



# The State of Our Industry

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**Bank**Director<sup>®</sup>

#BBTF24

# THE STATE OF OUR INDUSTRY

SEPTEMBER 2024

## PRESENTATION BY:

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HOVDE GROUP, LLC



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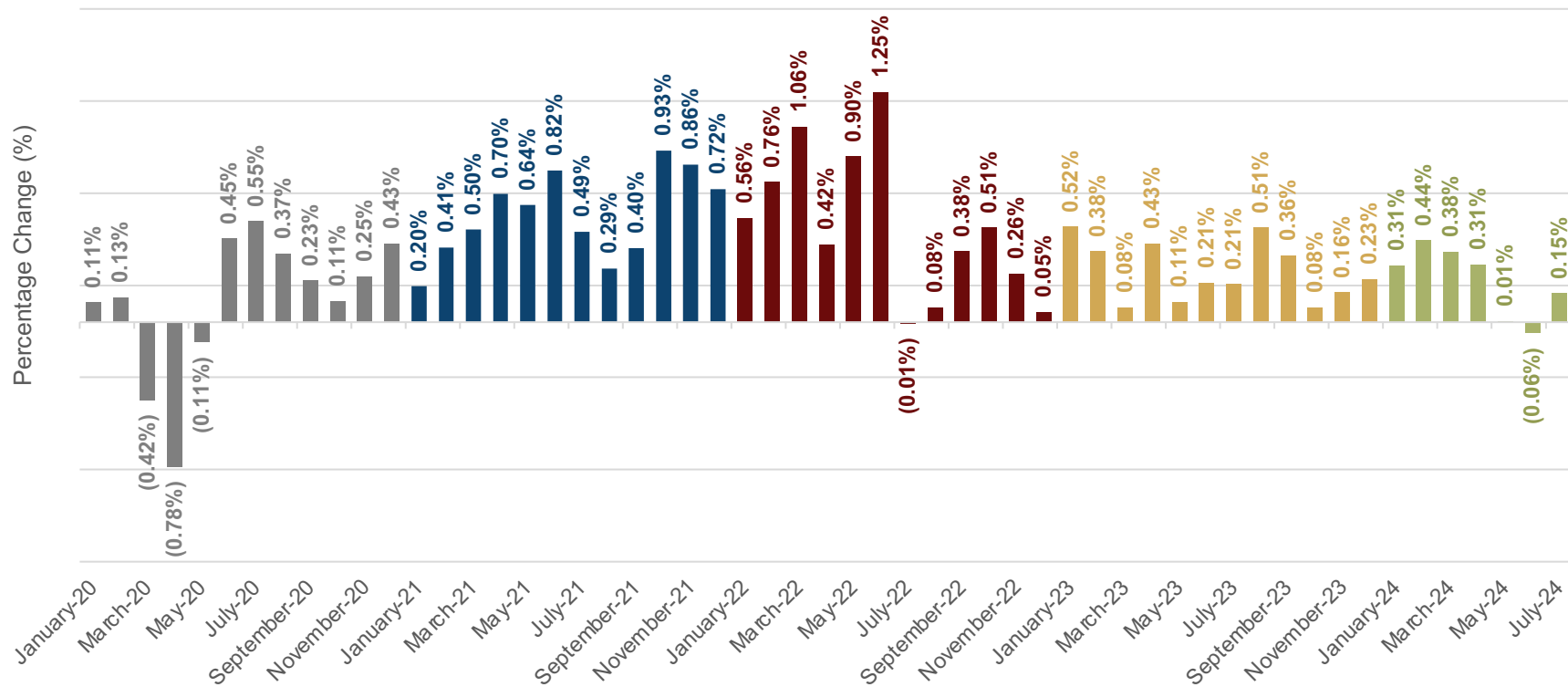
## I. US MACROECONOMIC ENVIRONMENT

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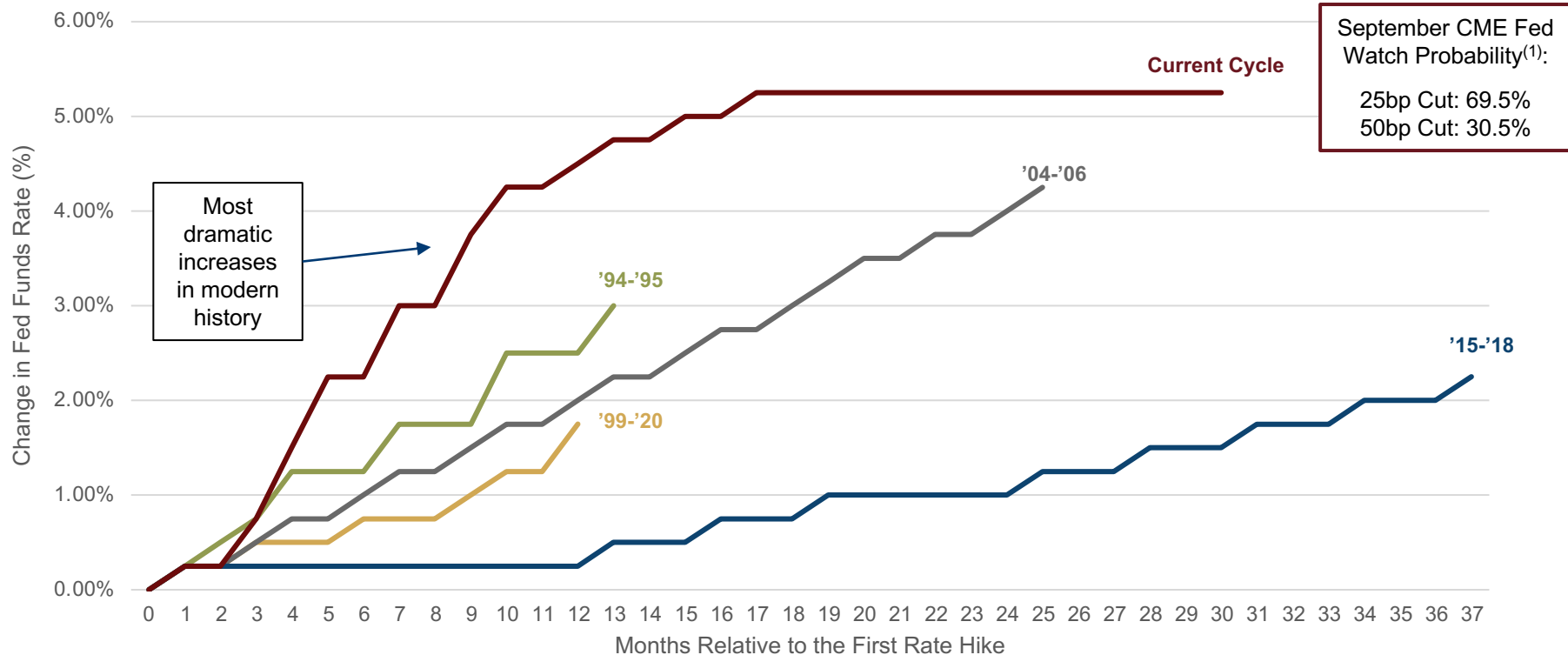
# POST PANDEMIC: INFLATION SHOWING SIGNS OF EASING?

## CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS<sup>(1)</sup>



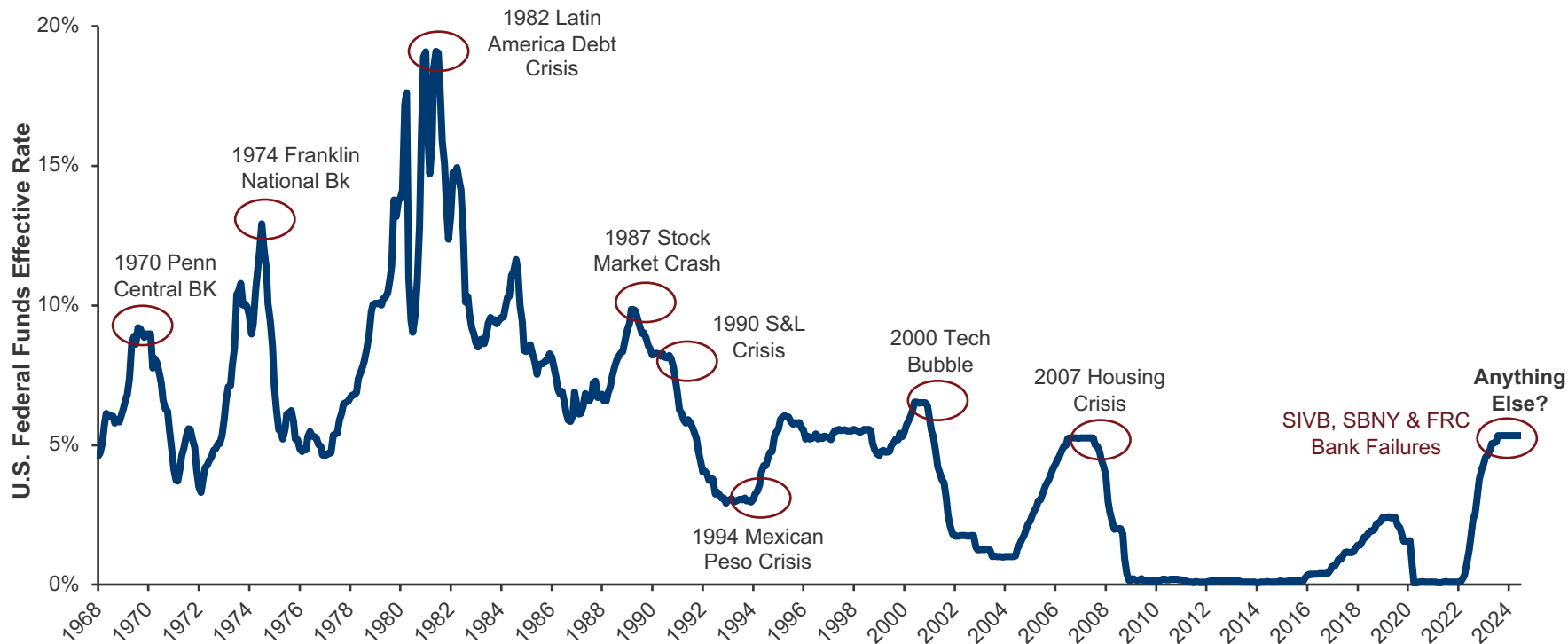
# IS THE FED SET TO REDUCE RATES?

## FOMC'S TARGET FEDERAL FUNDS RATE CHANGES OVER TIME

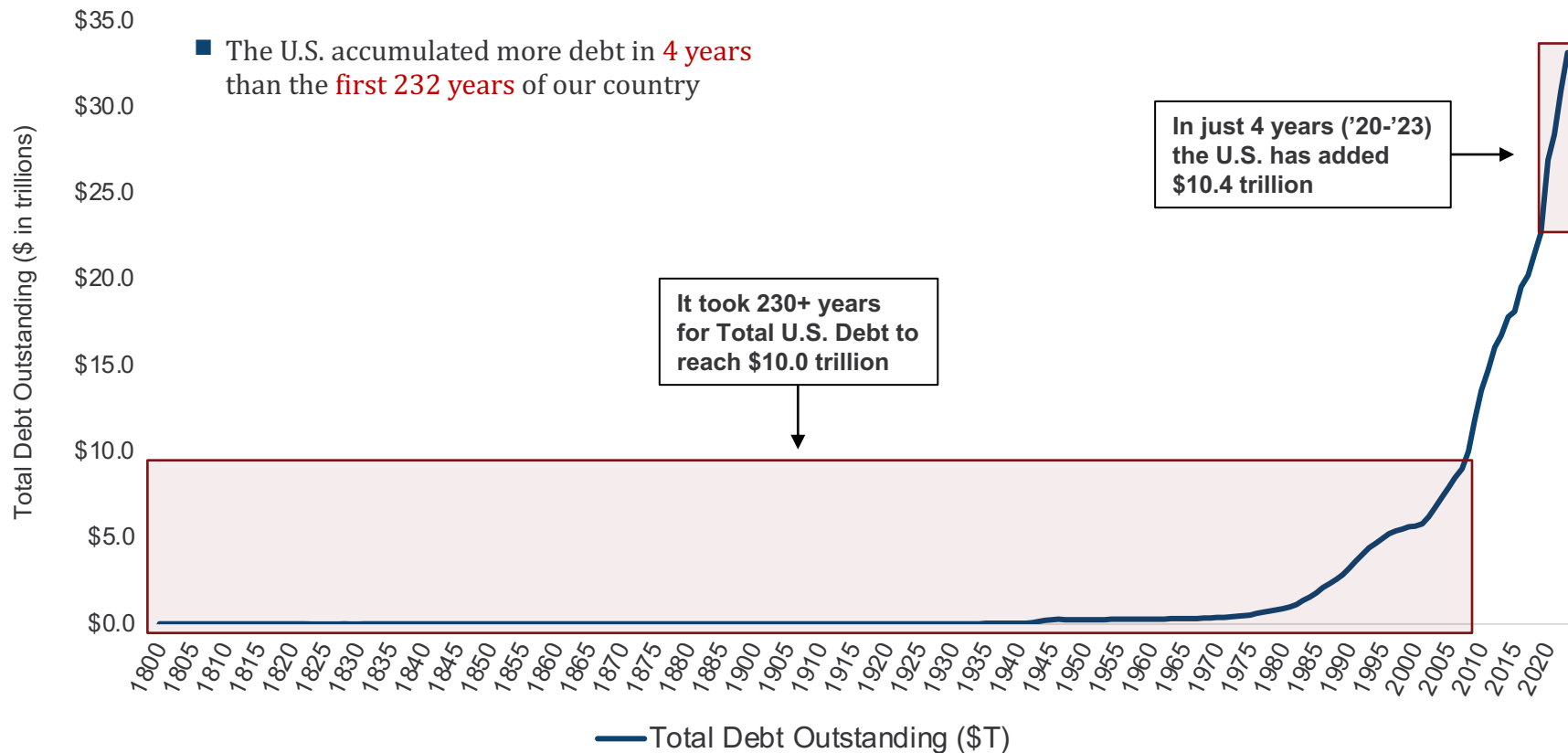


# WHAT WILL THE FED BREAK THIS TIME?

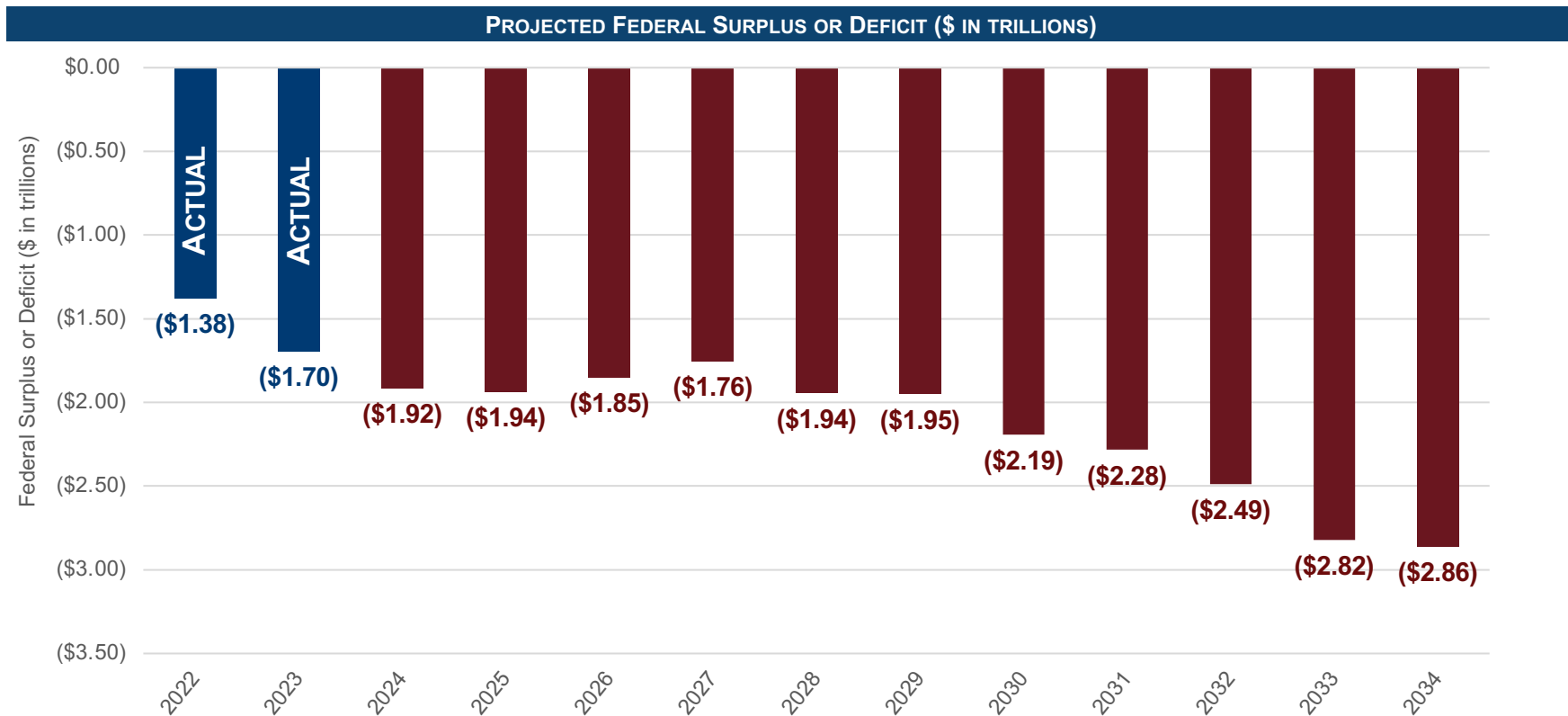
## LARGE PENSION, INVESTMENT FUND, FINANCIAL ENTITY OR FOREIGN GOVERNMENT?



# U.S. DEBT ACCUMULATION IS UNSUSTAINABLE

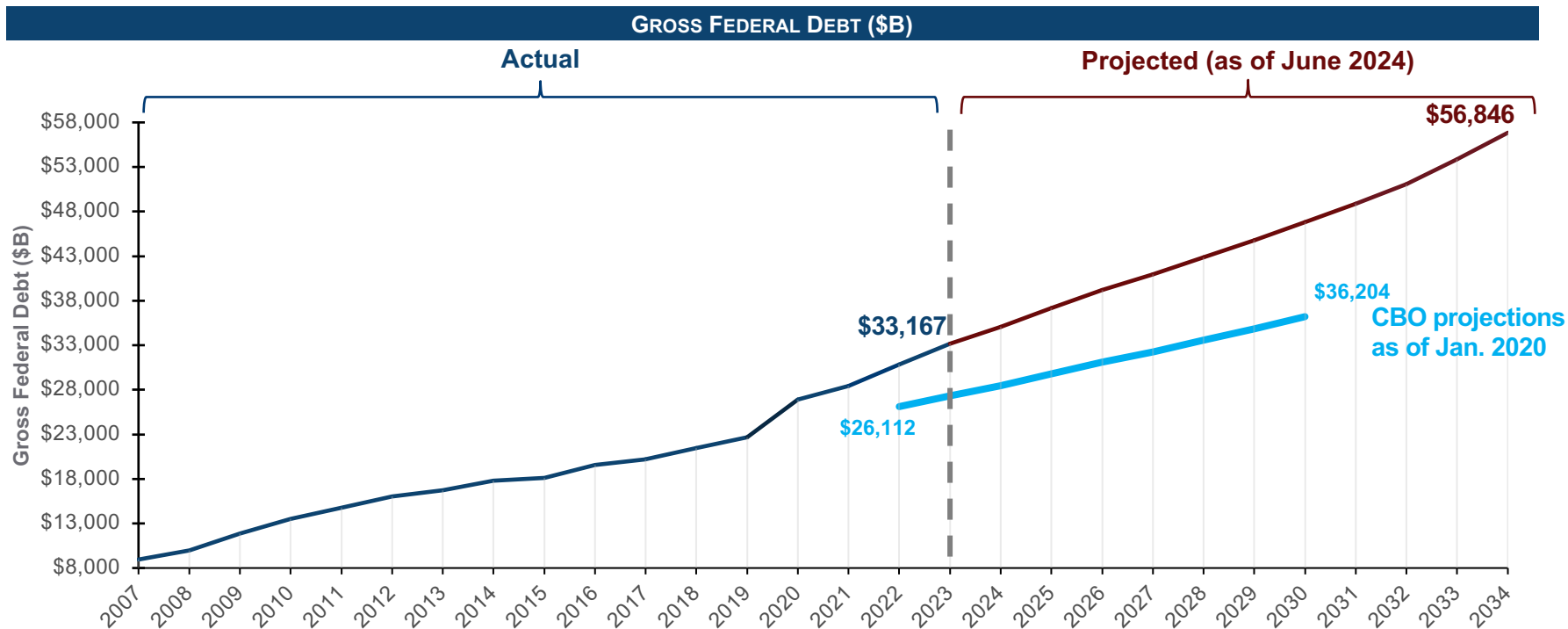


# CONGRESSIONAL BUDGET OFFICE PROJECTS INCREASING DEFICITS INDEFINITELY



## THE CBO IS FORECASTING THE U.S. DEBT TO EXCEED \$55 TRILLION

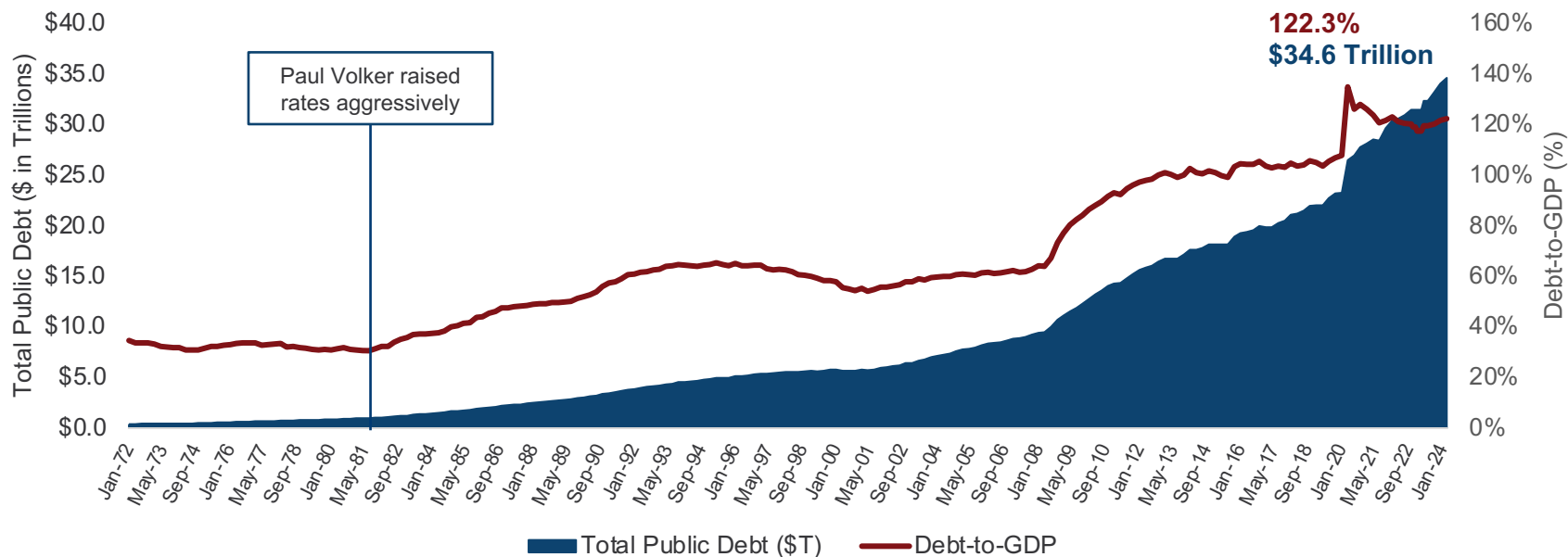
- We have seen a steep increase in debt. In 2007 gross federal debt was under \$9.0 trillion and in 2023 we saw it increase to \$33.2 trillion
- The Congressional Budget Office (CBO) expects gross federal debt to increase approximately 71% to \$56.8 trillion by 2034



## U.S. NATIONAL DEBT TO GDP LIMITS OUR FLEXIBILITY

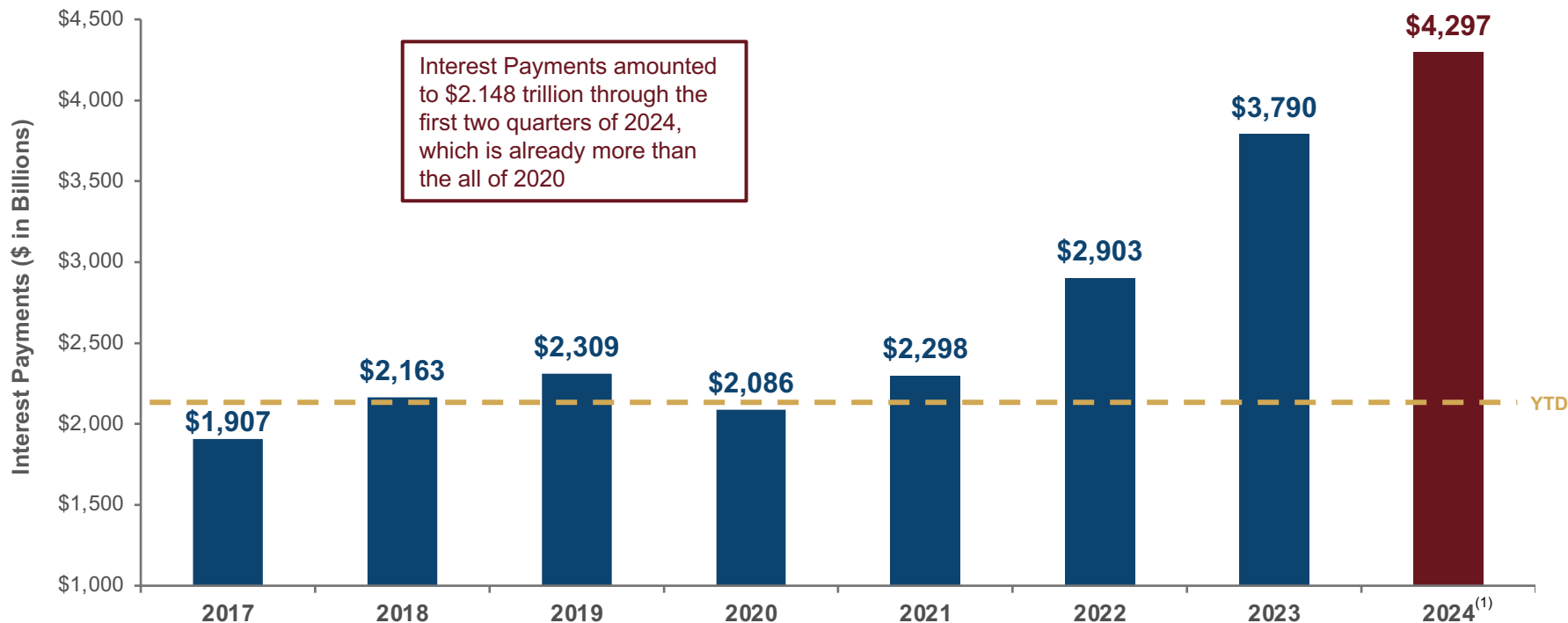
- The U.S. currently has \$34.6 trillion in public debt which does not include future entitlement obligations.
- The U.S. **Debt-to-GDP is currently at 122% - higher than WWII levels.**
- The CBO projects public debt to reach \$56.8 trillion by the end of 2034.
- U.S. Debt levels are unsustainable and put economic growth and stability at great risk.

TOTAL PUBLIC DEBT-TO-GROSS DOMESTIC PRODUCT

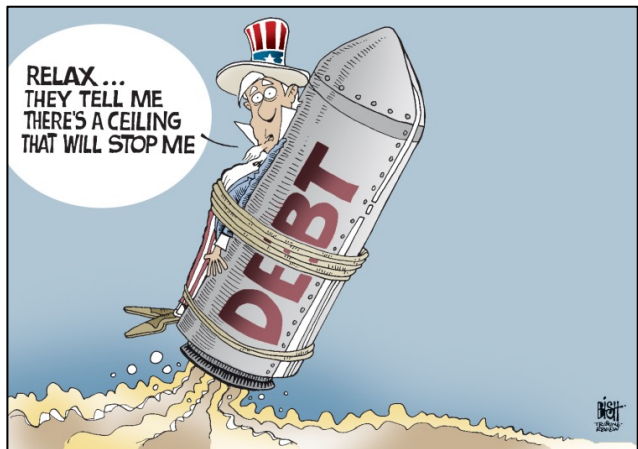


# INTEREST ON OUR NATIONAL DEBT IN AN ECONOMIC PANDEMIC

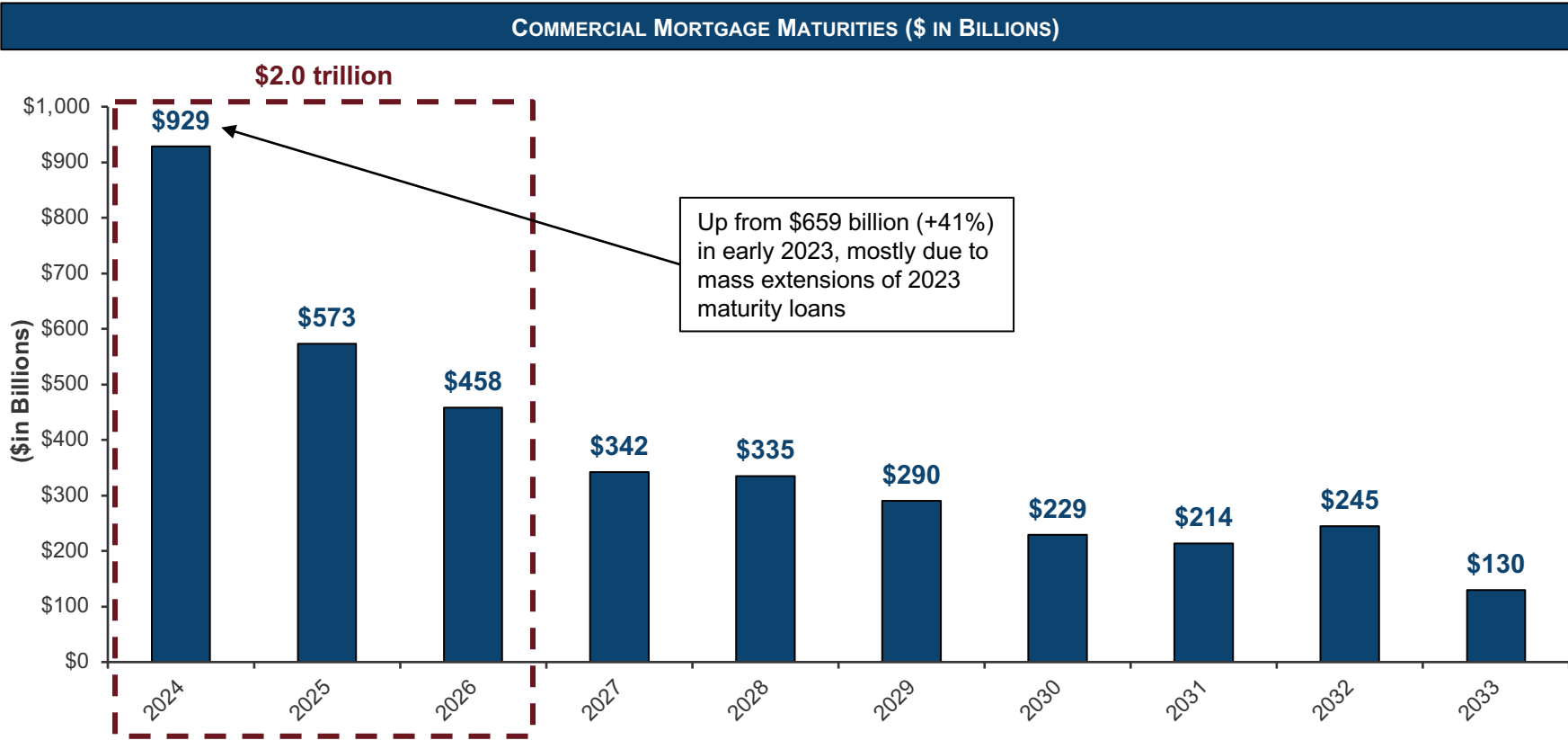
## FEDERAL GOVERNMENT: INTEREST PAYMENTS



## THE U.S. GOVERNMENT – LENDER OF LAST RESORT IS BROKE

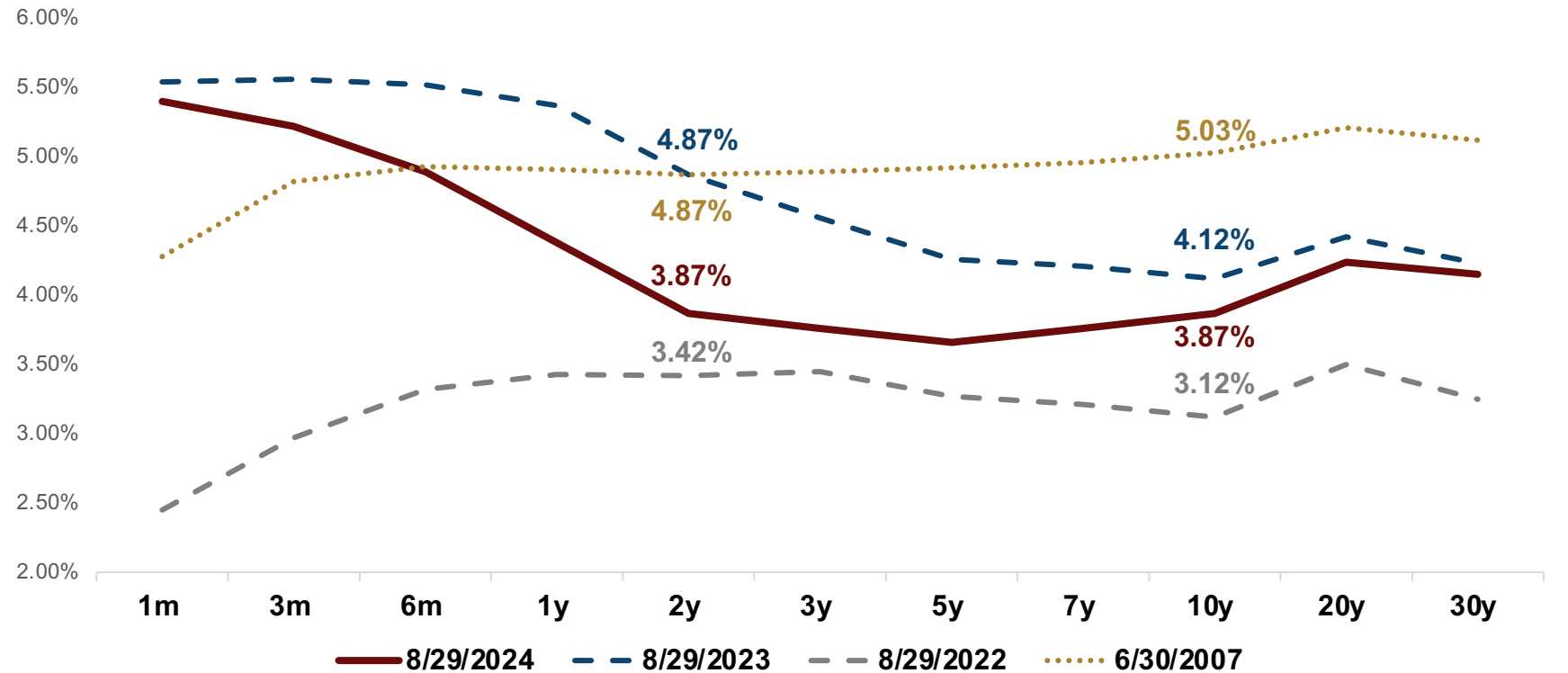


# WAVE OF COMMERCIAL MORTGAGE MATURITIES APPROACHING



# YIELD CURVE – MORE RECESSIONARY THAN 2007

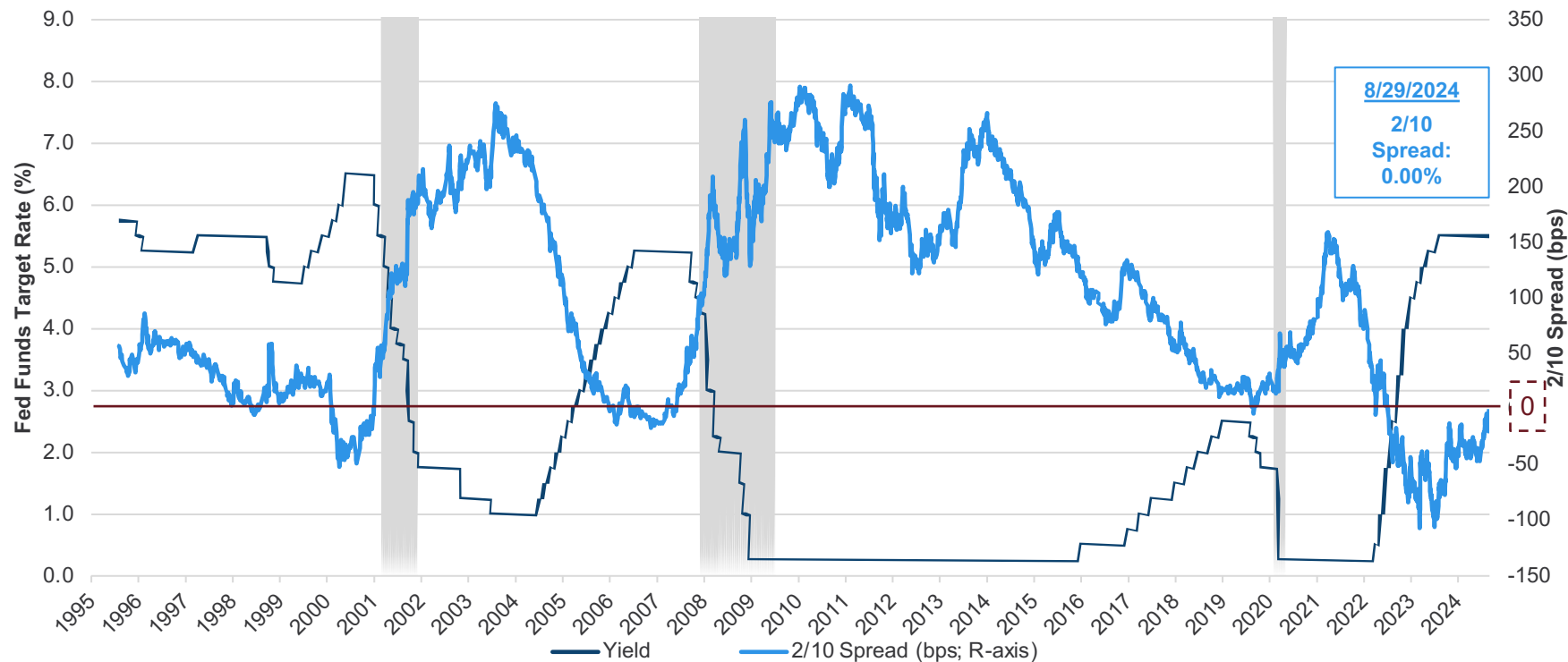
U.S. YIELD CURVE (CURRENT, 1 YEAR AGO, 2 YEARS & PRE-GREAT RECESSION)



# HISTORICALLY RELIABLE INDICATOR POINTS TO A RECESSION SOON?

- A recession has historically begun shortly following the reversal of a 2 year / 10 year inversion (which very recently occurred)
- Currently, the 2/10 spread is a 0 bps up from -108 bps in July 2023

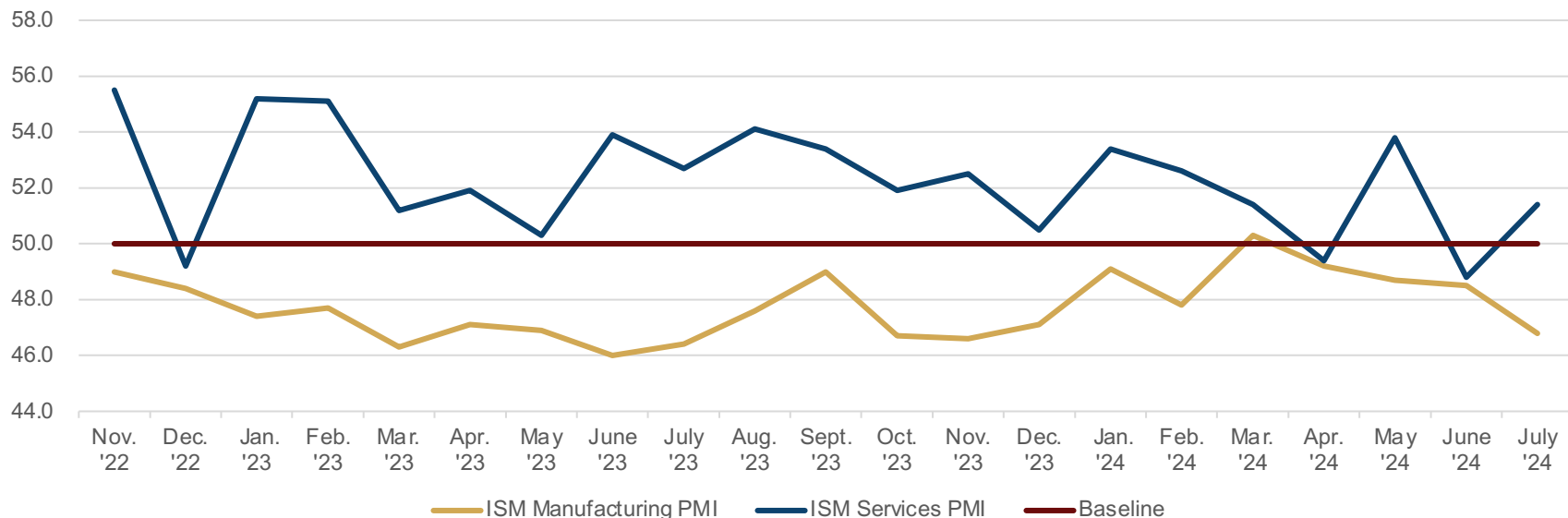
FEDERAL FUNDS TARGET VS. 2-YEAR/10-YEAR SPREAD (1995 TO CURRENT)



## A TALE OF TWO ECONOMIES

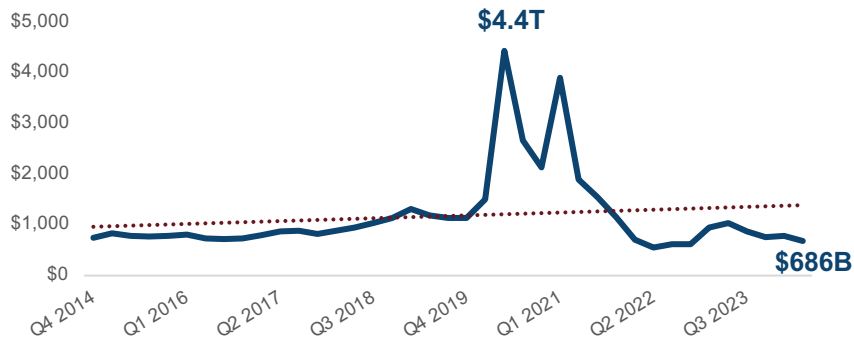
- Manufacturing has remained in contraction for 20 out of the last 21 months.
- Services on the other hand has expanded for its 15 consecutive months after 1 month of contraction in December 2022. It dipped into contraction April and June 2024.
- A PMI above 50 generally indicates an expansion of the overall economy and below 50 represents a contraction.

### MANUFACTURING VS. SERVICES

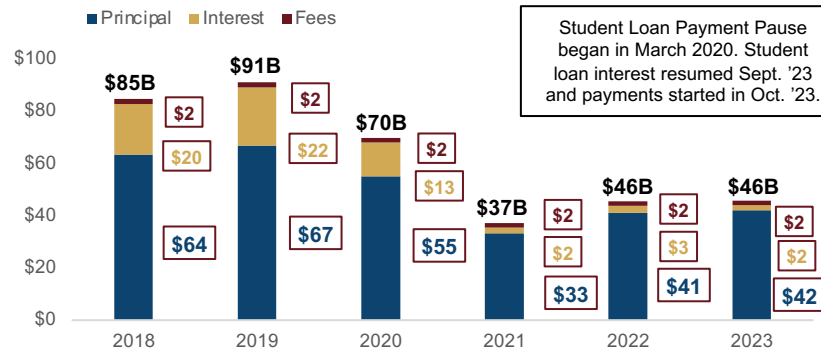


# FORCES THAT LIFTED CONSUMERS – THE BIGGEST PART OF GDP

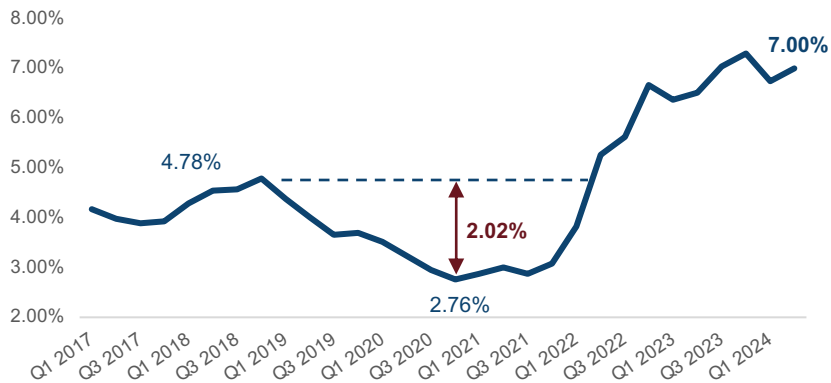
## PERSONAL SAVINGS (\$ IN BILLIONS)<sup>1</sup>



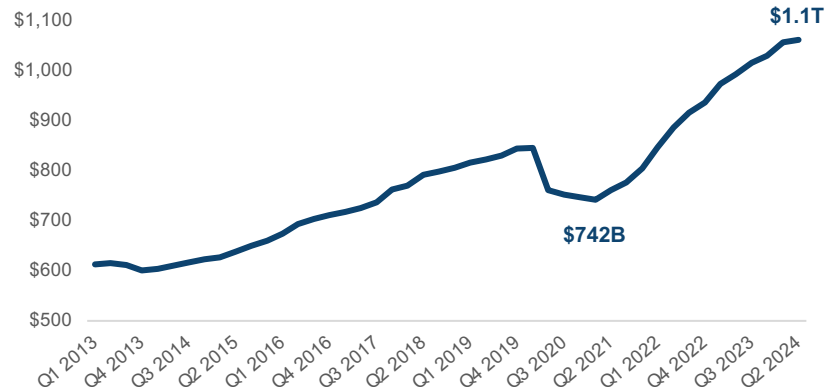
## STUDENT LOAN COLLECTIONS (\$ IN BILLIONS)<sup>2</sup>



## QUARTERLY AVERAGE 30-YEAR FIXED RATE MORTGAGE<sup>3</sup>



## QUARTERLY AVERAGE CREDIT CARD BALANCES (\$ IN BILLIONS)<sup>4</sup>



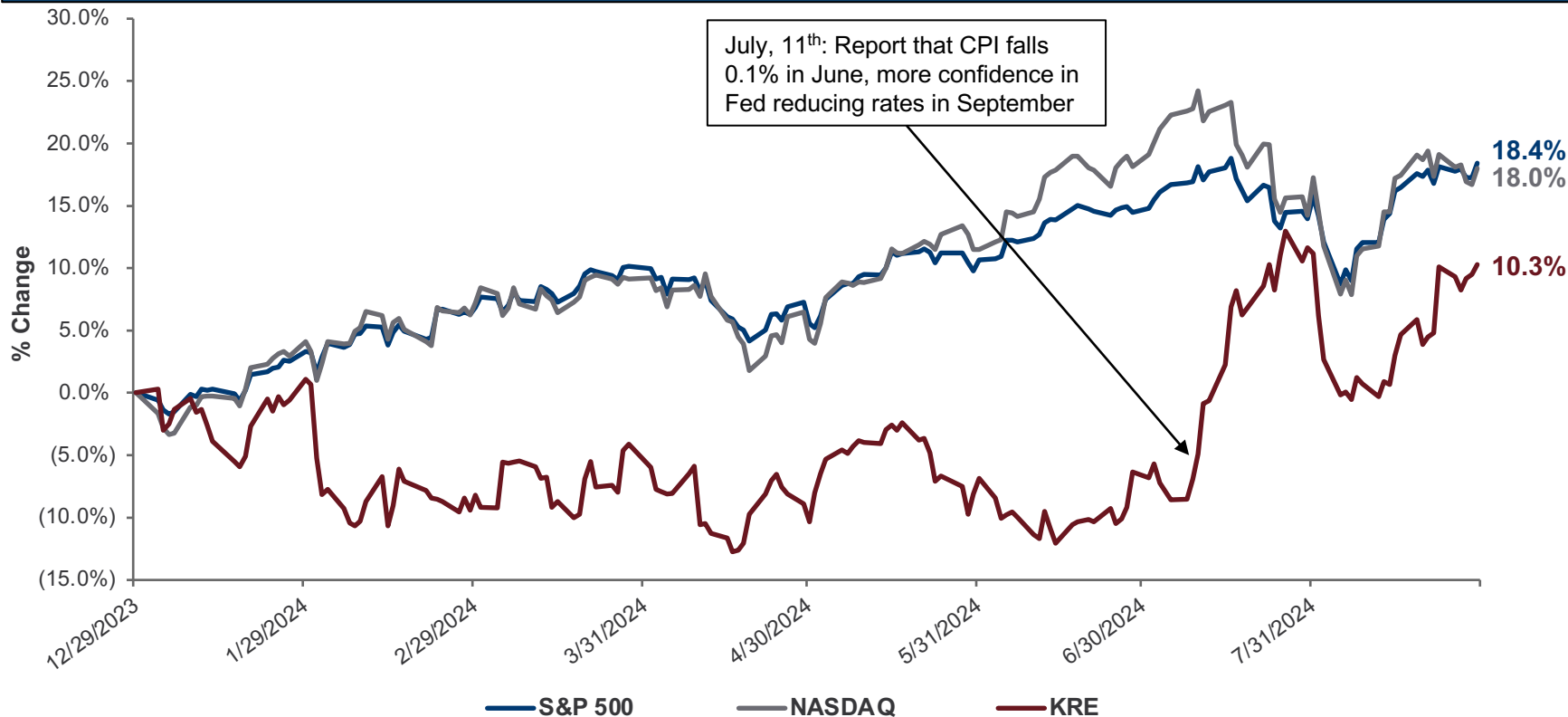
## II. BANK INDUSTRY MACRO TRENDS

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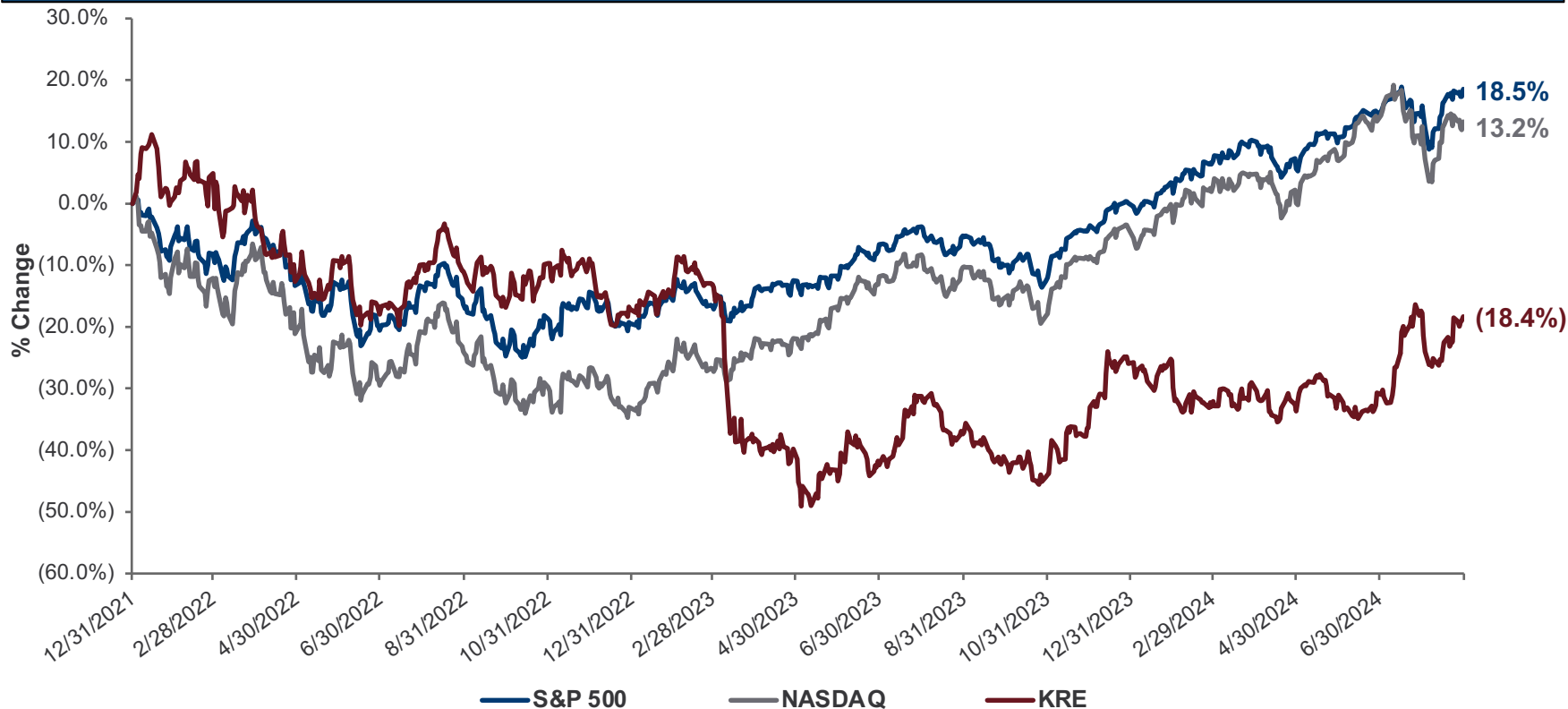
## AFTER LACKLUSTER YEAR FOR BANKS; INFLATION DATA PROVIDES RALLY IN JULY

### KRE vs. S&P 500 vs. NASDAQ YTD PERFORMANCE

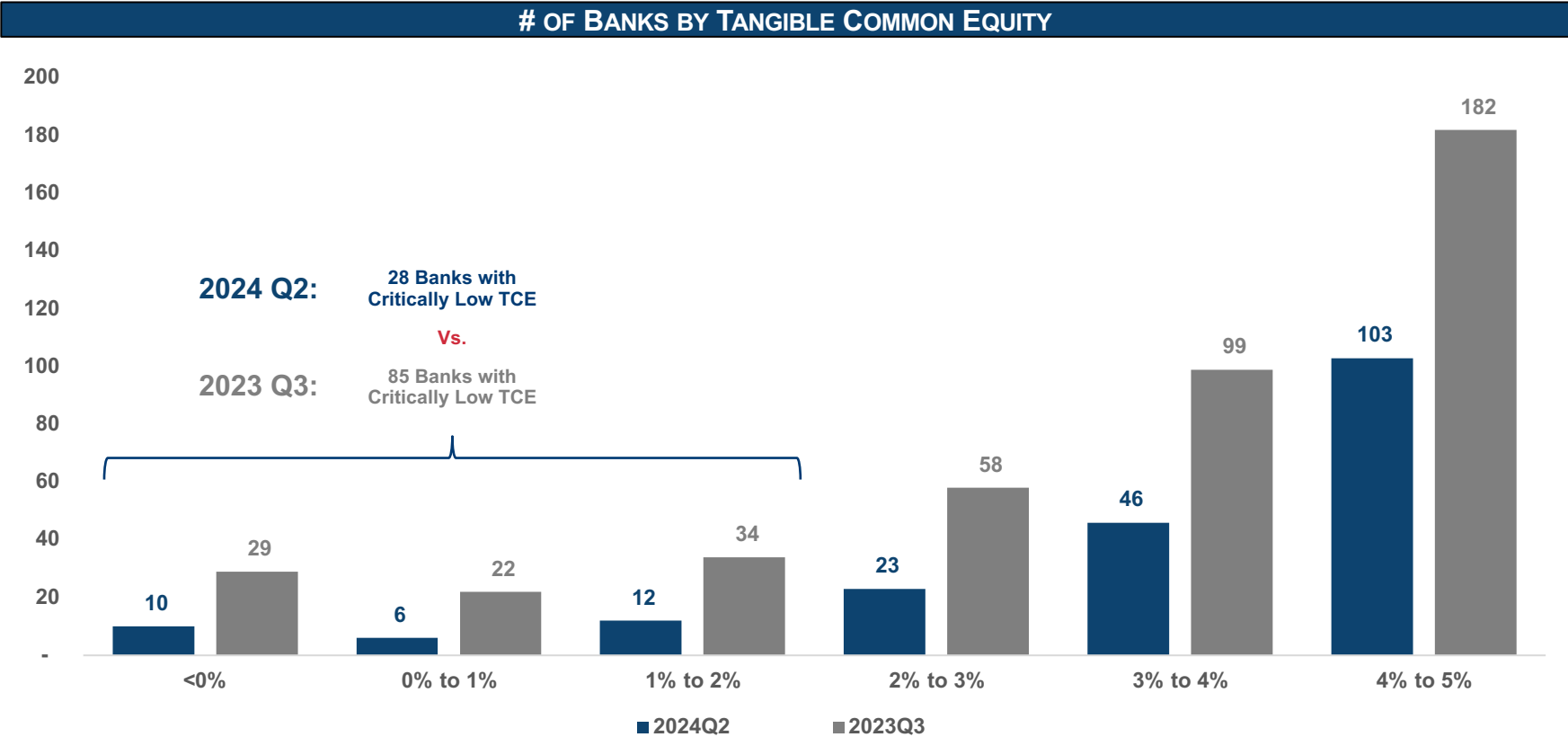


## BUT ARE STILL WELL BELOW LEVELS REACHED IN 2021

KRE vs. S&P 500 vs. NASDAQ PERFORMANCE SINCE 2021



# IMPROVEMENT IN BANKS WITH TANGIBLE EQUITY CAPITAL BELOW 5.00%

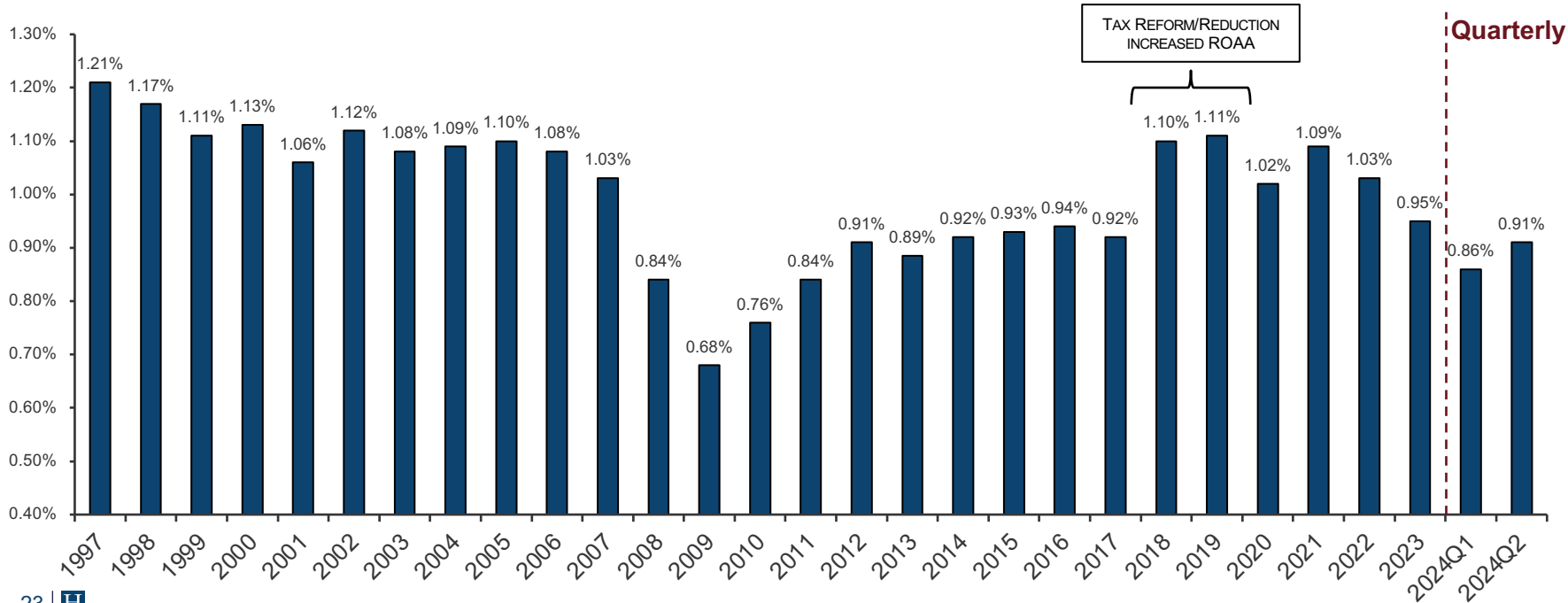


Note: Includes all commercial banks, savings banks and savings & loan associations, MRQ loans-to-deposits greater than 1% (Data Screened 8/31/2024)  
Source: S&P Capital IQ Pro; Data as of 6/30/2024

## WHERE ARE BANK EARNINGS HEADING FROM HERE?

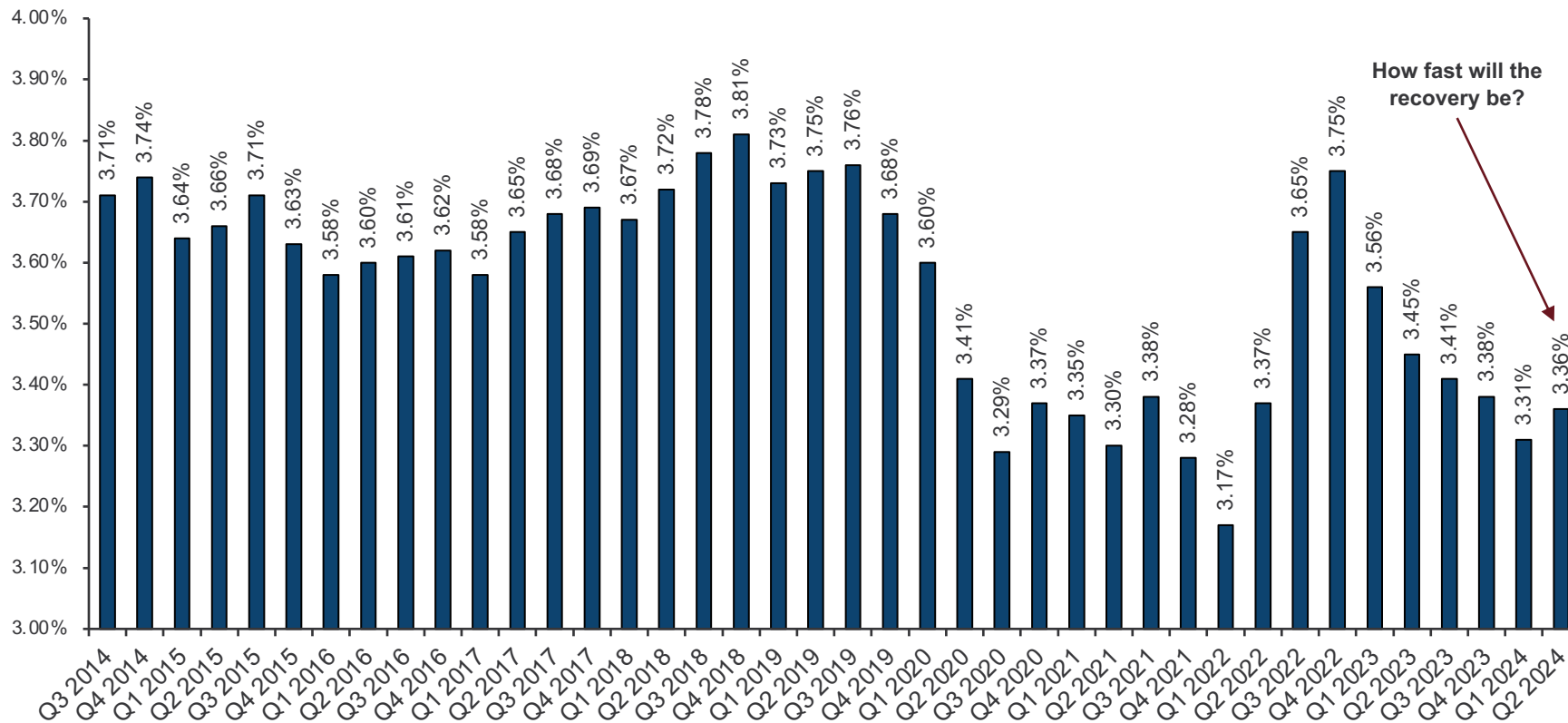
- Tax reform helped juice bank earnings to near historical highs in 2019
- 2021 returns are skewed by negative provisions, PPP fees and the tail end of the mortgage refi boom
- Heading into a presidential election leaves some unknowns surrounding corporate tax rates and regulatory burdens, but will falling rates decrease funding costs and boost profitability in for the second half of 2024 and beyond?

### MEDIAN BANK INDUSTRY ROAA



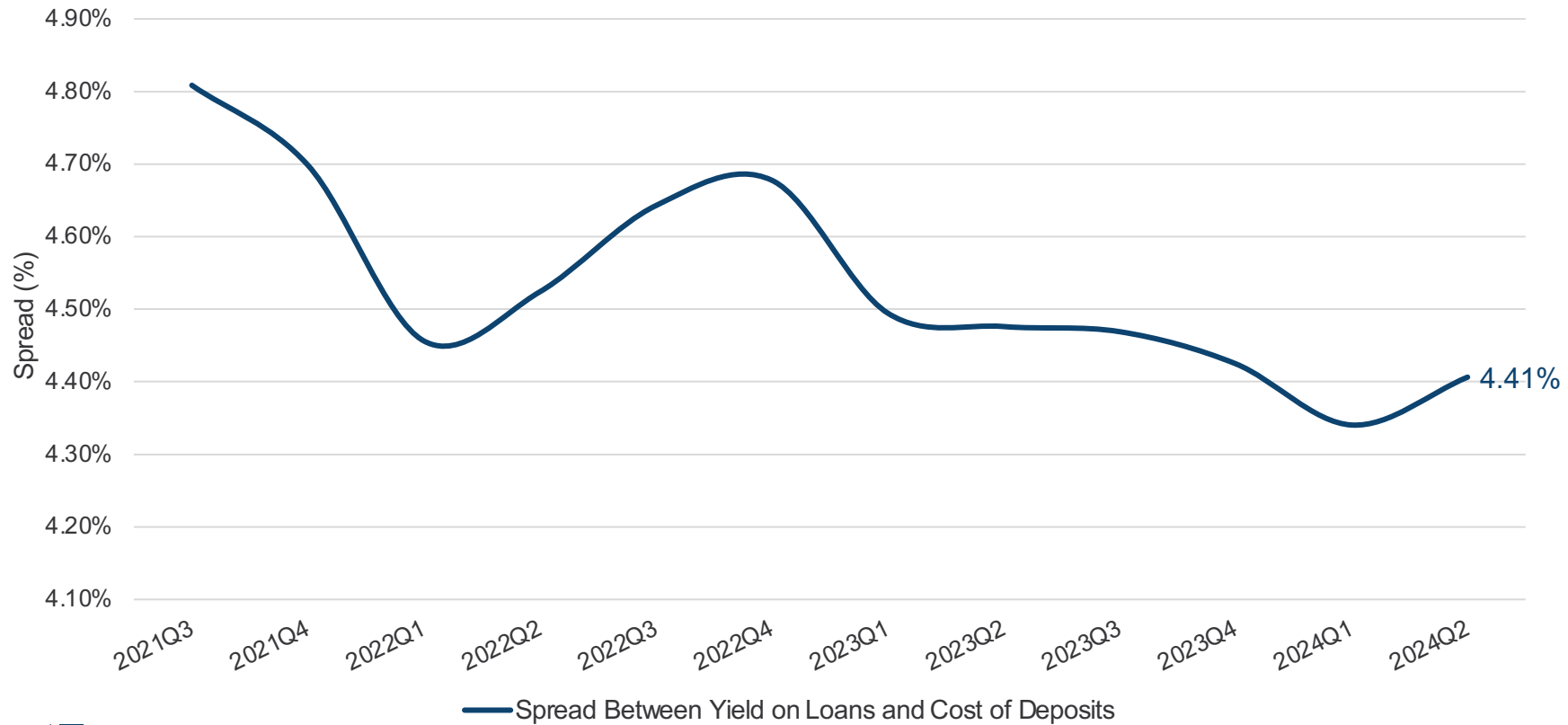
# NIM RECOVERY HAS BEGUN – HOW FAR AND FAST WILL IT GO?

## QUARTERLY AGGREGATE COMMUNITY BANK INDUSTRY NET INTEREST MARGIN<sup>(1)</sup>



# SPREAD BETWEEN LOAN YIELDS AND DEPOSIT COSTS

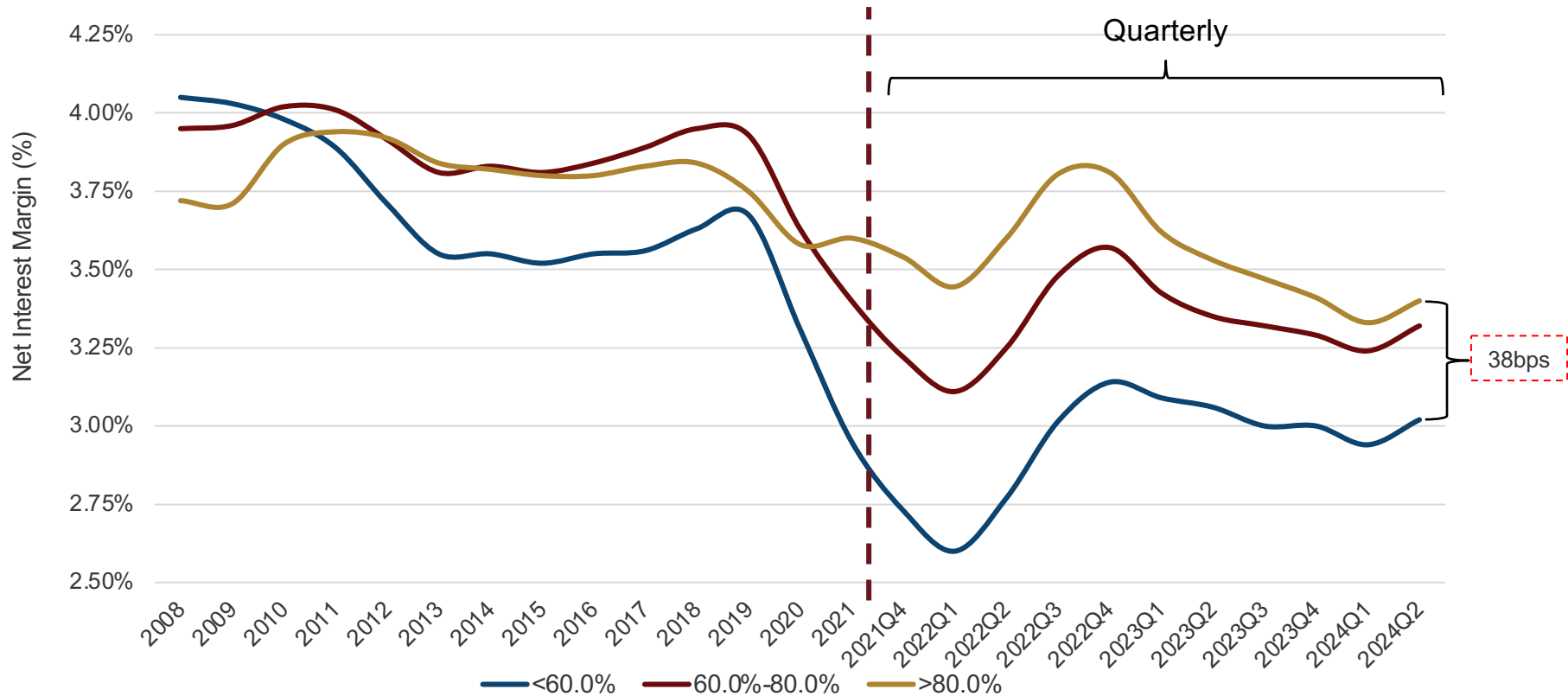
SPREAD BETWEEN MEDIAN YIELD ON LOANS AND MEDIAN COST OF DEPOSITS (LAST 12 QUARTERS)



Note: Includes all commercial banks and savings banks with assets less than \$20.0 billion  
Source: S&P Capital IQ Pro; Data as of 6/30/2024

# LOAN-TO-DEPOSIT RATIO: IMPACT ON NET INTEREST MARGIN

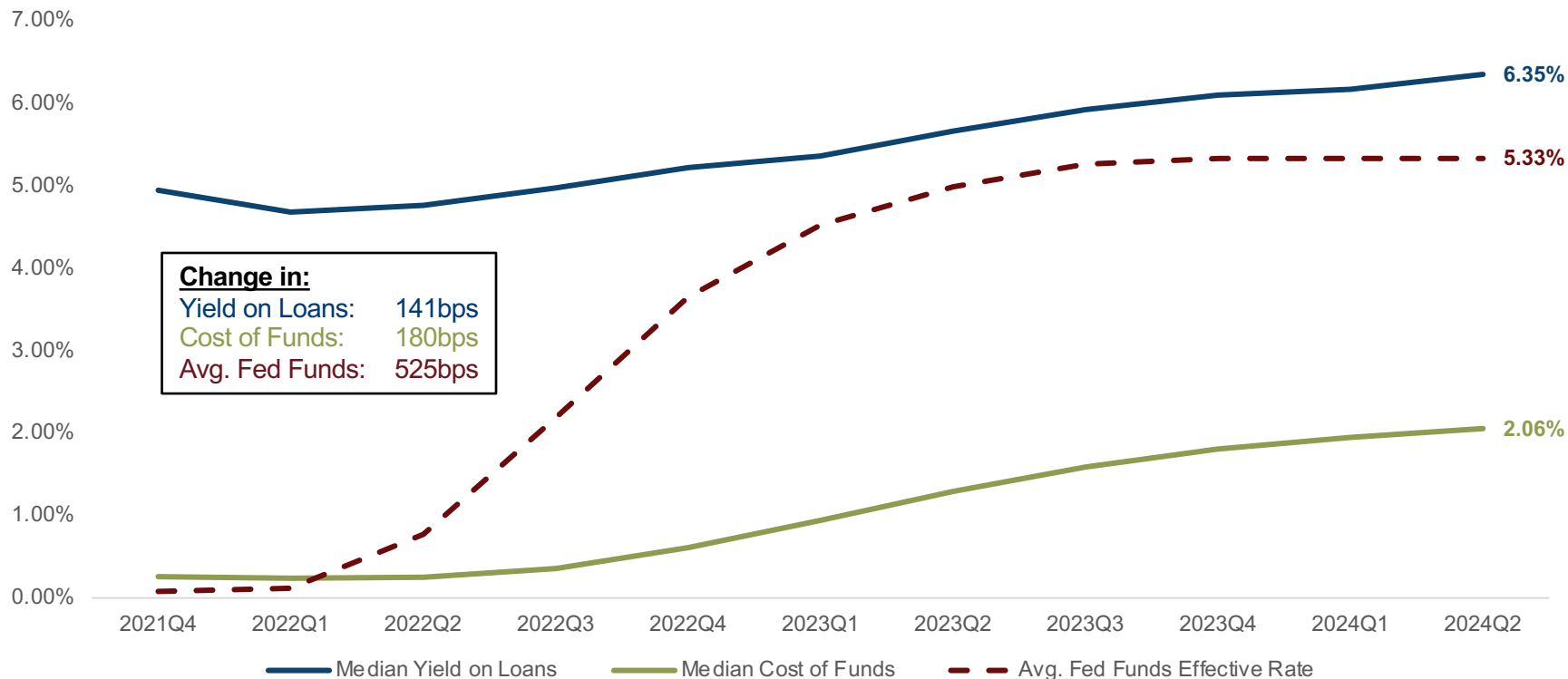
MEDIAN NET INTEREST MARGIN BY LOAN-TO-DEPOSIT RATIO



Note: Includes all commercial banks, savings banks, and savings and loan associations (where Q4 2021 loan-to-deposit ratio is above 1.00%)  
Source: S&P Capital IQ Pro; Data as of 6/30/2024

# LOAN YIELDS AND COST OF FUNDS: NIM'S SET TO EXPAND AS ASSETS REPRICE?

## LOAN YIELDS AND COST OF FUNDS VS. FED FUNDS RATE

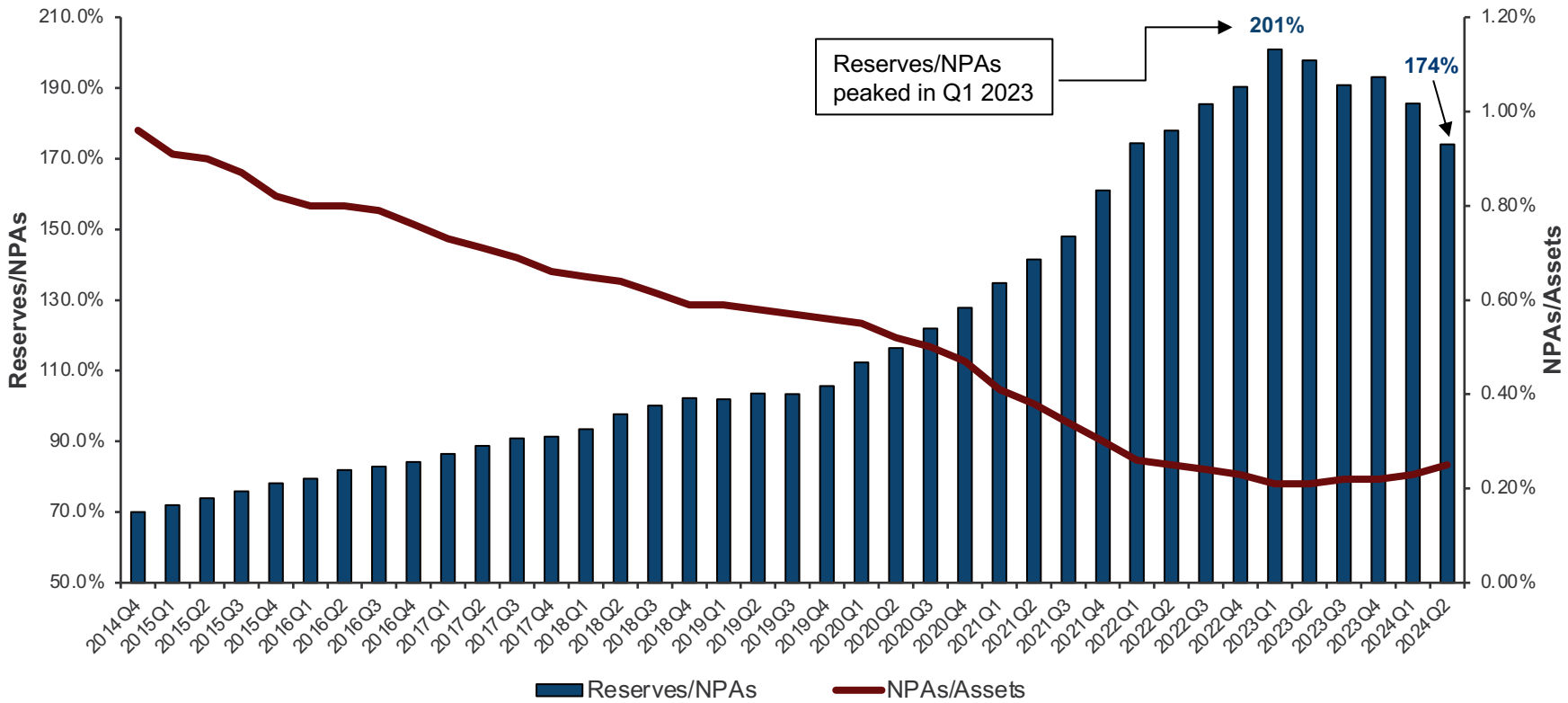


A) WHAT DOES CREDIT QUALITY LOOK LIKE NOW & WHERE WILL IT GO?

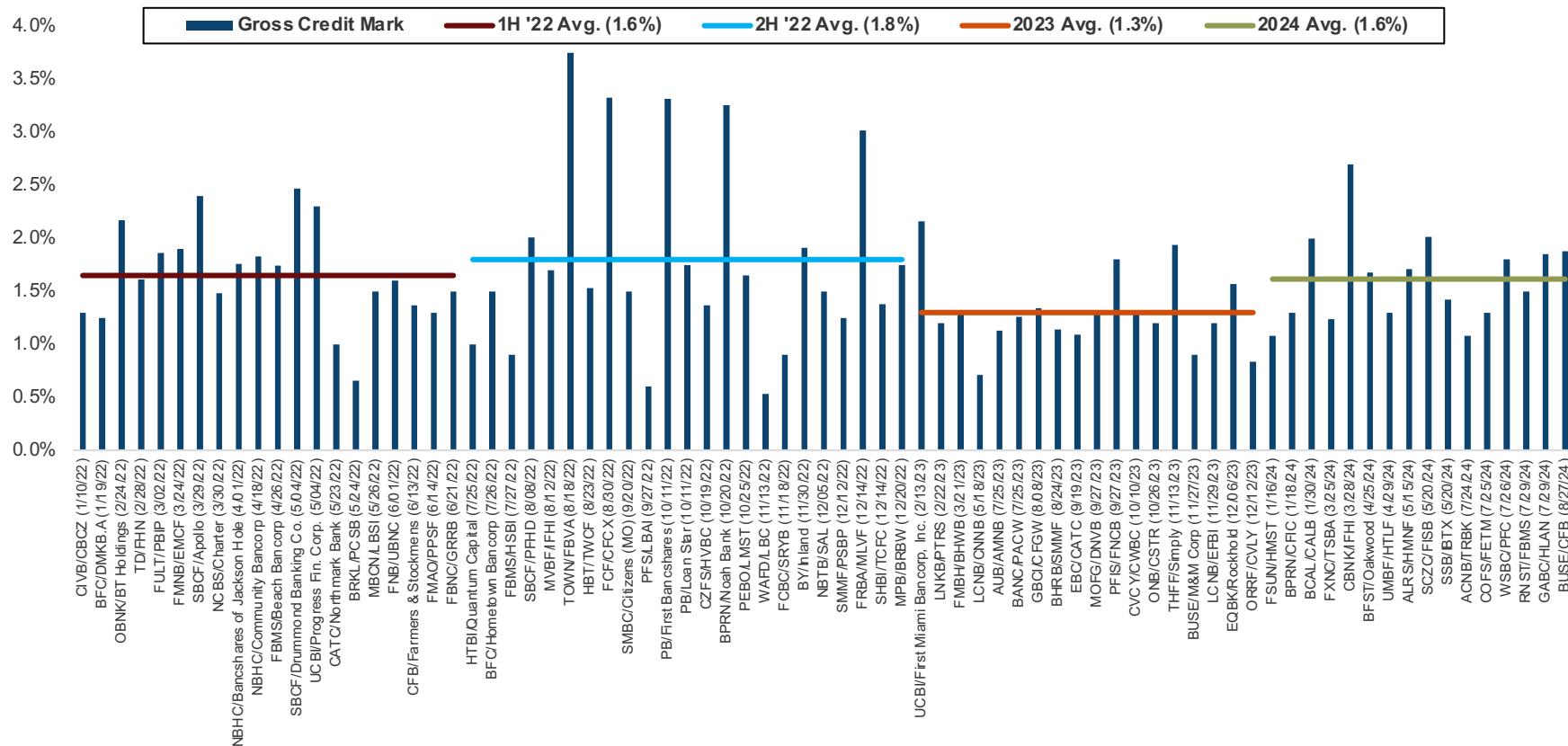


# CAN EARNINGS HOLD AS PROVISIONS NORMALIZE?

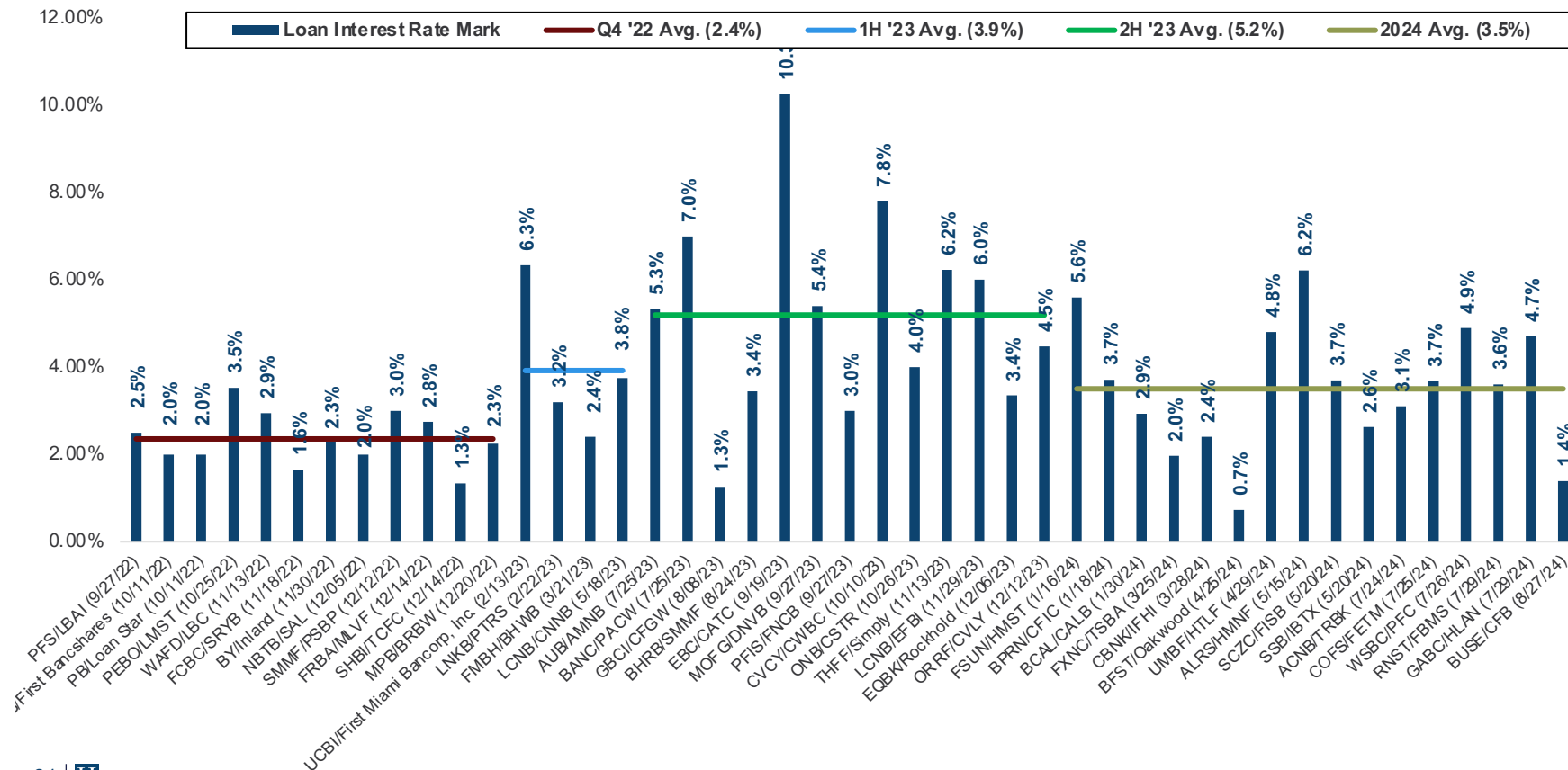
MEDIAN QUARTERLY BANK INDUSTRY RESERVES/NPAs VS NPAs/ASSETS



# CREDIT MARK PROGRESSION SINCE 2022



# GROSS LOAN INTEREST RATE MARKS SINCE SEPTEMBER 1, 2022



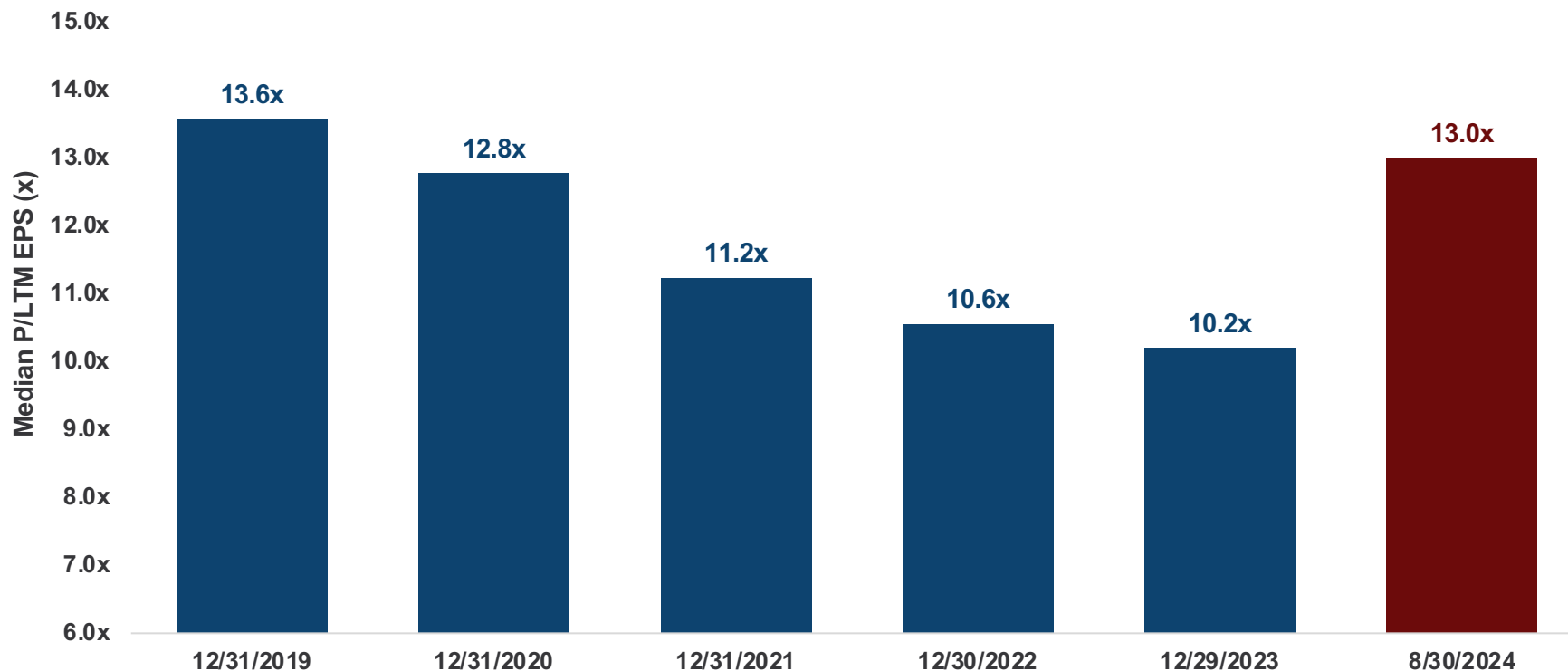
### III. THE IMPACT ON BANK STOCK VALUES AND M&A

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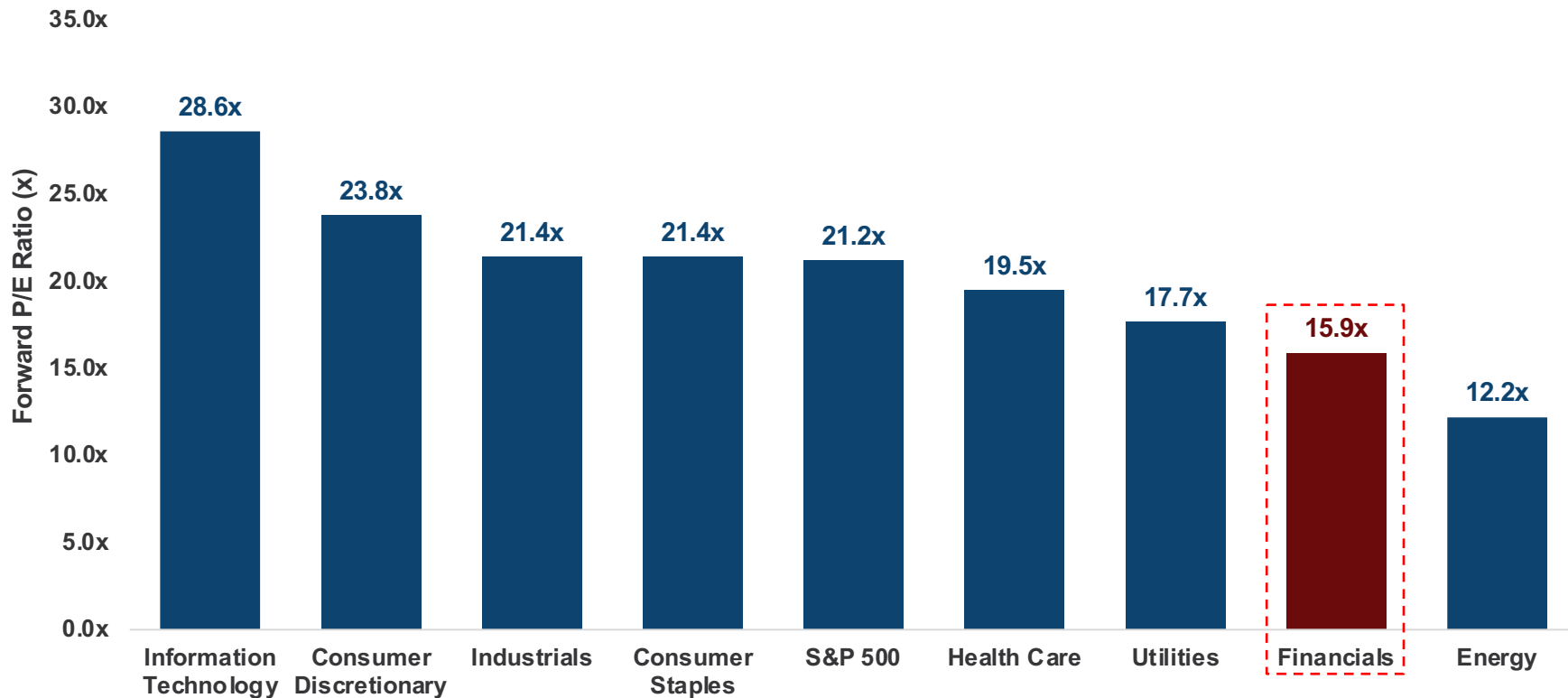
## PRICE-TO-EARNINGS REBOUND

## MEDIAN PRICE-TO-LTM EARNINGS (MAJOR EXCHANGE TRADED BANKS)

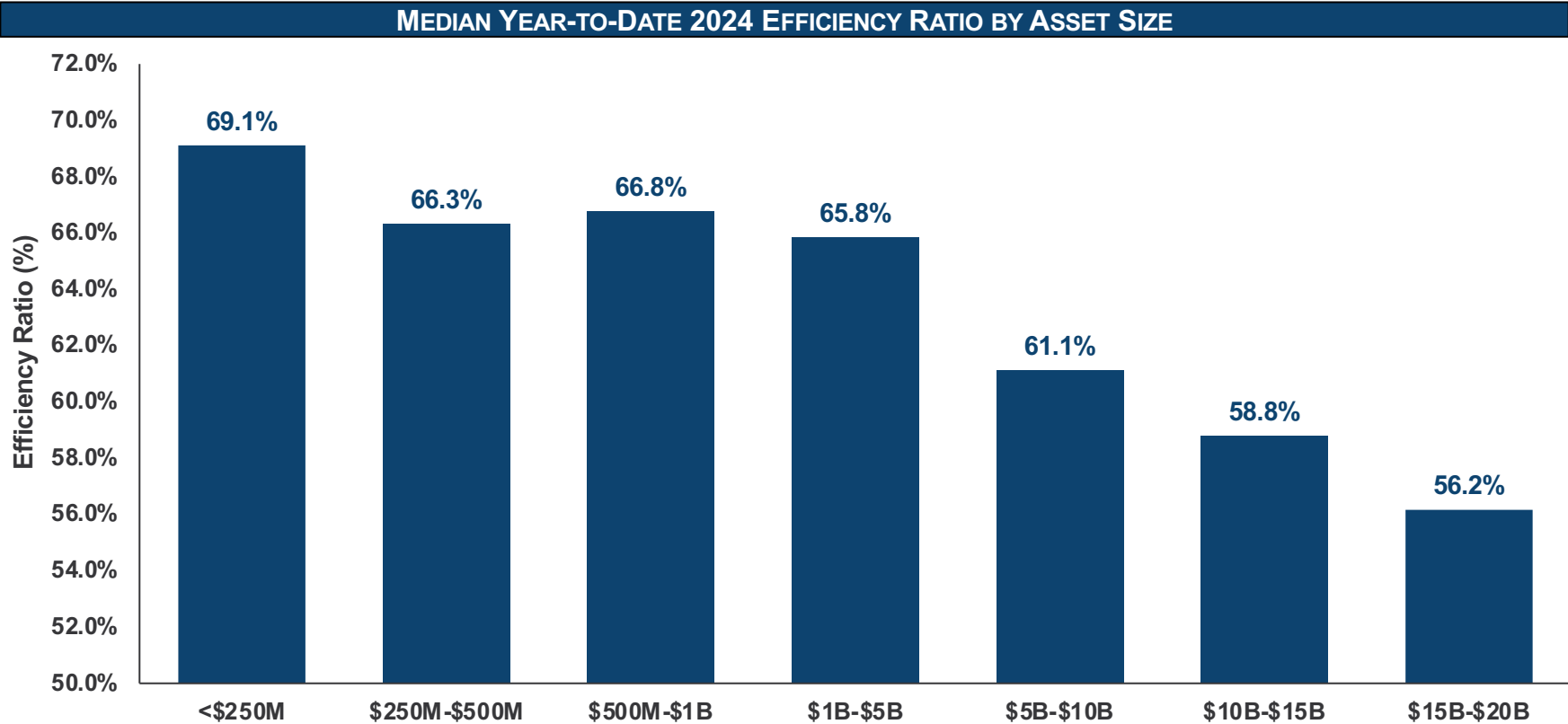


## FINANCIALS ARE COMING BANK IN FAVOR. IS THERE A CEILING?

## SELECT S&amp;P 500 SECTORS FORWARD P/E RATIOS

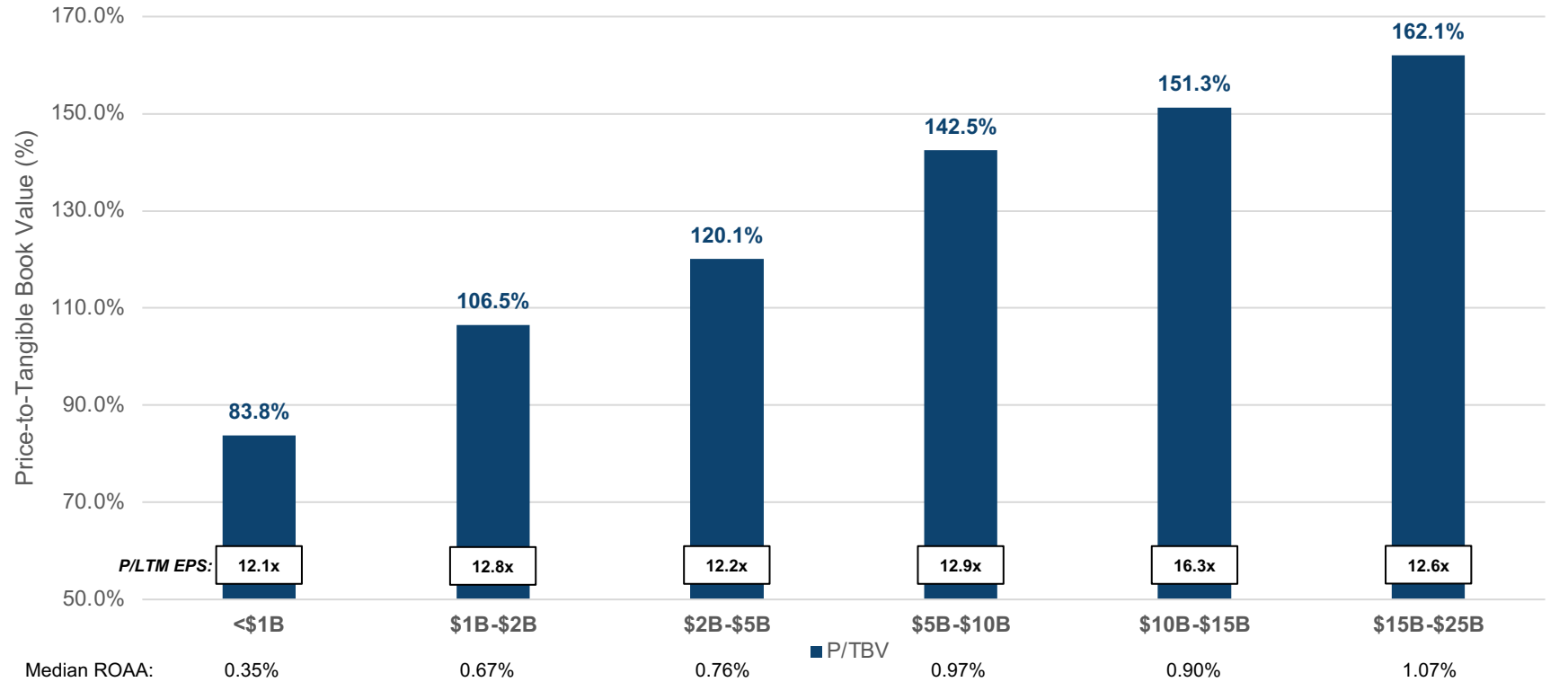


# EFFICIENCY THROUGH SIZE IS STILL A RELIABLE STRATEGY



# MARKET PRICING BY ASSET SIZE – STILL A STRONG PREFERENCE FOR SIZE

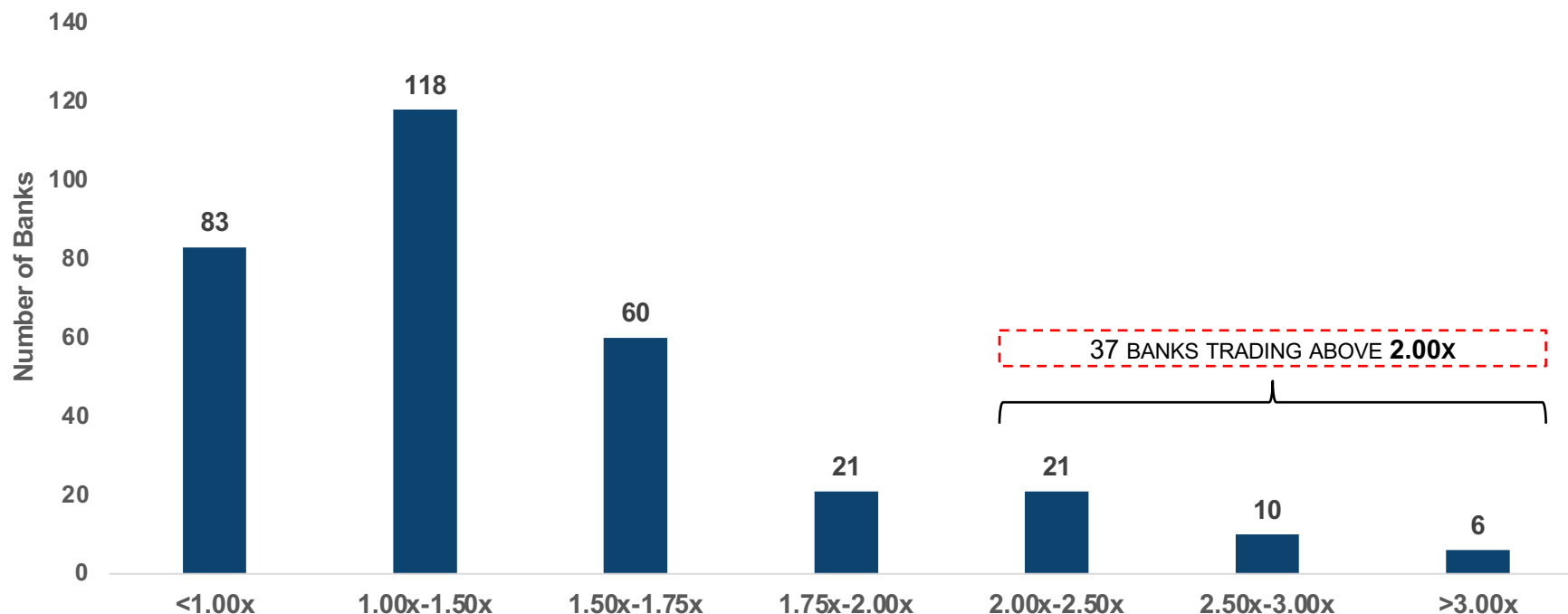
## MEDIAN PRICE-TO-TANGIBLE BOOK VALUE & PRICE-TO-LTM EARNINGS BY ASSET SIZE



*Note: Includes all banks traded on the NYSE and NASDAQ exchanges (Excludes merger targets)  
Source: S&P Global Market Intelligence; Data as of 8/30/2024*

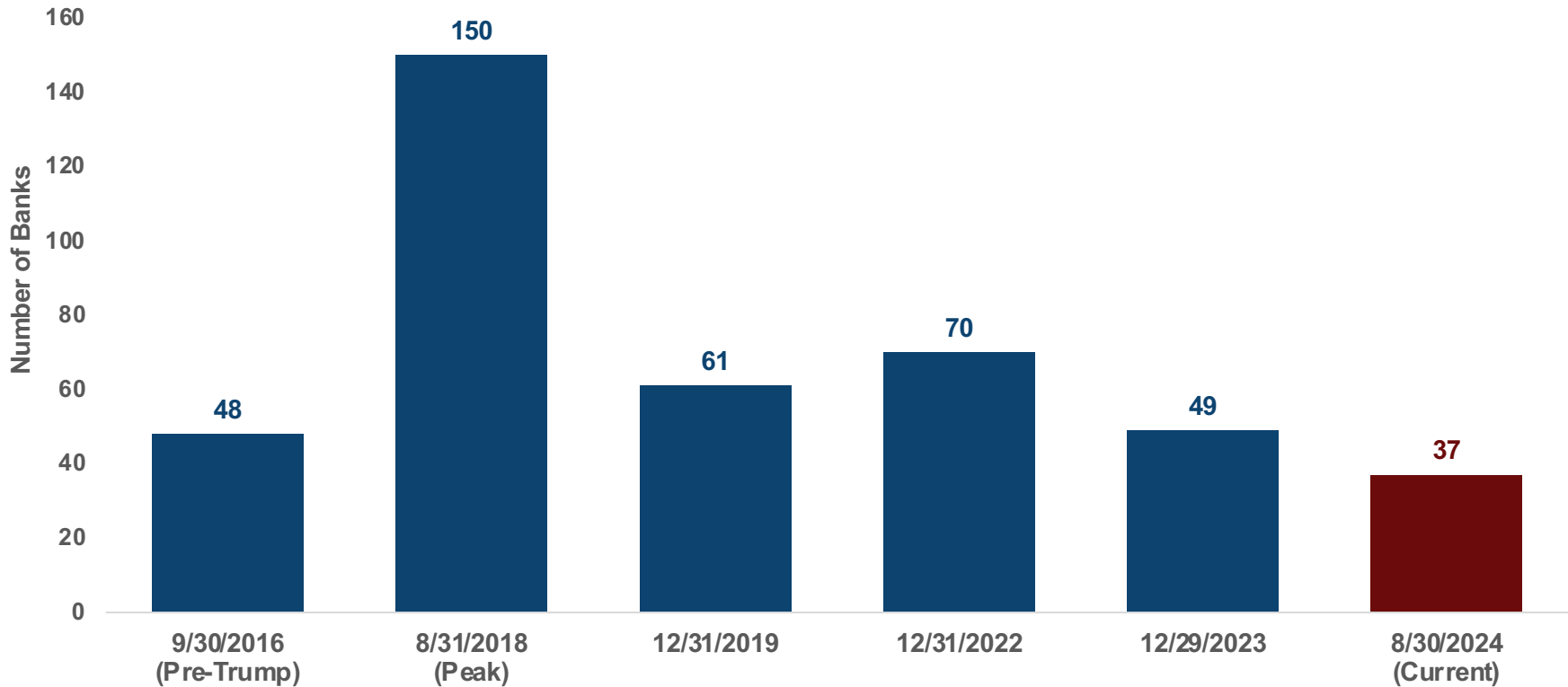
# TURMOIL IN THE BANKING INDUSTRY HAS LEAD TO DEPRESSED PRICING

## NUMBER OF BANKS IN PRICE-TO-TANGIBLE BOOK RANGES



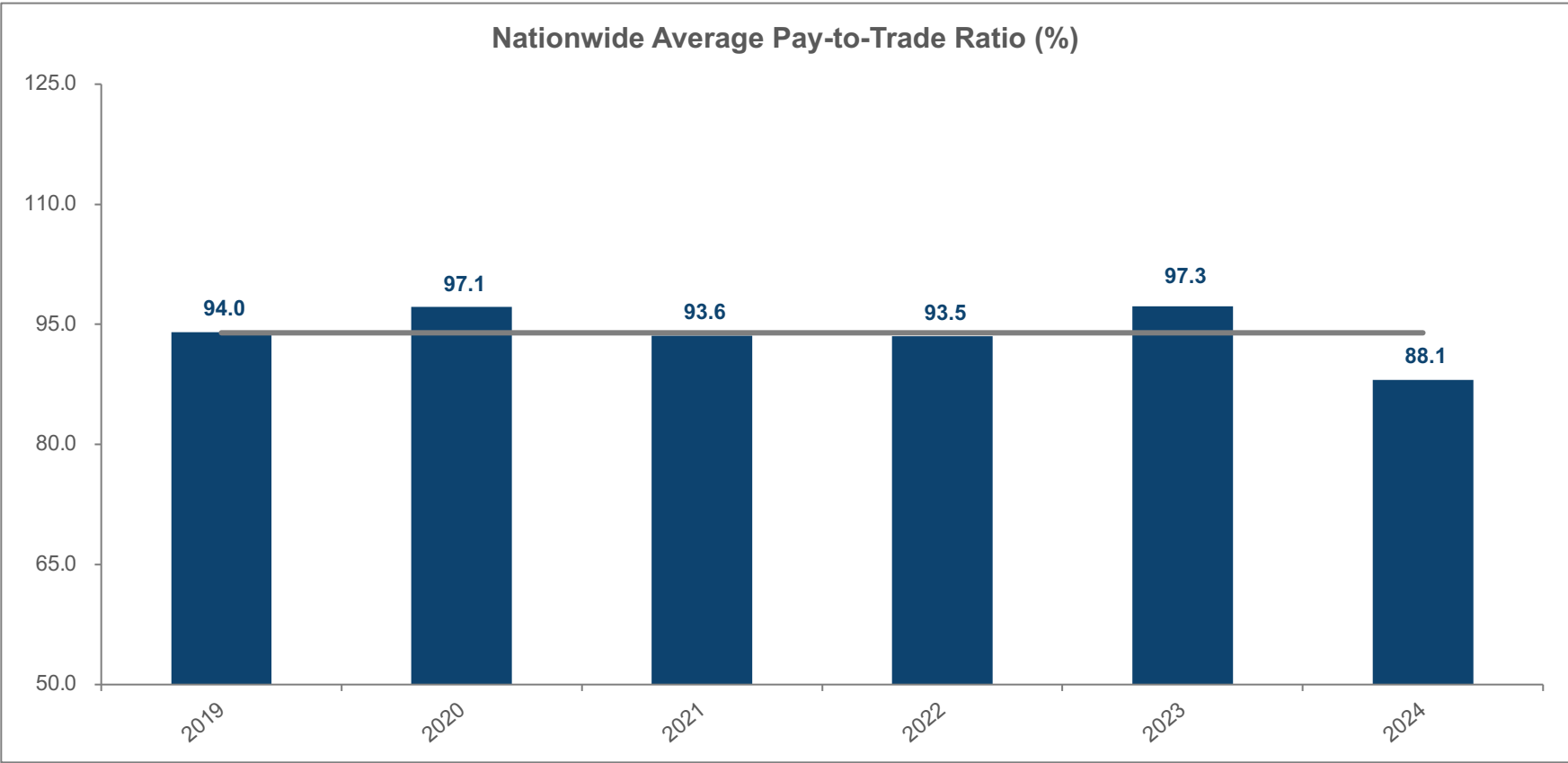
# LOW TRADING VALUES & UNCERTAINTY HAVE DEPRESSED M&A ACTIVITY

NUMBER OF BANKS WITH PRICE-TO-TANGIBLE BOOK VALUES GREATER THAN 2.00X

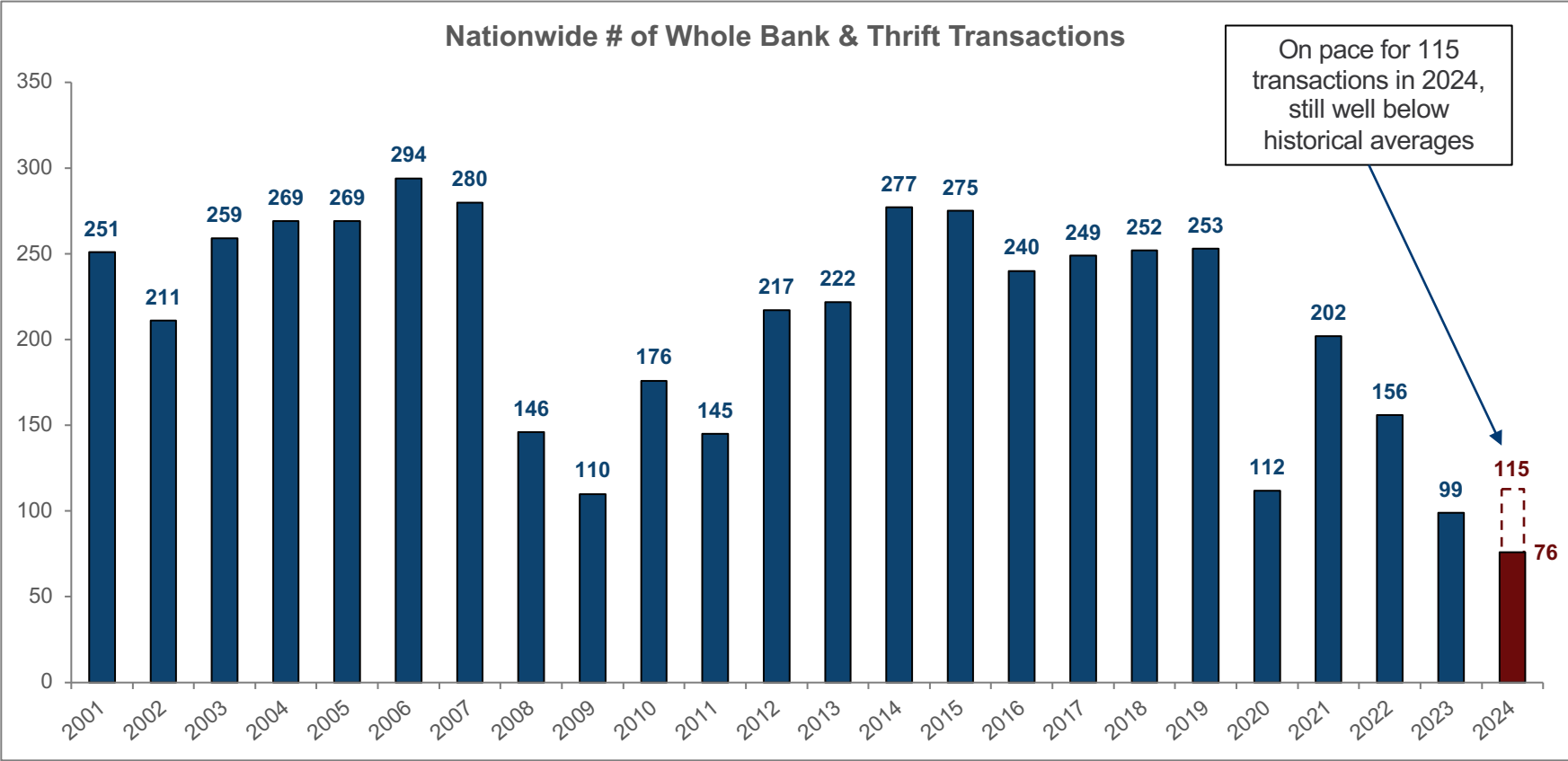


*Note: Includes all banks traded on the NYSE and NASDAQ exchanges where price-to-tangible book metrics are available  
Source: S&P Global Market Intelligence; Data as of 8/30/2024*

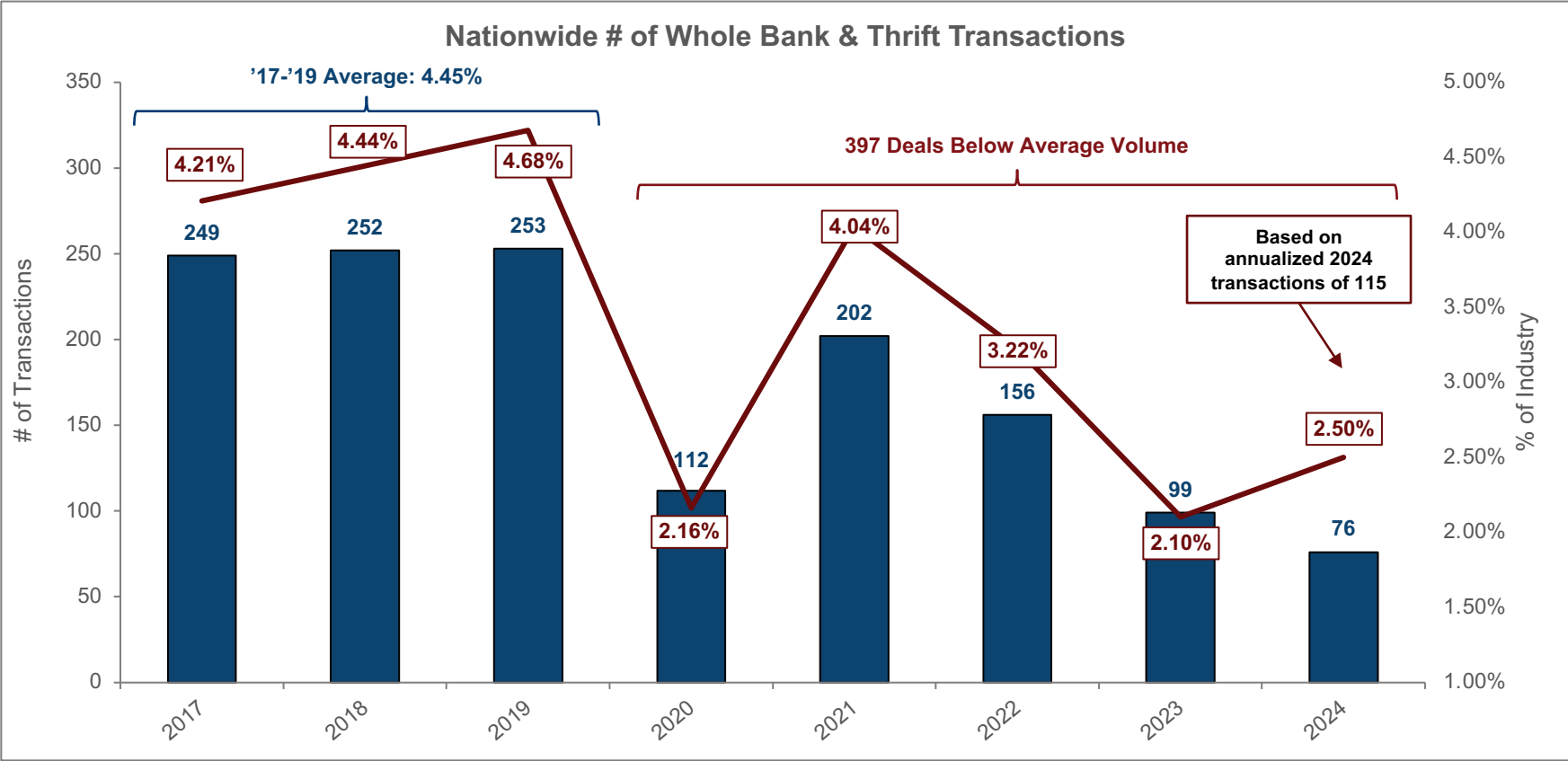
# MEDIAN NATIONWIDE PAY-TO-TRADE ANALYSIS



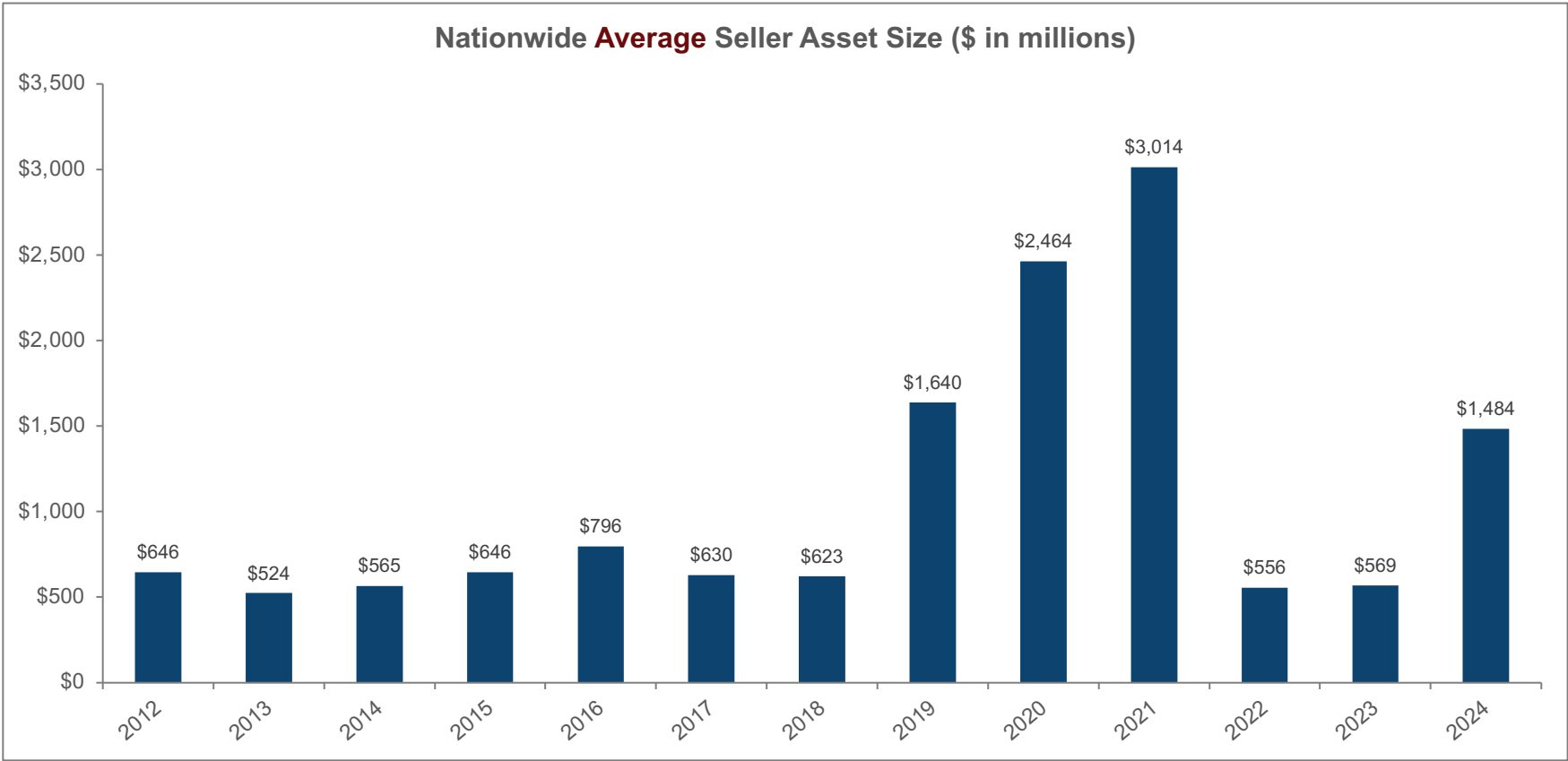
# WHOLE BANK & THRIFT M&A TRENDS



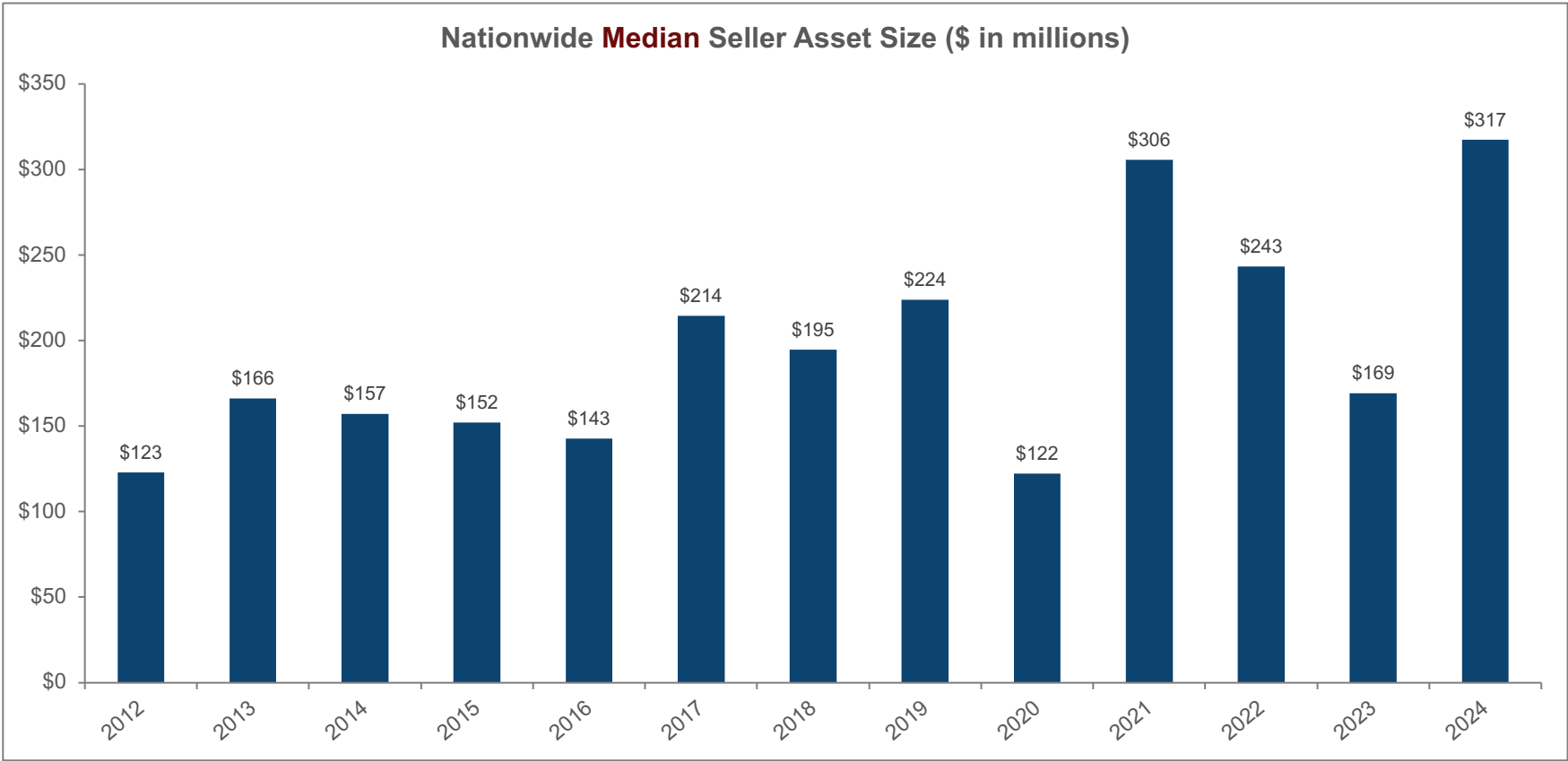
# BACKLOG OF PENT UP SELLER DEMAND



# WHOLE BANK & THRIFT M&A TRENDS

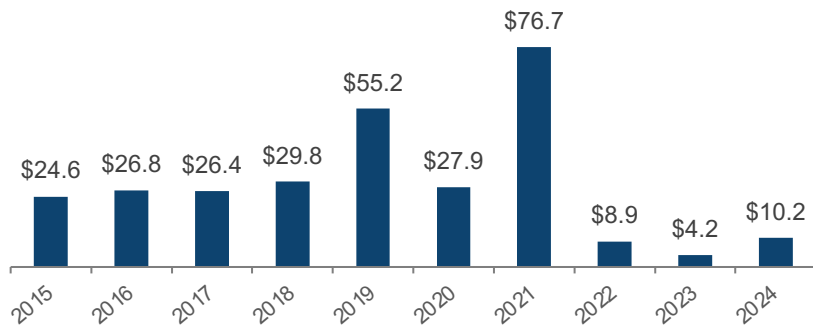


# WHOLE BANK & THRIFT M&A TRENDS

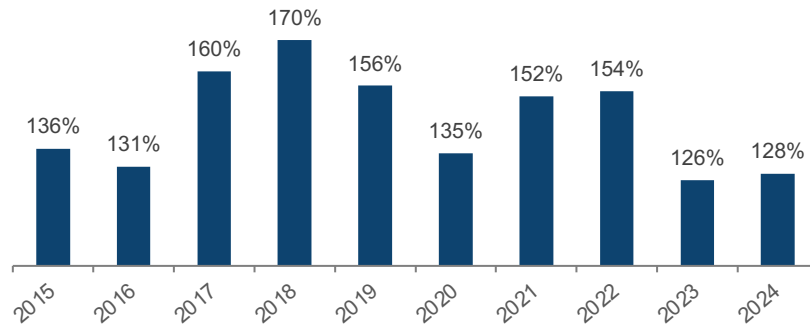


# NATIONWIDE M&A TRENDS

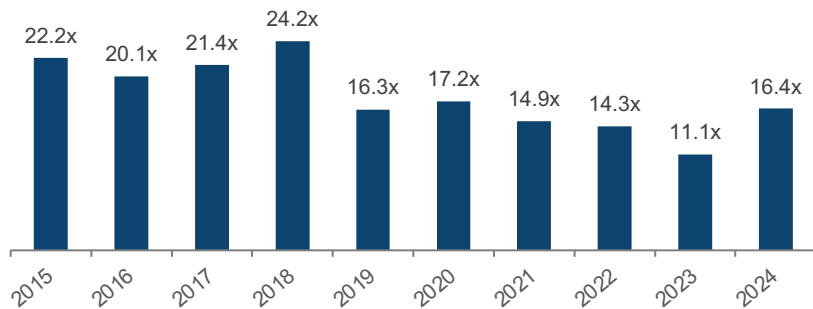
## Aggregate Deal Value (\$ in billions)



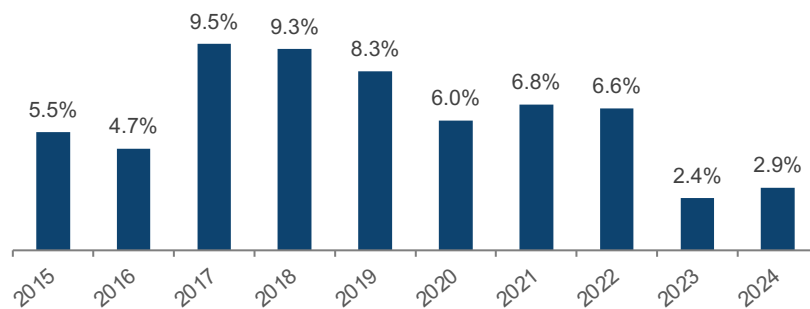
## Median Price-to-Tangible Book Value



## Median Price-to-LTM Earnings

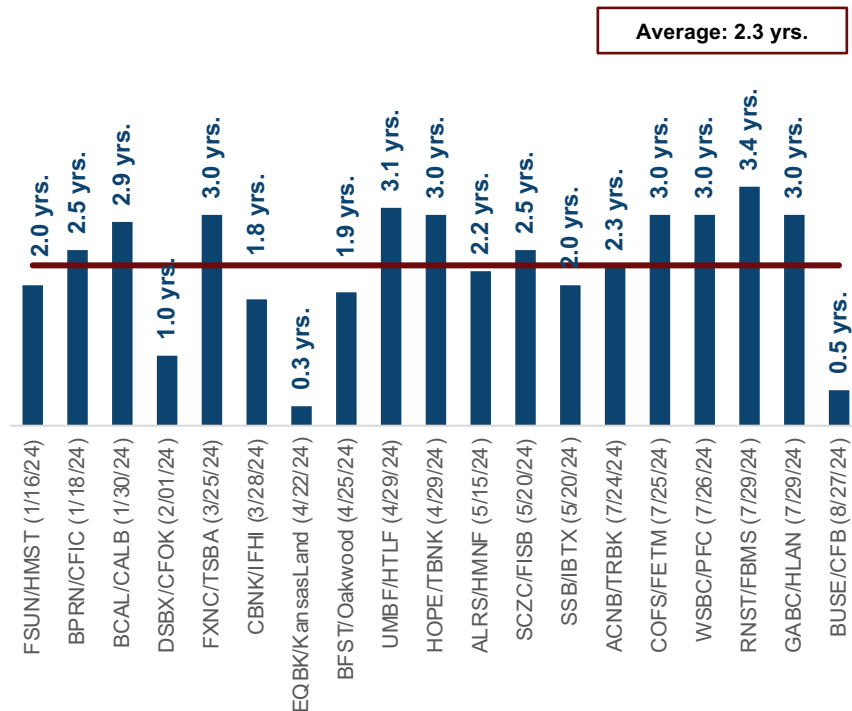


## Median Tangible Book Premium-to-Core Deposits

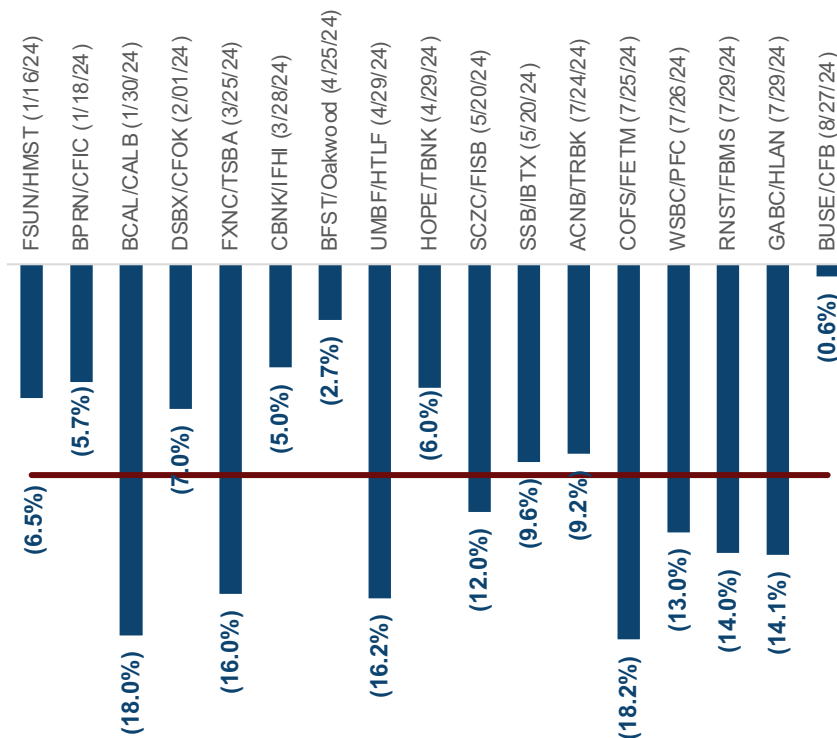


# WHAT DEALS LOOK LIKE IN 2024: BIG UPFRONT DILUTION AND FAST EPS ACCRETION

## TBV EARNBACK (YEARS)



## TBV DILUTION AT CLOSE (%)

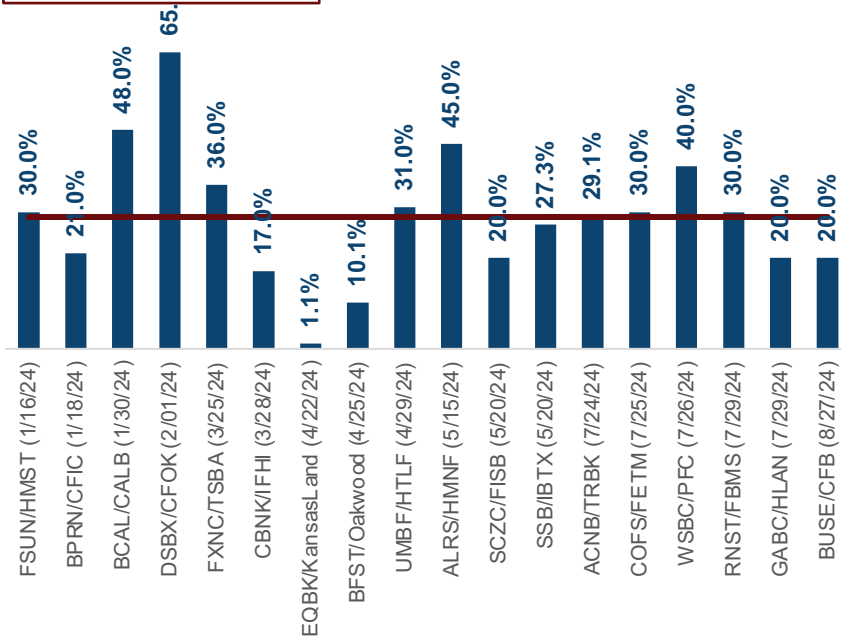


# WHAT DEALS LOOK LIKE IN 2024 (CONTINUED)

## FIRST FULL YEAR EPS ACCRETION (%)

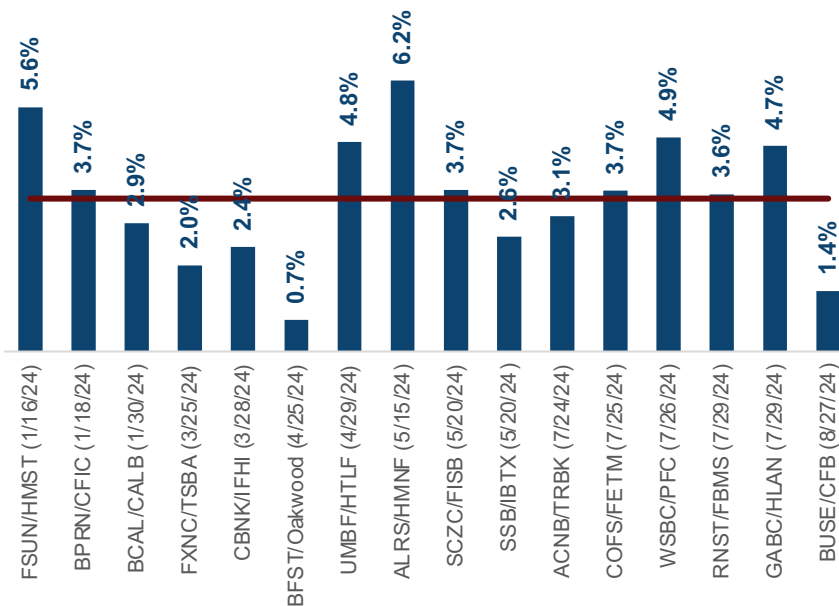
Accretion inflated as large interest rate marks are accreted into earnings

Average: 28.9%



## GROSS LOAN INTEREST RATE MARK (%)

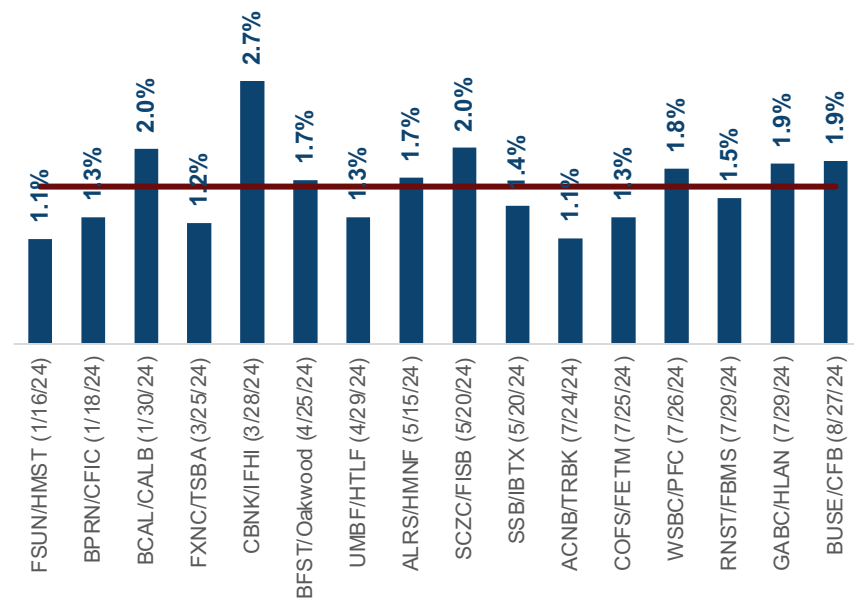
Average: 3.5%



# WHAT DEALS LOOK LIKE IN 2024 (CONTINUED)

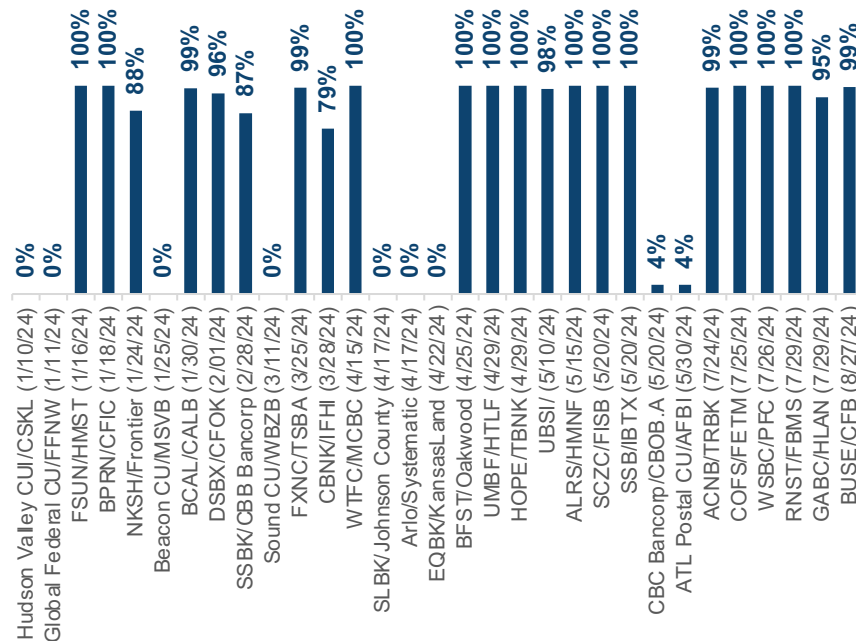
## CREDIT MARK (%)

Average: 1.6%



## PERCENTAGE STOCK (%)

71% of deals that reported consideration were majority stock transactions<sup>(1)</sup>



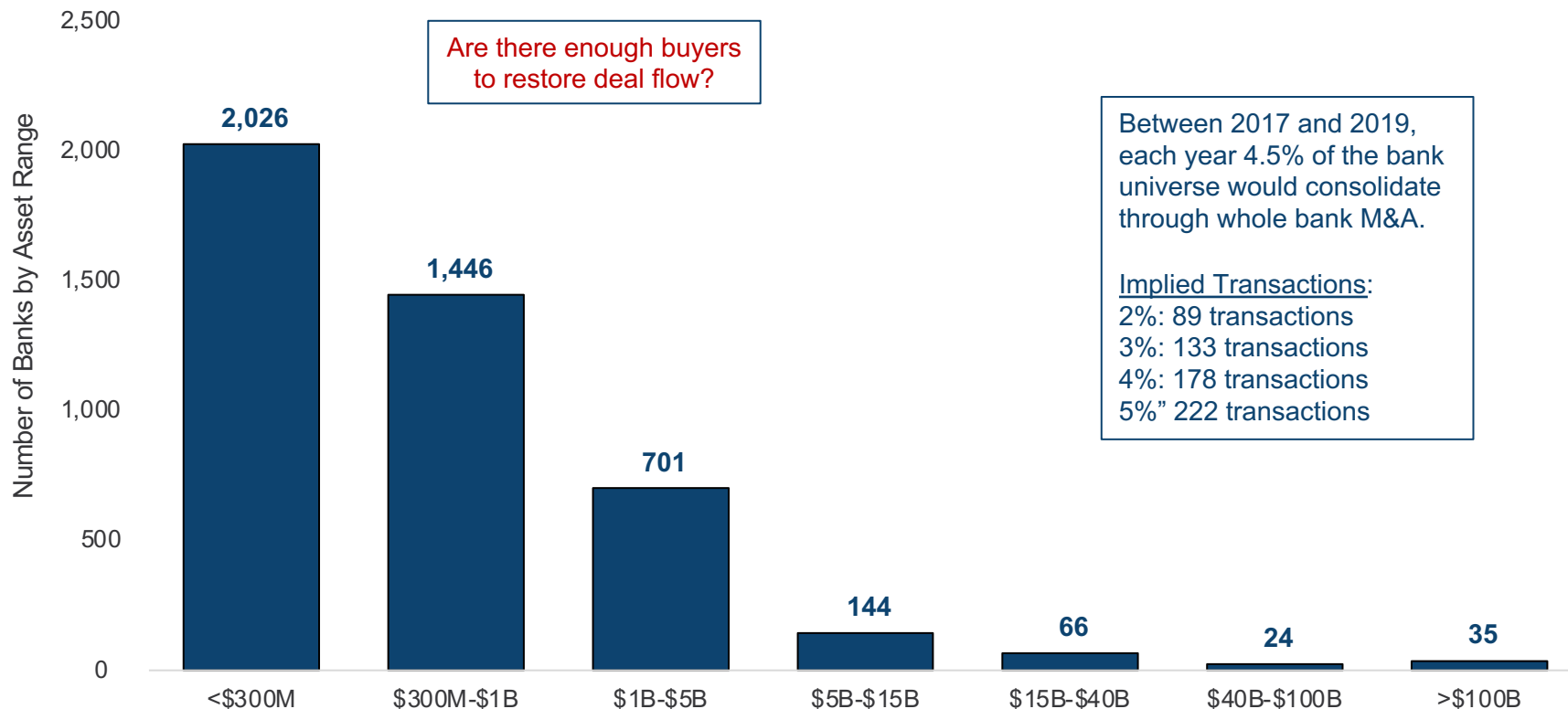
(1) Majority stock transaction are deals where the stock consideration made up more than 75% of the total consideration Data as of 8/30/2024; Includes Deals in 2024 where certain deal metrics are disclosed Source: S&P Capital IQ Pro; Company filings

## THE SHAPE OF M&A DEALS IN THE CURRENT ENVIRONMENT

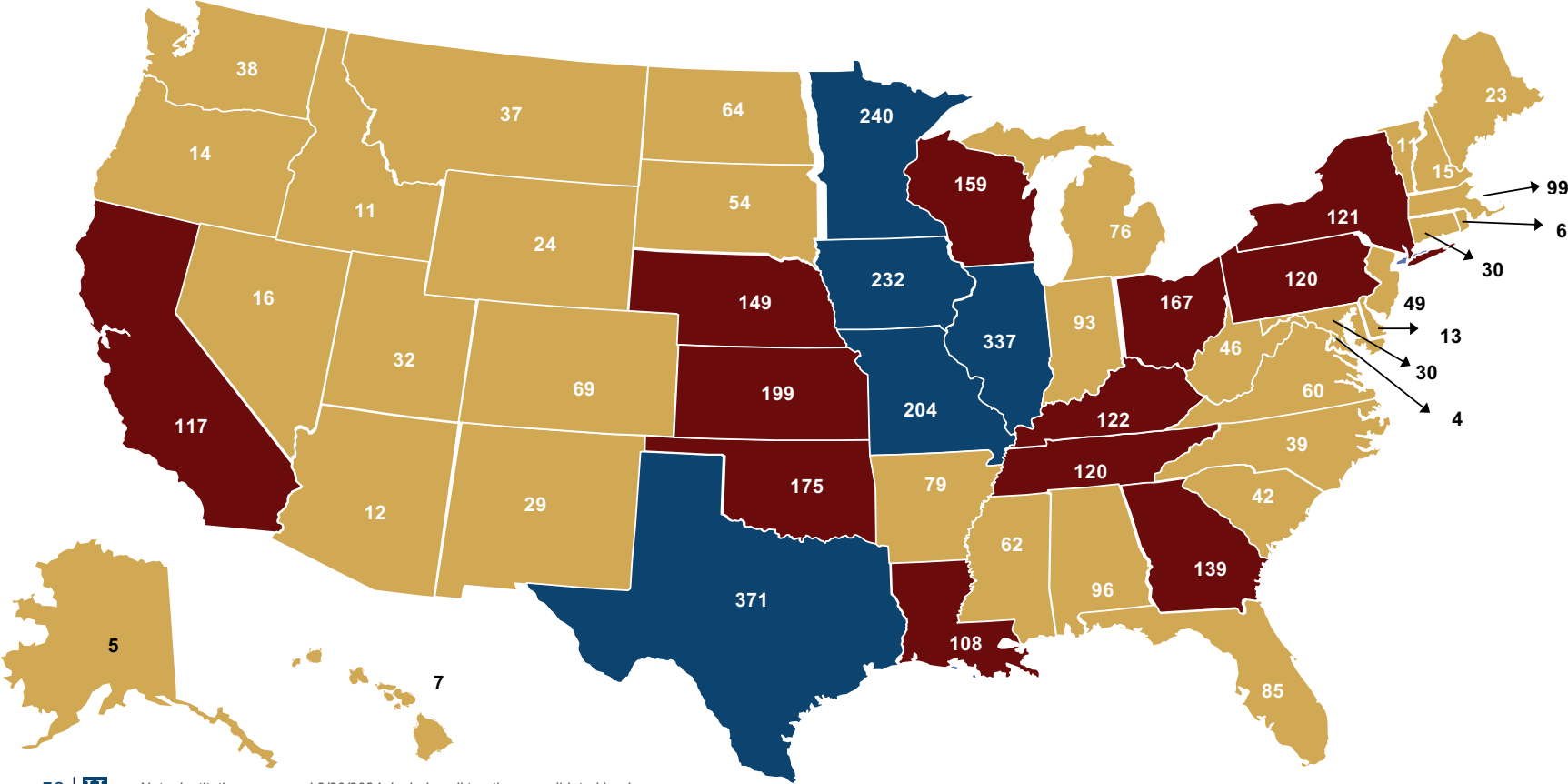
### SHAPING M&A DEALS IN THE CURRENT ENVIRONMENT



## NUMBER OF BANKS BY ASSET SIZE



# NUMBER OF COMMERCIAL AND SAVINGS BANKS BY STATE: AUGUST 2024

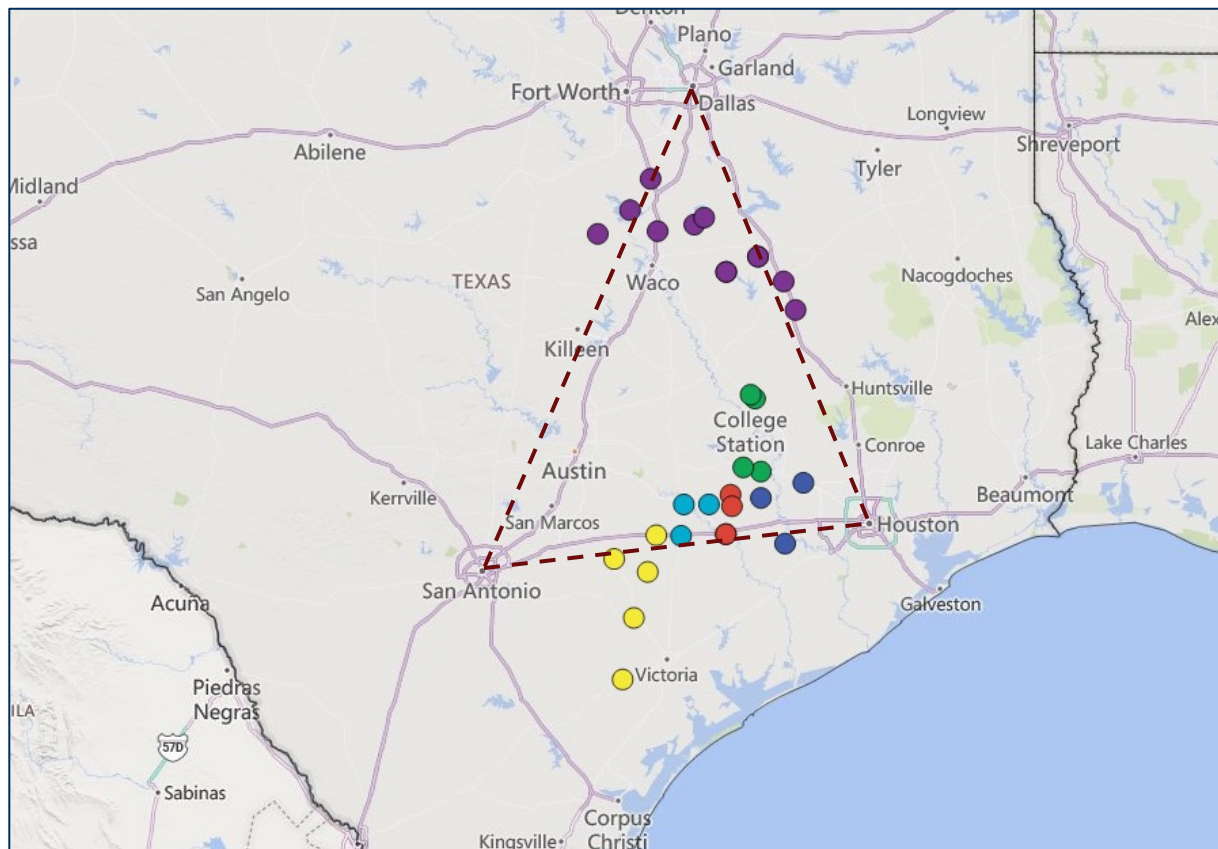


#### IV. A CASE STUDY: INDUSTRY BANCSHARES, INC.

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# IN THE HEART OF THE TEXAS TRIANGLE: INDUSTRY BANCSHARES, INC.



- Citizens State Bank (10)
- The First National Bank of Shiner (5)
- Bank of Brenham, National Association (4)
- Industry State Bank (3)
- Fayetteville Bank (3)
- The First National Bank of Bellville (3)

## FINANCIAL SNAPSHOT

(\$ in thousands)	12/31/2021
Cash	187,868
Securities	4,225,727
Net Loans	975,938
Other	228,899
<b>Total Assets</b>	<b>5,618,432</b>
Deposits	4,864,402
Other Liabilities	39,710
Equity	714,320
<b>Total Liabilities and Equity</b>	<b>5,618,432</b>
<b>LTM ROAA</b>	<b>1.58%</b>
Tang. Equity / Tang. Assets	12.0%

## NATIONWIDE BANKS – SORTED BY Q3 2023 TCE RATIO

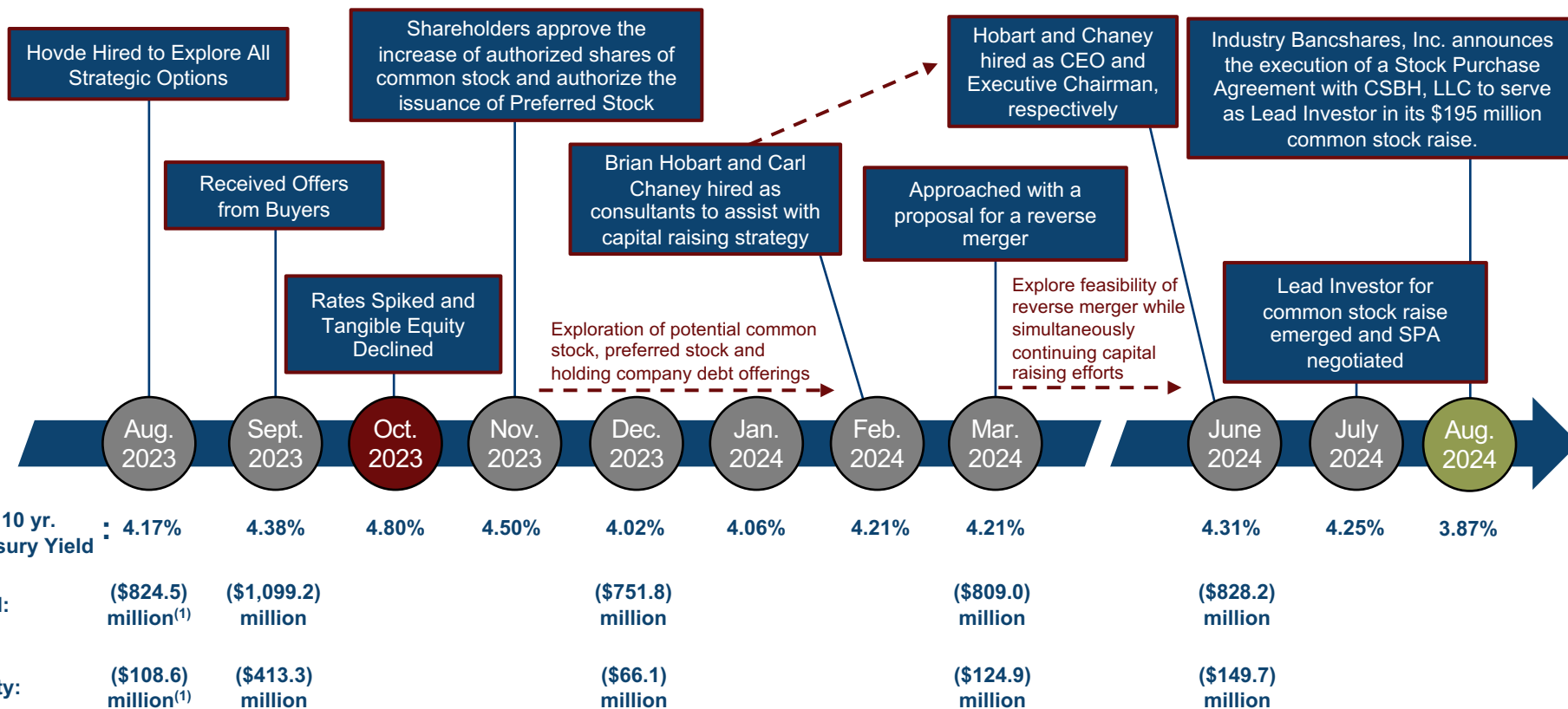
- In Q3 2023, there were 31 banks with negative tangible common equity and 6 of these banks were subsidiaries of Industry Bancshares, Inc.
  - Further Industry's six subsidiaries ranked 1<sup>st</sup> – 6<sup>th</sup> as the least capitalized banks in the United States based on the TCE Ratio

Rank	Company Overview					Capital Overview			
	Company	Parent	City	State	Assets (\$000) 2023Q3	Tg. Equity / Tg. Assets (%)			
						2023Q3	2023Q4	2024Q1	2024Q2
1	Fayetteville Bank	Industry Bancshares, Inc.	Fayetteville	TX	533,910	(12.37)	(3.20)	(4.08)	(4.74)
2	The First National Bank of Shiner	Industry Bancshares, Inc.	Shiner	TX	803,967	(11.15)	(2.81)	(3.94)	(4.62)
3	Bank of Brenham, National Association	Industry Bancshares, Inc.	Brenham	TX	594,261	(8.74)	(1.45)	(2.60)	(3.42)
4	Citizens State Bank	Industry Bancshares, Inc.	Buffalo	TX	1,219,381	(8.56)	(1.64)	(2.46)	(2.91)
5	Industry State Bank	Industry Bancshares, Inc.	Industry	TX	787,879	(8.55)	(0.48)	(1.51)	(1.97)
6	The First National Bank of Bellville	Industry Bancshares, Inc.	Bellville	TX	718,160	(8.49)	(1.48)	(2.47)	(3.03)
7	Union County Savings Bank	--	Elizabeth	NJ	1,400,237	(5.19)	(2.09)	(2.45)	(3.13)
8	Citizens Bank	--	Sac City	IA	65,558	(4.49)	--	--	--
9	Phenix-Girard Bank	Phenix-Girard Bancshares, Inc.	Phenix City	AL	256,781	(4.10)	0.21	(0.19)	0.57
10	The Union Banking Company	Union Bancorp, Inc.	West Mansfield	OH	52,207	(3.11)	0.87	0.17	0.08
11	First State Bank of Randolph County	--	Cuthbert	GA	82,828	(2.90)	(0.81)	(1.24)	(0.68)
12	Mauch Chunk Trust Company	Mauch Chunk Trust Financial Corp.	Jim Thorpe	PA	644,824	(2.82)	(0.42)	(0.81)	(1.07)
13	Community Bank of Raymore	LoLyn Financial Corporation	Raymore	MO	322,969	(2.70)	(0.44)	(0.62)	0.13
14	First National Bank of Lake Jackson	Austin Colony, Inc.	Lake Jackson	TX	203,611	(2.58)	(0.46)	(0.89)	(0.52)
15	Du Quoin State Bank	Perry County Bancorp Inc.	Du Quoin	IL	119,432	(2.25)	2.71	2.10	1.94
16	LifeSteps Bank & Trust	LS Investor Group, LLC	Union Springs	AL	47,752	(2.18)	0.00	16.51	16.40
17	The First State Bank of Red Wing	Noble Bank Holding Company, Inc.	Red Wing	MN	78,146	(2.09)	0.67	0.07	0.01
18	The First National Bank of Stigler	Stigler Bancorporation, Inc.	Stigler	OK	126,472	(1.68)	(0.05)	(0.70)	--
19	Citizens Bank of Kansas	King Bancshares, Inc.	Kingman	KS	476,530	(1.46)	1.94	1.42	1.50
20	Bank of Cadiz and Trust Company	Cadiz Bancorp, Inc.	Cadiz	KY	139,517	(1.29)	0.79	0.08	0.38

# QUARTERLY BALANCE SHEET: INDUSTRY BANCSHARES, INC.

(\$ in thousands)	As of				
	6/30/2023	9/30/2023	12/31/2023	3/31/2024	6/30/2024
<b>Assets</b>					
Cash & Cash Equivalents	\$407,673	\$485,604	\$632,191	\$1,029,140	\$883,828
Total Securities (all AFS)	3,239,413	2,846,543	3,180,059	3,053,943	2,966,998
Net Loans & Leases	1,129,908	1,139,777	1,163,543	1,159,090	1,159,504
Other Assets	236,089	187,532	201,145	194,935	203,513
<b>Total Assets</b>	<b>\$5,013,083</b>	<b>\$4,659,456</b>	<b>\$5,176,938</b>	<b>\$5,437,108</b>	<b>\$5,213,843</b>
<b>Liabilities</b>					
Total Deposits	\$4,808,850	\$4,673,783	\$4,735,431	\$5,039,348	\$4,842,805
Total Other Borrowed Money	253,839	336,825	450,018	449,504	449,330
Total Other Liabilities	58,956	62,130	57,624	73,110	71,426
<b>Total Liabilities</b>	<b>\$5,121,645</b>	<b>\$5,072,738</b>	<b>\$5,243,073</b>	<b>\$5,561,962</b>	<b>\$5,363,561</b>
<b>Equity</b>					
All Other Equity Components	715,972	685,913	685,709	684,155	678,440
Accumulated Oth Comp Inc	(824,534)	(1,099,195)	(751,844)	(809,009)	(828,158)
<b>Total Equity</b>	<b>(\$108,562)</b>	<b>(\$413,282)</b>	<b>(\$66,135)</b>	<b>(\$124,854)</b>	<b>(\$149,718)</b>
<b>Total Liabilities and Equity</b>	<b>\$5,013,083</b>	<b>\$4,659,456</b>	<b>\$5,176,938</b>	<b>\$5,437,108</b>	<b>\$5,213,843</b>

## A LENGTHY PROCESS: INDUSTRY BANCSHARES, INC.



## RECAPITALIZATION: GOALS AND CHALLENGES

GOALS	CHALLENGES	OUTCOME
<ul style="list-style-type: none"><li>▪ Fairness to Existing Shareholders</li><li>▪ Preservation of Deferred Tax Asset (DTA)</li><li>▪ Satisfaction of Regulators: Amount &amp; Change-in-Control</li><li>▪ Provide Adequate Return to New Shareholders</li></ul>	<ul style="list-style-type: none"><li>▪ Unhappy Shareholders</li><li>▪ Belief that Falling Rates would Solve the Problem (do nothing)</li><li>▪ Intense Regulatory Pressure and Possible Seizure</li><li>▪ Multiple Negative Newspaper Articles including the Wall Street Journal</li></ul>	<ul style="list-style-type: none"><li>▪ Found Lead Investor to Head Up \$195 Million Capital Raise</li><li>▪ Deferred Tax Asset is Preserved</li><li>▪ Existing and New Shareholders Positioned to Benefit from Falling Rates</li></ul>

## V. WHAT IS NEXT?

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## M&A OUTLOOK – HEADWINDS & RESISTANCE



### HEADWINDS & RESISTANCE

- Large Interest Rate Marks Persist – Outsized Upfront Dilution
- Sellers Unwilling to Take Permanent Loss on Underwater Bonds
- Possible Credit Weakness – Especially Real Estate
- Too Few Buyers for Backlog of Sellers?

## M&A OUTLOOK – TAILWINDS & ASSISTANCE



### TAILWINDS & ASSISTANCE

- Bank Stock Prices have Rallied
- Earnings Forecasts have Improved
- Backlog of Sellers Eager to Make a Deal

## THOUGHTS FOR 2025

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### OBSERVATIONS

- Election results will be pivotal – taxes and regulations
- Motivation is high for both buyers and sellers
- We are in the “fourth quarter” of industry consolidation

### ACTION STEPS

- Be looking for strategic partnerships both above and below – can’t afford to miss one
- Be sure you are on the FDIC notification list
- Strategic planning is critical – keep your board informed and ready to act
  - ✓ Know a good opportunity when you see one – board education in advance
  - ✓ Know the availability, cost and structural alternatives of new capital

# HOVDE GROUP PROFESSIONALS & CONTACT INFORMATION

## HOVDE GROUP OVERVIEW

Hovde Group, LLC is a leading U.S. financial advisory group that provides a full-service suite of investment banking, capital markets, financial advisory, sales and trading, and equity research services focused exclusively on the banking industry. It has been a leading advisor in the banking sector for over 35 years.

Hovde's experienced professionals advise banks across all 50 states and provide the expertise, resources and focus necessary to structure, negotiate and successfully close the most complex strategic M&A and capital transactions.

## HOVDE GROUP OFFICE LOCATIONS



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