



COMPANY UPDATE/ ESTIMATES CHANGES

Key Metrics

FFBC - NASDAQ (as of 07/27/17)	\$25.35
Price Target	\$27.50
52-Week Range	\$20.55-\$29.80
Shares Outstanding (mm)	62.1
Market Cap. (\$mm)	\$1,575
3-Mo. Average Daily Volume (000)	231.8
Institutional Ownership	76.0%
Tangible Equity / Tangible Assets	9.5%
ROE	10.5%
Tangible Book Value Per Share	NA
Price/Tangible Book Value	234.7%
Dividend Yield	2.7%
Price/LTM Earnings	16.8x

Operating EPS CY 12/31

	Curr. 2016E	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.33	\$0.39A	\$0.39A	\$0.42	\$0.38
2Q	\$0.36	\$0.38	\$0.36A	\$0.45	\$0.43
3Q	\$0.37	\$0.39	\$0.38	\$0.47	\$0.48
4Q	\$0.38	\$0.40	\$0.39	\$0.48	\$0.49
Year	\$1.43	\$1.57	\$1.52	\$1.82	\$1.77
P/E	17.7x		16.7x		14.3x

Common Dividends

	2016E	Curr. 2017E	Prior % chg.	Curr. 2018E
1Q	\$0.16	\$0.17A	6.3	\$0.18
2Q	\$0.16	\$0.17A	6.3	\$0.18
3Q	\$0.16	\$0.17	6.3	\$0.18
4Q	\$0.16	\$0.17	6.3	\$0.18
Year	\$0.64	\$0.68	6.3	\$0.72

Company Description – First Financial Bancorp (FFBC) is a commercial banking organization headquartered in Cincinnati, Ohio. The company's primary operations are conducted in Ohio, Indiana and northern Kentucky. In addition to traditional retail and commercial banking services, First Financial offers trust, wealth management and investment brokerage services, as well as speciality lending niches including franchise lending, asset-based lending and equipment finance.

Banks

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July 28, 2017

First Financial Bancorp

FFBC -- NASDAQ -- Neutral -- 2

2Q17 Earnings and MSFG Acquisition Review; Reaffirming Neutral Rating

- **Earnings Results:** Excluding securities gains of \$0.01, operating EPS were \$0.36, which was \$0.02 shy of our estimate and the Street consensus.
- **Positive Highlights:** End-of-period loans grew 2.1% on a linked-quarter (LQ) basis, while average loans increased 0.9%.

The provision for loan losses rose \$0.1 million LQ to \$0.5 million, which was meaningfully below our estimate of \$2.4 million. Nonperforming Assets/Assets fell eight bps to 0.72%, while the net charge-off ratio decreased one bp to 0.13%. We had modeled a net charge-off ratio of 12 bps.

Noninterest expenses were well contained, rising 1.0% LQ to \$51.0 million. Results were in line with expectations.

- **Negative Highlights:** Net interest income declined 0.6% sequentially to \$68.5 million as a 14 bp plunge in the net interest margin was partially offset by a 2.1% rise in average earning assets and an extra day in the quarter. We had modeled net interest income of \$71.8 million and a 3.73% margin. Drivers of the decline in the margin included lower prepayment fees, higher nonaccrual loans and unfavorable shifts in earning assets and interest bearing liabilities.

Operating noninterest income fell 1.3% LQ to \$16.6 million primarily due to declines in trust & wealth management fees (9.1%) and “other” noninterest income (29.3%). We had projected noninterest income of \$17.6 million.

- **Estimates & Valuation:** We are reducing our 2017 and 2018 EPS estimates to \$1.52 and \$1.77 from \$1.57 and \$1.82, respectively. We are maintaining our \$27.50 price target and Neutral rating

Note Important Disclosures on pages 5 and 6
Note Analyst Certification on page 5

ACQUISITION OF MAINSOURCE FINANCIAL GROUP (MSFG-\$34.91)

- FFBC announced the acquisition of Greensburg, Indiana-based MainSource Financial Group in an all-stock deal valued at \$1.0 billion or \$38.99 per share.
- Under the terms of the deal, which is expected to close early 2018, MSFG shareholders will receive 1.3875 shares of FFBC common stock.
- Cost savings resulting from the deal are expected to be significant at 36% of MSFG's expense base. A major driver of the attractive cost synergies are branch consolidations resulting from the meaningful overlap of the companies' branch networks. Approximately 25% of the combined company's branches are expected to be consolidated.
- No revenue synergies were assumed in modeling the potential EPS accretion. However, some opportunities to enhance revenue include:
 - Extending FFBC's C&I lending capabilities and expertise to MSFG lenders
 - Increasing lending limits
 - Expanding wealth management products and services for MSFG clients, including retirement planning and private banking
 - Ability to pursue larger clients due to increased scale
- MSFG has an extremely low cost deposit base. FFBC's cost of deposits is 0.53% versus MSFG's 0.16%. The combined company's cost of deposits would be 0.40% on a pro forma basis.
- First Financial will exceed \$10 billion in assets upon consummation and, accordingly, will be subject to the Durbin Amendment, which substantially reduces interchange fees on retail debit card transactions. Management estimates the quarterly reduction in noninterest income will be approximately \$3 million commencing in 3Q19.
- In addition to the Durbin Amendment, FFBC will be subjected to higher regulatory and compliance costs as a result of crossing \$10 billion in assets. Management estimates the annual impact of these items will be approximately \$2.0 million, which will be phased in 50% in 2018 and 100% thereafter.
- MSFG's CEO Archie Brown and CFO Jamie Anderson will become CEO and CFO of the combined company, while First Financial's CEO will become executive chairman for three years and then transition to non-executive chairman.
- FFBC expects the deal will dilute tangible book value by 5.1% with an earn-back period of 3.0 years. Management anticipates 9% EPS accretion in 2019 as a result of the transaction.
- Pricing at announcement was 21.3X TTM EPS, 18.4X 2017 consensus EPS and 271.9% of tangible book value per share. Respective median multiples for other YTD announced acquisitions of commercial banking organizations with total assets between \$1 billion and \$10 billion were 22.4X, 18.2X and 266.4%.

VALUATION

- Our price target is derived through our discounted dividend model and the application of a 15X forward multiple to our 3Q18-2Q19 EPS estimates. The earnings multiple that we employ is appropriate relative to the company's risk/reward prospects, in our opinion.
- Major model assumptions include a Fed rate hike in December followed by two additional hikes in 2018, continued flattening of the yield curve and a 28% corporate tax rate in 2018. Given the considerable uncertainties regarding corporate tax reform, we are employing conservative hurdle rates in establishing our ratings.

SUITABILITY

Our suitability rating on FFBC 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 a few states. Accordingly, its earnings are more vulnerable to any regional shock and/or slowdown.
- **Real Estate** – A significant percentage of the company's loans are real estate oriented. Any deterioration in real estate values would impair the value of the underlying real estate collateral.
- **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.

	FIRST FINANCIAL BANCORP					FFBC: NEUTRAL						
	1Q016 A	2Q016 A	3Q016 A	4Q016 A	1Q017 A	2Q017 A	3Q017 A	4Q017 E	FY 2016 A	FY 2017 E	FY 2018 E	
\$Millions, Except for Per Share Data												
Balance Sheet Data:												
Assets	8,193.6	8,310.1	8,368.5	8,438.0	8,531.2	8,710.0	8,840.7	9,008.7	8,438.0	9,008.7	14,420.1	
Gross Loans	5,520.0	5,711.7	5,806.9	5,770.6	5,761.7	5,885.7	5,974.0	6,087.5	5,770.6	6,087.5	9,858.3	
Average Earning Assets	7,398.0	7,475.7	7,591.2	7,630.1	7,695.7	7,855.6	8,031.7	8,168.3	7,523.4	7,937.8	12,172.0	
Deposits	6,176.8	6,119.6	6,338.7	6,525.8	6,529.9	6,468.9	6,565.9	6,690.7	6,525.8	6,690.7	7,118.6	
Equity	826.6	846.7	861.1	865.2	880.1	898.1	911.8	925.8	865.2	925.8	1,983.1	
Statement of Operations:												
FTE Net Interest Income	67.6	68.2	69.8	71.2	70.2	69.8	73.6	74.9	276.9	288.4	447.9	
Net Interest Income	66.6	67.1	68.8	70.2	68.9	68.5	72.2	73.5	272.7	283.2	439.6	
Provision for Loan Losses	1.7	4.0	1.7	2.8	0.4	0.5	2.3	3.0	10.1	6.2	15.7	
Non-Interest Income:												
Service Charges on Deposit Accounts	4.4	4.5	5.1	5.0	4.6	4.8	5.2	5.2	18.9	19.8	40.0	
Trust and Wealth Management Fees	3.4	3.3	3.2	3.2	3.7	3.4	3.4	3.4	13.2	14.0	19.7	
Bankcard Income	2.9	3.1	3.0	3.1	3.1	3.5	3.3	3.3	12.1	13.3	25.1	
Net Gains From Sales of Loans	1.2	1.8	2.1	1.7	1.2	1.3	1.4	1.1	6.5	5.1	16.5	
Other	3.6	7.7	3.2	3.8	4.1	3.6	4.0	4.0	18.3	15.7	20.5	
Securities Gains	0.0	-0.2	0.4	0.0	0.5	0.8	0.0	0.0	0.2	1.4	0.0	
Total Non-Interest Income	15.5	20.2	16.9	16.9	17.4	17.5	17.3	17.0	69.6	69.2	121.8	
Non-Core Adjustment	0.0	-2.2	-0.4	0.0	-0.5	-0.8	0.0	0.0	(2.6)	(1.4)	0.0	
Adjusted Non-Interest Income	15.5	18.0	16.6	16.9	16.8	16.6	17.3	17.0	67.0	67.8	121.8	
Non-Interest Expense:												
Salaries and Employee Benefits	29.6	29.5	32.1	31.1	31.8	31.5	32.2	31.9	122.4	127.3	182.1	
Net Occupancy	5.0	4.5	4.5	4.3	4.5	4.3	4.3	4.2	18.3	17.3	36.2	
Furniture and Equipment	2.2	2.1	2.1	2.2	2.2	2.1	2.1	2.1	8.7	8.5	8.5	
Data Processing	2.7	2.8	2.8	3.1	3.3	3.5	3.5	3.5	11.4	13.9	14.3	
Marketing	1.1	0.8	0.6	1.5	0.5	1.0	0.8	0.8	4.0	3.0	6.1	
Communication	0.5	0.5	0.5	0.4	0.4	0.5	0.5	0.5	1.9	1.8	1.8	
Professional Services	1.8	1.3	1.5	1.7	1.8	1.5	1.5	1.5	9.6	6.3	6.5	
Other	7.9	7.9	6.9	5.8	6.6	7.2	6.7	6.8	28.5	27.2	52.1	
Total Non-Interest Expense	50.7	49.4	51.1	50.2	51.0	51.6	51.2	51.4	201.4	205.2	307.6	
Non-Core Adjustment	-0.5	-0.2	-0.4	-0.1	0.0	-0.2	0.0	0.0	(1.2)	(0.2)	0.0	
Adjusted Non-Interest Expense	50.2	49.2	50.7	50.1	51.0	51.4	51.2	51.4	200.2	205.0	307.6	
Pretax Income	30.2	31.9	33.0	34.3	34.4	33.3	35.8	36.3	129.3	139.8	236.2	
Income Taxes	10.0	10.6	10.1	10.9	10.3	10.8	11.6	11.8	41.7	44.5	69.7	
Operating Net Income	20.1	21.3	22.9	23.3	24.1	22.5	24.2	24.6	87.6	95.4	166.5	
Share & Per Share Data:												
Diluted EPS	0.32	0.36	0.37	0.38	0.39	0.36	0.38	0.39	1.42	1.53	1.77	
Operating EPS	0.33	0.36	0.37	0.38	0.39	0.36	0.38	0.39	1.43	1.52	1.77	
Dividends Per Share	0.16	0.16	0.16	0.16	0.17	0.17	0.17	0.17	0.64	0.68	0.72	
Tangible Book Value	9.96	10.28	10.52	10.59	10.80	11.10	11.33	11.56	10.59	11.56	17.38	
Common Shares Outstanding	61,855	61,960	61,953	61,980	62,134	62,134	62,134	62,134	61,980	62,134	97,621	
Average Diluted Shares	61,840	62,027	62,086	62,081	62,140	62,876	62,876	62,876	62,011	62,692	94,473	
Key Financial Statistics:												
Return on Assets	0.98%	1.10%	1.10%	1.11%	1.16%	1.05%	1.09%	1.09%	1.07%	1.10%	1.25%	
Return on Equity	9.65%	10.78%	10.67%	10.79%	11.21%	10.35%	10.61%	10.61%	10.47%	10.69%	8.70%	
FTE Net Interest Margin	3.68%	3.67%	3.66%	3.71%	3.70%	3.56%	3.64%	3.64%	3.68%	3.63%	3.68%	
Operating Non-Int. Inc./Operating Rev.	18.88%	21.17%	19.39%	19.45%	19.64%	19.52%	18.83%	18.83%	19.72%	19.33%	21.65%	
Efficiency Ratio	60.67%	57.06%	59.51%	57.96%	58.18%	58.96%	56.14%	55.24%	58.81%	57.13%	69.41%	
Tangible Common Ratio	7.71%	7.86%	7.99%	7.97%	8.07%	8.11%	8.15%	8.16%	7.54%	8.16%	12.01%	
Reserves/Gross Loans	0.97%	0.99%	0.99%	1.00%	0.98%	0.93%	0.93%	0.93%	1.00%	0.93%	0.62%	
NCOs/Average Loans	0.04%	0.09%	0.05%	0.17%	0.14%	0.13%	0.13%	0.13%	0.09%	0.13%	0.12%	
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.

First Financial Bancorp is/was a client of Hilliard Lyons within the past 12 months, received non-investment banking securities-related services, and Hilliard Lyons received compensation for those services.

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.

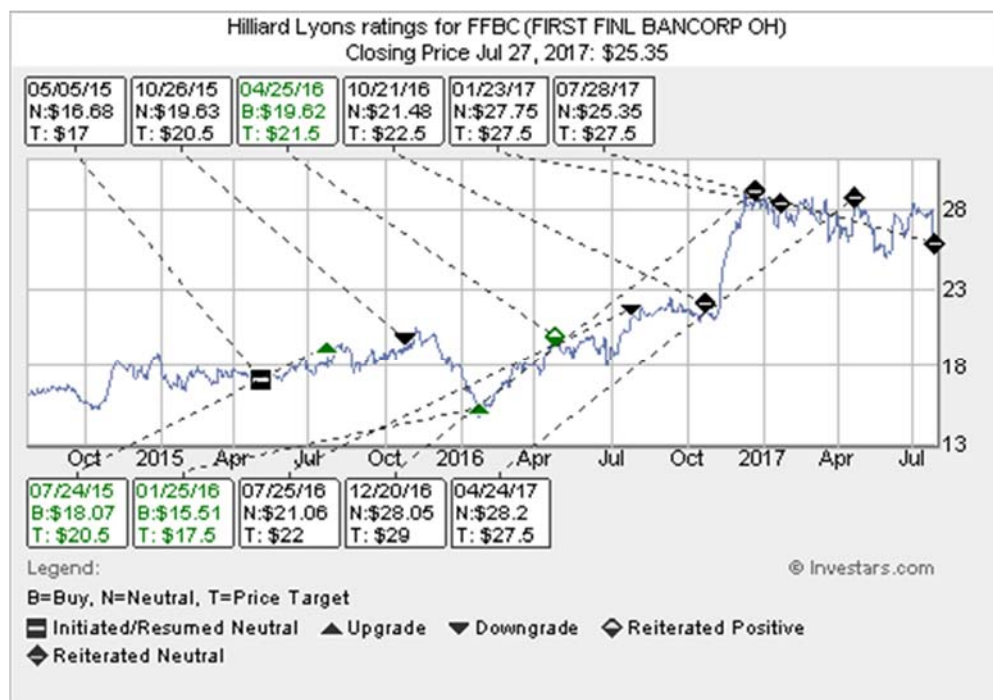
Definitions of Suitabilities:

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	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

Other Disclosures

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