

Hilltop Holdings Inc.
Form 425
September 03, 2014

Fourth Quarter Fiscal 2014
SWS Group Conference Call
September 3, 2014

1
Filed
by
SWS
Group,
Inc.
Pursuant
to
Rule
425
of
the
Securities
Act
of

1933
and
deemed
filed
pursuant
to
Rule
14a-12
of
the
Securities
Exchange
Act
of
1934
Subject
Company:
Hilltop
Holdings,
Inc.
(Commission
File
No.
for
Registration
Statement
on
Form
S-4:
333-196367)
The
following
Earnings
Presentation
was
used
in
SWS
Group,
Inc.'s
quarterly
earnings
conference
call
on
Wednesday,
September
3,
2014
at

10:00
a.m.
Eastern
Time
(9:00
a.m.
Central
Time):

Forward-Looking Statements

This
presentation
contains
forward-looking
statements.

Readers
are
cautioned
that
any
forward-

looking
statements,
including
those
predicting
or
forecasting
future
events
or
results,
which
depend
on
future
events
for
their
accuracy,
embody
projections
or
assumptions,
or
express
the
intent,
belief
or
current
expectations
of
the
company
or
management,
are
not
guarantees
of
future
performance
and
involve
risks
and
uncertainties.
Actual
results
may

differ
materially
as
a
result
of
various
factors,
some
of
which
are
out
of
our
control,
including,
but
not
limited
to,
volume
of
trading
in
securities,
volatility
and
general
level
of
securities
prices
and
interest
rates,
liquidity
in
capital
markets,
availability
of
borrowings
under
broker
loan
lines,
credit
agreements
and

credit
facilities,
customer
margin
loan
activity,
credit-worthiness
of
our
correspondents,
trading
counterparties
and
customers,
the
ability
of
our
borrowers
to
meet
their
contractual
obligations,
the
value
of
the
collateral
securing
the
loans
that
we
hold,
demand
for
real
estate
and
investment
banking
services,
general
economic
conditions,
especially
in
Texas
and

New Mexico, changes in the commercial lending and regulatory environments, the ability to meet regulatory capital requirements, the failure to consummate or delay in consummating the proposed transaction with Hilltop Holdings Inc. (Hilltop) for other reasons, the risk that a regulatory approval that may be required for the proposed transaction

is
delayed,
is
not
obtained
or
is
obtained
subject
to
conditions
that
are
not
anticipated,
and
other
factors
discussed
in
our
most
recent
Annual
Report
on
Form
10-K,
Quarterly
Report
on
Form
10-Q,
and
in
our
other
reports
filed
with
and
available
from
the
Securities
and
Exchange
Commission.
2

Use of Non-GAAP Measures (Slides 4, 8, 9 & 16)

3

SWS

Group,

Inc.

(SWS

or

the

Company)

has

included

presentations

of
Fully
Diluted
Tangible
Book
Value
Per
Share
(Slide
#4 and #8),
Adjusted
Pre-tax
Loss
(Slide
#9)
and
Adjusted
Compensation
Ratio
(Slide #16).
Fully
Diluted
Tangible
Book
Value
Per
Share
reflects
book
value
per
share,
less
goodwill, assuming
exercise of all the Company's outstanding warrants and resulting repayment of the
\$100 million loan from Hilltop and Oak Hill.
Adjusted
Pre-tax
Loss
is
income
(loss) before
income
tax
expense,
excluding
the
impact
of
the

valuation
adjustment
for
the
warrants
held
by Hilltop
and
Oak
Hill,
the
impact
of
legal
and
financial
advisory
fee
expenses
associated
with
the proposed
merger
with
Hilltop
Holdings,
Inc.
and
the
impact
of
the
loan
loss
recapture
for
the
banking segment.
The
Adjusted
Compensation
Ratio
is
the
ratio
of
commissions
and
other
employee compensation

to
net
revenues
adjusted
for
the
exclusion
of
interest
expense
on
the
\$100
million
loan from
Hilltop
and
Oak
Hill.
Fully
Diluted
Tangible
Book
Value
Per
Share, Adjusted
Pre-tax
Loss
and
the
Adjusted
Compensation
Ratio
are
non-GAAP
financial
measures
as defined
in
Item
10(e)
of
Regulation
S-K.
SWS
believes
that
the
presentation
of

these
non-GAAP financial
measures
provides
useful
information
by
excluding
these
items,
which
SWS
believes
may
not be
indicative
of
the
Company's
core
operating
results.
While
management
believes
these
non-GAAP financial
measures
are
useful
in
evaluating
SWS,
this
information
should
be
considered
as supplemental
in
nature
and
not
as
a
substitute
for,
or
superior
to,

the
related
financial
information prepared
in
accordance
with
GAAP.

4

Fully Diluted Tangible Book Value (Non-GAAP)*

*See discussion of Non-GAAP reconciliation on Slide #3

(in thousands)

6/30/14

6/30/13

Book Value

309,872

315,286

Less: Goodwill

(7,552)

(7,552)
 Tangible Book Value
 302,320
 307,734
 Pro-forma Adjustments:
 New equity from full warrant exercise
 100,000
 100,000
 Total recorded value of debt and warrants
 115,565
 107,299
 Less: Extinguishment of debt and warrants
 (100,000)
 (100,000)
 Less: Unamortized debt issuance costs
 (1,025)
 (1,517)
 Embedded gain on exercise before tax
 14,540
 5,782
 Less: Taxes (at 35%)
 (5,089)
 (2,024)
 Embedded gain after tax
 9,451
 3,758
 Pro-forma Tangible Book Value
 411,771
 411,492
 Shares Outstanding
 32,757
 32,629
 Deferred compensation shares
 311
 302
 Warrant shares
 17,391
 17,391
 Pro-forma shares outstanding
 50,459
 50,322
 Pro-forma Tangible Book Value per Share
 \$8.16
 \$8.18

Presenters

Presenters:

James H. Ross

President & CEO

SWS Group, Inc.

J. Michael Edge

SVP & CFO

SWS Group, Inc.

5

Agenda
Opening Remarks
Chief Financial Officer's Report
Questions
6

Opening Remarks
Merger with Hilltop Holdings
Business segments posted pre-tax profits for quarter and year
Continued Bank improvement
Broker
(87% of Q4 Revenues)
Bank
(13% of Q4 Revenues)
Retail
153 Reps
\$15.4 billion in
customer assets

Institutional
46 Reps
\$2.1 billion daily
average stock
loan book
\$7.3 billion
municipal new
issue volume
Clearing
159,816 tickets
\$16.9
billion in
assets under
custody
2.91% net interest
margin
\$1.3
billion in assets
25.5% total risk-based
capital and 14.1 % core
capital ratios
\$41.3 million classified
assets including \$22.9
million non-performing
assets

7

Fourth Quarter & Fiscal 2014 Overview

8

Three Months Ended

Twelve Months Ended

(\$ in thousands, except per share amounts)

6/30/14

6/30/13

6/30/14

6/30/13

Revenues

\$73,822

\$68,578

\$311,288

\$318,114

Net Revenues

63,207

55,445

266,362

271,653

Pre-tax Income (Loss)

637

(3,712)

(6,110)

(6,690)

Net Loss

(304)

(32,452)

(7,078)

(33,445)

Diluted EPS

Loss

(0.01)

(0.99)

(0.21)

(1.02)

Book Value Per Share

9.46

9.66

Fully Diluted

Tangible Book Value Per Share*

8.16

8.18

*See discussion of Non-GAAP reconciliation on Slides #3 and calculation on Slide #4

9

Adjusted Pre-tax Loss (Non-GAAP)*

*See discussion of Non-GAAP reconciliation on Slide #3

Three Months

Ended

Twelve Months

Ended

(in thousands)

6/30/14

6/30/13

Change

6/30/14

6/30/13
Change
Income (loss)
before income tax expense
\$ 637
\$ (3,712)
\$ 4,349
\$ (6,110)
\$ (6,690)
\$ 580
Valuation adjustment
for warrants
(3,237)
(3,877)
640
3,599
(3,613)
7,212
Merger-related expenses
1,431
--
1,431
3,787
--
3,787
Loan loss recapture
(492)
(6,268)
5,776
(5,361)
(7,718)
2,357
Adjusted Pre-tax Loss
(Non-GAAP)
\$(1,661)
\$(13,857)
\$12,196
\$(4,085)
\$(18,021)
\$13,936

SWS Priorities

10

Improve operating results

Address impact of challenging markets

Continue improvement at Bank

11
Chief Financial Officer's Report
*
*
*
*
*
*
*

12
6/30/14
3/31/14
%Change
6/30/13
%Change
Operating Revenues:
Clearing Operations
\$ 2,163
\$ 2,170
(0.3)
\$ 2,321

(6.8)
 Commissions
 28,976
 30,247
 (4.2)
 30,655
 (5.5)
 Investment Banking & Advisory
 8,918
 9,704
 (8.1)
 13,894
 (35.8)
 Net Gains on Principal Transactions
 5,812
 8,203
 (29.1)
 (7,768)
 >100
 Other
 6,387
 4,891
 30.6
 4,822
 32.5
 Total Operating Revenues
 \$52,256
 \$55,215
 (5.4)
 \$43,924
 19.0
 Net Interest Income:
 Brokerage
 \$ 5,300
 \$ 5,150
 2.9
 \$ 5,406
 (2.0)
 SWS Group, Inc.
 (3,255)
 (3,221)
 (1.1)
 (3,186)
 (2.2)
 Bank
 8,906
 8,530
 4.4
 9,301
 (4.2)

Total Interest Income

10,951

10,459

4.7

11,521

(4.9)

Total Net Revenue

\$63,207

\$65,674

(3.8)

\$55,445

14.0

Fourth Quarter Fiscal 2014 Net Revenues

(\$ in Thousands)

13
Fiscal 2014 Net Revenues
(\$ in Thousands)
12 Months Ended
6/30/14
6/30/13
Change
% Change
Operating Revenues:
Clearing Operations
\$ 8,839
\$ 8,719

\$	120
1.4	
Commissions	
119,534	
125,620	
(6,086)	
(4.8)	
Investment Banking & Advisory	
40,021	
45,255	
(5,234)	
(11.6)	
Net Gains on Principal Transactions	
29,655	
17,395	
12,260	
70.5	
Other	
26,172	
23,775	
2,397	
10.1	
Total Operating Revenues	
\$224,221	
\$220,764	
\$ 3,457	
1.6	
Net Interest Income:	
Brokerage	
\$ 19,994	
\$ 21,773	
\$(1,779)	
(8.2)	
SWS Group, Inc.	
(12,967)	
(12,307)	
(660)	
(5.4)	
Bank	
35,114	
41,423	
(6,309)	
(15.2)	
Total Interest Income	
42,141	
50,889	
(8,748)	
(17.2)	
Total Net Revenue	
\$266,362	

\$271,653
\$(5,291)
(1.9)

14
6/30/14
3/31/14
%Change
6/30/13
%Change
Operating Expenses:
Commissions and Other
Employee Compensation
\$46,388
\$48,753
(4.9)

\$48,908
 (5.2)
 Occupancy, Equipment and
 Computer Service Costs
 7,457
 7,676
 (2.9)
 8,189
 (8.9)
 Communications
 3,341
 3,384
 (1.3)
 3,352
 (0.3)
 Floor Brokerage and Clearing
 Organization Charges
 1,121
 1,189
 (5.7)
 1,027
 9.2
 Advertising and Promotional
 530
 459
 15.5
 714
 (25.8)
 Other
 7,462
 7,217
 3.4
 7,112
 4.9
 Total Non-provision
 Operating Expenses
 \$66,299
 \$68,678
 (3.5)
 \$69,302
 (4.3)
 Loan Loss Recapture
 (492)
 (1,578)
 (68.8)
 (6,268)
 (92.2)
 Valuation Adjustment for Warrants
 (3,237)
 6,745

>100

(3,877)

(16.5)

Total Operating Expenses and

Valuation Adjustment for Warrants

\$62,570

\$73,845

(15.3)

\$59,157

5.8

Fourth Quarter Fiscal 2014 Expenses

(\$ in Thousands)

15

Fiscal 2014 Expenses

(\$ in Thousands)

12 Months Ended

6/30/14

6/30/13

Change

%Change

Operating Expenses:

Commissions and Other

Employee Compensation

\$196,470

\$207,246
 \$(10,776)
 (5.2)
 Occupancy, Equipment and
 Computer Service Costs
 30,614
 31,278
 (664)
 (2.1)
 Communications
 13,435
 13,277
 158
 1.2
 Floor Brokerage and Clearing
 Organization Charges
 4,495
 3,940
 555
 14.1
 Advertising and Promotional
 2,251
 3,041
 (790)
 (26.0)
 Other
 26,969
 30,892
 (3,923)
 (12.7)
 Total Non-provision Operating Expenses
 \$274,234
 \$289,674
 \$(15,440)
 (5.3)
 Loan Loss Recapture
 (5,361)
 (7,718)
 2,357
 30.5
 Valuation Adjustment for Warrants
 3,599
 (3,613)
 7,212
 >100
 Total Operating Expenses and Valuation
 Adjustment for Warrants
 \$272,472
 \$278,343
 \$ (5,871)

(2.1)

16

Compensation Ratios

(\$ in Thousands)

Three Months Ended

6/30/14

3/31/14

6/30/13

Commissions and Other Employee Compensation

\$46,388

\$48,753

\$48,908

Net Revenues

\$63,207

\$65,674

\$55,445

GAAP Compensation Ratio

73.4%

74.2%

88.2%

Adjusted Compensation Ratio (Non-GAAP)*:

Three Months Ended

6/30/14

3/31/14

6/30/13

Commissions and Other Employee Compensation

\$46,388

\$48,753

\$48,908

Net Revenues

\$63,207

\$65,674

\$55,445

Interest Expense on Hilltop/Oak Hill Loan

\$ 3,355

\$ 3,310

\$ 3,186

Adjusted Net Revenues (Non-GAAP)*

\$66,562

\$68,984

\$58,631

Adjusted Compensation Ratio (Non-GAAP)*

69.7%

70.7%

83.4%

*See

discussion

of

Non-GAAP

reconciliation

on

Slide

#3

Warrant Valuation

6/30/14

3/31/14

6/30/13

Derived Volatility

28%

30%

51%

Price

\$ 7.28

\$ 7.48

\$ 5.45

Valuation
(in millions)
\$ 27.8
\$ 31.0
\$ 24.2
Adjustment
(in millions)
\$ (3.2)
\$ 6.7
\$ (3.9)
17

Segment Results

(In Thousands)

18

3 Months Ended

% Change

12 Months Ended

% Change

6/30/14

6/30/13

6/30/14

6/30/13

Clearing

Net Revenues
 \$ 5,151
 \$ 4,748
 8.5
 \$ 20,244
 \$ 18,938
 6.9
 Pre-Tax
 \$ 1,195
 \$ 56
 >100
 \$ 3,286
 \$ (481)
 >100
 Retail
 Net Revenues
 \$26,826
 \$28,453
 (5.7)
 \$112,457
 \$110,440
 1.8
 Pre-Tax
 \$ 1,984
 \$ 1,343
 47.7
 \$ 9,593
 \$ 2,498
 >100
 Institutional
 Net Revenues
 \$25,094
 \$16,329
 53.7
 \$108,211
 \$107,947
 0.2
 Pre-Tax
 \$ 5,275
 \$(3,229)
 >100
 \$ 23,515
 \$ 20,866
 12.7
 Bank
 Net Revenues
 \$ 9,205
 \$10,157
 (9.4)
 \$ 37,051

\$ 44,101
(16.0)
Pre-Tax
\$ 2,168
\$ 7,303
(70.3)
\$ 10,754
\$ 12,742
(15.6)

Key Metrics

19

6/30/14

3/31/14

%Change

6/30/13

%Change

Clearing Transactions Processed

159,816

186,059

(14.1)

197,423

(19.0)

Representatives:

PCG

153

157

(2.5)

167

(8.4)

Fixed Income

46

50

(8.0)

64

(28.1)

Independent Contractors

278

279

(0.4)

297

(6.4)

Correspondents

141

145

(2.8)

151

(6.6)

Total Loan Officers

20

22

(9.1)

32

(37.5)

Total Employees

892

923

(3.4)

1,055

(15.5)

Retail Client Assets (\$ in billions)

\$15.4

\$15.0

2.7

\$14.3

7.7

Balances (\$ in millions):

Avg. Margin Balances

\$236.9

\$238.9

(0.8)

\$232.2

2.0
Avg. Credit Balances
\$317.9
\$335.5
(5.2)
\$309.7
2.6
Avg. Stock Loan Balances
\$2,106.8
\$1,914.3
10.1
\$1,648.7
27.8
Net Capital (\$ in millions)
\$156.4
\$148.2
5.5
\$141.1
10.8

Classified Assets

20

(\$ in Thousands)

6/30/14

3/31/14

6/30/13

Non-accrual Loans

\$14,321

\$14,388

\$22,446

Performing Troubled Debt Restructurings

3,673

4,819

5,349

REO & Other Repossessed Assets

4,875

5,880

10,165

Total Non-performing Assets

\$22,869

\$25,087

\$37,960

Current Classified Assets

18,466

15,835

29,610

Total Classified Assets

\$41,335

\$40,922

\$67,570

Non-performing Assets / Assets

1.82%

1.98%

2.99%

Classified Assets / Capital + Reserve

22.7%

22.9%

37.4%

Key Bank Statistics

Fourth Quarter Fiscal 2014

21

(\$ in Thousands)

6/30/14

3/31/14

6/30/13

Total Loan Loss Recapture

\$(492)

\$(1,578)

\$ (6,268)

Net Recovery / (Charge-offs)

342
222
(155)
Allowance for Loan Losses
7,942
8,092
12,343
Reserve / Loan Ratio*
1.82%
1.83%
2.85%
Yield on Earning Assets
3.10%
3.02%
3.23%
Cost of Funds
0.23%
0.27%
0.29%
Net Interest Margin
2.91%
2.79%
2.99%
*Excludes
purchased
mortgage
loans
held
for
investment
and
loans
measured
at
fair
value

Bank Balances

22

(\$ in Millions)

6/30/14

3/31/14

%Change

6/30/13

%Change

Investment Portfolio

\$ 514.6

\$ 596.9

(13.8)

\$ 529.1
(2.7)
Loans Held for Investment
Gross
622.3
566.1
9.9
620.9
0.2
Total Core
Deposits
1,000.6
995.9
0.5
993.9
0.7
Capital
174.1
170.3
2.2
168.2
3.5
Core Capital
14.1%
13.9%
13.5%
Total Risk-based Capital
25.5%
27.4%
24.9%
Deposits Provided by
Brokerage Clients
\$ 873.1
\$ 878.3
(0.6)
\$ 878.4
(0.6)

Bank Loans by Type

23

(\$ in Millions)

6/30/14

3/31/14

%Change

6/30/13

%Change

Residential Real Estate

Purchased Mortgage

HFI

\$ 133.9

\$ 72.5
84.7
\$ 174.0
(23.0)
1-4 Family
83.3
92.4
(9.8)
59.9
39.1
Construction
Residential Construction
0.6
0.8
(25.0)
1.4
(57.1)
Commercial Construction
9.7
5.5
76.4
1.7
>100
Lot & Land Development
Residential Land
1.6
0.6
>100
3.1
(48.4)
Commercial Land
3.6
5.4
(33.3)
5.9
(39.0)
Commercial Real Estate
183.6
182.8
0.4
214.4
(14.4)
Multi-family
141.1
133.7
5.5
99.8
41.4
Commercial Loans
61.4

69.7
(11.9)
58.7
4.6
Consumer Loans
3.5
2.7
29.6
2.0
75.0
Total Loans
\$ 622.3
\$ 566.1
9.9
\$ 620.9
0.2

SWS Office Locations
24

25

Important Information for Investors & Shareholders

This
communication
does
not
constitute
an
offer
to
sell
or

the
solicitation
of
an
offer
to
buy
any
securities
or
a
solicitation
of
any
vote
or
approval,
nor
shall
there
be
any
sale
of
securities
in
any
jurisdiction
in
which
such
offer,
solicitation
or
sale
would
be
unlawful
prior
to
registration
or
qualification
under
the
securities
laws
of
such
jurisdiction.

Hilltop
has
filed
with
the
Securities
and
Exchange
Commission
(SEC)
a
registration
statement
on
Form
S-4
containing
a
proxy
statement/prospectus
of
SWS
and
Hilltop,
and
SWS
and
Hilltop
will
each
file
other
documents
with
respect
to
the
proposed
transaction
and
a
definitive
proxy
statement/prospectus
will
be
mailed
to
shareholders
of

SWS
after
the
registration
statement
on
Form
S-4
has
been
declared
effective.

INVESTORS
AND
SECURITY
HOLDERS
OF
SWS
ARE
URGED
TO
READ
THE
PROXY
STATEMENT/PROSPECTUS
AND
OTHER
DOCUMENTS
THAT
WILL
BE
FILED
WITH
THE
SEC
CAREFULLY
AND
IN
THEIR
ENTIRETY
WHEN
THEY
BECOME
AVAILABLE
BECAUSE
THEY
WILL
CONTAIN
IMPORTANT
INFORMATION.

Investors
and
security
holders
of
SWS
will
be
able
to
obtain
free
copies
of
the
registration
statement
and
the
proxy
statement/prospectus
(when
available)
and
other
documents
filed
with
the
SEC
by
SWS
or
Hilltop
through
the
website
maintained
by
the
SEC
at
www.sec.gov.
Copies
of
the
documents
filed
with
the

SEC
by
SWS
will
be
available
free
of
charge
on
SWS's
internet
website
at
www.swst.com
or
by
contacting
SWS's
Investor
Relations
Department
at
(214)
859-1800.
Copies
of
the
documents
filed
with
the
SEC
by
Hilltop
will
be
available
free
of
charge
on
Hilltop's
internet
website
at
www.hilltop-holdings.com
or
by
contacting

Hilltop's
Investor
Relations
Department
at
(214)
252-4029.
SWS,
Hilltop,
their
respective
directors
and
certain
of
their
executive
officers
and
other
members
of
management
and
employees
may
be
considered
participants
in
the
solicitation
of
proxies
in
connection
with
the
proposed
transaction.
Information
about
the
directors
and
executive
officers
of
SWS
is

set forth in its Annual Report on Form 10-K for the year ended June 30, 2013, which was filed with the SEC on September 6, 2013, its proxy statement for its 2013 annual meeting of shareholders, which was filed with the SEC on October 3, 2013, and its Current Reports

on
Form
8-K,
which
were
filed
with
the
SEC
on
September
17,
2013
and
October
1,
2013.
Information
about
the
directors
and
executive
officers
of
Hilltop
is
set
forth
in
its
most
recent
proxy
statement,
which
was
filed
with
the
SEC
on
May
2,
2014.
Other
information
regarding
the
participants

in
the
proxy
solicitations
and
a
description
of
their
direct
and
indirect
interests,
by
security
holdings
or
otherwise,
will
be
contained
in
the
proxy
statement/prospectus
and
other
relevant
materials
to
be
filed
with
the
SEC
when
they
become
available.

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Questions & Answers

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