

LSCU-GCUA

Strategic Consolidation



A little about me...

- SVP, Association Services
- LSCU: 8+ years
- Prior to: American Cancer Society
- Amazing family
- 2-Time FSU Graduate
- HUGE Sports Fan
- Did I mention FSU?



Consolidation Town Halls / Webinars

- ✓ April 4th – LAS Executive Dialogue
- ✓ April 23rd – Dothan (Wiregrass Chapter Annual Meeting)
- ✓ April 25th - Webinar
- ✓ April 30th – Mobile
- ✓ May 7th - Orlando
- ✓ May 8th - Tampa
- ✓ May 9th – South Florida (Broward)
- ✓ May 9th – Tallahassee
- ✓ May 13th - Jacksonville
- May 21st – Webinar
- May 28th – Huntsville (NE AL Chapter Meeting)
- May 29th – Birmingham
- June 20th – CEO Roundtable (SCUCE)

SAS CU Roundtables:

- May 14th – Mobile
- May 16th – Birmingham
- May 21st – Hollywood

Background

- Credit union trade associations (CUNA, NAFCU, state leagues, etc.) face increasing pressure to evolve as the industry continues to consolidate.
- To remain relevant, leagues and their affiliated companies must continue to meet the changing needs and wants of credit unions and the marketplace.
- For League Service Corporations (LSCs) and their for-profit subsidiaries, maintaining and generating revenue is paramount to future sustainability.
- Looking back to 2008-09, what would be the condition of the Alabama and Florida Leagues today if they would not have consolidated?
- This proposed strategic consolidation with the Georgia Credit Union Affiliates is designed to provide a path to continued **growth, relevance** and **sustainability** for the LSCU & Affiliates.
- We believe value comes from large, robust and relevant organizations that can project influence and produce results.
- ***We will be stronger together than apart.***

What is the Value Proposition?

Through a combined LSCU-GCUA structure it is envisioned that value would be created in the following ways:

Association:

- Enhance core competencies (i.e. Advocacy, SAS CU development & support, etc.) through expanded expertise and resources.
- A larger geographical footprint increases our influence with policymakers and system partners, both nationally and at the state level.
- Better control the future cost of membership (i.e. dues) and related services.

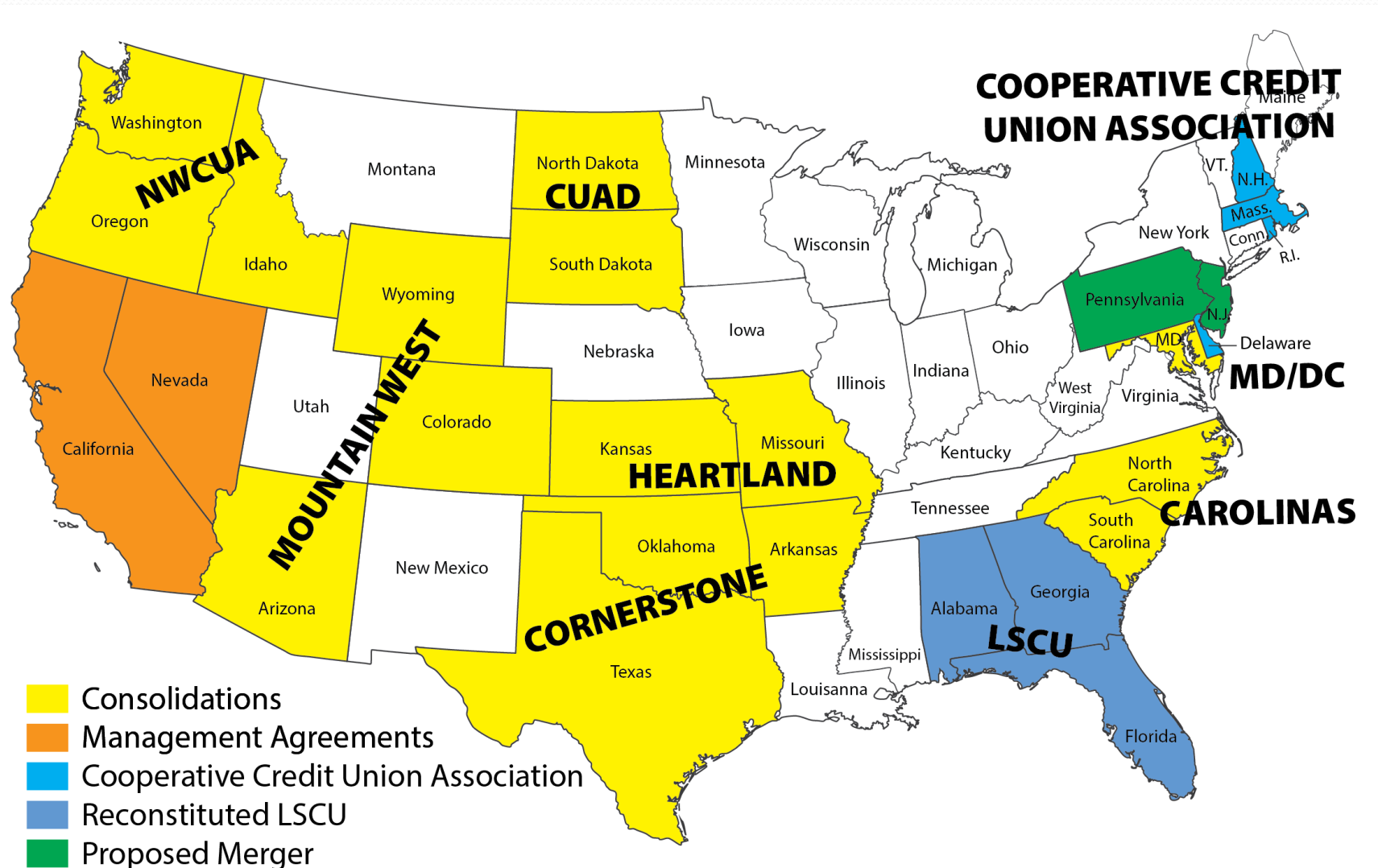
For-Profit Business Units & Subsidiaries:

- Expanded suite of products and services for our credit union clients.
- Greater revenue potential through an expanded core marketplace in the Southeast.
- More leveraged influence when negotiating third-party agreements on behalf of credit unions.
- A more diversified business model and revenue streams help guard against revenue compression.
- Continued ability to help subsidize the cost of association membership.

Shared Services Functions:

- More efficient and effective execution of shared services.
- More opportunity for internal career growth for our combined staff.
- Greater expertise - Deeper bench, talent pool, backup functions (key-man risk mitigation).

A Changing League Landscape



Scale Matters

Number CUs:

1. Cornerstone – 570
2. PA – 368
3. NY – 338
4. CA/NV – 324
5. OH – 264
6. IL – 253
- 7. LSCU – 242**
8. MI – 224
9. CCUA - 214
10. Heartland - 189

Reconstituted LSCU (AL, FL, GA):

3. 342

PA/NJ Combined:

2. 527

CU Assets:

1. CA/NV - \$289B
2. VA - \$155B (**Navy FCU**)
3. Cornerstone - \$122B
- 4. LSCU - \$90B**
5. NWCUA - \$89B
6. NY - \$84B
7. Carolinas - \$71B (**SECU**)
8. MI - \$64B
9. CCUA - \$57B
10. PA - \$49B

4. \$107B

9. \$62B

CU Members:

1. VA – 12.8M (**Navy FCU**)
2. CA/NV – 12.6M
3. Cornerstone – 10.7M
- 4. LSCU – 7.9M**
5. NWCUA – 6.7M
6. NY – 5.9M
7. Carolinas – 5.9M (**SECU**)
8. MI – 5.4M
9. CCUA – 4.4M
10. PA – 4.2M

4. 9.6M

9. 5.2M

Organizational Profile

	LSCU & Affiliates	GCUA	Combined
Current Staffing	80	42	122
Overall Affiliation Rate	87%	83%	
Association Revenue	\$4.8M	\$2.5M	\$7.3M
For-Profit Revenue	\$11.0M	\$3.7M	\$14.7M
Total Revenue	\$15.8M	\$6.2M	\$22.0M
Investments	\$6.4M	\$2.8M	\$9.2M
Net Working Capital	\$9.0M	\$4.0M	\$13.0M
Total Assets	\$22.3M	\$7.5M	\$29.8M

Charitable Foundations:

Assets

Southeast Credit Union Foundation
Georgia Credit Union Foundation

\$2.8M
\$278K

Based on 2017 Year-End Financial Audits
For GCUA, does not include CSI

Proposed New Structure

- Given the complexity of a combined LSCU-GCUA organization, we plan to use a holding company structure for the reconstituted LSCU & Affiliates.
- A **holding company** is a company that owns other companies' outstanding stock. It usually does not produce goods or services itself; rather, its purpose is to own shares of other companies to form a corporate group.
- Additionally, this structure is designed to:
 - Provide a corporate/legal veil to separate and protect LSCU, the non-profit trade association (parent company).
 - Transfer assets among the corporate group as necessary.
 - Instill business discipline in the for-profit subsidiaries.
 - Tax advantages based on parent/subsidiary ownership structure.
 - One consolidated tax return for holding company and its subsidiaries.

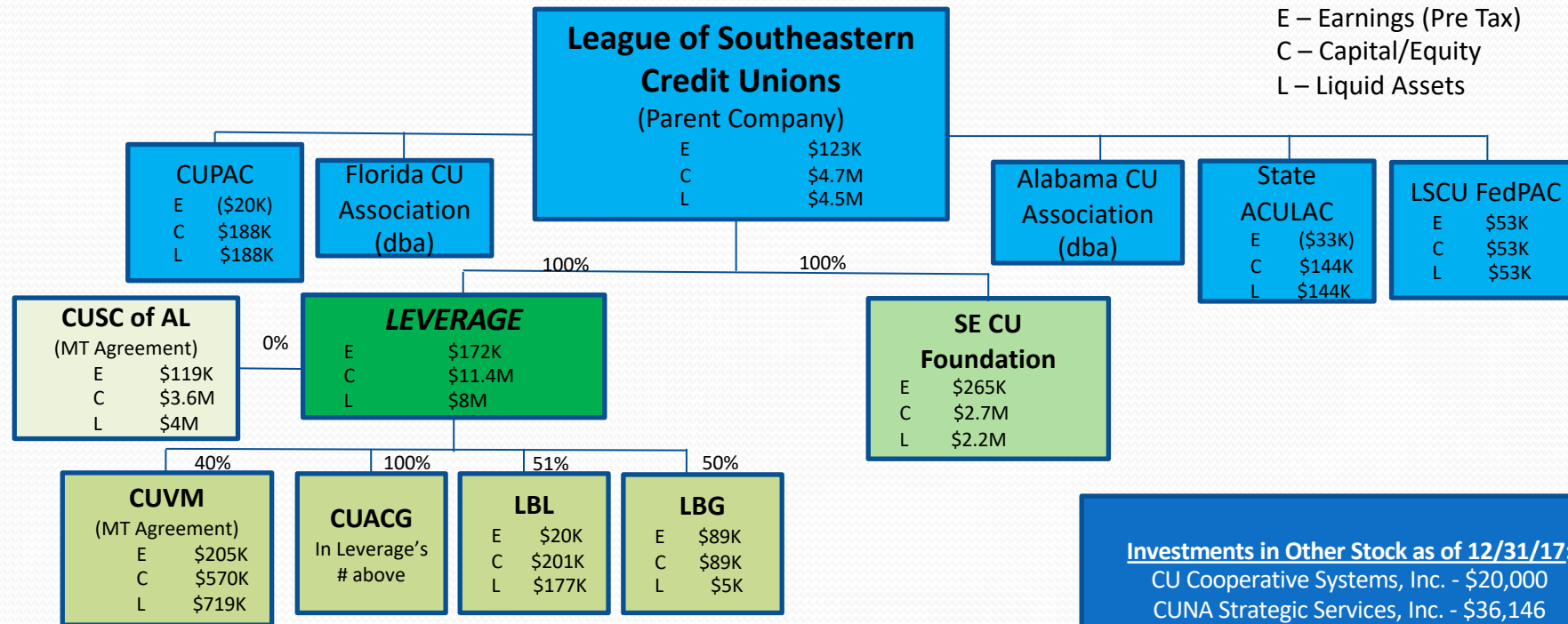
Current LSCU & Affiliates Structure

Based on 12/31/17 Audited
Financials

E – Earnings (Pre Tax)

C – Capital/Equity

L – Liquid Assets

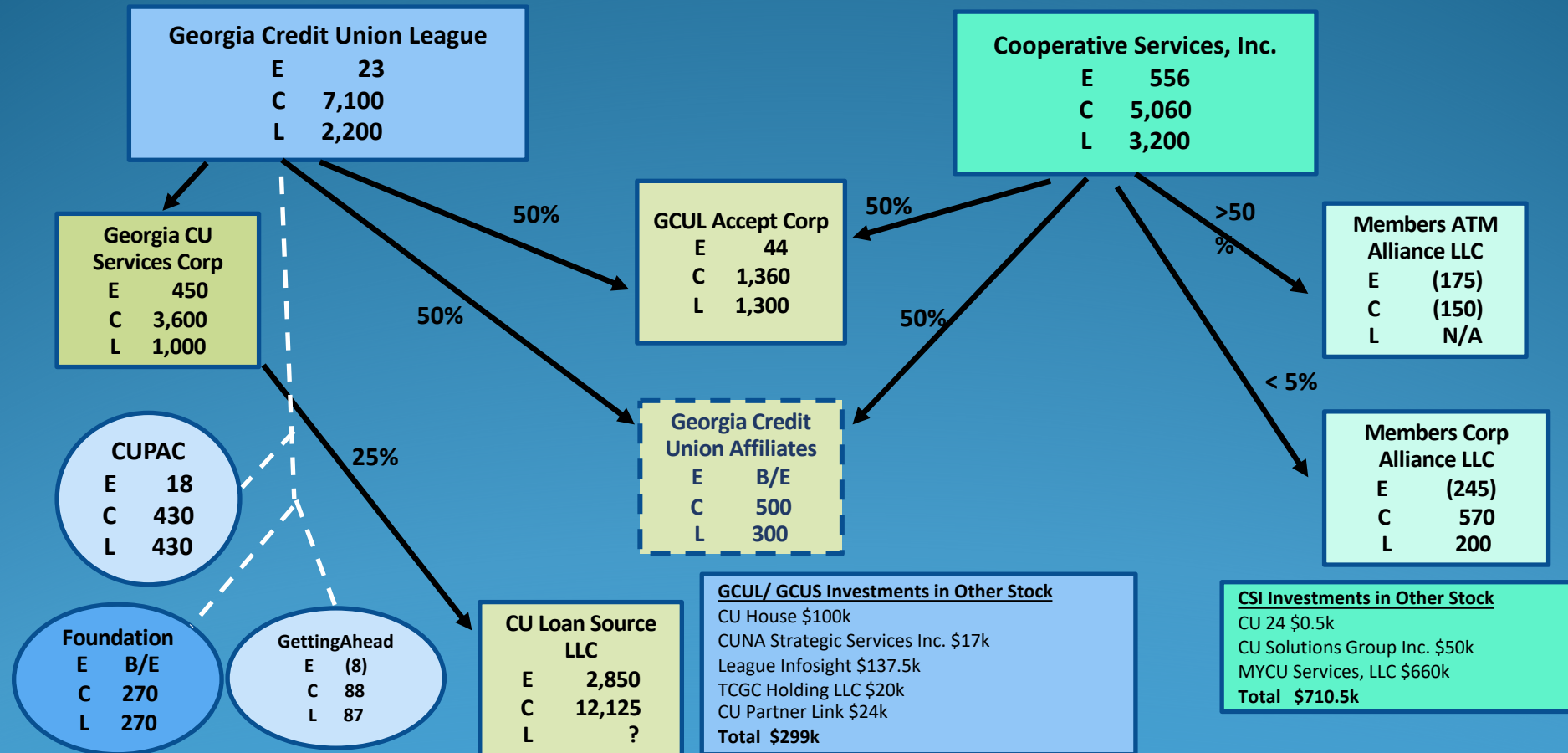


Investments in Other Stock as of 12/31/17:

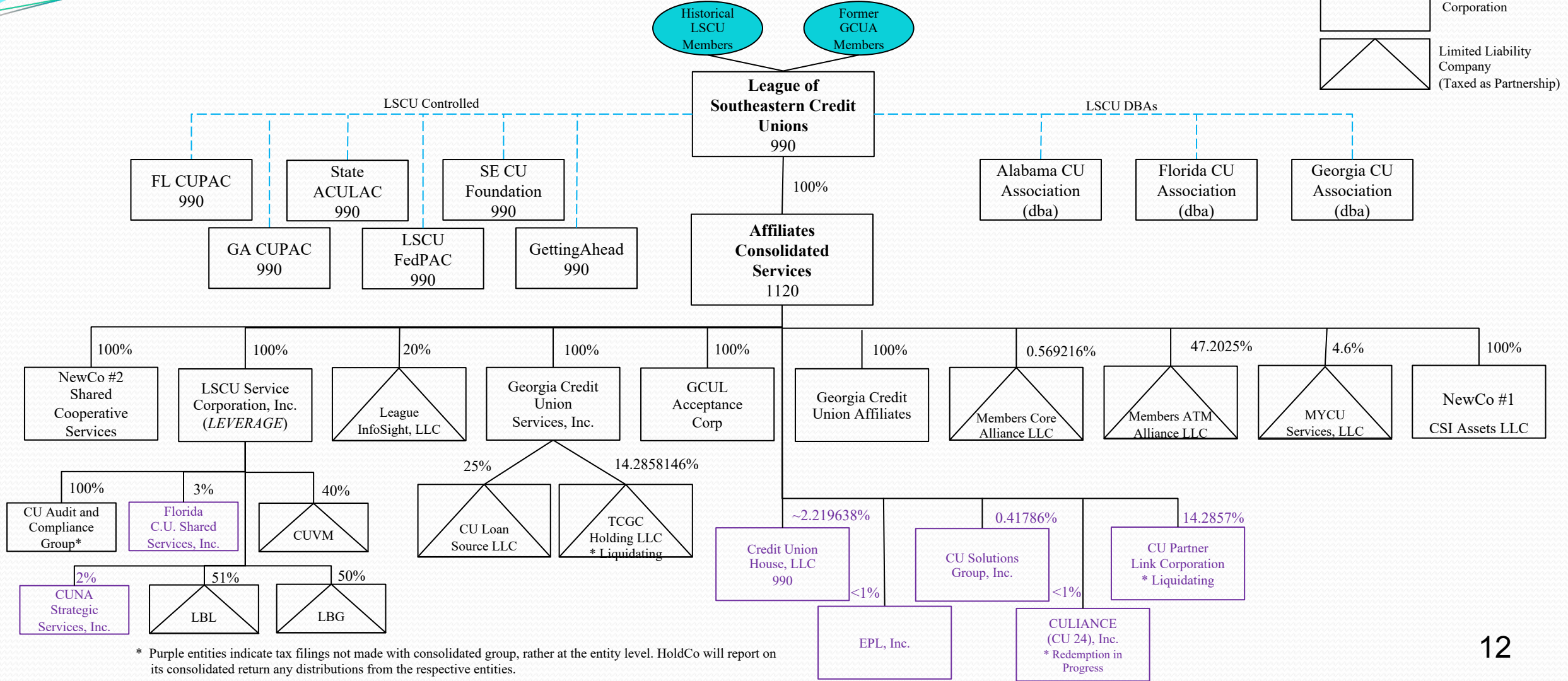
CU Cooperative Systems, Inc. -	\$20,000
CUNA Strategic Services, Inc. -	\$36,146
Florida C.U. Shared Service, Inc. -	\$33,439
CULIANCE (CU24), Inc. -	\$500
C.U. House, LLC -	\$260,000
League InfoSight, LLC -	\$212,500
C.U. Vendor Management, LLC-	\$280,606
EPL, LLC -	\$0
Total investment in Other Stock -	\$843,191

Current GCUA Structure

E ~ Pre tax Earnings
C ~ Net Worth
L ~ Liquid Assets



Instituted Structure (All Subsidiaries)



* Purple entities indicate tax filings not made with consolidated group, rather at the entity level. HoldCo will report on its consolidated return any distributions from the respective entities.

** LEVERAGE will consider moving employees to Georgia Credit Union Affiliates, Georgia Credit Union Services, Inc., or Holding Company.

Association



Name:

- League of Southeastern Credit Unions & Affiliates.

Legal Structure:

- Domiciled in Alabama with offices in Atlanta, Birmingham and Tallahassee. No designated headquarters location.
- Three DBAs to maintain local identity both for lawmakers and credit unions:
 - Alabama Credit Union Association
 - Florida Credit Union Association
 - Georgia Credit Union Association
- Current LSCU bylaws with only necessary changes to execute merger.
- Current LSCU dues structure.

Leadership:

- Mike Mercer, CEO.
 - Manages the day-to-day operations of specific Association and related functions.
 - Succession Plan – Upon Mike's retirement, Patrick will become CEO of both LSCU and Holding Company.

Governance Structure:

- Eighteen-member elected Board of Directors (six from each state). Chairman rotates by state with **Alabama** representative being first chairman of reconstituted LSCU.

Association (Con't)

Core Functions:

- Legislative & Regulatory Advocacy
- Compliance Support
- Affiliation/Membership Relations
- Chapter Relations
- Small Asset Size (SAS) CU Development & Support
- Networking Councils
- Public Messaging
- Southeast Credit Union Foundation (SECUF)
- International Partnership(s)
- State Advocacy Policy Councils (3x9)
 - Appointed by Chairman based on three asset classes (S, M & L) to ensure fair representation on issues of importance (27 total).
- Consolidated Federal Advocacy Policy Council (9)
- Three state PACs / One Federal PAC (LSCU FedPAC)

Holding Company



Name:

- Affiliates Consolidated Services (ACS).

Legal Structure:

- Wholly owned subsidiary of LSCU & Affiliates.
- Oversees for-profit business units, subsidiary companies and shared services (back office) functions.

Leadership:

- Patrick La Pine, CEO
 - Manages day-to-day operations of ACS, as well as subsidiary companies.
 - CEO reports directly to a separate ACS Board of Directors.

Governance Structure:

- Up to nine-member Board of Directors.
- Chair, Chair-Elect & Vice Chair of LSCU Board, as well as CEOs of Holding Company and LSCU (both Ex-Officio). Chairman rotates by state with **Florida** representative being first chairman.
 - Additional directors appointed based on proven business acumen.

Holding Company (Con't)

Core Functions:

- Oversees all for-profit and subsidiary business units.
- Provides a common culture and core values across all operating companies.
- Creates collaboration and efficiencies by providing support services to all operating companies including:
 - Finance & Accounting
 - Information Technology/CRM
 - Human Resources
 - Facilities & Operation
 - Marketing & Communications
 - Education & Training (Conferences, Workshops, etc.)
- Acts as Board of Directors for subsidiaries unless entity is not wholly owned by Holding Company.
- Approves strategic plans and budgets for subsidiaries.

Three-Year Proforma for Combined Entities

	Association Services & Holding Corp				
	2018 A	2019 B	2020 F	2021 F	2022 F
REVENUES					
Revenue	24,354,208	23,537,921	23,410,612	23,297,586	23,632,834
New Reveune			150,000	400,000	1,000,000
Cost of Goods Sold	5,741,271	5,156,015	5,138,091	5,271,089	5,463,000
GROSS MARGIN	18,612,937	18,381,906	18,422,521	18,426,497	19,169,834
EXPENSES:					
Operating Expenses	18,157,787	18,555,818	17,939,200	18,363,776	18,937,809
TOTAL EXPENSES	18,157,787	18,555,818	17,939,200	18,363,776	18,937,809
OPERATING INCOME	455,150	(173,912)	483,321	62,720	232,025
EQUITY IN SUBSIDIARIES (EIS)	1,024,483	1,150,735	120,165	133,358	138,021
NET INCOME BEFORE TAXES	1,479,633	976,823	603,487	196,078	370,046
INCOME TAXES	(257,876)	(267,957)	(278,690)	(280,813)	(216,583)
NET INCOME	1,221,757	708,867	324,797	(84,735)	153,463

This merger is expected to improve efficiencies with over **\$800k** in initial cost savings already identified. These savings are only expected to increase over time.

Next Steps

- Working with M&A law firm Berger Singerman, PC on due diligence; drafting the appropriate legal documents to execute the transaction.
- Complete acquisition of CUSOs (CSI, CUSC) and equity sale of ownership stake in GA CUSO (CULS) as well as merger of GCUF into SECUF.
- Georgia membership vote expected to be concluded prior to SCUCE.
- Alabama law does not allow member action on a proposed merger by mail/electronic ballot. Additionally, LSCU bylaws does not allow voting by proxy.
- Therefore, a merger vote will take place at the **LSCU Annual Meeting on Thursday, June 20th at 3pm ET** in conjunction with SCUCE. You do not need to register for SCUCE to attend the Annual Meeting.
- If approved by the membership, the actual closing date is contingent on waivers and consents being completed - we are hoping for July 1.
- The second half of 2019 would be used to consolidate the two organizations, legally and structurally acting as one consolidated entity effective January 1, 2020.



Questions?

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