

[www.nicoletbank.com](http://www.nicoletbank.com)

**Nicolet**  
BANKSHARES, INC.

111 N. Washington Street / P.O. Box 23900 / Green Bay, WI 54305-3900  
920-430-1400 / 1-800-369-0226

*2019 Annual Report*

Forward-looking Statements

Statements made in this Annual Report which are not purely historical are forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995. This includes any statements regarding management's plans, objectives, or goals for future operations, products or services, and forecasts of its revenues, earnings, or other measures of performance. Such forward-looking statements may be identified by the use of words such as "believe," "expect," "anticipate," "intend," "target," "estimate," "continue," "positions," "prospects," "potential," "plan," "outlook," "would," "should," "could," "will," "may," or similar expressions. Forward-looking statements speak only as of the date they are made and Nicolet Bankshares, Inc. ("Nicolet") has no duty to update forward-looking statements. Forward-looking statements are based on current management expectations and, by their nature, are subject to risks and uncertainties. Actual results may differ materially from those contained in the forward-looking statements. Factors which may cause actual results to differ materially from those contained in such forward-looking statements include those identified in Nicolet's most recent Form 10-K and subsequent SEC filings.



We know our purpose at Nicolet  
is to **SERVE**.  
Our core values guide our actions.



*Mike & Bob*

## DEAR SHAREHOLDERS

If it were all about the numbers, this annual letter to shareholders would be easy to write.

Over the years, you have given us feedback that you appreciate our efforts to describe the meaning of the numbers. 2019's outstanding financial results are the fruit of our deep commitment to the core ideas that have guided Nicolet since its inception in 2000. Whether in commercial banking, retail banking, mortgage lending, wealth management, or our success at buying and integrating community banks, we know our craft exceptionally well. In our 20 years of working at this mission together, we have learned from our successes and even more from our stumbles. At the heart of Nicolet lies a passionate commitment to the people and communities we serve. The result of that commitment is the shareholder return you have enjoyed. We are not trying to balance competing interests, rather, we are growing an integrated network of people who have learned to believe in each other and work cooperatively toward shared success. We have very aggressive financial performance expectations, but we never confuse the intended result for the purpose. We expect our people to be outstanding professionals. They have to understand what it means to invest themselves in their colleagues and their customers. The "why" drives the "how" and the "what."

### THE NUMBERS

Investors can clearly see how our stock price has out-performed the broad market and banking indices over the last year, the last five years, and the last 20 years. The fact that we now have a liquid currency that trades at a premium valuation to peers is of enormous strategic importance. This is also advantageous to our shareholders who wish to realize the value they hold. A premium share price is a major reason why we can do so well with our strategy of buying other community banks. However, our growth and size have changed the way our stock price moves and made it much more reflective of national and international market movements. The vast majority of our shareholders are long term holders who live within our community footprint. The momentary share price is largely established by the transient buyers and sellers who come and go from our ownership structure for reasons that may have little to do with the fundamentals of our business. We focus on the main areas that really drive the value of your investment. Our consistent premium price is driven by our

superior performance in earnings, quality, and growth. These core fundamentals are augmented by our proven ability to acquire and quickly integrate other community banks. Our three main banking business lines are commercial banking, retail banking, and wealth management. They are strong, profitable, and growing. Our acquisition business line has strengthened our deposit funding, added relevant scale, and made us a lot of money over the last 10 years.

2019 numbers are outstanding from any perspective. Net income of \$54.6 million represents a 33% increase over 2018. EPS of \$5.52 represents an increase of 34% over 2018. Our year-end share price soared over 50% over the prior year-end. Our asset quality continued its long-term position as among the best in the industry. Organic growth generally exceeds the growth in our region. We acquired Choice Bank in November, adding a further 12% to our then pre-merger assets. We have demonstrated rapid growth, consistent quality, and exceptional profitability.

Historical results tell a powerful story, but investors don't so much own the past as they buy or choose to hold a piece of the future. Here are some key points about past numbers that give insight into our future.

**1. Earnings** – In our planning, we sift out the major unusual events from past performance. In the second quarter of 2019, we realized a large gain on the sale of 80% of our interest in UFS, a regional core system processor. Together with some discretionary compensation measures, this sale netted a \$5.4 million gain in earnings, representing \$0.55 per share. Removing this net gain, 2019 EPS would still have been 21% stronger than 2018 EPS of \$4.12. EPS is really the best measure of earnings applicable to each shareholder. EPS captures whether management is actually growing net income in a manner that enhances shareholder return, or just growing assets for the sake of growth. Industry benchmarks such as return on average assets ("ROA") and return on average tangible common equity ("ROTCE") are relevant and ours are strong, but EPS is the most meaningful to you.

**2. Quality** – The most significant risk indicators for a bank shareholder are the nonperforming asset ratio and the net charge-off percentage. Our ratios have been consistently below peer average for many years, and remained so in 2019, at 0.42% and 0.02%, respectively. Under the current leadership, the bank underwent a significant stress test during 2008 through 2011, the toughest seen in our industry in over 90 years. During those years, Nicolet stayed profitable, grew loans and deposits,

and emerged poised to complete six acquisitions through year-end 2019 and announce two more so far in 2020. Annual earnings matter and ours are exceptional, but the drivers of long-term value are the quality of those earnings and the ability to stay strong in tough times.

**3. Growth** – After a very rapid organic growth rate during our launching years, we have settled into a very steady, quality growth rate that exceeds the economic growth of our region. We consistently take quality market share in a moderate growth state, and have also gained market share in those markets we entered through acquisition. Our earnings today are benefitting greatly from the particularly strong focus we have put on core deposit growth. We were investing in core deposit growth at a time when there was no visible motivation to do so. Further, our strength and profitability in mortgage banking and wealth management have given us revenue diversity and have broadened the customer experience. Most community banks struggle to make money on these non-interest revenue sources because they lack scale or over-incentivize production to the exclusion of margin. In both of these business lines, we have engineered real value for our customers and real margin for our shareholders.

**4. Acquisitions** – Between 2013 and the end of 2019, we averaged nearly one acquisition per year. Each acquisition has exceeded our expectations and added to our share value. Our stock has consistently traded at a premium to current earnings primarily because our actual earnings have consistently exceeded expectations. From a stock analyst’s perspective, we trade at a modest premium based on current and expected earnings. From management’s perspective, we are always undervalued relative to our future, because it is management’s job to see the future better and bring it to reality. Thus far, management’s higher expectations of ourselves have been more accurate. They are supposed to be. Analysts identify us as one of the most potent acquirers in the Upper Great Lakes region because of our premium stock price and historical ability to close and quickly integrate our past deals. Management approaches each deal knowing we are generally undervalued and that we will execute. The result is that the shareholders of banks who have sold to us for stock have made more premium by holding the stock after the deal than the premium realized in the deal. Nevertheless, our deals have been substantially accretive to EPS, have improved our scale, and have quietly strengthened our core deposit base. We have consistently chosen the good deal that can be closed rather than the perfect deal that doesn’t happen. As we mature our acquisition business line, we will continue to be selective toward those sellers who understand that our premium currency is actually available

to them at a discount to intrinsic value. Most boards focus too much on “initial deal price” rather than the quality of the stock currency they are buying. We are increasingly focused on potential sellers who really grasp the importance of both.

### **RISK MANAGEMENT**

Many customers and shareholders are uneasy about the many elements of risk. A strong bank understands and manages its own risk but is not paralyzed by fear. A great bank helps its customers understand, evaluate, and manage their risks. The risk we most immediately control is credit risk, which is the risk embedded in our lending activities. Our leadership team weathered the systemic shock of a decade ago and emerged stronger for the test. We dealt with our toughest problems quickly and effectively, while challenging and supporting our customers and adding new ones. We don’t want another recession, but the last one seasoned our bankers, strengthened our brand, and launched our highly effective and profitable growth.

There are many reasons to think about recession, political turmoil and the fragility of the global supply chain. We are writing to you as the nation and the world wrestle with our vulnerability to the coronavirus. Of course the main impact is on the people who contract the virus, but the secondary effects on the global and domestic economies are rattling through financial markets.

There are also industry dynamics that pose a particular risk to community banks. The largest banks continue to enjoy a substantial subsidy due to the nature of regulatory policy. The largest banks such as Chase, Bank of America, and Wells Fargo have also greatly improved their digital platforms and are visibly moving market share away from our sector. Non-bank players such as Apple, Amazon, and Google are also attempting to capture bank deposits and payment flows, while side-stepping potential regulatory oversight. These challenges are very real. We continue to invest in improving our customers’ digital experience and relentlessly search for ways we can harness technology to drive internal efficiency.

A healthy development for our communities is the consistently tight job market. Smart businesses are not trying to drive down labor costs. They are embracing the challenge to help people work more effectively, add greater value to customers, and earn more money. A great example of this is our on-line mortgage origination

platform TAP (Technology and People). We are in the middle of a mortgage boom and we can hardly hire enough qualified people to meet the demand. We could offer less attractive mortgage pricing and manage volume down to our capacity. Instead, we are using TAP to improve the customer experience, drive the volume with internal efficiency, and further strengthen our leading market share in our core markets. Our leading competitors are not the banks or credit unions next door. Quicken Loans is a present and growing competitive threat.

We don't know how these economic, political, public health, industry, and environmental risks will ultimately impact our customers. We do know that Nicolet faces these challenges with strong capital, exceptionally strong earnings, best in class credit risk management, and a great track record of finding opportunity under stress. Being strong in all these areas is foundational to how we serve our customers while profitably expanding our footprint through organic growth and through acquiring other banks.

### **WHAT'S NEXT?**

We have publicly communicated our vision of a \$6 billion, highly profitable, regional community banking powerhouse. We are well on our way toward achieving that in the next year or two. We have recently announced two acquisitions expected to close in the third quarter of 2020. Both acquisitions should be immediately accretive to EPS, and we expect to stand at nearly \$4.5 billion by year-end 2020. We continue to talk with and evaluate other acquisition opportunities.

In February 2020, we announced the acquisition of Commerce State Bank, a \$700 million commercial bank headquartered in West Bend, Wisconsin. The heart of the Commerce franchise is in the smaller urban markets of West Bend, Cedarburg, and Sheboygan, which are both similar, and adjacent, to the markets we currently serve around Lake Winnebago and Lake Michigan. The locations also provide a foothold into the northern and western portions of the Milwaukee metro market. Over the years, we have frequently been asked about our interest in the Madison and Milwaukee metro markets. Our consistent answer remains that we want to be in places where we have a pathway to the lead local market position. Commerce gives us that pathway in three of the four most prosperous counties in Wisconsin. The immediate task is the same as in our prior acquisitions. We will add efficiency, strengthen the

funding strategy, broaden product offerings, integrate culture, and add market share through execution on real relationships. We have followed Commerce and its leadership since they founded the bank in 2005, and we have talked many times in the intervening years. They have done a very nice job establishing a quality franchise in great markets. It is refreshing to work with a team of people who know what it is like to build a good bank from scratch.

In March 2020, we announced the acquisition of Advantage Community Bank in central Wisconsin. This is a conservative, well-run, \$150 million bank that both fills in existing geography and strengthens our presence in the Wausau market. Combined with the recent hiring of three seasoned lenders in Wausau, which we announced in January 2020, the stage is set for us to grow further in the central part of the state.

For the remainder of 2020, we expect challenging market conditions, but we have never been more excited about the future. We know that talent development is the heart of our strategy. We have to have the depth and breadth of talent to capture the opportunities before us. This isn't just about having smart, driven people. We need people who can enter into the heart of our mission. We must have people who are passionate about meeting customer needs, strengthening our communities, and helping those around them grow and win. This is how we will safeguard and grow your investment.



**Robert B. Atwell**



**Michael E. Daniels**

**BOARD OF DIRECTORS**



**Robert Atwell**  
Chairman, President  
and Chief Executive Officer,  
Nicolet Bankshares, Inc.



**Michael Daniels**  
President  
and Chief Executive Officer,  
Nicolet National Bank



**Rachel Campos-Duffy**  
Media & Communications  
Consultant  
FOX News Contributor



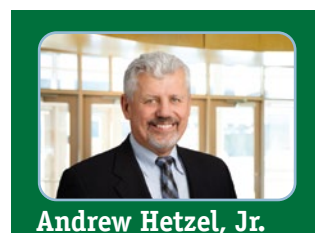
**John Dykema**  
President and Owner,  
Campbell Wrapper Corp  
and Circle Packaging  
Machinery, Inc.



**Terrence Fulwiler**  
Retired CEO,  
WS Packaging Group



**Chris Ghidorzi**  
Vice President,  
Ghidorzi Companies



**Andrew Hetzel, Jr.**  
President  
and Chief Executive Officer,  
NPS Corporation



**Donald Long, Jr.**  
Former Owner and CEO,  
Century Drill and Tool Co., Inc.



**Dustin McClone**  
President and CEO,  
McClone Insurance Group



**Susan Merkatoris**  
Certified Public Accountant,  
Owner and Managing Member,  
Larboard Enterprises, LLC



**Randy Rose**  
Retired President and CEO,  
Schwabe North America



**Oliver "Pierce" Smith**  
Director of Purchasing,  
Menasha Packaging Company



**Robert Weyers**  
Owner,  
Commercial Horizons, Inc.

**NICOLET BANKSHARES, INC. OFFICERS**



**Robert Atwell**  
Chairman, President  
and Chief Executive Officer



**Michael Daniels**  
Executive Vice President  
and Secretary



**Ann K. Lawson**  
Chief Financial Officer

**NICOLET NATIONAL BANK EXECUTIVE OFFICERS**

**Robert Atwell**  
Chairman

**Patrick Madson**  
Senior Vice President  
Wealth Management

**Michael Daniels**  
President  
and Chief Executive Officer

**Michael Vogel**  
Senior Vice President  
Commercial Banking Manager

**Brad Hutjens**  
Executive Vice President  
Chief Credit Officer,  
Chief Compliance and  
Risk Manager

**Eric Witzak**  
Executive Vice President

**Ann Lawson**  
Chief Financial Officer

## Nicolet Bankshares, Inc.

(In thousands, except per share data)

**Condensed Consolidated Statements of Income**

	At and for the Years Ended December 31,		
	2019	2018	% Change
Interest income	\$138,588	\$125,537	10%
Interest expense	22,510	18,889	19%
Net interest income	116,078	106,648	9%
Provision for loan losses	1,200	1,600	-25%
Noninterest income	53,367	39,509	35%
Noninterest expense	96,799	89,758	8%
Income before income tax expense	71,446	54,799	30%
Income tax expense	16,458	13,446	22%
Net income	54,988	41,353	33%
Net income attributable to noncontrolling interest	347	317	9%
Net income attributable to Nicolet Bankshares, Inc.	\$54,641	\$41,036	33%
Basic earnings per common share	\$5.71	\$4.26	34%
Diluted earnings per common share	\$5.52	\$4.12	34%
Basic weighted average common shares	9,562	9,640	-1%
Diluted weighted average common shares	9,900	9,956	-1%
Outstanding common shares	10,588	9,495	12%
<b>Condensed Consolidated Balance Sheets</b>			
Cash and cash equivalents	\$182,059	\$249,526	-27%
Securities available for sale	449,302	400,144	12%
Loans	2,573,751	2,166,181	19%
Allowance for loan losses	(13,972)	(13,153)	6%
Goodwill and other intangibles	165,967	124,307	34%
All other assets	220,153	169,530	30%
Total assets	\$3,577,260	\$3,096,535	16%
Deposits	\$2,954,453	\$2,614,138	13%
Other liabilities	105,817	95,045	11%
Nicolet Bankshares, Inc. common equity	516,262	386,609	34%
Noncontrolling interest	728	743	-2%
Total liabilities, noncontrolling interest and stockholders' equity	\$3,577,260	\$3,096,535	16%

WIPFLI

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders and the Board of Directors of Nicolet Bankshares, Inc.

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Nicolet Bankshares, Inc. and subsidiaries as of December 31, 2019, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the year then ended (not presented herein); and in our report, dated February 28, 2020, we expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed 2019 financial statements is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

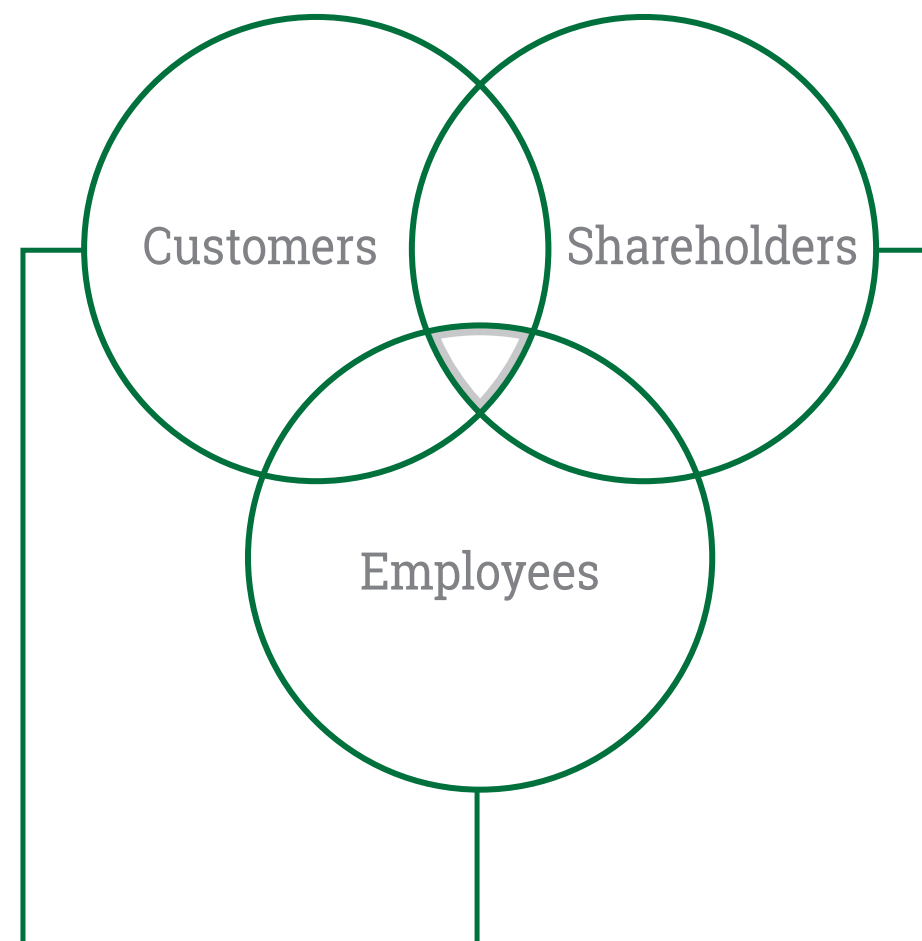
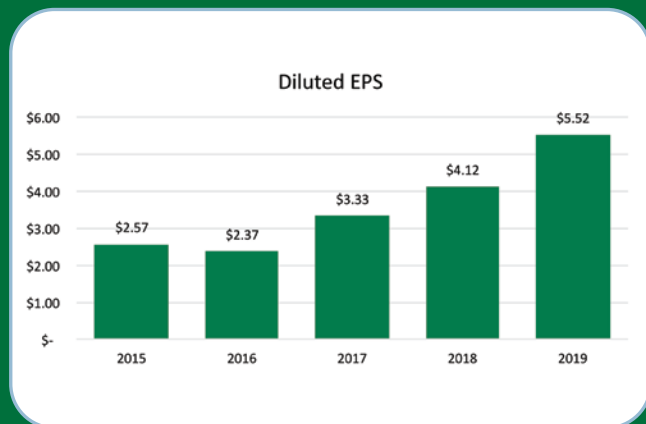
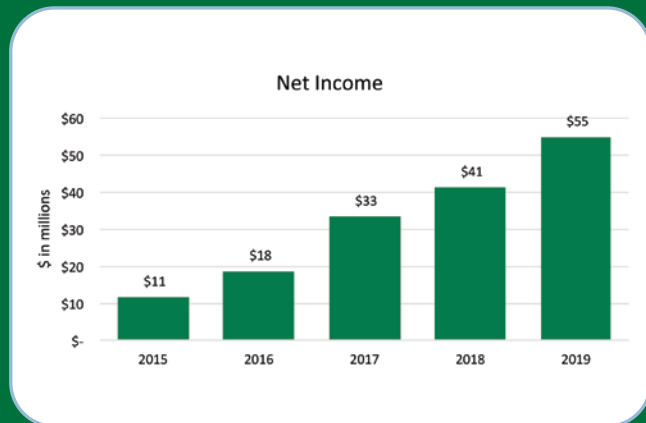
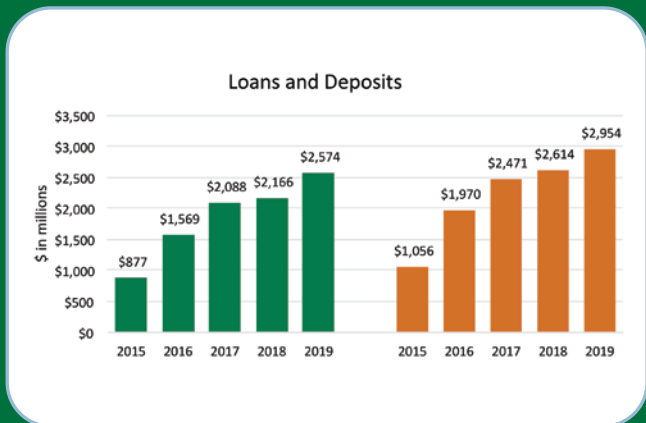
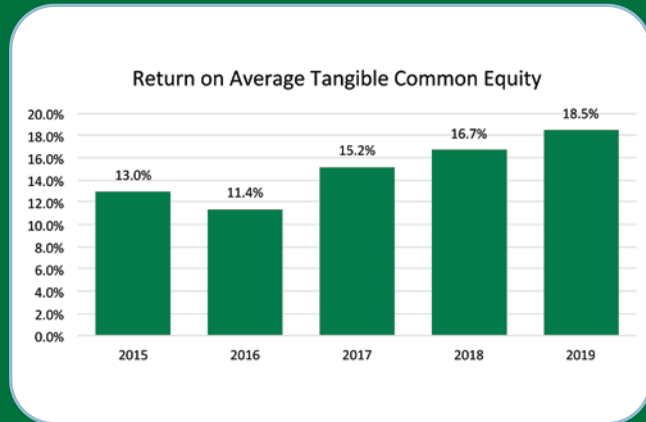
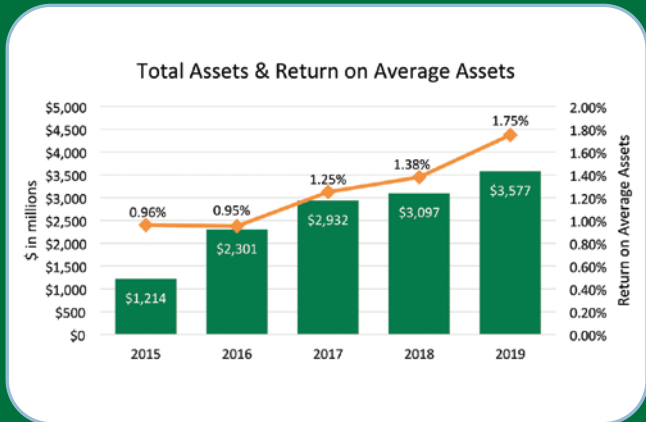
Wipfli LLP

Atlanta, Georgia

February 28, 2020

CERTIFIED PUBLIC ACCOUNTANTS





Over 11,000,000 debit card swipes

115,700 checks deposited through our mobile app

2,240 mortgages closes with over half coming through our new online application – TAP Lending

115 non-profit, 501(c)3 organizations helped through the Nicolet Foundation

Named one of Independent Banker's Most Innovative Banks

Named one of the Best Places to Work by the Greater Green Bay Chamber's young professionals group

Over 310,000 shares repurchased

Over 25,000 shares traded on the NASDAQ per day

Exceptional asset quality – 0.02% net charge offs

## SHAREHOLDER INFORMATION

### ***Annual Meeting***

Shareholders' Meeting – Monday, May 11, 2020 (5:00 p.m.)  
Meyer Theatre  
117 South Washington Street / Green Bay, WI 54301

### ***Independent Auditor***

Wipfli LLP  
235 Peachtree Street, NE / Suite 1800 / Atlanta, GA 30303

### ***Transfer Agent***

Computershare  
C/O Shareholder Services  
P.O. Box 505002 / Louisville, KY 40233-5002

### ***Overnight Delivery***

Computershare  
C/O Shareholder Services  
462 South 4th Street / Suite 1600 / Louisville, KY 40202

Shareholder website:  
[www.computershare.com/investor](http://www.computershare.com/investor)

Shareholder online inquiries:  
<https://www-us.computershare.com/investor/Contact>  
Toll free in the US: 800.962.4284  
Outside the US: 781.575.3120  
Fax: 312.604.2312