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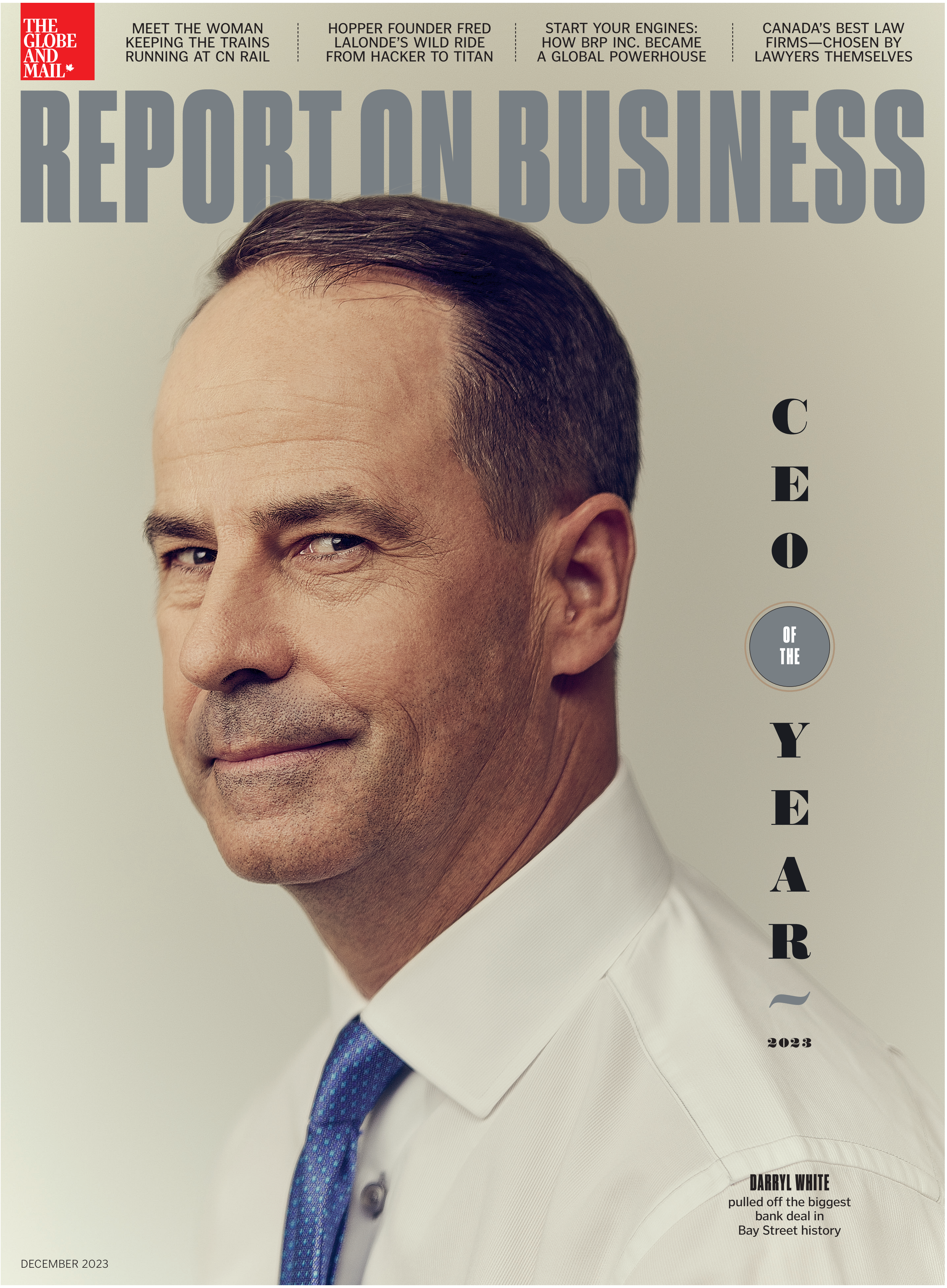

CEO OF THE YEAR ~ 2023

DARRYL WHITE pulled off the biggest bank deal in Bay Street history

DECEMBER 2023

C E O OF THE Y E A R ~ 2023

THE STRATEGIST

DARRYL WHITE
BANK OF MONTREAL

When our overall CEO of the Year took over in 2017, he promised to vastly grow the U.S. business. This year, White made good on that promise, pulling off the biggest bank deal in Bay Street history and making BMO the fourth-largest commercial bank on the continent

by JASON KIRBY

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Weary after two nights of restless sleep, Darryl White stared at the latest batch of numbers on his computer screen, stunned by what he saw. *Oh my god*, he thought. *Has something gone colossally wrong?*

It was Sunday night of the Labour Day long weekend, and over the previous 60 hours, the CEO of Bank of Montreal had been fixated on a finely choreographed operation playing out across 24 U.S. states: the conversion of 1.8 million customer accounts and more than 500 branches from Bank of the West to BMO. The massive undertaking wasn't just the culmination of a plan White put in motion in late 2021, when he announced the US$16.3-billion takeover of the California-based bank—the largest ever acquisition by a Canadian bank—but also the realization of a vision he'd laid out years earlier to build on BMO's aspirations south of the border.

Now, as White stared at his screen, the bank's early-warning

systems tracking online mentions of "BMO"—and which had been reassuringly quiet since the conversion began Friday night—spiked off the charts, a potential red flag that could indicate angry Bank of the West customers flooding social media to complain.

The team overseeing the conversion had tried to anticipate every potential snag that might arise over the three-day, four-night campaign. While White monitored the operation from BMO's home turf, Erminia (Ernie) Johannson, the bank's group head of North American personal and business banking, chief technology and operations office Steve Tennyson, and their team were stationed in a "war room" just outside Chicago, overseeing a battalion of 3,000 employees and contractors carrying out the switch. Everything had been planned down to the minute. The bank had conducted three mock trials and one full dress rehearsal ahead of the long-weekend project, known internally as CD1 (conversion day one). Yet in the war room, they, too, saw a surge in "BMO" chatter.

It quickly became clear that the spike wasn't a sign of an unfolding mess at BMO, but of Messi mania instead. Lionel Messi, soccer's biggest star, was at that moment making his Los Angeles debut with Inter Miami, playing at the newly renamed BMO Stadium and lighting up local social media. White had snagged the naming rights to LAFC's home field just two days after regulators signed off on the Bank of the West deal in January—a reported 10-year, US$100-million deal that White and Johannson celebrated on the field, under the shadow of club co-owner Magic Johnson.

Now, the deal was paying off. "Mentions of BMO were off the charts," says White. "We got a lot of free advertising from Messi."

As for the conversion itself, all signs point to a remarkably smooth transition. It's not hard to find the occasional online post from a Bank of the West customer unhappy with the changeover—but that would be the case in any deal this size. A social media sentiment analysis conducted by RBC Capital Markets during the conversion found the increase in negative posts related to BMO and Bank of the West "was lower than historical levels and insignificantly low relative to the entire acquired customer base."

To call the deal transformative is an understatement. Overnight, it catapulted BMO into the top 10 largest diversified banks in the U.S. when measured by consolidated assets, a group that includes just one other Canadian lender, TD Bank. But no other Canadian bank can match BMO's U.S. footprint—White notes it's now the fourth-largest commercial bank on the continent, and has far more branches in key markets like California that it can use to attract deposits, and sell additional products and services at a time when the banking sector is feeling the pinch of high interest rates. "The value of a banking franchise stems from its deposits, and what the Bank of the West platform does is it gives BMO more might on the deposit and retail side from day one," says Ebrahim Poonawala, a Bank of America Securities analyst.

At the same time, White's strategy for accelerating growth at BMO has brought sweeping changes to other parts of the bank—a heightened focus on efficiency, a much stronger presence in Canadian retail banking and a stark reassessment of disparate business lines—that helped make everything that's unfolded over the past year and a half possible.

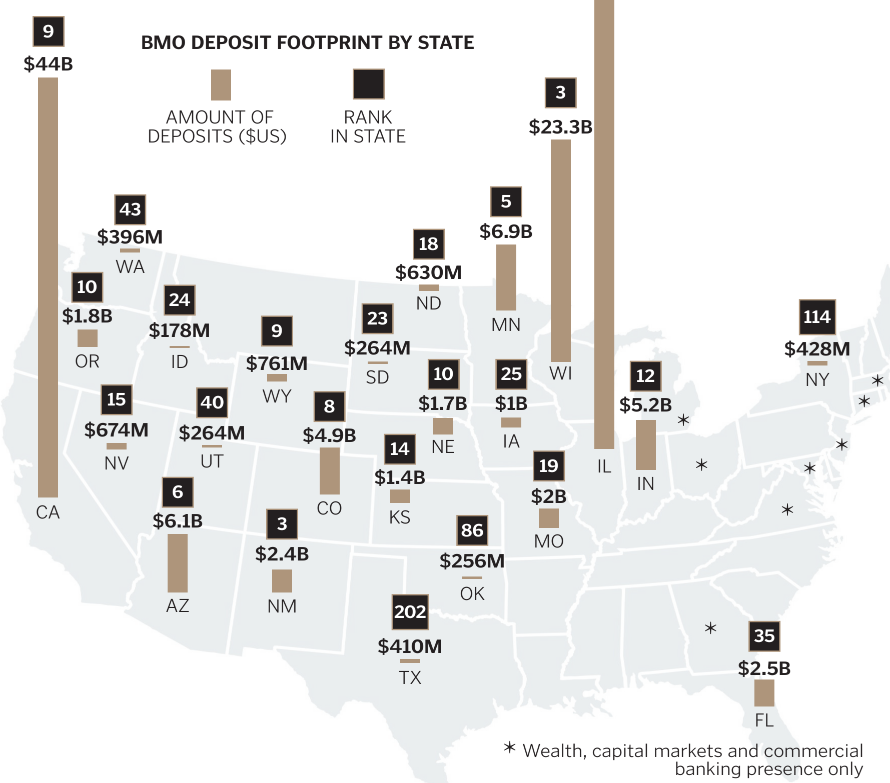
Investors and analysts have taken note. BMO has the highest share of "buy" ratings from analysts who follow the Big Five banks, and the stock has outperformed its peers over the past three years. Last year, BMO's market capitalization quietly surpassed Scotiabank for the first time since 2001 to make it Canada's third largest bank.

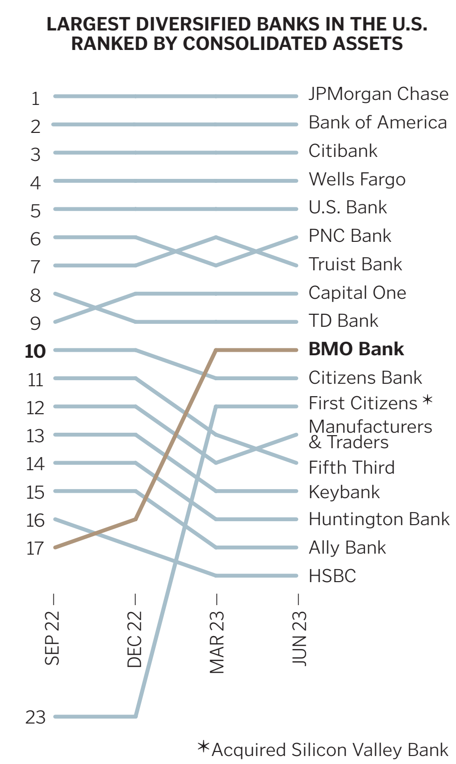
"Darryl is very strategic in terms of doing M&A transactions, but that's a narrow definition of strategic," says BMO's former chair, Robert Prichard, who, as a shareholder, has continued to watch White's performance closely since retiring in 2020. "Where he's really shown strategic thinking was in lining up the operations, lining up the regulatory relations and getting everything ready for when this opportunity showed up."

On a bright Tuesday afternoon in October, sunlight bathed nearly every corner of BMO Place, a brightly designed "future-ready" office space the bank opened earlier this year in Toronto's Eaton Centre. The four-storey, open-concept spot once held Sears Canada's flagship store before its bankruptcy. When White and BMO's real estate team first scouted it in 2017, with the intention of using the space to centralize employees scattered around the city—"forced collision," White calls it—the dusty offices were still draped in abandoned clothing stock.

After an extensive renovation that wrapped every floor in towering windows and carved through several storeys of concrete to create a skylit atrium, the place is packed with employees. "They're not here by mandate," White says with a toothy grin, a nod to the difficulties so many companies are having luring remote-happy workers back to the office. (For the record, BMO doesn't have a bank-wide return-to-work policy, but White says occupancy levels are close to 2019 levels, "other than Fridays.")

White—a Montrealer who joined BMO as an investment banking analyst in 1994, after graduating from Western's Ivey School of Business with a commerce degree—gets it. As a 52-year-old married father of three teenagers, White says he tries to pursue a balance between work and life. His first day as CEO—Nov. 1, 2017—happened to land on a day when one of his kids had a school event. "Without hesitation I said I had to be there, whereas you





SOURCE (LEFT) FEDERAL DEPOSIT INSURANCE CORP.

could easily fill three days into your first day on this job," he says. "The other things go away. I have my job, I have my family, and otherwise I'm pretty boring."

White inherited a bank from Bill Downe that was in good shape but lagging in critical ways. It trailed rivals in domestic retail banking growth and was regarded as the least efficient of the big banks at turning a dollar of costs into a dollar of revenue. And despite its early foray into the U.S. with the 1984 acquisition of Chicago-based Harris Bank and Downe's purchase in 2010 of troubled Wisconsin lender Marshall & Ilsley, the U.S. business was underwhelming.

White, an outspoken advocate for strengthening Canada's trade relationship with the U.S., brought a vision to the corner office of vastly growing its U.S. operations so that it was the same size and quality as its Canadian business, and advancing BMO's goal of a fully integrated North American bank.

The plan to achieve that came together over the course of 2019, and a key part of it was making room on the balance sheet to finance future acquisitions south of the border. BMO sold its asset management business in Europe, the Middle East and Africa, and unloaded its private banking operations in Asia. It also wound down its reinsurance business and its energy book outside of North America. The capital on BMO's balance sheet, like those of its Canadian rivals, also swelled during the pandemic after the Office of the Superintendent of Financial Institutions temporarily forbade banks from raising their dividends or buying back shares.

Meanwhile, the bank set about improving the efficiency of its existing operations, investing heavily in technology as part of a "digital-first" and "light-branch" strategy that, among other things, allowed BMO to reach new U.S. customers even in areas where it didn't have a physical presence. Coupled with a cost-cutting drive that saw it trim roughly 5% of its workforce in 2019, BMO improved its efficiency ratio, a measure of expenses to revenues, putting it more in line with its peers.

White has also streamlined the senior ranks, trimming its executive committee from 18 when he took over to 11, with group heads of the retail, commercial, wealth management and capital markets lines each responsible for their divisions on both sides of the border. That structure has been "a real differentiator for the retail business in particular because it allows us to truly punch above our weight," says Johannson, adding that tools and ideas that work in one country have been more easily transported to the other.

By 2021, the bank was in a strong position to pounce if a U.S. takeover opportunity arose.

The list of potential targets for BMO was shorter than you might expect, given America's universe of more than 5,000 banks. But the vast majority were too small to make an impact on BMO's bottom line. Bank of the West was different, with US$56 billion in loans and nearly US$90 billion in deposits. Its branches didn't overlap with BMO's existing U.S. footprint, and the two banks' commercial and retail divisions were set up along similar lines. What's more, since Bank of the West was owned by French banking giant BNP Paribas, which was distracted by its own problems in Europe, the California lender hadn't received the attention and investment dollars it needed.

When BNP put its U.S. unit on the market, which was reportedly expected to fetch at least US$15 billion, BMO trumped other bidders at US$16.3 billion, 1.5 times Bank of the West's tangible book value. It was a higher multiple than BMO paid for Marshall & Ilsley, but lower than other more recent Canadian bank deals. RBC paid a multiple of 2.5 times book value to buy HSBC's Canadian unit in November 2022, and TD offered more than two times book value in its abandoned bid for Tennessee-based First Horizon.

Even knowing what he knows now about the slowing economy and falling bank valuations, White has no qualms about what he paid. "Would I do it again? I would do it every day of the week and twice on Sundays, because in five and 10 years from now, I'm convinced anyone would say this was a fundamentally important transaction to set the strategic agenda on the continental play that we've got," he says, adding that "price assumes a certain confidence level on your execution."

A key step was to actually get the deal approved by regulators at a time when President Joe Biden has pushed for greater scrutiny of bank mergers. BMO had already done much of the heavy lifting to make sure its relations with regulators were strong, says Prichard. And executives met with hundreds of community leaders, including in a public hearing set up by regulators. As part of the deal, BMO eventually signed a nationwide US$40-billion community benefits plan—increasingly common in U.S. bank mergers—to boost lending to households and businesses, and increase home ownership in low- to moderate-income neighbourhoods and communities of colour, among other measures. BMO also promised not to close branches or lay off front-line staff, which analysts say could make it harder for it to find cost savings.

Though the regulatory process dragged on slightly longer than expected, the deal got approval in January, and the takeover was finalized the following month. The U.S. now accounts for roughly 45% of BMO's earnings, up from around 27% in 2017—which means that five years after taking over, White has nearly made good on his goal of growing the U.S. business to the size of the Canadian one.

That's not to say that goal is all-consuming. When White announced the deal internally in late 2021, he acknowledged it would be both transformative and closely watched. But he stressed that Bank of the West would account for just 15% of BMO and that the bank's future depended on not neglecting the other 85%. "We're going to walk and chew gum at the same time," he recalls saying in a comically understated idiom for what the bank was setting out to do.

And so, while it worked to absorb Bank of the West, BMO continued to duke it out in the trench war of Canadian retail banking, fighting for incremental basis-point gains in market share. As the bank with the smallest domestic branch footprint of the Big Five, it was a long-standing battle. But BMO's investments in technology and mobile banking had helped even the playing field, as had a boost to its front-line sales force. The result, as White pointed out in September, is that in 11 of the prior 13 quarters, BMO has posted the fastest retail banking revenue growth among its peers.

In October, BMO got further confirmation that its retail strategy is paying off. Every year since 2006, J.D. Power has surveyed bank customers to gauge satisfaction. The J.D. Power award is a big deal in Bay Street's corner offices, giving banks both bragging and marketing rights. For 17 years, only RBC and TD had alternately won the coveted top spot in the big-bank category. This year, BMO took it for the first time.

"We made it—BMO has arrived," says BMO Guy, the bank's pitchman for the past four years, as he and his trademark blue desk emerge on an airport baggage carousel in a new U.S. ad. After BMO Guy wins over skeptical passengers—"Just what we needed, another big bank" grumbles one—a driver holding a sign featuring the bank's three-letter logo calls out, "Uh, Bee Em Oh?" BMO Guy corrects him: "Just Bee-Mo, actually."

The pronunciation lesson is a reminder that despite BMO's omnipresence in Canada and its strength in certain midwestern U.S. markets, it's still largely an unknown entity in the U.S.

The introduction is unfolding ahead of expectations, says Johannson, who notes someone living in California or Colorado in October was exposed to BMO's brand campaign at least every other day, either through digital ads or billboards (or while watching Messi trounce LAFC 3-1 at BMO Stadium). Just two weeks into the campaign, BMO had seen awareness of its brand more than double in those markets, she says.

Other trends bode well for the integration. Branch productivity at Bank of the West locations was up 20% even before the Labour Day conversion. Customers are responding well to its no-fee access to 42,000 ATMs and to its digital banking app. On the commercial side, the bank has seen hundreds of new accounts opened. "There was a bit of a sleepy-bank phenomenon that's now getting fuelled and a customer base that is excited," says Johannson.

Still, the shock from rate hikes have made White's job harder, and he's forthright about what's coming. "We're going to see the effect of that roll through the economy as we go through the next four, six or eight quarters," he says. "We haven't seen the effect yet, and now we do see that coming." He doesn't believe a recession is on the horizon but warns growth next year will likely be limited to 0.5% to 1%. "I don't think that's a catastrophe, but we have to be grounded in the fact that's the slowest rate of GDP growth we've had since 1991, other than during the global financial crisis and a very short COVID recession," he says. "We'll live in that environment, and we have to help our customers get through that."

The impact is already being felt. BMO's earnings have fallen short of expectations of late, and after five straight years of positive operating leverage, it turned negative this year. (Operating leverage is the degree to which a company can increase its operating income by increasing revenue.) "I did not like having to tell shareholders in the second quarter that we would not go six for six," says White, who says he believes that cost and revenue synergies from the Bank of the West acquisition, along with cost-cutting measures and other initiatives undertaken this year, will result in efficiency and operating leverage improving again in 2024.

Will BMO have to launch another round of cuts to meet its targets? White doesn't think so. "I never say never, but I'm very fixated on the balance between that short-run imperative and the longer run," he says. "You ask yourself at which point you're cutting muscle. I want to make sure we've got lots of muscle, because the sun will come out, and when it does, we want to press our advantage. We don't want to be caught flat-footed."

Poonawala at Bank of America Securities says this was always going to be a transition year for BMO. He generally views Canadian banks as a dicey proposition, given the earnings pressures they face as consumers grapple with high interest rates, and he has a hold rating on BMO. But if White can get the integration done seamlessly in the next two to five years, it'll be a big win for the bank and reinforce its CEO's credibility with investors, which Poonawala says is already strong. "A lot of folks, myself included, hold RBC management in high regard, but Darryl is right there," he says. "When you look at BMO's stock, they don't get the same credit, but I think if he executes on some of these things over the next couple of years, that will close. I cover 40 banks across North America, and he's probably one of the best CEOs there is."

For his part, White agrees that the results of everything BMO has done will become clearer over the next two years. "People should and obviously will test us—are we really getting the outcomes, are the customers still there, are we growing the customer base, are we getting the integration and the fly wheel with the rest of the business?" he says. "We are not spiking the football on this yet, but I can tell you, early days, the execution is exceeding our expectations."