William Blair

May 5th, 2023

Western Alliance Bancorp & Regional Banks Update

U.S. Growth & Core Equity

From management's 1Q'23 earnings report and conference call on April 19th, we were encouraged by how quickly Western Alliance Bancorp (WAL) improved its capital levels and deposit quality while maintaining its above average return profile. We believe the company was able to achieve this given 1) the existing structural high levels of profitability of the bank, which gave it flexibility to make changes and, 2) the quality of financial management—in our view they knew what steps to take and they executed very efficiently to tap a variety of credit sources to ensure liquidity access and fortify its balance sheet. Further on its earnings call, management stated that its insured deposit levels were in the top decile compared to the 50 largest U.S. banks, its deposit base had stabilized and, it had sufficient liquidity to meet almost 160% of its uninsured deposits, which is well above peers.

Recent events in the regional banking sector have led to continued volatility:

April 24th: First Republic Bank (FRCB) reported 1Q'23 earnings that showed even more stress than expected which created heightened concerns about its survivability. The company had a $100 billion funding shortfall with no viable plan in the short term.

May 1st: JP Morgan announced that it had acquired a substantial majority of First Republic's assets and certain liabilities. For some investors in FRCB and other regional banks, it raised the question of who was next. This pressured Western Alliance shares, among other banks, despite the hard data from 1Q reporting that we believe should have differentiated WAL from the three regional bank failures in the prior two months.

May 3rd: Several news outlets reported that PacWest (PACW) was pursuing strategic options, including a partial or complete sale of the company. The stock traded down by more than ~60% in the aftermarket and closed down ~50% as of the market close on May 4th. PACW responded by saying the company has been approached by several potential partners and that discussions were ongoing. The company plans to evaluate all options to maximize shareholder value.

May 4th: TD Bank terminated its merger agreement with First Horizon—the initial agreement was reached in February 2022 at a meaningful premium while regional bank stocks were still up year-to-date at the time. First Horizon's stock closed down 33%.

WAL issued a mid-quarter update that reaffirmed its financial strength, false news report led to share volatility:

May 3rd: Western Alliance issued a further mid-quarter update that reaffirmed its financial strength and deposit growth guidance that included the following:

- Management reaffirmed their expectation to achieve a $2.0B quarter over quarter deposit growth guidance for the 2QE. WAL's diversified deposit franchise has demonstrated its flexibility during this period of unusual volatility.
- Insured deposits represent 74% of total deposits and of their top 20 deposit relationships, 88% are insured.

- The balance sheet repositioning that management discussed in their 1Q call remained on track.
- The bank's CET1 ratio climbed from 9.4% on March 30th to 9.7% on April 30th. Acknowledging its capital strength, the Board declared a dividend consistent with the prior quarter on May 2nd.

May 4th: The Financial Times reported that Western Alliance is considering a potential sale of all or part of its business. Western Alliance issued a statement in response, stating that this story was categorically false and it is not exploring a sale, nor has it hired an advisor to explore strategic alternatives. The company condemned the Financial Times for spreading a false narrative and stated that it was considering all of its legal options in response to the article. The speculative and false narrative led to a dramatic, and we believe unwarranted, decline in its share price.

Summary: While recent events have led to increased volatility in the regional banking sector, Western Alliance fundamentals have been resilient. The company's deposit base has appeared to stabilize with a higher mix of insured deposits, management has acted quickly to ensure liquidity access and fortify its balance sheet, and the bank's capital ratios have increased. The investment team continues to have active conversations with the company amid the ongoing volatility in the sector. Our position size remains below-average given heightened risk of non-fundamentally driven volatility among regional banks. The Growth and Core Equity Team's strategies were underweight regional banks as of April month end.

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