Introduction:

At Manole Capital Management, we exclusively focus on the emerging FINTECH industry. Over the last few months, the nine 2020 interns of Manole Capital have conducted our 3rd annual financial services survey. This group is comprised of students from Lehigh University (4), the University of Tampa (3), Indiana University (1) and the University of Florida (1). Like our prior surveys, this research specifically targets the thoughts and insights of America's younger generations and how they view various categories of the financial services industry -banking, brokerage, digital currencies and the payment sector.

Generations:

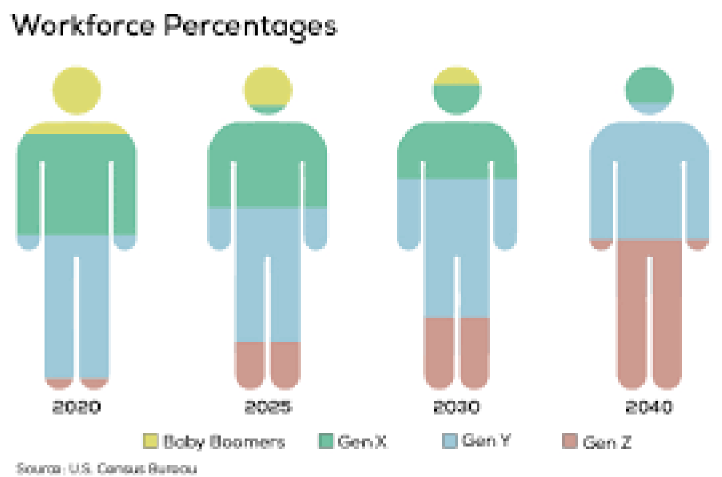
Baby Boomers are often characterized as optimistic, idealistic, self-driven and have shown a tendency to be loyal to one company (average tenure is 15 years). After years of climbing the corporate ladder, many are now interested in retirement and sharing their legacy. The Gen-X and Millennial generations tend to be somewhat skeptical, pessimistic, independent and some focused on having a solid work / life balance. This group is often described as resourceful, as they attempt to build a portable career. The two youngest generations are Millennials and Gen-Z. Early analysis shows that these younger consumers are less concerned about brands, labels or even corporate names. They tend to be quite entrepreneurial, ethnically diverse, socially tolerant and environmentally aware. These two segments were taught at a young age to collaborate and embrace flexibility (at school, at home and at work). They are idealistic and focused on advancement, with fairness.

Our Target Audience:

Once again, we targeted Gen-Z (those born after 1995) and Millennials (born between 1980 to 1994) to better understand America's younger generations. In terms of size, Millennials and Gen-Z are both over 20% of the US population. We feel it is important to understand the perspective of these younger individuals, especially since Millennials have surpassed Baby Boomers, as our largest living adult generation (according to the US Census Bureau).

This younger generation, often called the "Internet Generation", doesn't know what life is like without an iPhone or social connectivity. They seek truth, value individual expression and seem to avoid labels. While most of Gen-Z is still in school, a Fast Company survey estimates that this group will account for 40% of all consumers by the end of this year. How will businesses engage, target and attract this group? The three most influential events of their lives are the September 11th terrorist attacks, the Financial Crisis and now this COVID-19 global pandemic. We are attempting to understand how this audience will bank, conduct its payments and invest going forward. We inquired about four distinct financial services categories and received answers to our series of questions from 247 respondents. Nearly 60% of our responses were female and 40% were male. Those that answered our questions come from 28 different US states and attend 33 different colleges / universities. Our target audience was Gen-Z and we successfully hit that mark, as 95% were between the ages of 18 to 22 years old.

Our Research:



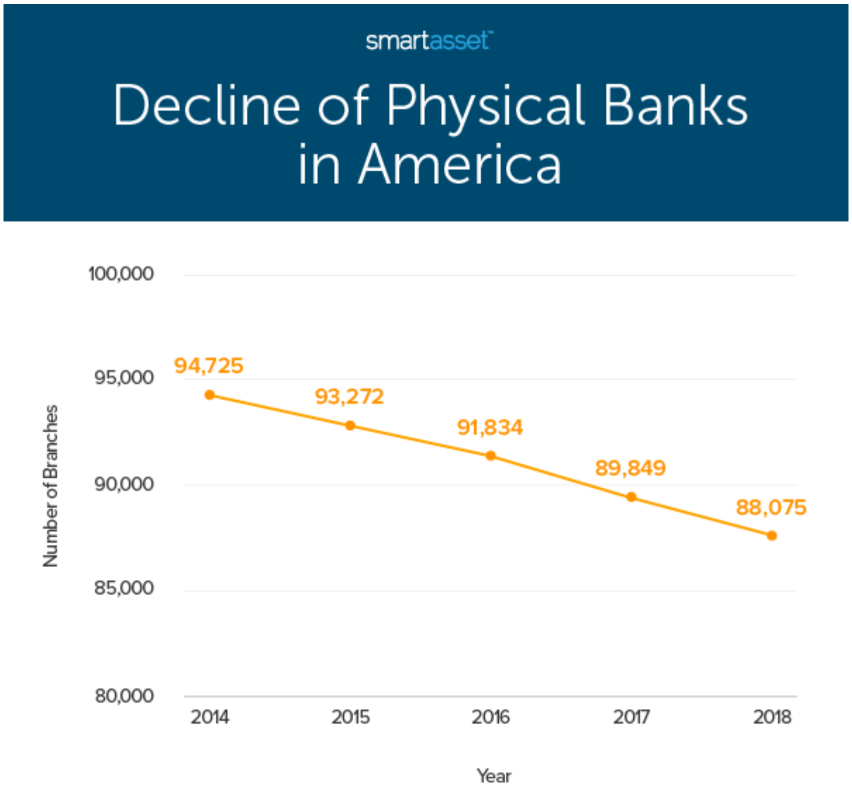
As this chart shows, over the next five to 20 years, the percentage of the US workforce will dramatically shift towards Gen-Z. The questions we asked, as well as the information we received, is summarized below. Where possible, we have attempted to provide our conclusions, takeaways and opinions. While some might be considered controversial, it is simply intended to serve as possible Gen-Z and Millennial perspectives. In addition, since this is our 3rd annual survey, we feel it is interesting to note how certain answers have changed over the last couple of years. Lastly, we have attempted to sprinkle in a few questions pertaining to COVID-19, as this virus was beginning to spread globally, just as our survey had begun.

On Instagram, "influencers" can make millions of dollars for their social influence and popularity. Long before this term became popular, the world has attempted to understand and interpret the thoughts of our younger generations. Young people play a critical role in society, as they create and help shape our future. Older generations may believe these differences are unconventional and progressive, but we believe that understanding different perspectives is critical in adapting to change. We hope you find our research insightful into America's younger generations. We have identified a series of quotes, which has helped to shape our research. We hope you embrace this adaptability and flexibility, as you read our note.

Albert Einstein	*"The measure of intelligence is the ability to change."*
George Bernard Shaw	*"Those who cannot change their minds cannot change anything."*
Edwards Deming	*"It is not necessary to change. Survival is not mandatory."*
Richard Branson	*"Every success story is a tale of constant adaption, revision and change."*
Martha Stewart	*"The more you adapt, the more interesting you are."*

Banking:

According to Bank Branch Locator, at the end of 2019, there are 5,281 local and national banks in the US. These are commercial banks and savings institutions offering traditional banking services. Banks have a presence in over 10,000 cities, with nearly 83,000 physical bank branches. If we add in the 5,757 credit unions, there are over 10,000 financial institutions offering banking services here in the US.



A March 2020 study by smartasset.com found that large banks are closing branches and consolidating their overall footprint. From 2014 to 2018, JP Morgan Chase, Bank of America and Citibank (3 of the Top 5 banks in the US) closed locations at an average pace of 7%.

In fact, this same study found that 49 of the largest 50 US cities experienced a decline in the number of physical bank branches versus five years ago. . As this chart shows, the decline of physical banks in the US has steadily been declining. Over the last several years, over 6,000 banks branches have closed. Back in 2014, there were 30 federally insured banks for every 100,000 people. At the end of 2019, it fell to 27 for every 100,000 people

COVID-19 has presented us with an interesting opportunity to understand the necessity for banks to have physical branches. With the outbreak of COVID-19, some merchants have chosen to no longer accept cash and physical currency. If people feel that cash is no longer sanitary, this will obviously benefit eCommerce and digital forms of payments. Will this impact the necessity for banks to have such a large brick & mortar presence? We wanted to better understand how Gen-Z viewed bank branches and their large physical footprint.

Before COVID-19 and a shelter-in-place mandate, we wanted to understand why Gen-Z visited a physical bank branch. According to a Banking Journal / ABA study, the cost to open a bank branch averages $700,000. However, we have seen estimates that show bank branches are significantly more expensive than that. Land costs can reach $1 million for a site survey, soil testing and lot purchase. Construction, contractors, materials and labor can be over $2 million. Interior design, furniture, furnishings, paintings, signage can be another

$150,000. Throw in technology costs, computers, phones, and audio systems and the all in cost can easily be in the $3 to $4 million range (depending on location).

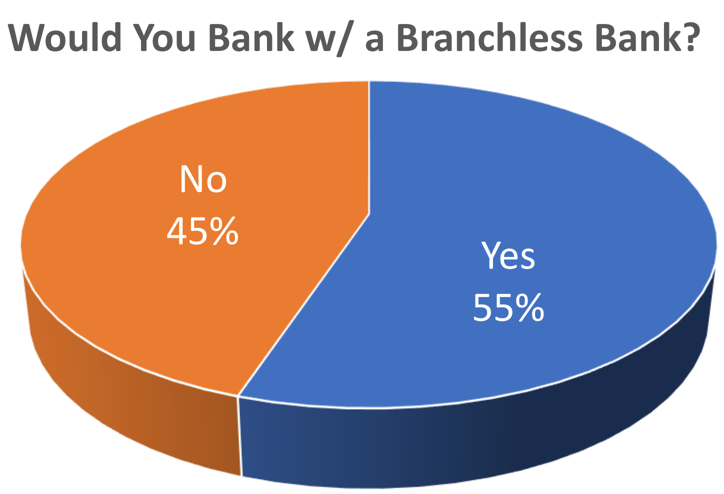
Why are banks so intent on spending significant capital for a physical branch presence? Are customers still using bank branches in the same manner? Is it a good ROI for them to expand their footprint? Would it be better to focus spending on building better technology? Are costly bank branches a worthwhile investment?

Question #1: Bank Accounts:

Over the last several years, we simply wanted to inquire whether or not Gen-Z felt necessary to have a traditional bank account. In-line with last year's results, **100%** of the surveyed group listed that they had a bank account. That wasn't terribly insightful.

We then wanted to understand who Gen-Z was banking with, so we asked whether or not their bank was a major national bank or a smaller credit or community bank. **80%** of respondents said that they are using a major national bank and **20%** were with smaller financial institutions. This 80% / 20% ratio doesn't match the amount of assets in larger banks versus smaller banks, but it is fairly close. According to Bankrate.com, the top 15 largest banks in the US have over $14 trillion in assets.

Lastly, we asked whether or not a physical banking presence mattered to their choice of bank. For us, this question was important, as it would help us understand whether or not Gen-Z appreciated physical banking branches. We asked if Gen-Z would consider opening a banking account if that bank had no physical branches.



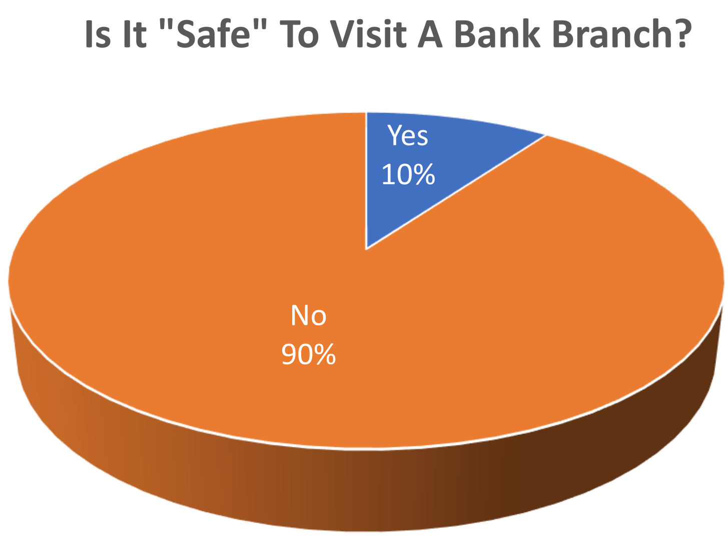
Over half, **55%** of our Gen-Z survey, would open a bank account with a financial institution with no physical branches. For us, this has to be eye-opening for banks and the teams that build-out their physical locations.

Our Conclusions / Opinions:

While Gen-Z has embraced traditional banking accounts, they are clearly using banks in different ways than their parents. National banking brands currently own 80% of our Gen-Z population, but we believe this is trending lower. Banks with a large national footprint are simply not as important as the past.

Question #2: Branches & ATM's

We wanted to understand how COVID-19 is affecting Gen Z and their willingness to visit bank branches. Will Gen-Z visit a physical bank branch right now? Is there a need to make an outing to a branch or can Gen-Z accomplish all of their banking needs online? In addition, we wanted to understand what Gen-Z's perspective was on ATM's. Did Gen-Z want to use ATM's to get cash, during this global pandemic?



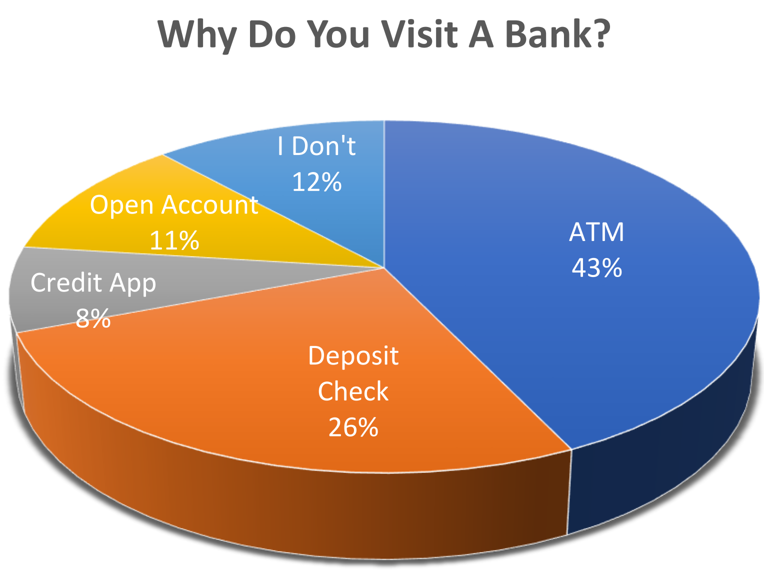
Our survey responded with a resounding "NO"! Our results show that 90% of Gen Z did not feel comfortable or "safe" going to a bank right now. In addition, our Gen-Z survey found that **82%** did not believe that ATM's were a sanitary means of banking.

Our Conclusions / Opinions:

A 2017 study of used bank notes in New York City found 397 distinct bacterial species sitting on our paper bills. The WHO recently stated that "we know that money changes hands frequently and can pick up all sorts of bacteria and viruses." Also, the WHO advises people to wash their hands after handling banknotes and avoid touching their face afterwards. Want additional evidence that paper currency isn't a great payment mechanism? South Korea began isolating and disinfecting used bank notes in March. Literally, South Korea's central bank is "laundering its money" through a high-heat process, before re-circulating its paper bills.

In a COVID-19 environment, clearly the paranoia surrounding germs and bacteria has only risen. We believe that Gen-Z is more willing to utilize card payments and mobile based payments, as opposed to physical cash and currency. Since we have our iPhones in our pockets 24/7, it only makes sense to be lukewarm on using paper currency, right? Feel free to click on the following link, where other members of the Manole Capital 2020 intern term surveyed Gen-Z on the payment sector (https://seekingalpha.com/article/4355066-how-gen-z-views-payments).

Question #3: Why Visit A Bank Branch?



The 43% of our survey only visit a bank branch for an ATM. When one uses an ATM that is not operated and owned by your bank, the fees can be annoying. Banks can charge non-customers $3 to $5 to even $10 per transaction, so accessing our cash can be costly.

We were surprised with the second most popular reason, check deposits. In our opinion, remote check deposit via one's smartphone is remarkably easy. I guess a few of our respondent's still have grandparents sending them checks.

Opening an account was 3rd at 11%, followed by those applying for a credit card at 8%. According to our Gen-Z survey, 12% never even visit a bank branch and place no real value to that retail location.

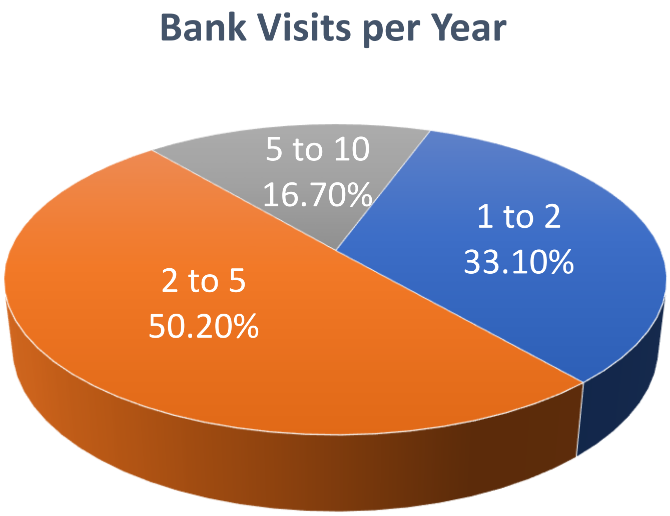
Our Conclusions / Opinions:

Surprisingly, 70% of our respondents go to their bank branch to deposit checks or use the ATM. We believe that Gen-Z is the most likely demographic to replace these visits with an increase of mobile payments and mobile banking applications. ATM usage should decline, with the trend away from cash and towards mobile based payments and contactless payments. As our Gen-Z survey on payments showed, cash was only the preferred payment for 8% of our survey. We believe that Gen-Z does not have the same need for cash because they can easily make mobile peer-to-peer payments with PayPal's Venmo or Square's Cash App. Cash is clearly declining as a payment mechanism, so visits to the ATM should also decline. As mobile payments become more accessible at retail locations, the demand for physical cash should continue to decline.

Check deposits should all migrate to remote capture, as depositing a paper check over one's smartphone is quite easy. If the two most popular reasons to visit a bank branch are getting cash and depositing checks, we believe that bank's will begin to phase out expanding their costly physical presence. From our perspective, the ROI of opening a new bank branch versus investing in mobile banking technology is clear. As millennials and Gen-Z become a larger component of the workforce, banks should downsize their costly branch network.

Question #4: Branch Visits

On an annual basis, we wanted to see how many times Gen-Z is visiting their bank branch.



Surprisingly, our survey's largest grouping (at 16%) said they visited bank branches over 10x last year. However, 75% of respondents only go to their bank branch between zero to five times per year. There seems to be a small percent of heavy users, but the vast majority of Gen-Z does not feel compelled to visit a bank branch very much.

Last year, our survey found that 29% never visit a bank branch and another 39% visit a branch less than 1x per month.

<u>Our Conclusions / Opinions:</u>

While our generation is very social, we do not look to "hang out" at a bank branch. The survey results are apparent to us, but maybe not to certain bank executives. While we don't mind a physical bank to do some traditional banking services, we are perfectly capable of doing our banking online or over our smartphones. Quite simply, Gen-Z would rather not waste time visiting their local branch to complete tasks that they could quickly manage on their mobile device.

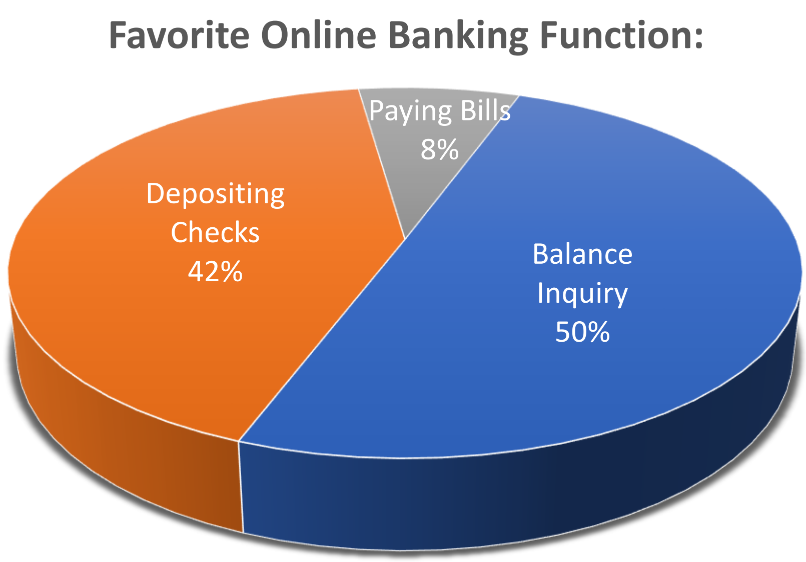
Capital One made a big push into bank branches in 2018, with their Capital One Café concept. It put "ambassadors" and "money coaches" inside their banks, as well as free Peet's coffee, power outlets, internet service and even snacks.

It was attempting to attract Gen-Z to Capital One branches, open accounts and drive traffic. Unfortunately for Capital One, Gen-Z prefers their local gourmet coffee bar or even a mainstream Starbucks or Panera Bread for studying. While COVID-19 can be partially responsible for the disappointing response to Capital One Café's, we believe that Capital One management would agree that the ROI and results from this new banking initiative have been underwhelming.

Question #5: Online Banking

Without question, the adoption of online banking has been the strongest new technology initiative for all financial institutions over the last decade or two. As a baseline, we wanted to evaluate online banking usage for our Gen-Z demographic. We asked respondents if they use their online banking services and we received an almost unanimous “YES” response, at **96%.**

We then wanted to ask about which online banking functions were most useful. We asked what was Gen-Z’s favorite feature or capability of their banking digital platform. The response was not surprising to us, but it was for some.



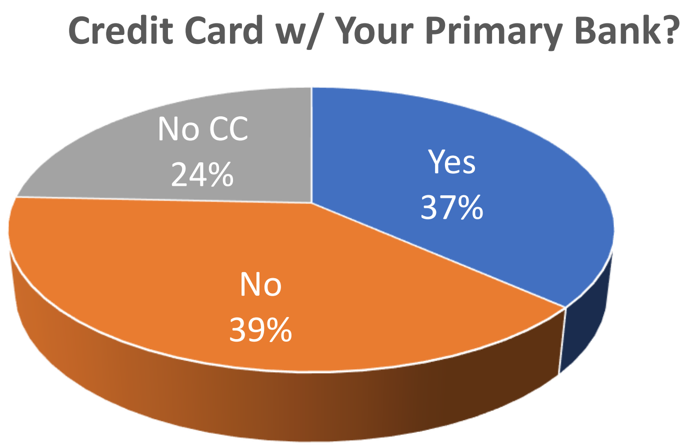
Half of our survey responded that the best feature of their online banking platform was simply checking their balance. Another 42% stated that their favorite feature was depositing checks. Only 8% thought that paying bills was the best function.

<u>Our Conclusions / Opinions:</u>

We were somewhat surprised that Gen-Z did not consider peer-to-peer transacting as their favorite online banking function. Perhaps, most consider that a feature and function for technology companies like PayPal and Square, not their traditional bank. While Zelle exists for peer-to-peer payments through the traditional banking channel, most of Gen-Z aren’t using that app. This was thoroughly identified in our Gen-Z payment survey from last month.

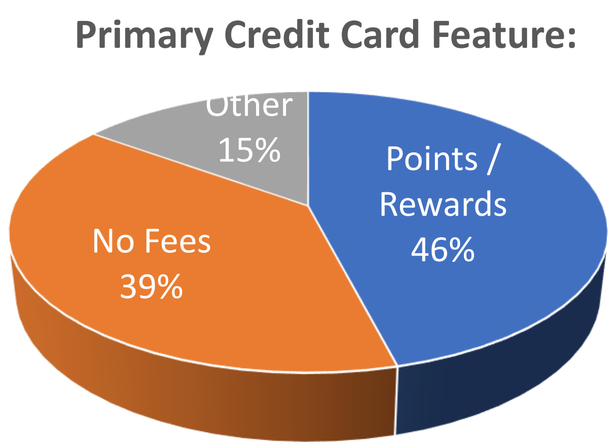
With limited funds in our bank accounts, we are always looking to ensure we aren’t exceeding our spending allowance. This is why we are constantly checking our available balance. For most of us, many of our monthly bills are still paid for by our parents. We are very lucky for that! While we can’t say for sure, we imagine that the vast majority of our parents probably prefer paying bills through online banking, as opposed to writing paper checks, licking stamps and envelopes and mailing in the monthly bills. For Gen-Z, knowing our checking balance is preferred to paying bills online.

Question #6: Debit & Credit Cards



We wanted to better understand if Gen-Z was getting debit cards and credit cards from their primary bank. In terms of debit cards, **99%** of our survey had a debit card with their bank.

However, Gen-Z is not necessarily getting lines of credit from their primary bank. While **37%** responded that they have a credit card with that same banking institution, **39%** looked elsewhere and **24%** said they didn't even have a credit card.



For those with a credit card, we wanted to find out what was the primary reason they chose that card.
We asked the primary reason for opening that line of credit. We asked what they look for most in a credit card.

The leading reason and driver for Gen-Z to open a credit card is to earn points and rewards at **46%.** The second choice, at **39%**, was a card with no fees or minimum balances.

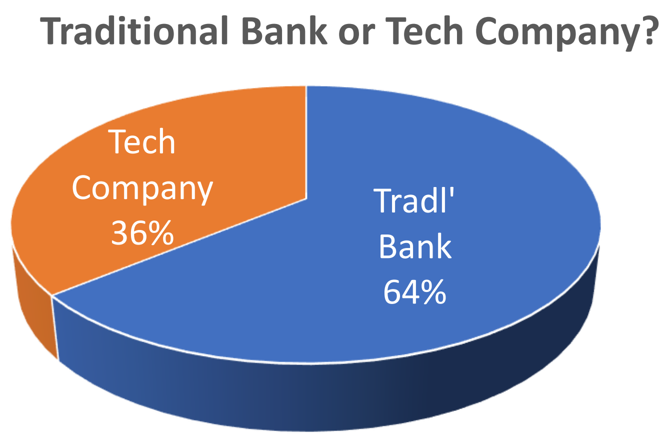
Our Conclusions / Opinions:

It is not surprising that almost 100% of the survey respondents stated that they owned a debit card since young adults from the age of 18 and on should have their own bank accounts. And yet, it is tough to believe that only 36% have a credit card with the same bank institution which they possess their debit card and perform their online banking. It is possible that these individuals might have access to their parents' credit cards and therefore do not feel the need to apply for their own credit cards.

When applying for credit cards it seems that Gen Z should be satisfied since the largest commercial banks do not charge account fees (e.g. Bank of America, Chase, etc) for opening accounts. In addition, the largest banks usually have points/rewards for credit card usage. However, most respondents do not have a credit card associated with their main bank account with which they perform their online banking activities.

Question #7: Technology

Our favorite banking question each year is whether or not Gen-Z trusts their technology companies to provide banking services. Each year, we want to see if Gen-Z would be willing to let the big, large-cap tech companies handling their banking needs, as opposed to their traditional financial institutions.



Once again, the results were surprising. Nearly **2/3rd's of our survey, 64%**, would rather get banking services from a bank, as opposed to Facebook, Google, Microsoft, Amazon and Apple. **36%** would be willing to use a tech company for these services.

This is consistent with our 2019 results which showed that 34% would be willing to get banking services from a tech company. With the same 1/3rd of our population willing to do banking with tech companies, we don't believe there's any material change in this question / answer.

While most do <u>not</u> understand that there are rules and regulations prohibiting these tech firms from launching a bank, that wasn't our angle or tact. We started by asking our survey to rank the banking channel for trust, from 0 to 10. A score of 0 means a bank has serious trust issues, while a score of 10 is very trustworthy. The answer was resounding and enlightening, with just shy of **90%** of our survey scoring their bank from 7 to 10. Gen-Z believes the banking channel is generally trustworthy, but do they think "big tech" is also?

We then asked our Gen-Z respondents which tech company they would be willing to do banking services with. When we asked with tech firms actually were trustworthy enough to handle banking services, the answer was mixed. The largest response was quite clear, that **44%** of our Gen-Z simply would <u>not</u> use a tech company for banking services. So right away, our Gen-Z demographic would not use tech companies for banking services. Of specific tech company responses, Apple received the highest ranking at **33%**, followed by Google at **16%** and Amazon at **6%.** Only **0.4%** chose Facebook. Clearly, Facebook is still dealing with trust issues following their Cambridge Analytica scandal in early 2018.

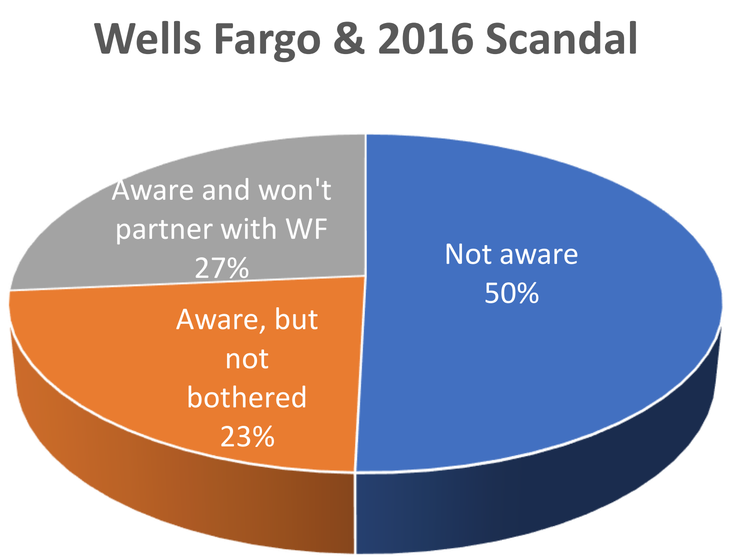
<u>Our Conclusions / Opinions:</u>

As in prior years, the answer is fairly clear. Gen-Z looks to banks to provide banking services and looks for tech companies to stay out of their finances. Each year, Manole Capital is surprised by this response. Manole Capital just expects that Gen-Z would feel comfortable utilizing more services from the tech companies, even financial and banking products. Each year, the response is the same. Gen-Z is not looking for their favorite search company, social media brand or smartphone manufacturer for banking services. The answer is that Gen-Z prefers "best of breed" and looks for banking services from a bank, not a social network.

Question #8: Wells Fargo

Wells Fargo holds the oldest continuously operating bank charter in the US (through its 2008 acquisition of Wachovia and First Nation Bank of Philadelphia) and it is headquartered in San Francisco, California. In terms of bank branches, Wells Fargo is the US market share leader, with roughly 5,500 branches. In terms of assets, Wells Fargo ranks 4th with nearly $2 trillion in assets.

We wanted to see if Gen-Z was aware of the Wells Fargo banking scandal that occurred in 2016. Several years ago, Wells Fargo gained notoriety for its aggressive corporate culture of cross-selling and pressuring employees to open new and even unwanted accounts for customers. We began by asking if our Gen-Z survey group knew of this Wells Fargo scandal.



Luckily for Wells Fargo, **50%** of our survey did not even know of this scandal. **23%** were aware of the issue and it does not matter to them. However, **27%** said they are aware of the scandal and will not look to build a relationship with Wells Fargo in the future.

Compared to last year, the general awareness of the Wells Fargo scandal has fallen significantly. In 2019, **72%** of respondents were aware. What is interesting is that despite the awareness of the scandal falling, the wiliness to build a relationship with this important bank has stayed consistent at roughly 25% (26% last year and 27% this year).

Our Conclusions / Opinions:

Wells Fargo recently reported weak 2nd quarter results, which were even worse than lowered sell-side expectations. Making matters worse, Wells Fargo also announced that it had to cut its dividend by 80%. As most bank analysts and investors know, cutting the dividend is a "no no". While lowering the dividend was always a possibility, it became more of a reality when the Fed said Wells Fargo needed to boost capital. The Fed has placed strict regulatory rules on Wells Fargo at a difficult juncture for the company.

Not only does Wells Fargo have to build reserves, increase loan-loss provisions and deal with the economic fallout of COVID-19, but it also has "one hand tied behind its back" (by the Fed). On its recent earnings call, CEO Charlie Scharf said that "our view of the length and severity of the economic downturn has deteriorated considerably". During the 2nd quarter, Wells Fargo increased its loan loss provision by $9.5 billion, even higher than those from JP Morgan Chase or Citi. Maybe Wells Fargo is being conservative or maybe its loan book is struggling or maybe it is facing a new, harsher reality. Either way, the outlook isn't promising. Unlike some of its other banking peers, Wells Fargo does not have a strong trading platform; with elevated volatility, the trading business has been a benefit for other banks like JP Morgan Chase, Morgan Stanley and Goldman Sachs.

There is no denying that Wells Fargo is a "cheap" stock, based upon its historically low P/E and Price to Book Value. Its investment opportunity is very different from the prospects as the bank for our Gen-Z generation. As our data shows, trust is still one of the most important issues for Gen-Z choice for their bank partner. When it comes to Wells Fargo, many of our generation are not aware of the scandal and issues from 2016. However, roughly ¼ of the entire survey is aware of Well Fargo's problems and will not be opening an account anytime soon. It is our opinion that Wells Fargo still has a brand problem. We want our banks to develop mobile banking technology and online banking services; we consider trust and data security an assumed quality or trait. While Wells Fargo has tried to soften its image and spend millions on re-branding, it still has work to do in the eyes of the Gen-Z community.

Conclusion:

The evidence is clear. Bank branches are not nearly as valuable to Gen-Z, as compared to our parents. The number of bank branches is steadily declining as banks realize the ROI simply isn't there to grow their physical presence. While Gen-Z still prefers the bigger national bank brands, 55% of our survey would actually open an account at a bank without any branches. This potentially bodes well for newer FINTECH companies looking to establish a banking relationship (with younger generations), without a costly physical footprint. An increasing percentage of the Gen-Z demographic believe that they can perform important banking tasks online or over their smartphone, as opposed to inconveniently visiting a physical branch.

75% of our Gen-Z survey visit a bank branch less than 5x each year, with the primary driver being free ATM usage. During COVID-19 and this global pandemic, Gen-Z is hesitant to touch paper currency and coins. 82% do not believe ATM's are sanitary right now. Clearly, cash is not the preferred method of payment for the Gen-Z generation.

While debit cards are a valuable bank product, many in our Gen-Z survey get their credit cards outside or away from their primary banking relationship. Trust remains a primary driver of our banking relationship and Gen-Z is not looking for their large tech companies to enter the banking business. In addition, Wells Fargo needs to continue to work on its trust issues, following their scandal back in 2016.

We feel that the research we compiled is valuable for banks to incorporate into their thinking. As banks try to position themselves for the future of banking, they must understand younger generations. What do we want from our banking institutions? What type of relationship and interactions do we want? With our findings, we believe investors can better appreciate what Gen-Z is looking for in their banking relationships. Our survey results can hopefully provide investors, as well as banks, the insights into how to best position themselves for the future.

Manole Capital spends the vast majority of its time analyzing FINTECH companies, not traditional banks. There is a strong relationship between certain banks and what they are doing in terms of new software, products and technology. It is impossible for the banking channel to ignore technology, as banking has clearly become “electronified” (is that even a word?).

One of the few banks that seems to understand this dynamic is MVB Financial (ticker MVBF). Their CEO is Larry Mazza and we believe his commentary of the future of banking is perfectly aligned with ours. Mazza said that banks are rapidly **"*becoming the yellow top taxis in an Uber world*".** He dived deeper and also said that the banking industry must **"*modernize or risk losing its relevance in the market*.**" Quite frankly, we couldn't agree more with him. Unfortunately, most banks are not as forward thinking as MVBF. To attract Gen-Z, banks need to be able to adapt and quickly adjust. However, most are too conservative and slow to respond.

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