



COMPANY UPDATE/ ESTIMATES CHANGE/ PRICE TARGET CHANGE

Key Metrics

CHFC - NASDAQ (as of 09/19/17)	\$49.07
Price Target	\$57.00
52-Week Range	\$40.93-\$55.55
Shares Outstanding (mm)	71.1
Market Cap. (\$mm)	\$3,491
3-Mo. Average Daily Volume (000)	317.9
Institutional Ownership	78.7%
Tangible Equity / Tangible Assets	9.5%
ROE	7.0%
Tangible Book Value Per Share	\$20.65
Price/Tangible Book Value	237.7%
Dividend Yield	2.3%
Price/LTM Earnings	21.4x

Operating EPS CY 12/31

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.67	\$0.70A	\$0.70A	\$0.85	\$0.83
2Q	\$0.72	\$0.73	\$0.73A	\$0.92	\$0.93
3Q	\$0.72	\$0.78	\$0.77	\$0.97	\$0.96
4Q	\$0.76	\$0.80	\$0.82	\$1.01	\$0.98
Year	\$2.87	\$3.02	\$3.03	\$3.74	\$3.70
P/E	17.1x		16.2x		13.3x

Common Dividends

	2016A	Curr. 2017E	Prior % chg.	Curr. 2018E
1Q	\$0.26	\$0.27A	3.8	\$0.28
2Q	\$0.26	\$0.27A	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

Announces Restructuring Initiative

- CHFC recently announced a restructuring effort wherein it will consolidate 25 branches in 3Q17 and reduce staff by 7%. These consolidations are in addition to the 13 offices that were merged with other CHFC offices earlier in 3Q17.
- In addition, Chemical plans to discontinue its title insurance operations and reduce resources allocated to indirect auto lending. Both of these areas have been underperforming.
- In connection with the restructuring, the company expects to incur one-time charges of approximately \$18 million, the preponderance of which will be recorded in 3Q17.
- Annual cost savings resulting from the initiative are expected to be \$20 million.
- These expense reductions are anticipated to be partially offset by the addition of commercial lenders and other bankers, as well as operations staff to support customer service enhancements.
- In addition to updating our model for the foregoing, we have made various tweaks as deemed appropriate.
- We are revising our 2017 and 2018 operating EPS estimates to \$3.03 and \$3.70 from \$3.02 and \$3.74, respectively. We are raising our 12-month price target by \$1.00 to \$57.00. With our price target suggesting an attractive return of 18.5%, including dividends, we reaffirm our Long-term Buy rating.

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

OTHER OBSERVATIONS

- CHFC is currently trading at 16.3X consensus current year earnings versus a median multiple of 16.8X for other mid-cap banks (peers). While Chemical is not as interest rate sensitive as peers, we are projecting it to generate loan growth of 10% in 2017, which we view as extraordinary in the current environment. Moreover, the additional lenders CHFC plans to hire should support future robust growth. Accordingly, we do not understand the stock's discounted valuation.
- We further note the stock offers a dividend yield of 2.28%, which exceeds the peer yield of 2.06% and the S&P 500 yield of 1.88%.
- 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 4Q18-3Q19 EPS estimates. One factor driving the increase in our price target is stronger loan growth in the outer years of our discounted dividend model resulting from the anticipated addition of lenders.

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					
\$Millions, Except for Per Share Data										FY 2016 A	FY 2017 E	FY 2018 E	FY 2016 A	FY 2017 E	FY 2018 E
Balance Sheet Data:										YOY Change					
Assets	9,303.6	9,514.2	17,383.6	17,355.2	17,637.0	18,781.4	19,344.8	20,063.7	22,255.8	88.9%	15.6%	22,255.8	88.9%	15.6%	10.9%
Loans Held for Investment	7,366.9	7,647.3	12,715.8	12,990.8	13,273.4	13,667.4	13,968.1	14,275.4	15,647.3	78.7%	9.9%	15,647.3	78.7%	9.9%	9.6%
Average Earning Assets	8,526.7	8,636.6	11,058.1	15,156.1	15,395.5	16,229.0	16,938.4	17,419.3	18,632.1	38.1%	52.4%	18,632.1	38.1%	52.4%	13.0%
Deposits	7,650.1	7,464.6	13,272.9	12,873.1	13,132.3	13,204.4	13,759.0	13,724.1	15,043.1	72.6%	6.6%	15,043.1	72.6%	6.6%	9.6%
Equity	1,032.3	1,050.3	2,563.7	2,581.5	2,600.1	2,639.4	2,663.2	2,702.0	2,883.6	154.1%	4.7%	2,883.6	154.1%	4.7%	6.7%
Statement of Operations:															
FTE Net Interest Income	76.5	79.6	99.2	135.4	133.2	141.1	144.0	146.9	161.2	38.8%	44.7%	161.2	38.8%	44.7%	9.4%
Net Interest Income	74.3	77.5	96.8	132.4	130.1	137.9	141.1	144.0	160.8	39.1%	45.2%	160.8	39.1%	45.2%	9.5%
Provision for Loan Losses	1.5	3.0	4.1	6.3	4.1	6.2	5.0	5.5	20.8	128.8%	39.8%	20.8	128.8%	39.8%	24.2%
Non-Interest Income:															
Deposit Service Charges	5.7	6.3	7.7	8.4	8.0	8.8	8.5	8.3	33.6	10.4%	19.3%	33.6	10.4%	19.3%	-0.5%
Wealth Management Revenue	5.2	5.8	5.6	6.0	5.8	7.0	6.0	6.5	25.3	10.0%	11.9%	25.3	10.0%	11.9%	10.0%
Other Customer Service Fees	6.0	6.5	7.4	10.0	8.9	9.7	7.2	7.3	30.4	25.1%	10.9%	30.4	25.1%	10.9%	-8.4%
Mortgage Banking	1.4	1.6	4.4	14.4	9.2	9.9	11.1	9.3	39.5	256.4%	80.5%	39.5	256.4%	80.5%	3.8%
Other	1.0	0.7	2.7	15.3	6.2	6.1	6.2	6.3	24.7	461.6%	25.0%	24.7	461.6%	25.0%	4.2%
Securities Gains	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.2	-79.5%	29.5%	0.2	-79.5%	29.5%	-100.0%
Total Non-Interest Income	19.4	20.9	27.8	54.3	38.0	41.6	39.0	37.7	158.3	52.5%	27.8%	158.3	52.5%	27.8%	1.3%
Non-Core Adjustment	0.0	0.0	0.0	-7.5	-0.1	-0.1	0.0	0.0	0.0	1093.7%	-97.8%	0.0	1093.7%	-97.8%	-100.0%
Adjusted Non-Interest Income	19.4	20.9	27.8	46.8	37.9	41.5	39.0	37.7	158.3	44.3%	36.0%	158.3	44.3%	36.0%	1.4%
Non-Interest Expense:															
Salaries & Benefits	33.9	33.1	40.6	57.6	60.2	52.6	56.5	52.9	225.7	29.1%	34.5%	225.7	29.1%	34.5%	1.5%
Occupancy Expense	4.9	5.5	5.5	7.6	7.4	8.7	8.0	7.2	31.4	29.2%	33.4%	29.5	29.2%	33.4%	-6.0%
Equipment & Software	4.4	4.9	6.4	8.7	8.5	8.1	8.2	8.1	32.9	29.1%	34.9%	32.8	29.1%	34.9%	-0.3%
Other	13.1	12.5	16.2	22.3	23.9	28.3	25.0	25.2	102.7	25.7%	59.6%	102.7	25.7%	59.6%	0.3%
Total Non-Interest Expense	58.9	59.1	106.1	114.3	104.2	98.2	97.7	93.4	393.5	51.2%	16.3%	393.5	51.2%	16.3%	-0.7%
Non-Core Adjustment	-2.6	-3.1	-37.5	-18.0	-4.2	-0.5	0.0	0.0	(4.6)	683.4%	-92.4%	0.0	683.4%	-92.4%	-100.0%
Adjusted Non-Interest Expense	56.3	56.0	68.7	96.3	100.0	97.8	97.7	93.4	398.9	28.3%	40.3%	398.9	28.3%	40.3%	0.4%
Pretax Income	35.9	39.3	51.8	76.7	63.9	75.4	77.4	82.8	347.6	55.5%	47.0%	347.6	55.5%	47.0%	16.0%
Income Taxes	10.1	11.7	16.0	22.5	13.6	23.2	22.0	24.1	82.8	56.4%	37.7%	82.8	56.4%	37.7%	-0.9%
Operating Net Income	25.8	27.7	35.8	54.2	50.3	52.3	55.4	58.7	265.5	3.0%	51.0%	265.5	3.0%	51.0%	22.5%
Share & Per Share Data:															
Diluted EPS	0.60	0.67	0.22	0.66	0.67	0.73	0.77	0.82	2.99	-10.1%	39.0%	3.70	-10.1%	39.0%	23.9%
Operating EPS	0.67	0.72	0.72	0.76	0.70	0.73	0.77	0.82	3.03	13.3%	5.5%	3.70	13.3%	5.5%	22.2%
Dividends Per Share	0.26	0.26	0.27	0.27	0.27	0.27	0.28	0.28	1.10	6.0%	3.8%	1.18	6.0%	3.8%	7.3%
Tangible Book Value	18.81	19.31	19.73	19.94	20.07	20.65	21.00	21.56	24.19	8.5%	8.1%	24.19	8.5%	8.1%	12.2%
Common Shares Outstanding	38,248	38,267	70,497	70,599	71,118	71,131	71,131	71,131	71,131	85.0%	0.8%	71,131	85.0%	0.8%	0.0%
Average Diluted Shares	38,521	38,600	49,631	71,304	71,415	71,443	71,755	71,755	71,592	36.1%	44.8%	71,755	36.1%	44.8%	0.2%
Key Financial Statistics:															
Return on Assets	1.01%	1.10%	0.35%	1.09%	1.09%	1.14%	1.15%	1.19%	1.14%	(13)	25	1.27%	(13)	25	12
Return on Equity	9.14%	9.95%	2.75%	7.36%	7.37%	7.98%	8.29%	8.68%	8.08%	(208)	76	9.51%	(208)	76	143
Net Interest Margin	3.60%	3.70%	3.58%	3.56%	3.48%	3.48%	3.37%	3.35%	3.42%	3	(19)	3.32%	3	(19)	(11)
Operating Non-Int. Inc./Operating Rev.	20.70%	21.22%	22.28%	26.11%	22.57%	23.12%	21.66%	20.75%	22.01%	65	(114)	20.71%	65	(114)	(130)
Efficiency Ratio	57.48%	54.56%	53.06%	51.84%	57.58%	52.71%	52.65%	49.86%	53.20%	(497)	(105)	49.68%	(497)	(105)	(353)
Tangible Common Ratio	8.00%	8.03%	8.58%	8.70%	8.67%	8.34%	8.22%	8.12%	8.12%	79	(58)	8.16%	79	(58)	4
NCOs/Average Loans	0.25%	0.10%	0.08%	0.06%	0.11%	0.04%	0.08%	0.08%	0.08%	(1)	(4)	0.13%	(1)	(4)	5

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.

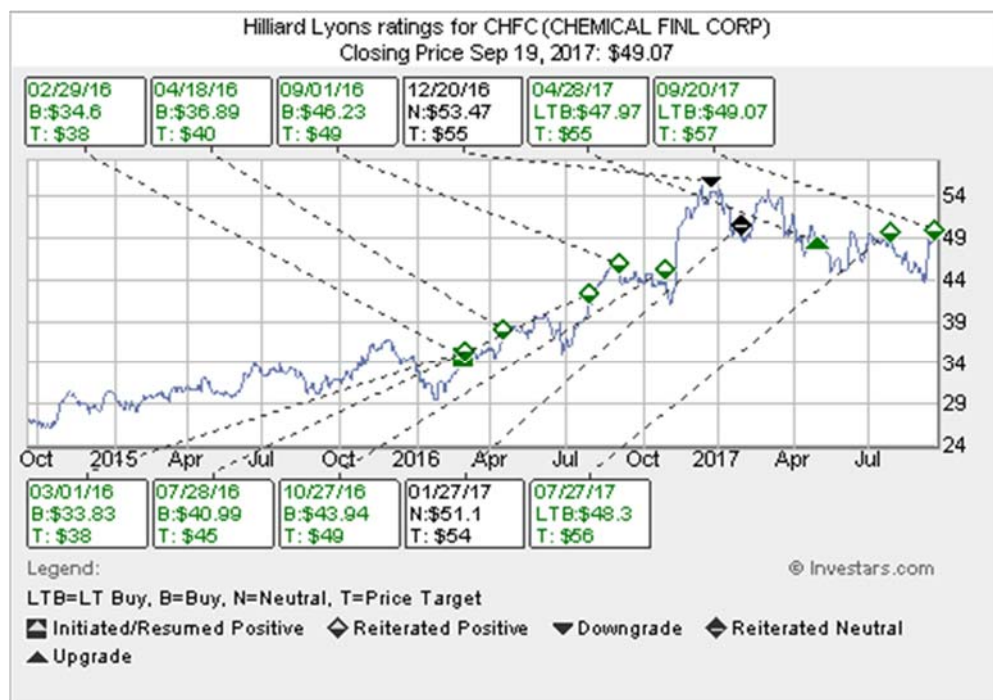
Definitions of Suitabilities:

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	40	32%	10%	90%
Hold/Neutral	77	62%	8%	92%
Sell	8	6%	0%	100%

As of 6 September 2017

Other Disclosures

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