

Hilltop Holdings Inc.
Form 425
October 29, 2014

Merger with Hilltop Holdings Inc.
October 2014

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Filed by SWS Group, Inc.

Pursuant to Rule 425 of the Securities Act of 1933
and deemed filed pursuant to Rule 14a-6(b)
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 presentation is being made available to investors in connection with the proposed merger with Hilltop Holdings

Forward-Looking Statements

2

From
time
to
time
we
make
statements
(including
some
contained

in
this
presentation)
that
predict
or
forecast
future
events,
depend
on
future
events
for
their
accuracy,
or
otherwise
contain
"forward-looking"
information
and
constitute
forward-looking
statements
within
the
meaning
of
applicable
U.S.
securities
laws.
Such
statements
are
generally
identifiable
by
terminology
such
as
plans,
expects,
estimates,
budgets,
intends,
anticipates,
believes,
projects,

indicates,
targets,
objective,
could,
should,
potential,
may
or
other
similar
words.
By
their
very
nature,
forward-looking
statements
require
us
to
make
assumptions
that
may
not
materialize
or
that
may
not
be
accurate.
Readers
should
not
place
undue
reliance
on
forward-looking
statements
and
should
recognize
that
such
statements
are
predictions
of

future
results,
which
may
not
occur
as
anticipated.

Actual
results
may
differ
materially
as
a
result
of
various
factors,
some
of
which
are
outside
of
our
control,
including:

failure
to
obtain
the
approval
of
stockholders
of
SWS
Group,
Inc.
(SWS
or
the
Company
in
connection
with
the
proposed
transaction

with
Hilltop
Holdings
Inc.
(Hilltop);

the
failure
to
consummate
or
delay
in
consummating
the
proposed
transaction
for
other
reasons;

the
timing
to
consummate
the
proposed
transaction;

the
risk
that
a
condition
to
closing
of
the
proposed
transaction
may
not
be
satisfied;

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;

Hilltop's
ability
to
achieve
the
synergies
and
value
creation
contemplated
by
the
proposed
transaction;

Hilltop's
ability
to
promptly
and
effectively
integrate
its
and
SWS's
businesses;

the
diversion
of
management
time
on
transaction-related
issues;

the
interest
rate
environment;

the
volume
of
trading
in
securities;

the
liquidity
in
capital
markets;

the
volatility
and
general
level
of
securities
prices
and
interest
rates;

the
ability
to
meet
regulatory
capital
requirements
administered
by
federal agencies;

the
level
of
customer
margin
loan
activity
and
the
size
of
customer
account balances;

the
demand
for
real
estate
in
Texas,
New
Mexico
and
the
national
market;

the
credit-worthiness
of
our
correspondents,
trading
counterparties
and
of
our
banking
and
margin
customers;

the
demand
for
investment
banking
services;

general
economic
conditions,
especially
in
Texas
and
New
Mexico,
and
investor
sentiment
and
confidence;

the
value
of
collateral
securing
the
loans
we
hold;

competitive
conditions
in
each
of
our
business
segments;

changes
in
accounting,
tax
and
regulatory
compliance
requirements;

changes
in
federal,
state
and
local

tax
rates;

the
ability
to
attract
and
retain
key
personnel;

the
availability
of
borrowings
under
credit
lines,
credit
agreements
and
credit facilities;

the
potential
misconduct
or
errors
by
our
employees
or
by
entities
with
whom
we
conduct
business;

the
ability
of
borrowers
to
meet
their
contractual
obligations

and
the
adequacy
of
our
allowance
for
loan
losses;
and

the
potential
for
litigation
and
other
regulatory
liability.

3
Forward-Looking Statements (Continued)
Our
future
operating
results
also
depend
on
our
operating
expenses,

which
are
subject
to
fluctuation
due
to:

variations
in
the
level
of
compensation
expense
incurred
as
a
result
of
changes
in
the
number
of
total
employees,
competitive
factors
or
other
market
variables;

variations
in
expenses
and
capital
costs,
including
depreciation,
amortization
and
other non-
cash
charges
incurred
to
maintain

our
infrastructure;
and

unanticipated
costs
which
may
be
incurred
from
time
to
time
in
connection
with
litigation,
regulation
and
compliance,
loan
analyses
and
modifications
or
other
contingencies.

Other
factors,
risks
and
uncertainties
that
could
cause
actual
results
to
differ
materially
from
our
expectations
discussed
in
this
presentation
and
those

discussed
in
our
reports
filed
with
and
available
from
the
Securities
and
Exchange
Commission
(the
"SEC").
Our
forward-looking
statements
are
based
on
current
beliefs,
assumptions
and
expectations.
All
forward-looking
statements
speak
only
as
of
the
date
on
which
they
are
made
and,
except
as
required
by
law,
we
expressly
disclaim

any
obligation
or
undertaking
to
disseminate
any
updates
or
revisions
to
any
forward-looking
statements
contained
herein
to
reflect
any
change
in
our
expectations
with
regard
thereto
or
any
change
in
events,
conditions
or
circumstances
upon
which
any
statement
is
based.

Agenda
Executive Summary
Transaction Overview
SWS Independent Special Committee
Transaction Background
Transaction Rationale
Hilltop
2011 Credit Agreement
Shareholder Approval
Appendix
4

Executive Summary

5

On

March

31,

2014,

SWS

entered

into

an

agreement

to

merge
into
a
subsidiary
of
Hilltop
SWS
Board
(other
than
Messrs.
Ford
1
and
Crandall
2
,
who
recused
themselves
from
voting)
unanimously
approved
the
merger
agreement
and
recommend
SWS
stockholders
vote
FOR
the
merger
on
or
before
the
Special Meeting of Stockholders to be held on November 21, 2014
SWS
holders
of
record
on
October
3,
2014
are
entitled

to
vote

importantly,
failing
to
vote
has
the
same
effect
as a vote against the transaction

Hilltop's price represents a significant premium to SWS's unaffected stock price³ and a substantial multiple in light of SWS's historical losses and low prospective earnings

Hilltop's
merger
delivers
immediate
cash
value
and
allows
SWS
stockholders
to
participate
in
significant
upside
potential of a larger, more profitable, more diversified organization with ample capital to grow

Hilltop is the ideal buyer for SWS:
Hilltop owns complementary broker / dealer and banking businesses based in Dallas, TX
Low risk execution from regulatory and financing perspective

Alleviated
SWS
repayment
risk
on
\$100
million
unsecured
debt
and
burdensome
conditions
in
related
Credit
Agreement

1

Refers to Gerald J. Ford, Chairman of the Board of Hilltop Holdings Inc.

2

Refers to J. Taylor Crandall, a founding Managing Partner of Oak Hill Capital Management, LLC

3

Unaffected SWS share price was \$6.06 on January 9, 2014; the day before the Hilltop initial proposal was made public

6

Executive Summary (Continued)

Due to the anticipated scrutiny of merging with Hilltop, SWS formed an independent Special Committee, solicited numerous potential acquirers and discussed potential transactions with other parties

Agreement with Hilltop was reached after SWS successfully negotiated enhanced economics, though no other party submitted a binding proposal

Hilltop has since exercised all of its warrants, is the largest stockholder of SWS and is no longer a lender to SWS sacrificing certain rights and protections in the 2011 Credit Agreement

Oak

Hill

consented

to

the
merger
with
Hilltop
and
has
since
exercised
75%
of
its
warrants

becoming
the
second
largest common stockholder. Oak Hill is not subject to a voting agreement

Transaction Overview

Per share deal value at announcement was \$7.88

Hilltop originally offered \$7.00 per share on 1/9/14

Value will fluctuate with Hilltop market price

SWS per share merger consideration of 0.2496 Hilltop shares
plus \$1.94 in cash

Approximate mix 75% stock / 25% cash

Aggregate

value

of

SWS

at

announcement

of

\$398

million

1

Hilltop existing investment in SWS of \$80 million

Merger consideration to other SWS holders of \$318

million

Transaction multiples at announcement:

Price/Fully Diluted Tangible Book Value Per Share:

97%

2

Price/Estimated FY 2015 EPS (Street): 88x

Unaffected

market

premium:

30%

3

Premium to 52 week low: 52%

7

1

Aggregate value includes Hilltop and Oak Hill warrants

2

Fully diluted tangible book value per share equaled \$8.15 at announcement

3

Based on SWS share price on January 9, 2014 of \$6.06 per share

Financial Terms

Legal Requirements

Stockholder approval requires affirmative vote of >50% of
outstanding SWS shares as of record date

Hilltop has exercised all of its warrants and has agreed to
vote its 10.2 million outstanding shares FOR the merger
(21% outstanding)

There is no voting agreement for Oak Hill's 6.5 million
outstanding shares (14% outstanding)

Conditions to close merger include regulatory approvals;

Hilltop does not have financing or other outs

SWS Board can change its recommendation of the merger,
but not terminate the merger agreement, if SWS receives an
unsolicited superior proposal or in certain other limited
circumstances

Transaction is expected to close by year end 2014 with
merger agreement termination date of 3/31/15

SWS Independent Special Committee

On January 15, 2014, SWS formed a Special Committee to review Hilltop's unsolicited original offer, consider other strategic alternatives and lead the negotiations for any potential transaction

Members of the Special Committee:

SWS directors unaffiliated with Hilltop or Oak Hill

Disinterested and non-executives

Have relevant experience and industry knowledge

Able and willing to devote significant time and thoughtfulness

Special Committee engaged independent advisors after

discussions with several candidates

Legal advisor -

Davis Polk & Wardwell (Davis Polk)

was retained on 1/29/14

Investment bank -

Sandler O Neill (Sandler) was

retained on 2/3/14

From formation through the announcement of the Hilltop transaction, the Special Committee met a total of 21 times

8

Formation

Tyree Miller -

Chair

SWS director since November 2011

Has been in the private equity and money management business since 2004

Currently President of A.G. Hill Partners, LLC

From 2005 to 2008 served as a partner of Austin Ventures

From 1974 to 2004 built career at Bank One Corporation (merged with JP Morgan in 2004), advancing to roles which included Chairman and CEO of Bank One Texas from 1998 to 2000 and President and CEO of Global Treasury Services from 2000 to 2004

Robert Buchholz

SWS director since May 2008

Served as an officer of SWS from 1985 to 1995, advancing to President and a director

Chairman and founder of Town Center Holdings, former parent company to Town Center Bank

Prior experiences as an attorney and certified public accountant

Joel Williams III

SWS director since November 2009

President of Bristol Investment Company, Inc., a private investment firm, since 1985

Formerly served as President and CEO of Texas Federal Financial Corporation prior to its sale in 1984

Special Committee Bios

Transaction Background

Process Overview¹

9

1

The
information

in
this
section

and
in
the

Transaction
Background
set
forth
in
this
presentation
is
selected
from
the
definitive
SWS/Hilltop
Proxy
Statement/Prospectus
filed
with
the
Securities
and
Exchange
Commission
and
is
not
a
complete
summary
of
the
transaction
background.
For
the
complete
summary,
please
refer
to
the
Background
of
the
Merger
section
of
the
SWS/Hilltop
Proxy
Statement/Prospectus.

Notes

Hilltop offer in public domain for **81** days before signing merger agreement

17

companies contacted (including all that contacted SWS)

Other than Hilltop, only **2** companies continued to pursue a transaction after early stage conversations

Other than Hilltop, only **1** suitor was financially capable of closing

transaction but that party did not make a binding proposal

1/9/14:

Hilltop delivered to SWS Board an unsolicited letter of intent to acquire all shares it did not own for \$7.00 per share in a 50% stock / 50% cash transaction

2/13/14:

Special Committee instructed Sandler to contact third parties that:

2/14

3/14:

17

parties

were

contacted

2/14

3/14:

Special Committee, Sandler and/or Davis Polk held discussions with or negotiated potential transactions with:

3/31/14:

SWS entered into merger agreement with Hilltop following extensive negotiations

1/10/14:

Hilltop made its offer public

Hilltop

Esposito Global and Party B

Party A

Hilltop raised its offer price to \$7.75 and stock consideration to 75%

Neither of the other interested parties submitted a binding proposal with a firm price to acquire SWS

Were

financially

capable,

Were

likely

to
receive
regulatory
approval,
and
Would
not
require
material
conditions
to
complete
a
transaction
to
acquire
SWS

Transaction Background

Esposito Global & Party B

2/18/14:

Esposito Global publicly disclosed a proposal to acquire SWS for \$8.00 per share, expressly contingent on third-party financing being arranged

2/20/14:

Special Committee instructed Sandler and Davis Polk to speak with Esposito Global and its legal advisor to understand their plans for arranging outside financing and their ability to obtain regulatory approval

2/24/14:

Esposito Global and its legal advisors indicated that Esposito Global was not in a position to obtain regulatory approval and would require additional resources to meet financing requirements

2/27/14:

Esposito Global informed the Special Committee that it would be working with Party B, a bank holding company

Over the ensuing several weeks, multiple conversations were held with Esposito Global, Party B, and their financial and legal advisors

Party B informed the Special Committee that significant external financing would be required to complete a transaction; multiple private equity firms would need to be involved

3/17/14:

Party B's financial advisor indicated that sixty days would be required to finalize price and secure necessary financing

3/20/14:

Special Committee informed Party B that it was uncomfortable with the uncertainty surrounding their extended timeline to secure financing, complete due diligence and affirm their price

10

Transaction Background
Party A
11
1
The
Merger
Covenant
in
the
Credit
Agreements
prohibits

SWS
from
undergoing
a
Fundamental
Change,
which
includes
any
merger
or
substantial
asset
sale,
without
the
approval
of
each
lender
2/18/14:

Initial conversation with Party A regarding a potential acquisition of SWS

During late February and early March, SWS's financial advisor had several calls with Party A

3/18/14:

CEO of Party A stated they were valuing SWS at approximately \$8.00 per share, though the price could be higher

3/25/14:

SWS and Party A executed a non-disclosure agreement

3/27/14:

Party

A

was

informed

that

SWS

was

under

a

deadline

to

execute

a

merger

agreement

by

March

31,

2014

3/29/14

3/31/14:

Party A conducted in-person due diligence at SWS headquarters in Dallas

3/31/14:

SWS received a letter from Party A stating they:

Party A indicated an interest in acquiring SWS at a price approximating tangible book value of SWS liquid assets ; believed approximate the fully diluted tangible book value of \$8.15 per share as of December 31, 2013

Also discussed were issues regarding the Merger Covenant, due diligence and terms of a non-disclosure agreement

Party A provided a non-binding indication of interest to acquire SWS for \$8.65 per share, subject to due diligence and describing the process that it would require to meet the March 31, 2014 deadline

Were

not

able

to

execute

a

definitive

agreement

by

the

March

31,

2014

deadline,

Had

serious

concerns

agreeing

to

a

transaction

if

Hilltop

would

not

waive

the

Merger

Covenant,

and

Needed

more

time

for

their

due

diligence

Party

A

also

discussed

the

Merger

Covenant

1

with

Hilltop's

financial

advisor

-

who

informed

Party

A

that

Hilltop

would

not

waive it

Transaction Background

Hilltop

3/3/14:

Special Committee rejected Hilltop's original offer

3/5/14:

Hilltop

indicated

that

it

did

not

believe

book
value
(\$8.15
per
share)
was
the
correct
method
to
value
SWS,
based
on,
among
other
things,

its lack of historical and prospective earnings

3/19/14:

Hilltop submitted a revised proposal at \$7.50 per share, 75% stock / 25% cash

Hilltop indicated that it was approaching its limit on price and
would not leave the offer outstanding for a prolonged period time

3/20/14:

Hilltop
agreed
to
increase

offer
price

to
\$7.75

per
share,

75%
stock

/
25%

cash

Hilltop reiterated its intention not to waive the Merger Covenant with respect to any deal with another party

3/24/14:

Hilltop said that if the merger agreement was not signed by March 31, 2014, Hilltop would withdraw its offer; this position was
subsequently repeated on several occasions

3/31/14:

Special Committee members met with Hilltop to negotiate remaining issues of merger agreement

Hilltop refused again to eliminate the force the vote

provision and refused to accept a possible two-tier termination fee that would provide
for a lower payment if a deal was done with Party A

Hilltop did agree to reduce the termination fee to \$8 million from original \$12 million

3/31/14:

Later in the day, SWS Board (other than Messrs. Ford and Crandall, who were recused from voting) unanimously approved the

agreement and recommended its adoption by SWS stockholders based on, among other things:

Enhanced value and improved terms (including higher price and lower termination fee) achieved through negotiations with Hilltop

Risk of Hilltop withdrawing its offer without a binding proposal

from either of the interested parties

Concern over the repayment risk of the \$100 million of loans under the 2011 Credit Agreement and Hilltop's unwillingness to

Merger Covenant

12

13

Transaction Rationale

SWS Six-Year Financial Performance

(\$ in Millions, Except per Share Data)

Source: SWS SEC Filings. SWS fiscal years ending June 30.

1

Fully Diluted Tangible Book Value per Share is Non-GAAP and includes Hilltop and Oak Hill warrant shares. See calculation

Bank credit losses,

prolonged low short-

term interest rates

and declining broker /

dealer revenues have
primarily resulted in
net losses over past 5
years

Hilltop's deal value is
attractive given
limited earnings
visibility of SWS as
standalone company

14
Transaction Rationale
SWS Stock Price Performance
Prior to 2011
July
2010:
Bank
entered
into
MOU
with
OTS

Dec.
2010:
Terminates
planned
debt
offering
Feb. 2011: Bank enters
into C&D with OTS
March 2011: Agrees to
\$100M capital raise with
Hilltop and Oak Hill
(closed July 2011)
Historical price has
lingered around
warrant exercise price
as company
performance has
declined and exercise
price provided floor
For the three years