a board of directors, they have limited financial counsel. They probably have an attorney, and they have a CPA that often only advises them on aggressive tax avoidance, but nobody is talking to them about growing their business or increasing the value of their business.

Our purpose statement for the bank is "We help companies succeed." We will sit down with a business owner or operator and get an understanding of what their aspirations are, and we prepare what some people would call a "pitch book" in its tangible form and it is two chapters. The first chapter is taking a look at how they are running their business and how it compares to peer groups. We have a sophisticated database that allows us to compare an operating company to other operating companies in their same industry with their same revenue size and within the same geography. We can look at how they are managing their finances and in comparison with peer groups. The second chapter provides scenario analysis that helps direct them toward a path of achieving their aspirations.

CEOCFO: ***Are companies coming to you because they know how you interact with client? Do they know of the consultative approach or are they sometimes surprised to find that they really found something unique in Pacific Mercantile?***
Mr. Christianssen: What we are doing is very unique when we sit down with companies and talk to them about how they are doing and then how they might achieve their aspirations, nobody else is talking to them and no other bank is talking to them about those types of things.

CEOCFO: ***How do you help a company that might be reluctant to share some information or might be so close to what they are doing that although they know they should get some objective advice, they resist it?***
Mr. Christianssen: Generally a lot of the businesses that we speak with have an idea of what they think their company is worth but they have no basis for what that number is. They have some aspiration of what they would like their company to be worth in the future but they do not know how to get there. We help them understand what their company is probably worth today and what the roadmap looks like to achieve a future valuation down the road. In order for us to do that, we model their financials and prepare a forecast with them where we can work with them in adjusting the variables that helps them understand what it takes to increase the value of their company going forward. When they understand what the deliverable is, they are less reluctant to share information about their company.

CEOCFO: ***When did you recognize the need for Horizon Analytics and how did you put that together from a technology side?***
Mr. Christianssen: PMB is a private equity led turnaround, which got started back in 2011. We brought in some key players from Silicon Valley Bank, who were very adept at working with and understanding business models of operating companies, so we are familiar with that particular aspect of an operating company wanting to understand their value and how to achieve their aspirations. My background included a lot of business valuation, so there are a lot of databases that are available for people who work in the business valuation world that I was familiar with. We were able to take advantage of those publically available databases, our business models knowledge, and put those things together in a way that was accessible to an operating company and helping them understand their value.

CEOCFO: ***Do you sit down with companies every three or six months, or is it more as needed? How do you maintain the ongoing relationship of trusted advisor?***
Mr. Christianssen: Typically the Horizon Analytics work is done at the beginning of the relationship so it helps determine if they have a need for a credit facility and how to structure that facility, but then also assesses how they are managing their cash and treasury management needs, and how they can structure those things to help improve their cash flow cycles. At least once a year we will sit down with that business and redo the analysis and then that will help them understand whether they are progressing or regressing in their plan to reach their aspirations.

Oftentimes there may be some event at the company where they may want to buy a building, they want to buy another company, and they will come and sit with us and we will do that analysis with them in an interim time if there is some event that warrants it.

CEOCFO: ***How do you help with the macro economy, when things are going in a certain direction and then an event occurs, something changes, interest rates are going up and now they are going down? How do you help a company manage some of the uncertainty?***
Mr. Christianssen: The way we structure our credit facilities in particular is helpful to a lot of companies because we are equipped to do asset based lending. When times are a bit more difficult it allows them to utilize some assets to help collateralize loan funding; so if they have accounts receivable and their clients are getting a little slow on paying, they can use those receivables to finance some debt and that helps them get through some of the rough patches.

CEOCFO: ***Are there services you would like to offer or that your clients should take more advantage of but miss*?**
Mr. Christianssen: One of the things that we have put in place here is a robust treasury management capability. A lot of smaller companies are not realty managing their cash capabilities very well. For example, we have capabilities of doing not only ACH origination and receipt but we can also do same-day ACH, so that expedites the cash flow there.

We also have a product that we call eConnectPay, which is an accounts payable solution that helps them manage their payments where they can select right in their accounting system the method to pay a vendor whether it is a paper check, an ACH, or using a credit card. When they pay the vendor in their accounting system, they're done – files are sent to the bank for payment processing. We are finding a lot of our clients who can implement this product, which allows them to pay an invoice for example at the beginning of the month with a credit card, take advantage of any early payment discounts and then they pay the credit card off at the end of the month and that improves their cash flow cycles.

They can make those decisions right inside their accounts payable system so they just select the vendor, how it is going to be paid and then when it comes time to pay them. The system automatically takes care of the means in which they make the payment. They streamline their accounts payable system and create some operating efficiencies that dramatically improves their cash flow.

CEOCFO: ***Do you see the need for additional branches or is that going away now?***
Mr. Christianssen: We really feel that the full service branch is going away, particularly as most of these operating companies we bank consider money as digital, there is not a real need to come into a branch. Most of the businesses are not dealing in cash and that is the only time that most of our businesses would need to go into a branch, when there is an actual cash transaction. We are seeing less and less of a need for physical branches.

CEOCFO: ***Do many of your clients do their personal banking with you or is that just a sideline if they happen to want it?***
Mr. Christianssen: It is only a sideline.

CEOCFO: ***How do you reach out to potential new clients?***
Mr. Christianssen: Our outreach many times is through our existing clients who are operating in a particular industry and will introduce us to other companies within their industry because they are so pleased with the support that they get from us here. We also spend quite a bit of time with other spheres of influence – attorneys, CPAs, financial planners, business coaches, or other professionals that would be advising the same kind of businesses.

CEOCFO: ***How is business today at Pacific Mercantile Bancorp?***
Mr. Christianssen: Business is doing really well here. We have been growing very nicely over the last few years as we continue to transform the company. The company used to only make loans for investor real estate and they were funding it with very high-cost deposits. We moved away from that model, as we focused on banking operating companies; they bring their deposits here and we turn around and make loans to those same businesses. The advantage of banking operating companies is that as the operating companies succeed and grow, their credit needs grow and their deposits grow, so our bank is growing when our clients succeed. When you are a real estate lender your loan investments amortize, so they are constantly going away from you as they amortize. The kind of banking relationships we have, we are investing in the success of those businesses and as they grow, we grow.

CEOCFO: ***Do companies tend to stay with you as you develop a relationship?***
Mr. Christianssen: Most of the time. We have had some very successful relationships where we have actually had to part ways with clients because they outgrew our capability. We only have so much capital and our capital limits how much we can lend to any particular borrower. We have helped companies succeed in a way that their credit needs exceeded our ability to meet them and they had to move on. Typically they do stay around for quite a while.

CEOCFO: ***For the first half of 2019, you acquired 39 operating company relationships, which is at a stronger pace than the previous two years. Do you see that continuing?***
Mr. Christianssen: Yes, I think we are on pace to do 80 to 100 operating companies this year.

CEOCFO: ***How do you handle a large increase in business as you continue to grow?***
Mr. Christianssen: One of the things that we have been very focused on is digital transformation, so we are continuing to apply technology partnering with our core technology provider along with FinTech companies to make ourselves more efficient and to allow us to serve more people with the same level of resources. That speeds the process and makes the interaction with our clients more frictionless.

CEOCFO: ***How do you ensure user-friendliness?***
Mr. Christianssen: When we are rolling out new technologies, we do it in a gradual way and we test it and will often introduce a new technology to some actual clients of the bank and have them test it out and make sure that it is user-friendly. If we get feedback that is contrary, we go back to the software developers and ask them to make certain enhancements that improve the usability of whatever that platform is.

CEOCFO: ***How does Pacific Mercantile standout at a conference?***
Mr. Christianssen: Our differentiator of working with operating companies and applying Horizon Analytics is how we do stand out. Most banks of our size are more focused on real estate lending, and to fund that real estate lending they generally more often than not have more of a consumer focus on the deposit side.

Where we stand out is we have a full relationship with our clients, so operating companies are doing their depository banking with us which then provides us the funding to make loans to those same operating companies where a lot of other community banks are getting their deposits from consumers and from a branch network and then turning around and investing in consumer loans and loans to real estate investors.

CEOCFO: ***Do investors recognize the value and the difference?***
Mr. Christianssen: Absolutely, we often hear from investors and analysts that they don't see any other community banks doing what we are doing.

CEOCFO: ***Why look at Pacific Mercantile Bancorp?***
Mr. Christianssen: What most investors and clients are looking at is the sustainability of our business model and an ability to continue to grow at a sustainable rate. Here in Southern California in particular, there are over a million small businesses and when you look at the small businesses in that $10 to $70 million range, it narrows that field quite dramatically to maybe 40 or 50 thousand in our service area. When we are adding 80 to 100 small businesses in a year, you can see that we have quite an opportunity to continue to grow just here in Southern California.

CEOCFO: ***Final thoughts?***
Mr. Christianssen: I think it should be a challenge, to CFOs in particular, to really look at their banking relationship and see if they are getting all they can from their current bank. Whether they are banking with us or some other bank, they should be challenging their bank to provide them with ways to help them speed the collection of cash and help elongate the outflow of cash to improve their cash cycles. If their bank cannot help them do that, maybe it is time for them to take another look.

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