IberiaBank moves to the fore in regional banking with a savvy, calculated plan and an unconventional business model.

By Walter Pierce

Friday the 13th was very lucky for IberiaBank shareholders. The announcement that day that the company had purchased two failing Florida banks registered a 3.5 on the national financial Richter Scale, but it sent a major shockwave through the local banking community. The purchase grew IberiaBank’s assets to nearly $10 billion, making it the second biggest bank in Louisiana behind Whitney ($11.9 billion), and turning it into a major force in banking in the southeastern United States.

What’s astonishing about IberiaBank’s acquisition of Naples-based Orion Bank and Century Bank in Sarasota is the enormous wealth it created for its shareholders in mere days. "We think we got both a terrific strategic transaction and a fabulous financial transaction, and really both have to go together," says Dylan Byrd, IberiaBank’s president and CEO. "The way you bid FDIC transactions, you can get good financial transactions without getting good strategic value. We think you have to do both; you need to be thinking through both the strategic side and the financial side at the same time."

IberiaBank’s share price on Friday, Nov. 13, was roughly $44 per share. By Wednesday, Nov. 18, it had climbed to more than $55 per share. There are 20 million outstanding shares in IberiaBank. That means within a matter of days, IberiaBank — in part through the acquisition of the two failing Florida banks — created more than $200 million in wealth. An investor who bought, say, a meager 100 shares in IberiaBank on Friday realized a tidy profit of $1,100 if she sold her shares last week. However, an investor who got in on the ground floor and bought 100 shares when then Iberia Savings Bank held its initial public offering in April 1995 — going price $11.51 per share for a total stock purchase of $1,151 — and sold that stock last week made about $43 per share profit for a total profit of more than $4,300. Several top executives own tens of thousands of shares in the company. Their portfolios are robust, to say the least.

Meanwhile, Keeley Asset Management Corp, which according to Yahoo! Finance owns 949,140 shares of IberiaBank, could have turned a $10.4 million profit had it sold its shares. That’s a considerable rate of return.

"It’s a huge opportunity, the franchises that we’ve picked up in Florida," says Byrd. "We have the number 4 share in the Naples market — that’s the second most affluent community in the country. We have the number 5 share in Sarasota-Bradenton — again, that’s a fabulous market. We have the number 5 share in the Florida Keys. We’ve picked up branches in Palm Beach, West Palm, Boca Raton and Pompano Beach. So a very, very strong footprint for us, which is very exciting for our company."

Analysts agree.

"Florida is a deposit-rich state," Raymond James analyst Michael Rose told the AP last week. "Demographic forecasts see larger numbers of people moving in. That could be a couple of years away, but it will be a good place to be if you are well capitalized and have good people in place."

Byrd was in Houston last week to open an IberiaBank office; the company plans to open four branches in Houston soon — part of a calculated expansion plan that should make IberiaBank a familiar brand across a wide swath of the southern United States. "What we’ve done is, we’ve worked hard to understand what the potential situations are in a footprint that would probably run from Virginia through Florida to Texas — Virginia, the Carolinas, Tennessee, Georgia, Mississippi, Florida, Alabama, Louisiana and Texas," Byrd says, "and we probably have a pretty good sense of what banks in that region are going to have difficulties."

Performing due diligence — researching
and understanding the often hazy nexus of risk and reward—is a common thread in Byrd’s responses to questions about the company’s rapid yet calculated growth. “We paid our dues for a lot of years to be positioned to be able to grow, and to grow very cost effectively,” he says.

It is a buyer’s market in the financial services industry these days. More than 120 banks folded their tents in 2009, and there are more than 400 banks nationwide listed as at-risk by the federal government—banks teetering on the edge of insolvency. The feds are desperate to find buyers for these banks, and they’re willing to make a deal—but not with anyone. That IberiaBank has been able to expand through acquisition during extraordinarily tough times for banking in general is not only a testament to its financial savvy, it’s also an indicator that the FDIC trusts its track record. And because the feds trust IberiaBank and need to shore up these failing financial institutions, IberiaBank can negotiate very favorable terms, it’s like buying a car and haggling the salesman down. Way down. And doubling the mileage on the warranty.

The Florida deals left financial journalists fawning over IberiaBank. CNBC contributor Vince Farrell writes, “One of the attractions of the deal is the loss sharing agreement the bank has with the Federal Deposit Insurance Corporation...” With the stock of IberiaBank up 17% at the time of this writing it is probably fair to say the market likes the deal and the loss sharing arrangement.

As one of our sources in the Lafayette banking industry put it, IberiaBank has three things the feds are looking for in a buyer: adequate capital, strong leadership and the experience of having done these transactions before.

“You can only grow within your ability to manage, and we have a great management team—a lot of depth,” says Bill Fenstermaker, board chairman for IberiaBank. “And we have been kissing a lot of frogs so to speak in these distressed-asset sales, and the board and management have been very active in being prepared when the right opportunity came about that we could execute. We’ve been doing that, we all work for shareholders, and I think this is something that’s part of our duty, to look at opportunity and things that are good for our shareholders, we should avail ourselves of that opportunity.”

Lke many companies, IberiaBank can point to humble beginnings. Founded in New Iberia in 1887 as Iberia Building Association, it had a halcyon first century, changing its name in 1956 to Iberia Savings & Loan then, in 1988 after the term “S & L” acquired a stigma, to Iberia Savings Bank. Within a year it began almost annual acquisitions of other banks, giving public and conducting its initial stock offering in ‘95 and changing its name to IberiaBank in ‘96. Since 2003, IberiaBank has spread its footprint from Louisiana to Texas, Arkansas, Alabama and Florida.

A 1,900-year-old marble statue of the Roman emperor Hadrian sat in a glass enclosure at the bank’s former main branch on St. Peter Street in New Iberia for more than a quarter century. In December 2008 it sold at a Christie’s auction for $902,500 after being estimated to fetch no more than $550,000. More evidence of that IberiaBank mojo.

About that same time, IberiaBank was lining up with banks across the country to take advantage of the U.S. Treasury Department’s Troubled Asset Relief Program, better known as TARP. But within a few months, as the feds started to change the rules on healthy banks that had accepted the funding to boost their lending capacity and restore stability to the banking industry, IberiaBank became the first bank in the country to say thanks, but no thanks. In late February, the Lafayette based institution announced that it would redeem 90,000 preferred shares from the U.S. Treasury at $1,000 per share, plus pay a $575,000 dividend, for a total of $90.57 million; dozens of banks have since followed suit and exited the program. At the time it received the

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IberiaBank CEO and President Daryl Byrd
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TARP funds in December 2008, the bank also raised significant capital, $110 million through a common equity offering among private investors. Seven months later, it raised another $172 million in capital (netting $164.5 million) by selling additional stock. The combined offerings were oversubscribed with an order book of $1.6 billion, which means demand for IberiaBank stock exceeds the company's current market capitalization. Typically, investor interest is a fraction of a company's market cap.

IberiaBank has already deployed all of the capital from its last two offerings in the recent acquisition binge (the deals were so attractive that they will add to earnings by 2010, according to Fenstermaker), which means it will probably have to go back to the well should it hope to snag another big fish.

One of the best ways to understand IberiaBank's uncanny performance over the last year — a grinding, tough year for banks by any measure — is to compare it to a similar size banking company. Take Hancock Bank, for example, founded in 1899 in Gulfport, Miss., 12 years after IberiaBank was founded in New Iberia. Hancock operates roughly 160 banking and financial services offices in a multi-state region along the Gulf Coast; IberiaBank has about the same number of combined offices in the same region.

On Nov. 19, 2008, a share in Hancock cost an investor $37.45; an IberiaBank share was running at $47.65. On Nov. 17, 2009 — Tuesday of last week — a Hancock share had appreciated to $39. That's about a 4 percent increase in value over the last year — a rate of return one can expect on a garden variety savings account. The IberiaBank share, meanwhile, jumped to $54.45 or 14 percent over the same period. Again, a hell of a rate of return.

Daryl Byrd, meanwhile, is not your typical south Louisiana banker. He prefers tennis to golf, for starters, and has

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presided over the bank's steady acquisition of a remarkable collection of Louisiana art. The South Carolina native got into banking at the urging of his wife's father and uncles, bankers themselves, and his knack for the business led him quickly up through the ranks, landing him in Lafayette in 1985. It was a terrible time to be banker in Louisiana, which was in full swoon after the bottom fell out from the oil industry. "I was just too young and dumb to know any better," the self-deprecating 54-year-old recalls. "But obviously it turned out to be a great experience. We've made a bunch of wonderful friends."

Byrd was senior lender at First National Bank, the antique-white tower on Jefferson Street downtown that has since morphed into Chase Bank, from 1985 to '90. (Longtime Lafayette residents still refer to the now Chase Tower as the "FNB Tower.") His tenure with the First Commerce Corp.-owned banking group led him briefly to Alexandria, where he served his first CEO gig at Rapides Bank, and then to New Orleans during the merger and take-over frenzy of the 1990s. FCC was acquired by Bank One, and in 1999 while serving as president of Bank One in New Orleans, Byrd got an intriguing phone call.

"Bill [Fenstermaker] called me and said, 'How much fun are you having at Bank One?' I wasn't having a lot of fun, and I thought moving back to Lafayette and running Iberia would be kind of an entrepreneurial opportunity that I thought would be a lot of fun, and it has been. We've had a great time."

"Well first off, Daryl's a great banker," Fenstermaker says. "He understood commercial banking, and IberiaBank at that time, we were a thrift, a savings and loan, and we had indicated and pontificated that we would be a commercial bank, and quite frankly we needed to make a change to make that happen. And Daryl in my opinion was the perfect person to do it."

The end of the 1990s was also a pivotal time for IberiaBank: When Bank One moved into the Louisiana market, the Federal Trade Commission required it to divest itself of dozens of branches. IberiaBank was the winning bidder on 17 Bank One branches in Lafayette and Monroe; Byrd was hired soon after, just as IberiaBank embarked on a major period of growth.

Having good people in place is a key ingredient in IberiaBank's business model, which Byrd characterizes as horizontal. "A lot of the big banks in particular have the branches report up one place in the company, often to one city; the commercial group reports somewhere else, the ATMs report somewhere else, the trust department reports somewhere else, and they're in these kind of vertical silos," Byrd says. "We want somebody to be in charge of all those items in each market, so if a customer or a client has an issue, they know they can go to one person and get it fixed. We think that's strategically a much different way to run a company."

And unlike most major banking companies — or any corporations for that matter — IberiaBank has positioned itself for growth with aggressive recruitment of talent, pulling together a highly qualified executive team that is spread across the region. Byrd, director of communications Beth Ardoin, Pete Yuan, president of IberiaBank's Lafayette operation, and a few others are headquartered in the building on Congress Street downtown. But nearly half of the company's executives make their homes elsewhere. Chief Operating Officer Michael Brown lives in Little Rock, Chief Financial Officer Anthony Restel and Brokerage Manager Jeff Parker are in New Orleans, and Retail Director Mike Naquin resides in San Antonio.

John Davis, director of financial strategy and, according to a source familiar with the company's operations, a chief architect of IberiaBank's acquisition strategy, lives in Raleigh, N.C. It's an extraordinarily unusual arrange-