



## COMPANY UPDATE/ ESTIMATES CHANGES/ PRICE TARGET CHANGE

### Key Metrics

FFBC - NASDAQ (as of 10/20/17)	\$27.50
Price Target	\$29.50
52-Week Range	\$20.55-\$29.80
Shares Outstanding (mm)	62.1
Market Cap. (\$mm)	\$1,707
3-Mo. Average Daily Volume (000)	330.0
Institutional Ownership	77.3%
Tangible Equity / Tangible Assets	9.5%
ROE	10.5%
Tangible Book Value Per Share	NA
Price/Tangible Book Value	247.8%
Dividend Yield	2.5%
Price/LTM Earnings	17.9x

### Operating EPS CY 12/31

	Curr. 2016E	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.33	\$0.39A	\$0.39A	\$0.38	\$0.40
2Q	\$0.36	\$0.36A	\$0.36A	\$0.43	\$0.48
3Q	\$0.37	\$0.38	\$0.39A	\$0.48	\$0.51
4Q	\$0.38	\$0.39	\$0.40	\$0.49	\$0.53
Year	\$1.43	\$1.52	\$1.54	\$1.77	\$1.92
P/E	19.2x		17.9x		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	\$0.17A	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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## First Financial Bancorp

FFBC -- NASDAQ -- Neutral -- 2

### 3Q17 Review; Announces Increased Cost Savings from MSFG Acquisition; Reaffirming Neutral Rating

- **Earnings Results:** Excluding non-core items of \$0.01, operating EPS were \$0.39, which was \$0.01 ahead of our estimate and the Street consensus.
- **Positive Highlights:** Operating noninterest expense decreased 2.9% linked-quarter (LQ) to \$49.8 million and was below our estimate of \$51.4 million. The primary driver was lower salaries and benefits expense as a result of efficiency efforts.

Period end loans increased 1.8% sequentially, while average loans advanced 2.9%. Loan growth was favorably impacted by the acquisition of \$28.2 million of home equity loans. In conjunction with this acquisition, FFBC recognized \$0.8 million of provision expense to establish a reserve on these loans.

The provision for loan losses rose \$2.5 million to \$3.0 million on a LQ basis. Nonperforming Assets/Assets fell 12 bps to 0.60%, while the net charge-off ratio increased nine bps to 0.22%. We had modeled a provision of \$2.3 million and net charge-offs of 13 bps.

- Net interest income increased 2.9% sequentially to \$70.5 million on one bp of net interest margin expansion to 3.57%, a 1.7% rise in average earning assets and an extra day in the quarter.
- **Negative Highlights:** Operating noninterest income rose 1.5% LQ to \$16.9 million primarily due to higher service charges on deposits (8.3%) and client derivative fees (19.5%). We had projected noninterest income of \$17.3 million.
- **Estimates:** We are increasing our 2017 and 2018 EPS estimates to \$1.54 and \$1.92 from \$1.52 and \$1.77, respectively. We are boosting our 12-month price target by \$2.00 to \$29.50, while reaffirming our Neutral rating.

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

**OTHER TAKEAWAYS & VALUATION**

- Management increased the expected amount of cost savings associated with the MainSource (MSFG-\$37.90) acquisition to \$48 million from \$43 million.
- First Financial expects 4-6 bps of NIM expansion in 4Q17 as a result of the conversion of variable rate indexed money market deposits to a recently introduced managed account. This move cut the costs of these deposits by 35 bps and enhanced the interest sensitivity of the company.
- FFBC guided to full year 2017 loan growth in the mid-single digits. The company noted that loan growth continues to be constrained by payoff activity in the commercial real estate portfolio.
- Excluding one-time expenses, management estimates that noninterest expense will be approximately \$50 million in 4Q17. It further noted that full-time equivalent employees were reduced by about 5% in Q3.
- The full year 2017 effective tax rate is anticipated to be approximately 31.5%-32.5%, excluding the potential recognition of historic tax credits in 4Q17. If these tax credits are recognized management expects a \$1.1 million after tax benefit, or a 7% reduction to the full year effective tax rate.
- Our price target is derived through our discounted dividend model and the application of a forward multiple of 15.5X to our 4Q18-3Q19 EPS estimates. The multiple that we employ is appropriate relative to FFBC's growth prospects, in our opinion.
- Major model assumptions include one additional Fed rate hike this year and another two next year, continued flattening of the yield curve, slower loan growth in 2017 and a 28% corporate tax rate in 2018.

**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 2015 A	FY 2016 A	FY 2017 E	FY 2018 E	FY 2016 A	FY 2017 E	FY 2018 E
\$Millions, Except for Per Share Data															
<b>Balance Sheet Data:</b>															
Assets	8,193.6	8,310.1	8,368.5	8,438.0	8,531.2	8,710.0	8,761.7	8,893.1	8,147.4	8,438.0	8,893.1	13,957.7	3.6%	5.4%	56.9%
Gross Loans	5,520.0	5,711.7	5,806.9	5,770.6	5,761.7	5,885.7	5,993.5	6,083.4	5,409.7	5,770.6	6,083.4	9,613.3	6.7%	5.4%	58.0%
Average Earning Assets	7,398.0	7,475.7	7,591.2	7,630.1	7,695.7	7,855.6	7,990.0	8,091.2	6,836.3	7,523.4	7,901.8	11,901.8	10.1%	5.1%	50.5%
Deposits	6,176.8	6,119.6	6,338.7	6,525.8	6,529.9	6,468.9	6,726.1	6,827.0	6,179.6	6,525.8	6,827.0	7,139.2	5.6%	4.6%	4.6%
Equity	826.6	846.7	861.1	865.2	880.1	898.1	915.0	929.7	809.4	865.2	929.7	3,009.7	6.9%	7.5%	223.7%
<b>Statement of Operations:</b>															
FTE Net Interest Income	67.6	68.2	69.8	71.2	70.2	69.8	71.8	73.9	250.5	276.9	285.7	437.0	10.5%	3.2%	52.9%
Net Interest Income	66.6	67.1	68.8	70.2	68.9	68.5	70.5	72.5	246.5	272.7	280.4	428.7	10.6%	2.8%	52.9%
Provision for Loan Losses	1.7	4.0	1.7	2.8	0.4	0.5	3.0	3.1	9.6	10.1	6.9	16.8	5.2%	-32.3%	144.0%
Non-Interest Income:															
Service Charges on Deposit Accounts	4.4	4.5	5.1	5.0	4.6	4.8	5.2	5.3	19.0	18.9	19.8	39.1	-0.4%	4.8%	97.3%
Trust and Wealth Management Fees	3.4	3.3	3.2	3.2	3.7	3.4	3.3	3.4	13.1	13.2	13.8	19.6	0.5%	4.9%	41.2%
Bankcard Income	2.9	3.1	3.0	3.1	3.1	3.5	3.3	3.3	11.6	12.1	13.2	25.1	4.8%	9.0%	89.7%
Net Gains From Sales of Loans	1.2	1.8	2.1	1.7	1.2	1.3	1.5	1.2	6.5	6.8	5.2	16.5	5.1%	-24.1%	219.8%
Other	3.6	7.7	3.2	3.8	4.1	3.6	9.4	4.1	23.5	18.3	21.3	21.5	-22.1%	16.2%	1.1%
Securities Gains	0.0	-0.2	0.4	0.0	0.5	0.8	0.3	0.0	1.5	0.2	1.6	0.0	-84.5%	596.6%	-100.0%
Total Non-Interest Income	15.5	20.2	16.9	16.9	17.4	17.5	22.9	17.2	75.2	69.6	75.0	121.8	7.7%	7.7%	62.5%
Non-Core Adjustment	0.0	-2.2	-0.4	0.0	-0.5	-0.8	-6.1	0.0	(1.5)	(2.6)	(7.4)	0.0	71.8%	187.3%	-100.0%
Adjusted Non-Interest Income	15.5	18.0	16.6	16.9	16.8	16.6	16.9	17.2	73.7	67.0	67.5	121.8	-9.1%	0.8%	80.3%
Non-Interest Expense:															
Salaries and Employee Benefits	29.6	29.5	32.1	31.1	31.8	31.5	33.8	30.0	111.8	122.4	127.1	169.3	9.5%	3.9%	33.2%
Net Occupancy	5.0	4.5	4.5	4.3	4.5	4.3	4.3	4.3	18.2	18.3	17.5	21.9	0.5%	-4.6%	25.2%
Furniture and Equipment	2.2	2.1	2.2	2.1	2.2	2.1	2.2	2.2	8.7	8.7	8.6	19.8	-0.5%	-0.2%	129.6%
Data Processing	2.7	2.8	2.8	3.1	3.3	3.5	3.5	3.5	10.9	11.4	13.7	14.1	5.0%	20.3%	2.5%
Marketing	1.1	0.8	0.6	1.5	0.5	1.0	0.6	0.8	3.7	4.0	2.9	5.2	6.5%	-27.1%	81.4%
Communication	0.5	0.5	0.5	0.4	0.4	0.5	0.4	0.5	2.2	1.9	1.8	3.2	-12.6%	-5.0%	79.9%
Professional Services	1.8	1.3	1.5	1.7	1.8	1.5	2.0	1.5	9.6	6.3	6.8	6.5	-34.5%	7.2%	-3.5%
Other	7.9	7.9	6.9	5.8	6.6	7.2	7.6	7.5	36.0	28.5	28.8	50.9	-20.9%	1.3%	76.4%
Total Non-Interest Expense	50.7	49.4	51.1	50.2	51.0	51.6	54.4	50.3	201.1	201.4	207.3	291.0	0.1%	2.9%	40.4%
Non-Core Adjustment	-0.5	-0.2	-0.4	-0.1	0.0	-0.2	-4.6	0.0	(5.6)	(1.2)	(4.8)	0.0	-78.8%	304.7%	-100.0%
Adjusted Non-Interest Expense	50.2	49.2	50.7	50.1	51.0	51.4	49.8	50.3	195.5	200.2	202.5	291.0	2.4%	1.1%	43.7%
Pretax Income	30.2	31.9	33.0	34.3	34.4	33.3	34.5	36.4	115.0	129.3	138.6	242.7	12.4%	7.2%	75.1%
Income Taxes	10.0	10.6	10.1	10.9	10.3	11.0	10.5	11.0	37.3	41.7	42.8	60.4	11.8%	2.5%	41.1%
Operating Net Income	20.1	21.3	22.9	23.3	24.1	22.3	24.1	25.3	77.7	87.6	95.8	182.3	12.7%	9.4%	90.3%
<b>Share &amp; Per Share Data:</b>															
Diluted EPS	0.32	0.36	0.37	0.38	0.39	0.37	0.40	0.40	1.22	1.42	1.56	1.92	16.7%	9.7%	22.8%
Operating EPS	0.33	0.36	0.37	0.38	0.39	0.36	0.39	0.40	1.26	1.43	1.54	1.92	13.8%	7.6%	24.7%
Dividends Per Share	0.16	0.16	0.16	0.16	0.17	0.17	0.17	0.17	0.64	0.64	0.68	0.72	0.0%	6.3%	5.9%
Tangible Book Value	9.96	10.28	10.52	10.59	10.80	11.07	11.36	11.64	9.71	10.59	11.64	21.73	9.0%	9.9%	86.8%
Common Shares Outstanding	61,855	61,960	61,953	61,980	62,134	62,141	62,061	62,061	61,642	61,980	62,061	97,623	0.5%	0.1%	57.3%
Average Diluted Shares	61,840	62,027	62,086	62,081	62,140	62,234	62,190	62,673	61,877	62,011	62,309	94,296	0.2%	0.5%	51.3%
<b>Key Financial Statistics:</b>															
Return on Assets	0.98%	1.10%	1.10%	1.11%	1.16%	1.06%	1.14%	1.14%	1.00%	1.07%	1.12%	1.39%	7	5	26
Return on Equity	9.65%	10.78%	10.67%	10.79%	11.21%	10.22%	10.94%	10.90%	9.32%	10.47%	10.82%	6.38%	115	35	(444)
FTE Net Interest Margin	3.68%	3.67%	3.66%	3.71%	3.70%	3.56%	3.57%	3.62%	3.66%	3.68%	3.61%	3.67%	2	(7)	5
Operating Non-Int. Inc./Operating Rev.	18.88%	21.17%	19.39%	19.45%	19.64%	19.31%	19.18%	19.18%	23.05%	19.72%	19.41%	22.06%	(332)	(31)	265
Efficiency Ratio	60.67%	57.06%	59.51%	57.96%	58.18%	59.23%	56.52%	54.73%	59.99%	58.81%	57.17%	67.80%	(118)	(164)	1,064
Tangible Common Ratio	7.71%	7.86%	7.99%	7.97%	8.07%	8.11%	8.27%	8.31%	7.54%	7.97%	8.31%	16.23%	43	34	792
Reserves/Gross Loans	0.97%	0.99%	0.99%	1.00%	0.98%	0.93%	0.91%	0.91%	0.99%	1.00%	0.91%	0.61%	2	(9)	(30)
NCOs/Average Loans	0.04%	0.09%	0.05%	0.17%	0.14%	0.13%	0.22%	0.15%	0.16%	0.09%	0.16%	0.15%	(7)	8	(1)

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.

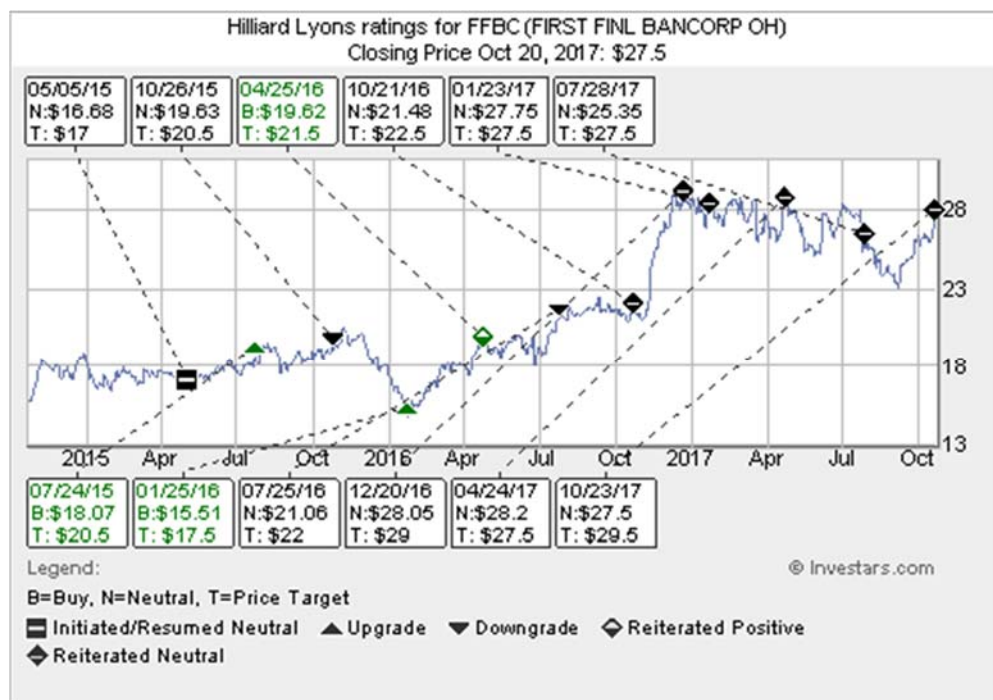
### **Definitions of Suitabilities:**

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	39	32%	8%	92%
Hold/Neutral	74	60%	9%	91%
Sell	8	7%	0%	100%
Restriction	2	2%	100%	0%

As of 5 October 2017

**Other Disclosures**

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