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Kerrisdale Capital Management Encourages Webster Financial to Spin Off HSA Bank

NEW YORK, March 2, 2015 – Kerrisdale Capital Management, the beneficial owner of approximately 2% of Webster Financial Corporation, today announced that it has delivered a letter to James C. Smith, Chairman and Chief Executive Officer of Webster Financial Corporation, and the Board of Directors of Webster.

The full text of the letter follows:

March 2, 2015

James C. Smith
Chairman and Chief Executive Officer
Webster Financial
145 Bank Street
Waterbury, CT 06702

cc: Board of Directors

Dear Jim,

As you know, Kerrisdale Capital Management is a proud Webster Financial shareholder. We greatly respect what you and your team have achieved over the years, building both a strong, high-performing regional bank and a trailblazing health savings account (HSA) provider that is now the clear leader in its industry. We appreciate the constructive dialogue we have had with you and your management team and applaud your openness to new ways of unlocking further shareholder value.

Despite Webster's enviable track record, the market has failed to recognize just how valuable the company is. In particular, it has yet to appreciate the multi-billion-dollar value of the HSA Bank unit, especially now that it has acquired JPMorgan Chase's HSA business and partnered with Cigna. While we acknowledge the funding advantage that HSA Bank has historically offered to Webster's commercial banking operations, we believe that Webster is now trading at an over $1 billion discount to its fair value, and we fear that its current corporate structure – combining the core regional bank and HSA Bank in one legal entity – needlessly impedes the closing of this discount. Therefore, we encourage you and the Board to explore strategic options that will both highlight and maximize the value of HSA Bank.

Given HSA Bank's already distinct customer base, business model, headquarters, and technology platform, we believe a spin-off is the most natural approach. Webster has diligently nurtured HSA Bank for years; now it is strong enough to stand on its own. The successful public offering of one of HSA Bank's competitors has demonstrated the market's well founded enthusiasm for the HSA sector; should HSA Bank require growth capital in the future, whether to support its ongoing organic expansion or to complete opportunistic acquisitions, it will enjoy a far more attractive cost of capital if it can draw on an investor base that understands the scope of its opportunities and is willing to pay a premium for long-term growth. Traditional bank investors are a poor fit.

To be sure, spinning off HSA Bank will require thoughtful coordination and planning, including regulatory approvals. In the very near term, management focus should rightly center on completing the JPMorgan integration and making the most of the combined organization's new scale. But management and the Board should carefully consider moving toward a longer-term separation. There are several issues to investigate, beginning with whether HSA Bank should serve as a standalone depository or as a custodian of deposits that remain with Webster. Management and the Board should then explore whether to pursue a full spin-off at the outset or begin with an initial public offering of a minority stake. While we know that management and the Board have analyzed such strategic options in the past, changed circumstances – HSA Bank has achieved critical mass, the capital markets have embraced similar firms, and Webster's core bank has continued to strengthen – call for a formal reassessment.

We are all aligned: no one wants to see Webster's billion-dollar undervaluation persist. Kerrisdale looks forward to further dialogue and again commends the Webster and HSA Bank teams for all of their success to date.

Sincerely,

Sahm Adrangi
Chief Investment Officer

Jordon Giancoli
Director of Research

Kerrisdale Capital Management