



## Key Metrics

|                            |           |           |
|----------------------------|-----------|-----------|
| FELE - NASDAQ - as of      | 4/28/17   | \$41.10   |
| Price Target               |           | --        |
| 52-Week Range              | \$30.70 - | \$45.15   |
| Shares Outstanding (mm)    |           | 46.4      |
| Market Cap. (\$mm)         |           | \$1,906.3 |
| 1-Mo. Average Daily Volume |           | 177,340   |
| Institutional Ownership    |           | 78.8%     |
| Net Debt/Total Capital     | Q1'17     | 14.4%     |
| ROE                        | TTM       | 18.9%     |
| Book Value / Share         | Q1'17     | \$13.57   |
| Price / Book Value         |           | 3.0x      |
| Dividend Yield             |           | 1.0%      |
| EBITDA Margin              | FY'16     | 15.3%     |

## EPS FY 12/31

|      |         | Prior  | Current | Prior  | Current |
|------|---------|--------|---------|--------|---------|
|      | 2016A   | 2017E  | 2017E   | 2018E  | 2018E   |
| 1Q   | *\$0.29 | --     | *\$0.34 | A --   | --      |
| 2Q   | *\$0.51 | \$0.53 | \$0.53  | --     | --      |
| 3Q   | *\$0.48 | \$0.50 | \$0.50  | --     | --      |
| 4Q   | *0.38   | \$0.40 | \$0.40  | --     | --      |
| Year | \$1.66  | \$1.78 | \$1.78  | \$2.04 | \$2.04  |
| P/E  | 24.8x   |        | 23.1x   |        | 20.1x   |

\* adjusted for special items

## Revenue (\$MM)

|      |       | Prior   | Current | Prior   | Current |
|------|-------|---------|---------|---------|---------|
|      | 2016A | 2017E   | 2017E   | 2018E   | 2018E   |
| 1Q   | \$218 | --      | \$220   | A --    | --      |
| 2Q   | \$252 | \$296   | \$296   | --      | --      |
| 3Q   | \$240 | \$319   | \$319   | --      | --      |
| 4Q   | \$240 | \$322   | \$322   | --      | --      |
| Year | \$950 | \$1,157 | \$1,157 | \$1,320 | \$1,320 |

**Company Description:** *Founded in 1944 and incorporated in 1946, Franklin Electric designs, manufactures and distributes water and fuel pumping systems and equipment. With headquarters in Ft. Wayne, IN, FELE's products are sold worldwide by its employee sales force and independent manufacturing representatives. As of year-end 2015, the company employed ~4,900 persons.*

## Industrials

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## Franklin Electric Co., Inc.

FELE — NASDAQ — Neutral-3

### Addendum to Q1 Update; Clarifying Potential Headwater Contribution.

#### Investment Highlights

- On April 28, we cited management as suggesting the Headwater Distribution segment could add “12% to 14% to EPS in 2018.” It has come to our attention that the April 11 call transcript we pulled this data from is incorrect, and the actual guidance is for “\$0.12 to \$0.14 of EPS”.
- Based on current consensus for 2017 EPS at \$1.80, suggested growth due to Headwater in 2018 is in the range of 7% to 8%. The discrepancy between our former assertion and actual guidance is about \$0.10.
- This revelation has no impact on our financial model. Any accretion from the Headwater deals was, and is still, reflected in our financial model by layering in additional revenue and cost assumptions, a bottom-up procedure that keys off pro forma revenue and operating disclosures.
- Put simply, accretion is an output in our modeling process, not an input.
- What does change for us, is our prior view that 2018 estimates (HL and consensus) skewed toward the conservative side. We had previously feared our out-year EPS growth target of 14.7% was missing some theme, either in integrating Headwater or otherwise. With reduced top down expectations for the noted segment, this seems less likely.
- We are reiterating our Neutral rating. FELE has pulled back since reporting Q1 last week, though we still wait for an entry point.
- See ‘Additional Discussion—Headwater’ on page 2 for a more complete run down of our thoughts on the establishment of the Headwater Distribution segment, much of it reiterated from our note last week.

**Note Important Disclosures on Pages 6-7**  
**Note Analyst Certification on Page 6**

**ADDITIONAL DISCUSSION—HEADWATER**

From a long-term strategic perspective, we take a neutral stance on FELE's decision to acquire several of its distribution partners, thus establishing the Headwater Distribution segment. By the end of Q2, FELE expects to acquire Western Hydro (CA), 2M (MT), DSI (NC) and a joint venture entity owned by 2M/DSI for collective consideration of \$89MM. FELE is layering in TTM revenue of about \$275MM, with expected operating margins of 4% to 6%. The establishment of Headwater is expected to be EPS-neutral on a GAAP basis this year, but accretive to EPS by \$0.12-\$0.14 in 2018.

We see some risks tied to the fact that FELE will now control distribution for some of its competitors, and similarly, FELE could be viewed as 'in competition' with some of its other existing distribution partners. We also fear at some point the business could require an outsized focus from senior management, with the potential (in its current state) to generate only about ~10% of FELE's operating income.

On the positive side however, FELE seems to have a first-mover advantage in vertically integrating here, which gives them a nationwide platform to execute further M&A, as needed. Also, we like skewing the FELE enterprise a bit more US-centric, given large exposure to developing Asia, Turkey and Brazil. Finally and perhaps most simplistically, the deal should be easily accretive, given long-standing business relationships and FELE's low cost of financing.

Stepping back from operations and looking just at the potential to impact FELE shares, we like the deal near-term. Layering in the distribution businesses adds resiliency to our revenue forecast, and while margins for the consolidated entity could be difficult to project quarter-to-quarter, we expect management will be able to spin a positive narrative into early next year (at a minimum). Longer-term we see some risk to multiples with FELE assuming a lower margin consolidated business mix, but for now, expect historical multiples and an optimistic story offset this concern.

**SUITABILITY**

We assign FELE a suitability rating of '3.' A complete description of our suitability scale is on page 6. In our view, Franklin holds good competitive positions and operates with generally favorable long-term growth tailwinds, but faces competition from a relatively strong docket of companies and must deal with cyclicalities in developing regions and in energy/agriculture end-markets. FELE's SMID-cap status and volatile stock price keep Franklin below our '2' suitability rating. Conservative financial metrics, a base level of replacement/recurring revenue, and a long-term history of execution keep FELE well above our most aggressive '4' rating.

**CONSIDERATIONS AND RISKS**

We believe Franklin's sales are sensitive to macroeconomic conditions. As such, the company may experience difficulty due to trends that are both difficult to predict and are beyond the company's control. Additionally, the company is exposed to raw material and labor cost inflation. An inability to pass on higher input costs to customers may pressure margins, lower sales and/or decrease earnings.

Franklin has acquired several companies over the past decade, and may acquire additional companies in the future. Failure to effectively integrate acquisitions or overpayment for operating assets may result in write-downs, decreased financial flexibility and/or lower earnings.

Franklin generates a significant portion of sales outside of the United States and also maintains manufacturing plants, warehouses and distribution systems abroad. We believe world-wide operations expose the company to political and foreign exchange risk, as well as present operational challenges.

Franklin operates in a fragmented market against several established competitors. Significant engineering breakthroughs by the company's competition could have a negative impact on FELE.

Our Suitability rating is 3 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive).

*Additional information is available upon request.*

## Franklin Electric Co (FELE)

(\$'s in thousands)

| Income Statement Analysis           |              |            | 2-Apr   | 2-Jul                        | 1-Oct                               |            |            |            |  |            |            |   |              |  |
|-------------------------------------|--------------|------------|---|------------------------------|-------------------------------------|------------|------------|------------|--|------------|------------|---|--------------|--|
|                                     | FY'14        | FY'15      | Q1'16   | Q2'16                        | Q3'16                               | Q4'16      | FY'16      | Q1'17      | Q2'17E   | Q3'17E     | Q4'17E     | FY'17E  | FY'18E       |  |
| Net Sales                           | \$ 1,047,777 | \$ 924,923 | \$ 218,430                                    | \$ 252,081                   | \$ 239,755                          | \$ 239,590 | \$ 949,856 | \$ 220,252 | \$ 295,510   | \$ 319,310 | \$ 321,810 | \$ 1,156,880                                    | \$ 1,320,480 |  |
| Cost of Sales                       | 703,367      | 627,315    | 144,194                                       | 161,403                      | 154,286                             | 158,567    | 618,450    | 144,436    | 191,880  | 212,360    | 219,050    | 767,730   | 880,920      |  |
| Gross Profit                        | 344,410      | 297,608    | 74,236  | 90,678                       | 85,469                              | 81,023     | 331,406    | 75,816     | 103,630  | 106,950    | 102,760    | 389,150   | 439,560      |  |
| %                                   | 32.9%        | 32.2%      | 34.0%   | 36.0%                        | 35.6%                               | 33.8%      | 34.9%      | 34.4%      | 35.1%  | 33.5%      | 31.9%      | 33.6%   | 33.3%        |  |
| Selling, G & A Expense              | 227,711      | 204,250    | 52,345  | 57,954                       | 55,373                              | 55,537     | 221,209    | 56,991     | 67,967   | 73,441     | 74,016     | 272,420   | 303,710      |  |
| %                                   | 21.7%        | 22.1%      | 24.0%   | 23.0%                        | 23.1%                               | 23.2%      | 23.3%      | 25.9%      | 23.0%  | 23.0%      | 23.0%      | 23.5%   | 23.0%        |  |
| Restructuring (Income)/Expense      | 16,611       | 2,997      | 820   | 45                           | (1,715)                             | 252        | (598)      | 315        | 100  | 100        | 100        | 620   | 400          |  |
| Operating Inc.                      | 100,088      | 90,361     | 21,071  | 32,679                       | 31,811                              | 25,234     | 110,795    | 18,510     | 35,563   | 33,409     | 28,644     | 116,110   | 135,450      |  |
| %                                   | 9.6%         | 9.8%       | 9.6%  | 13.0%                        | 13.3%                               | 10.5%      | 11.7%      | 8.4%       | 12.0%  | 10.5%      | 8.9%       | 10.0%   | 10.3%        |  |
| Interest (Expense)                  | (10,735)     | (10,039)   | (2,427)                                       | (2,221)                      | (1,983)                             | (2,101)    | (8,732)    | (3,514)    | (3,720)  | (3,580)    | (3,580)    | (14,390)  | (13,170)     |  |
| Other Income / (Expense)            | 1,349        | 6,863      | (32)  | 1,373                        | 1,446                               | (1,794)    | 993        | 667        | 1,370  | 1,450      | -          | 3,490   | 3,490        |  |
| FX Income / (Expense)               | (999)        | (869)      | (77)  | 315                          | 399                                 | 420        | 1,057      | 475        | (50)   | (50)       | (50)       | 330   | (200)        |  |
| Pre Tax Inc.                        | 89,703       | 86,316     | 18,535  | 32,146                       | 31,673                              | 21,759     | 104,113    | 16,138     | 33,163   | 31,229     | 25,014     | 105,540   | 125,570      |  |
| Income Tax (Expense)                | (18,851)     | (12,625)   | (4,955)                                       | (7,959)                      | (7,926)                             | (3,958)    | (24,798)   | (204)      | (8,291)  | (7,807)    | (6,253)    | (22,560)  | (31,390)     |  |
| Tax Rate                            | 21.0%        | 14.6%      | 26.7%   | 24.8%                        | 25.0%                               | 18.2%      | 23.8%      | 1.3%       | 25.0%  | 25.0%      | 25.0%      | 21.4%   | 25.0%        |  |
| Net Income                          | 70,852       | 73,691     | 13,580  | 24,187                       | 23,747                              | 17,801     | 79,315     | 15,934     | 24,872   | 23,422     | 18,760     | 82,980  | 94,180       |  |
| %                                   | 6.8%         | 8.0%       | 6.2%  | 9.6%                         | 9.9%                                | 7.4%       | 8.4%       | 7.2%       | 8.4%   | 7.3%       | 5.8%       | 7.2%  | 7.1%         |  |
| Less: NI Attrib to non-ctrl interst | (1,046)      | (746)      | (123)   | (205)                        | (83)                                | (159)      | (570)      | (204)      | -  | -          | -          | (200.00)  | -            |  |
| Net Income att to FELE Inc.         | 69,806       | 72,945     | 13,457  | 23,982                       | 23,664                              | 17,642     | 78,745     | 15,730     | 24,872   | 23,422     | 18,760     | 82,780  | 94,180       |  |
| %                                   | 6.7%         | 7.9%       | 6.2%  | 9.5%                         | 9.9%                                | 7.4%       | 8.3%       | 7.1%       | 8.4%   | 7.3%       | 5.8%       | 7.2%  | 7.1%         |  |
| Shares Out.                         | 48,347       | 47,538     | 47,475  | 46,700                       | 46,900                              | 46,900     | 46,994     | 47,000     | 46,877   | 46,754     | 46,631     | 46,816  | 46,324       |  |
| Diluted EPS                         | \$ 1.43      | \$ 1.51    | \$ 0.28                                       | \$ 0.50                      | \$ 0.50                             | \$ 0.37    | \$ 1.65    | \$ 0.33    | \$ 0.53  | \$ 0.50    | \$ 0.40    | \$ 1.77   | \$ 2.03      |  |
| Adjusted EPS                        | \$ 1.74      | \$ 1.47    | \$ 0.29                                       | \$ 0.51                      | \$ 0.48                             | \$ 0.38    | \$ 1.66    | \$ 0.34    | \$ 0.53  | \$ 0.50    | \$ 0.40    | \$ 1.78   | \$ 2.04      |  |
| Dividends Paid                      | \$ 0.348     | \$ 0.383   | \$ 0.0975                                     | \$ 0.1000                    | \$ 0.1000                           | \$ 0.1000  | \$ 0.398   | \$ 0.1000  | \$ 0.1100  | \$ 0.1100  | \$ 0.1100  | \$ 0.430  | \$ 0.440     |  |
| Rate of Change Analysis             |              |            |   |                              |                                     |            |            |            |  |            |            |   |              |  |
| Revenue                             | 8.5%         | -11.7%     | -3.2%   | 1.9%                         | 3.1%                                | 9.3%       | 2.7%       | 0.8%       | 17.2%  | 33.2%      | 34.3%      | 21.8%   | 14.1%        |  |
| Organic Rev-- ex-FX & Acq           | 8.6%         | -5.2%      | 2.9%  | 4.9%                         | 3.4%                                | 9.9%       | 5.2%       | 0.9%       | 3.0%   | 6.4%       | 6.4%       | 4.2%  | 6.4%         |  |
| Op Income                           | -19.1%       | -9.7%      | 32.8%   | 41.0%                        | 14.6%                               | 7.1%       | 22.6%      | -12.2%     | 8.8%   | 5.0%       | 13.5%      | 4.8%  | 16.7%        |  |
| EPS--Adj if necessary               | 2.6%         | -15.3%     | -8.9%   | 45.7%                        | 5.9%                                | 8.2%       | 12.7%      | 16.8%      | 4.9%   | 4.5%       | 6.8%       | 7.3%  | 14.7%        |  |
| EBITDA--Adj if necessary            | -3.1%        | -15.2%     | 21.7%   | 25.6%                        | 3.7%                                | -0.5%      | 11.6%      | -9.4%      | 7.0%   | 13.2%      | 14.6%      | 6.8%  | 14.2%        |  |
| Working Capital                     | 13.4%        | 0.6%       | -10.9%  | -6.5%                        | 1.6%                                | 3.0%       | 3.0%       | 11.1%      | 9.7%   | 13.7%      | 19.1%      | 19.1%   | 3.8%         |  |
| Inventory                           | 15.1%        | -11.8%     | -6.2%   | -4.2%                        | 2.8%                                | 4.6%       | 4.6%       | 13.5%      | 8.6%   | 16.6%      | 17.2%      | 17.2%   | 2.8%         |  |
|                                     |              |            | *Raise guide by \$0.03 on both ends due to FX | *April: \$30MM 5.79% LTD due | **narrowed guide from \$1.60-\$1.70 |            |            |            | *\$89MM Acq of Western Hydro, 2M, DSI *April: \$30MM 5.79% LTD due |            |            | *FY Guide: Rev +3 to +5%, Adj EPS \$1.77-\$1.87 |              |  |

Source: Company reports and Hilliard Lyons estimates

| Franklin Electric Co (FELE)     |           |           | 2-Apr     | 2-Jul     | 1-Oct     |           |           |           |           |           |           |           |           |
|---------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Summary Cash Flow               |           |           | Q1'16     | Q2'16     | Q3'16     | Q4'16     | FY'16     | Q1'17p    | Q2'17E    | Q3'17E    | Q4'17E    | FY'17E    | FY'18E    |
| Net Income                      | 70,852    | 73,691    | 13,580    | 24,187    | 23,747    | 17,801    | 79,315    | 15,934    | 24,872    | 23,422    | 18,760    | 82,980    | 94,180    |
| D & A                           | 37,210    | 37,210    | 8,752     | 8,881     | 9,119     | 8,782     | 35,534    | 8,924     | 8,950     | 10,990    | 10,630    | 39,490    | 42,190    |
| Share-based Compensation        | 7,471     | 5,626     | 2,539     | 1,616     | 1,757     | 977       | 6,889     | 2,941     | 2,020     | 2,200     | 1,220     | 8,380     | 10,490    |
| Deferred Income Tax             | (2,415)   | (6,802)   | 270       | 2,691     | (376)     | 393       | 2,978     | 1,500     | 1,500     | 1,500     | 1,500     | 6,000     | 6,000     |
| FX Expense (Income)             | 999       | 869       | 77        | (315)     | (399)     | (420)     | (1,057)   | (475)     | 50        | 50        | 50        | (330)     | 200       |
| Cash Provided (Used) by Wrk Cap | (28,695)  | (1,463)   | (32,893)  | (5,785)   | 10,128    | 21,230    | (7,320)   | (56,351)  | (2,471)   | 23        | 10,661    | (48,140)  | (11,270)  |
| Operating CF                    | 85,422    | 109,131   | (7,675)   | 31,275    | 43,976    | 48,763    | 116,339   | (27,527)  | 34,921    | 38,185    | 42,821    | 88,380    | 141,790   |
| Cap Ex                          | (35,525)  | (26,171)  | (11,153)  | (8,337)   | (10,619)  | (9,027)   | (39,136)  | (4,908)   | (5,000)   | (9,000)   | (8,500)   | (27,410)  | (35,000)  |
| Acquisitions, net of cash acq   | (42,315)  | (24,088)  | -         | -         | (1,007)   | -         | (1,007)   | -         | (92,000)  | (100)     | (110)     | (92,210)  | (2,000)   |
| Divestitures                    | 1,608     | 1,542     | 185       | 1,981     | 3,673     | 189       | 6,028     | 34        | 50        | 50        | 50        | 180       | 200       |
| Dividends                       | (17,421)  | (18,926)  | (4,506)   | (5,315)   | (4,662)   | (4,654)   | (19,137)  | (4,668)   | (5,156)   | (5,143)   | (5,129)   | (20,100)  | (20,380)  |
| Free CF                         | (8,231)   | 41,488    | (23,149)  | 19,604    | 31,361    | 35,271    | 63,087    | (37,069)  | (67,185)  | 23,992    | 29,132    | (51,160)  | 84,610    |
| Debt Proceeds                   | 98,394    | 233,486   | 31,606    | 30,446    | 1,932     | 697       | 64,681    | -         | 50,000    | -         | -         | 50,000    | -         |
| Debt (Repayments)               | (117,217) | (189,910) | (19,817)  | (50,086)  | (24,707)  | (456)     | (95,066)  | (460)     | (30,000)  | (400)     | -         | (30,860)  | (30,900)  |
| Stock Sale Proceeds             | 2,929     | 2,929     | 411       | 199       | 2,582     | 2,051     | 5,243     | 481       | 2,000     | 2,000     | 2,000     | 6,480     | 8,000     |
| Stock (Repurchases)             | (10,610)  | (48,579)  | (4,175)   | (561)     | (1,457)   | (1,229)   | (7,422)   | (655)     | (7,500)   | (7,500)   | (7,500)   | (23,160)  | (30,000)  |
| Net CF                          | (34,735)  | 39,414    | (15,124)  | (398)     | 9,711     | 36,334    | 30,523    | (37,703)  | (52,685)  | 18,092    | 23,632    | (48,700)  | 31,710    |
| Adjusted EBITDA                 | 153,909   | 130,568   | 30,643    | 41,605    | 39,215    | 34,268    | 145,731   | 27,749    | 44,513    | 44,399    | 39,274    | 155,600   | 177,640   |
| Adj EBITDA Margin               | 14.7%     | 14.1%     | 14.0%     | 16.5%     | 16.4%     | 14.3%     | 15.3%     | 12.6%     | 15.1%     | 13.9%     | 12.2%     | 13.4%     | 13.5%     |
| Adj EBITDA/Share                | \$ 3.18   | \$ 2.75   | \$ 0.65   | \$ 0.89   | \$ 0.84   | \$ 0.73   | \$ 3.10   | \$ 0.59   | \$ 0.95   | \$ 0.95   | \$ 0.84   | \$ 3.32   | \$ 3.83   |
| Summary Balance Sheet           |           |           | Q1'16     | Q2'16     | Q3'16     | Q4'16     | FY'16     | Q1'17p    | Q2'17E    | Q3'17E    | Q4'17E    | FY'17E    | FY'18E    |
| Cash and Equivalents            | 59,141    | 81,561    | 74,642    | 71,582    | 78,981    | 104,331   | 104,331   | 70,651    | 17,970    | 36,060    | 59,690    | 59,690    | 91,400    |
| A/R                             | 143,787   | 127,251   | 151,173   | 161,972   | 152,093   | 145,999   | 145,999   | 154,701   | 177,310   | 175,620   | 183,430   | 183,430   | 193,570   |
| Inventory                       | 220,528   | 194,594   | 207,741   | 210,642   | 215,067   | 203,471   | 203,471   | 235,724   | 228,790   | 250,750   | 238,380   | 238,380   | 244,970   |
| Other Current Assets            | 46,083    | 34,728    | 30,617    | 29,531    | 31,289    | 30,018    | 30,018    | 33,803    | 30,120    | 31,910    | 30,620    | 30,620    | 31,230    |
| Total Current Assets            | 469,539   | 438,134   | 464,173   | 473,727   | 477,430   | 483,819   | 483,819   | 494,879   | 454,190   | 494,340   | 512,120   | 512,120   | 561,170   |
| Net PP&E                        | 209,786   | 190,039   | 194,756   | 195,916   | 198,675   | 196,137   | 196,137   | 197,412   | 239,410   | 237,420   | 235,300   | 235,300   | 228,910   |
| Intangible Assets               | 160,314   | 141,357   | 141,490   | 140,850   | 138,256   | 134,667   | 134,667   | 138,389   | 138,400   | 138,400   | 138,400   | 138,400   | 138,400   |
| Goodwill                        | 208,828   | 199,847   | 201,580   | 201,365   | 202,037   | 199,609   | 199,609   | 199,600   | 245,600   | 245,700   | 245,800   | 245,800   | 247,000   |
| Other Non-Current Assets        | 27,420    | 27,031    | 30,524    | 29,105    | 28,219    | 25,673    | 25,673    | 25,000    | 11,000    | 13,000    | 13,000    | 13,000    | 13,000    |
| Total Assets                    | 1,075,887 | 996,408   | 1,032,523 | 1,040,963 | 1,044,617 | 1,039,905 | 1,039,905 | 1,055,280 | 1,088,600 | 1,128,860 | 1,144,620 | 1,144,620 | 1,188,480 |
| A/P                             | 70,806    | 57,822    | 62,568    | 56,983    | 60,695    | 63,927    | 63,927    | 69,042    | 72,990    | 81,740    | 87,530    | 87,530    | 92,370    |
| Accrued Expenses                | 95,419    | 52,109    | 46,594    | 58,686    | 61,003    | 60,119    | 60,119    | 44,039    | 59,860    | 62,220    | 61,320    | 61,320    | 62,550    |
| Income Taxes                    | 788       | 1,794     | 2,628     | 2,950     | 3,353     | 3,274     | 3,274     | 2,628     | 2,950     | 3,353     | 3,274     | 3,274     | 3,274     |
| ST Borrowing and CP/LT Debt     | 34,092    | 32,946    | 45,337    | 55,673    | 33,418    | 32,946    | 32,946    | 33,783    | 83,800    | 83,800    | 83,800    | 83,800    | 83,800    |
| Total Current Liabilities       | 201,105   | 144,671   | 157,127   | 174,292   | 158,469   | 160,266   | 160,266   | 149,492   | 219,600   | 231,113   | 235,924   | 235,924   | 241,994   |
| Long-Term Debt                  | 143,695   | 188,103   | 187,257   | 157,203   | 156,712   | 156,544   | 156,544   | 156,170   | 126,100   | 125,700   | 125,700   | 125,700   | 95,900    |
| Employee Benefit Plans          | 58,709    | 47,398    | 46,799    | 42,337    | 40,799    | 45,307    | 45,307    | 43,527    | 41,530    | 39,530    | 49,530    | 49,530    | 55,530    |
| Other LT Liabilities            | 73,395    | 56,771    | 61,100    | 64,095    | 66,446    | 62,700    | 62,700    | 68,283    | 68,280    | 68,280    | 68,280    | 68,280    | 68,280    |
| Total Liabilities               | 476,904   | 436,943   | 452,283   | 437,927   | 422,426   | 424,817   | 424,817   | 417,472   | 455,510   | 464,623   | 479,434   | 479,434   | 461,704   |
| Shareholders' Equity            | 596,840   | 557,700   | 578,337   | 601,565   | 620,597   | 613,445   | 613,445   | 637,808   | 633,090   | 664,237   | 665,186   | 665,186   | 726,776   |
| Noncontrolling Interest         | 2,143     | 1,765     | 1,903     | 1,471     | 1,594     | 1,643     | 1,643     | -         | -         | -         | -         | -         | -         |
| Book Value                      | \$ 12.41  | \$ 11.94  | \$ 12.18  | \$ 12.88  | \$ 13.23  | \$ 13.08  | \$ 13.08  | \$ 13.57  | \$ 13.51  | \$ 14.21  | \$ 14.26  | \$ 14.26  | \$ 15.75  |
| Tangible Book Value             | \$ 4.73   | \$ 4.64   | \$ 4.96   | \$ 5.55   | \$ 5.98   | \$ 5.95   | \$ 5.95   | \$ 6.38   | \$ 5.31   | \$ 5.99   | \$ 6.03   | \$ 6.03   | \$ 7.40   |
| Current Ratio                   | 2.3x      | 3.0x      | 3.0x      | 2.7x      | 3.0x      | 3.0x      | 3.0x      | 3.3x      | 2.1x      | 2.1x      | 2.2x      | 2.2x      | 2.3x      |
| Net LT Debt / Total Cap         | 11.4%     | 14.3%     | 14.7%     | 11.3%     | 10.0%     | 6.8%      | 6.8%      | 10.8%     | 14.2%     | 11.3%     | 8.3%      | 8.3%      | 0.5%      |
| Net Total Debt / Total Cap      | 15.3%     | 17.9%     | 19.4%     | 17.3%     | 13.7%     | 10.6%     | 10.6%     | 14.4%     | 22.8%     | 19.9%     | 17.1%     | 17.1%     | 9.7%      |
| TTM ROE--Unadjusted             | 11.5%     | 12.8%     | 14.4%     | 16.4%     | 17.4%     | 13.3%     | 13.3%     | 18.9%     | 19.1%     | 18.8%     | 12.9%     | 12.9%     | 12.5%     |

Source: Company reports and Hilliard Lyons estimates

### **Analyst Certification**

I, Spencer E. Joyce, CFA, 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.

### **Suitability Ratings**

- 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 revenues, volatility, low trading volume or a narrow customer or product base

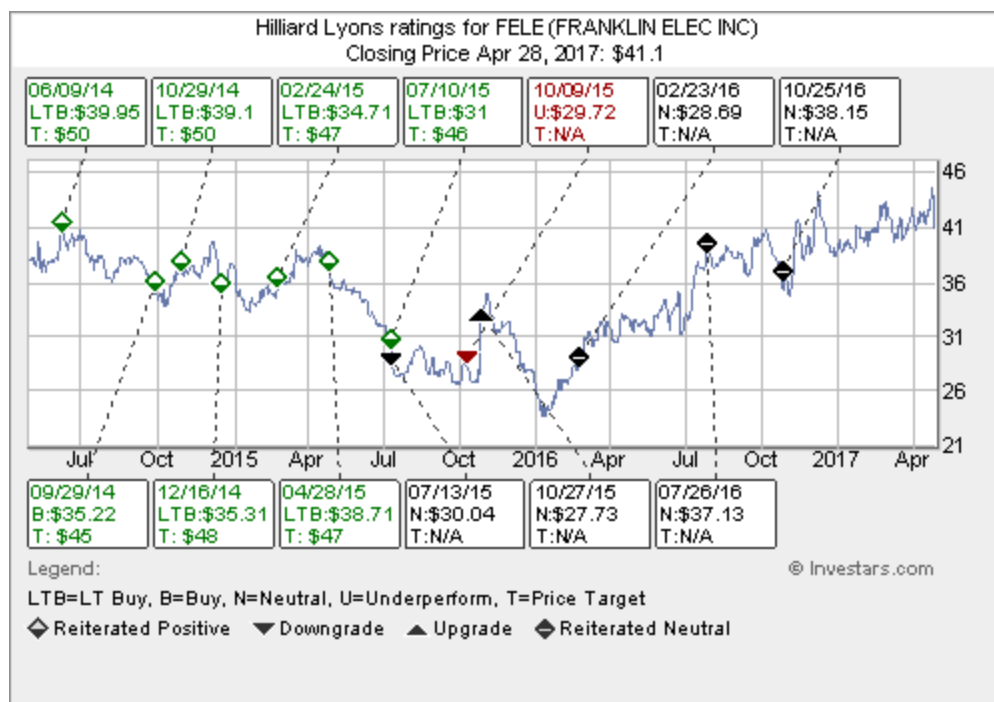
### **Investment Ratings**

**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 setback in the next 12 months.



| Rating       | Hilliard Lyons Recommended Issues |                     | Investment Banking Provided in Past 12 Mo. |            |
|--------------|-----------------------------------|---------------------|--|------------|
|              | # 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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