



COMPANY UPDATE/ ESTIMATES CHANGE/ PRICE TARGET CHANGE/ RATING CHANGE

Key Metrics

CHFC - NASDAQ (as of 04/27/17)	\$47.97
Price Target	\$55.00
52-Week Range	\$34.82-\$55.55
Shares Outstanding (mm)	71.1
Market Cap. (\$mm)	\$3,412
3-Mo. Average Daily Volume (000)	366.0
Institutional Ownership	77.6%
Tangible Equity/ Tangible Assets	9.5%
ROE	7.0%
Tangible Book Value Per Share	\$20.07
Price/Tangible Book Value	239.0%
Dividend Yield	2.3%
Price/LTM Earnings	21.5x

Operating EPS CY 12/31

	Prior 2016A	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.67	\$0.70	\$0.70A	\$0.83
2Q	\$0.72	\$0.77	\$0.75	\$0.91
3Q	\$0.72	\$0.78	\$0.79	\$0.95
4Q	\$0.76	\$0.83	\$0.82	\$1.01
Year	\$2.87	\$3.07	\$3.07	\$3.74
P/E	16.7x	15.6x		12.8x

Common Dividends

	2016A	Curr. 2017E	Prior %chg.	Curr. 2018E
1Q	\$0.26	\$0.27A	3.8	\$0.28
2Q	\$0.26	\$0.27	3.8	\$0.28
3Q	\$0.27	\$0.28	3.7	\$0.31
4Q	\$0.27	\$0.28	3.7	\$0.31
Year	\$1.06	\$1.10	3.8	\$1.18

Company Description – Chemical Financial Corporation (CHFC) is a commercial banking organization headquartered in Midland, Michigan. The company's footprint consists of Michigan, northern Ohio and northern Indiana. In addition to traditional commercial and retail banking services, Chemical Financial offers mortgage banking, trust and wealth management services.

Banks

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Chemical Financial Corporation

CHFC -- NASDAQ – Long-term Buy -- 2

Management Guides to Substantial Growth in Securities Portfolio; Raising to Long-term Buy

- Earnings Results:** Excluding merger-related expenses of \$0.04 per shares, CHFC reported operating EPS of \$0.70, which were in line with our estimate and the Street consensus.
- Positive Highlights:** End-of-period loans increased 2.2% to \$13.3 billion versus our projection of \$13.1 billion. The provision for loan losses fell \$2.2 million sequentially to \$4.1 million, which was below our estimate of \$5.0 million.
- Negative Highlights:** Net interest income declined 1.8% linked-quarter (LQ) to \$130.1 million as seven bps of net interest margin (NIM) compression to 3.49% and two fewer days in the quarter more than offset a 1.6% rise in average earning assets. We had projected net interest income of \$131.6 million and a NIM of 3.51%. Operating noninterest income declined 19.0% LQ to \$37.9 million, which was meaningfully below our estimate of \$39.5 million. The variance relative to our estimate was primarily driven by larger than anticipated declines in other customer service fees (10.9%) and “other” noninterest income (24.0%). Operating noninterest expense rose 3.9% to \$100.0 million versus our estimate of \$95.5 million. The LQ increase was primarily driven by higher salaries & benefits (4.5%) and “other” noninterest expense (7.0%).
- Estimates:** We are maintaining our 2017 operating EPS estimate at \$3.07 and are raising our 2018 estimate by \$0.04 to \$3.74. We are raising our 12-month price target by \$1.00 to \$55.00. With our price target suggesting a highly attractive return of 17%, including dividends, we are raising rating to Long-term Buy from Neutral.

Note Important Disclosures on pages 4 and 5
Note Analyst Certification on page 4

OTHER TAKEAWAYS & VALUATION

- Management indicated that it plans to increase the securities portfolio over the next few quarters to approximately 20% of assets from its current level of 11% to be more in line with peers. With an expected spread of approximately 110 bps on these purchases, the move will squeeze the NIM, but will enhance net interest income and EPS.
- CHFC announced the closing and/or consolidation of 16 branches within their Michigan footprint as part of the company's initiatives to reduce costs.
- Following a seasonally strong Q1, management expects low double-digit loan growth in 2017, up from its previous guidance of high single-digit growth.
- The company is targeting an efficiency ratio in the low-50% range by 4Q17 as a result of strong growth in loans and investments, coupled with its expense initiatives.
- The 1Q17 effective tax rate was 20.5% versus 28.7% in 4Q16. The decrease was largely due to an accounting charge regarding stock-based compensation that boosted EPS by approximately \$0.05.
- Purchase accounting accretion contributed 12 bps to the NIM in 1Q17, down from 14 bps in 4Q16. Lower prepayment penalties also contributed to the sequential margin compression.
- Following a seasonally strong Q1, management expects low double-digit loan growth in 2017, up from its previous guidance of high single-digit growth.
- Excluding performing restructured loans, Nonperforming Assets/Assets ticked up one bp to 0.36%, while the net charge-off ratio increased five bps to 0.11%.
- We derive our price target through our discounted dividend model and the application of the stock's historical forward multiple of approximately 14.5X to our 2Q18-1Q19 EPS estimates.
- We are assigning a Long-term Buy rating on shares of CHFC given the risk that delays in tax reform, regulatory reform and other Federal policy changes could extend the realization of our price target beyond one year.

SUITABILITY

Our suitability rating on CHFC is 2 on our scale of 1 to 4 (1 = most conservative, 4 = most aggressive). Factors contributing to our suitability rating include the company's market capitalization, liquidity and trading volume, diversity of revenues and the geographic diversification of its footprint.

RISK FACTORS

- **Economy** – If the economy softens, loan demand could wane and credit quality could deteriorate.
- **Geography** – The company's operations are primarily clustered in the Midwest. Accordingly, its earnings are more vulnerable to any regional shock and/or slowdown.
- **Competition** – The industry is highly competitive and many of the company's competitors have greater resources.
- **Sector Rotation** – The share price of the company's common stock may be vulnerable to any sector rotation that might occur.
- **Regulatory Environment** – Banks operate in a highly regulated environment. Consequently, the company is vulnerable to regulatory uncertainties that could negatively impact shareholders.
- **Other** – Please see the company's financial statements for a further discussion of risks and considerations.

	CHEMICAL FINANCIAL CORPORATION										CHFC: LONG-TERM BUY				
	1Q016 A	2Q016 A	3Q016 A	4Q016 A	1Q17 A	2Q17 E	3Q17 E	4Q17 E	FY 2015 A	FY 2016 A	FY 2017 E	FY 2018 E	FY 2017 E	FY 2018 E	
\$Millions, Except for Per Share Data															
Balance Sheet Data:															
Assets	9,303.6	9,514.2	17,383.6	17,355.2	17,637.0	18,651.1	19,714.2	19,875.0	9,188.8	17,355.2	19,875.0	21,731.7	88.9%	14.5%	9.3%
Loans Held for Investment	7,366.9	7,647.3	12,715.8	12,990.8	13,273.4	13,671.6	14,109.1	14,419.5	7,271.1	12,990.8	14,419.5	15,766.6	78.7%	11.0%	9.3%
Average Earning Assets	8,526.7	8,636.6	11,058.1	11,156.1	11,395.5	11,985.8	12,351.9	12,735.9	7,839.7	10,826.1	12,408.5	13,286.5	38.1%	51.6%	11.4%
Deposits	7,650.1	7,464.6	13,272.9	12,873.1	13,132.3	13,887.5	14,747.7	14,747.7	7,456.8	12,873.1	14,747.7	16,125.4	72.6%	14.6%	9.3%
Equity	1,032.3	1,050.3	2,563.7	2,581.5	2,600.1	2,635.1	2,671.8	2,711.2	1,016.0	2,581.5	2,711.2	2,896.4	154.1%	5.0%	6.8%
Statement of Operations:															
FTE Net Interest Income	76.5	79.6	99.2	135.4	133.2	138.7	145.1	149.1	281.5	390.7	566.1	623.5	38.8%	44.9%	10.1%
Net Interest Income	74.3	77.5	96.8	132.4	130.1	135.9	142.2	146.1	274.0	381.1	554.3	611.0	39.1%	45.5%	10.2%
Provision for Loan Losses	1.5	3.0	4.1	6.3	4.1	5.1	5.2	6.1	6.5	14.9	20.4	27.8	128.8%	37.2%	36.5%
Non-Interest Income:															
Deposit Service Charges	5.7	6.3	7.7	8.4	8.0	8.5	8.5	8.3	25.5	28.1	33.2	33.4	10.4%	18.1%	0.4%
Wealth Management Revenue	5.2	5.8	5.6	6.0	5.8	6.2	6.0	6.5	20.6	22.6	24.6	27.6	10.0%	8.9%	12.0%
Other Customer Service Fees	6.0	6.5	7.4	10.0	8.9	10.0	7.7	7.8	23.9	29.9	34.3	32.2	25.1%	14.7%	-6.0%
Mortgage Banking	1.4	1.6	4.4	14.4	9.2	10.6	10.1	9.2	6.1	21.9	39.0	41.4	256.4%	78.6%	6.0%
Other	1.0	0.7	2.7	15.3	6.0	6.1	6.2	6.2	3.5	19.7	24.5	25.5	461.6%	24.3%	4.1%
Securities Gains	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.6	0.1	0.1	0.0	-79.5%	-30.2%	-100.0%
Total Non-Interest Income	19.4	20.9	27.8	54.3	38.0	41.4	38.4	38.0	80.2	122.4	155.8	160.0	52.5%	27.3%	2.7%
Non-Core Adjustment	0.0	0.0	0.0	-7.5	-0.1	0.0	0.0	0.0	(0.6)	(7.5)	(0.1)	0.0	1093.7%	-98.8%	-100.0%
Adjusted Non-Interest Income	19.4	20.9	27.8	46.8	37.9	41.4	38.4	38.0	79.6	114.8	155.7	160.0	44.3%	35.6%	2.8%
Non-Interest Expense:															
Salaries & Benefits	33.9	33.1	40.6	57.6	60.2	59.2	58.9	57.9	127.9	165.2	236.3	241.3	29.1%	43.0%	2.1%
Occupancy Expense	4.9	5.5	5.5	7.6	7.4	7.2	7.3	6.8	18.2	23.5	28.7	27.7	29.2%	21.8%	-3.2%
Equipment & Software	4.4	4.9	6.4	8.7	8.5	7.9	8.0	8.0	18.9	24.4	32.4	32.7	29.1%	32.7%	0.9%
Other	13.1	12.5	16.2	22.3	23.9	22.0	22.3	22.3	51.0	64.1	90.4	91.0	25.7%	40.9%	0.7%
Total Non-Interest Expense	58.9	59.1	106.1	114.3	104.2	96.3	96.3	95.1	223.9	338.4	391.9	392.8	51.2%	15.8%	0.2%
Non-Core Adjustment	-2.6	-3.1	-37.5	-18.0	-4.2	0.0	0.0	0.0	(7.8)	(61.1)	(4.2)	0.0	683.4%	-93.2%	-100.0%
Adjusted Non-Interest Expense	56.3	56.0	68.7	96.3	100.0	96.3	96.3	95.1	216.1	277.3	387.7	392.8	28.3%	39.8%	1.3%
Pretax Income	35.9	39.3	51.8	76.7	63.9	75.9	79.2	83.0	131.0	203.8	301.9	350.4	55.5%	48.2%	16.1%
Income Taxes	10.1	11.7	16.0	22.5	13.6	21.6	22.5	23.7	38.5	60.2	81.4	81.3	56.4%	35.3%	-0.2%
Operating Net Income	25.8	27.7	35.8	54.2	50.3	54.3	56.6	59.3	92.5	143.6	220.5	269.1	55.2%	53.6%	22.0%
Share & Per Share Data:															
Diluted EPS	0.60	0.67	0.22	0.66	0.67	0.75	0.79	0.82	2.39	2.15	3.03	3.74	-10.1%	41.2%	23.4%
Operating EPS	0.67	0.72	0.72	0.76	0.70	0.75	0.79	0.82	2.53	2.87	3.07	3.74	13.3%	7.0%	21.8%
Dividends Per Share	0.26	0.26	0.27	0.27	0.27	0.27	0.28	0.28	1.00	1.06	1.10	1.18	6.0%	3.8%	7.3%
Tangible Book Value	18.81	19.31	19.73	19.94	20.07	20.62	21.15	21.72	18.38	19.94	21.72	24.40	8.5%	8.9%	12.3%
Common Shares Outstanding	38,248	38,267	70,497	70,599	71,118	71,118	71,118	71,118	38,168	70,599	71,118	71,118	85.0%	0.7%	0.0%
Average Diluted Shares	38,521	38,600	49,631	71,304	71,415	71,905	71,905	71,905	36,314	49,426	71,783	71,905	36.1%	45.2%	0.2%
Key Financial Statistics:															
Return on Assets	1.01%	1.10%	0.35%	1.09%	1.09%	1.20%	1.17%	1.19%	1.02%	0.89%	1.16%	1.30%	(13)	27	13
Return on Equity	9.14%	9.95%	2.75%	7.36%	7.37%	8.31%	8.47%	8.74%	9.40%	7.32%	8.22%	9.60%	(208)	90	138
Net Interest Margin	3.60%	3.70%	3.58%	3.56%	3.49%	3.48%	3.41%	3.41%	3.58%	3.61%	3.45%	3.41%	3	(16)	(4)
Operating Non-Int. Inc./Operating Rev.	20.70%	21.22%	22.28%	26.11%	22.57%	23.35%	21.27%	20.62%	22.51%	23.16%	21.93%	20.76%	65	(123)	(117)
Efficiency Ratio	57.48%	54.56%	53.06%	51.84%	57.58%	52.76%	51.73%	50.09%	59.23%	54.26%	53.04%	49.51%	(497)	(121)	(353)
Tangible Common Ratio	8.00%	8.03%	8.58%	8.71%	8.68%	8.39%	8.11%	8.26%	7.91%	8.71%	8.26%	8.44%	81	(45)	18
NCOs/Average Loans	0.25%	0.10%	0.08%	0.06%	0.11%	0.10%	0.10%	0.12%	0.13%	0.12%	0.10%	0.14%	(1)	(2)	3

Source: Company reports and Hilliard Lyons estimates.

Additional information is available upon request.

Analyst Certification

I, Andrew W. Stapp, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Definitions of Ratings:

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price decline in the next 12 months.

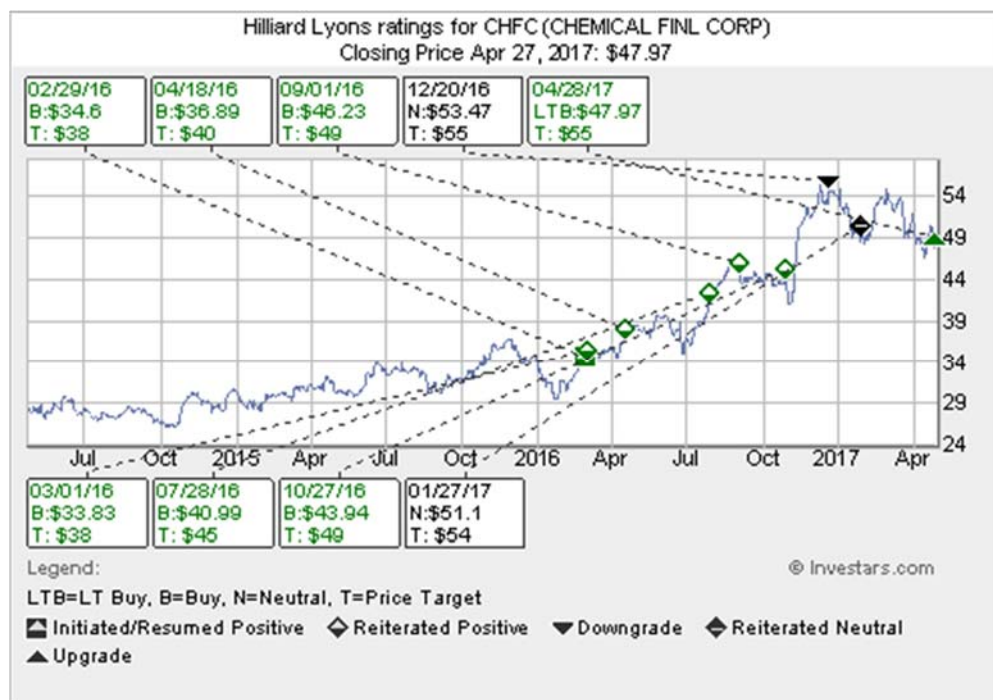
Definitions of Suitabilities:

1. A large cap, core holding with a solid history.

2. A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks.

3. An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage.

4. Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base.



Hilliard Lyons Recommended Issues			Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	30%	14%	86%
Hold/Neutral	71	58%	6%	94%
Sell	15	12%	7%	93%

As of 5 April 2017

Other Disclosures

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