



## COMPANY UPDATE/ ESTIMATES CHANGE

### Key Metrics

|                                  |                 |
|----------------------------------|-----------------|
| GABC - NASDAQ (as of 08/02/17)   | \$34.60         |
| Price Target                     | \$33.00         |
| 52-Week Range                    | \$22.61-\$36.31 |
| Shares Outstanding (mm)          | 22.9            |
| Market Cap. (\$mm)               | \$793           |
| 3-Mo. Average Daily Volume (000) | 45.8            |
| Institutional Ownership          | 34.3%           |
| Tangible Equity/ Tangible Assets | 9.5%            |
| ROE                              | 10.9%           |
| Tangible Book Value Per Share    | \$13.01         |
| Price/Tangible Book Value        | 265.9%          |
| Dividend Yield                   | 1.5%            |
| Price/LTM Earnings               | 19.9x           |

### Operating EPS CY 12/31

|      | 2016A  | Prior<br>2017E | Curr.<br>2017E | Prior<br>2018E | Curr.<br>2018E |
|------|--------|----------------|----------------|----------------|----------------|
| 1Q   | \$0.37 | \$0.42A        | \$0.42A        | \$0.48         | \$0.49         |
| 2Q   | \$0.60 | \$0.42         | \$0.43A        | \$0.49         | \$0.49         |
| 3Q   | \$0.43 | \$0.44         | \$0.44         | \$0.51         | \$0.51         |
| 4Q   | \$0.42 | \$0.45         | \$0.44         | \$0.52         | \$0.52         |
| Year | \$1.82 | \$1.73         | \$1.73         | \$2.00         | \$2.01         |
| P/E  | 19.0x  |                | 20.0x          |                | 17.2x          |

### Common Dividends

|      | 2016A  | Curr.<br>2017E | Prior<br>%chg. | Curr.<br>2018E |
|------|--------|----------------|----------------|----------------|
| 1Q   | \$0.18 | \$0.13A        | -29.6          | \$0.20         |
| 2Q   | \$0.18 | \$0.13A        | -27.8          | \$0.20         |
| 3Q   | \$0.18 | \$0.13         | -27.8          | \$0.20         |
| 4Q   | \$0.18 | \$0.13         | -27.8          | \$0.20         |
| Year | \$0.72 | \$0.52         | -28.2          | \$0.80         |

**Company Description** - German American Bancorp, Inc. (GABC) is a commercial banking organization based in Jasper, Indiana. GABC operates 37 retail and commercial banking offices in 13 southern Indiana counties. The company also owns a trust, brokerage, and financial planning subsidiary (German American Financial Advisors & Trust Company) and a full line property and casualty insurance agency (German American Insurance, Inc.).

### Banks

Analyst: Andrew W. Stapp  
502-588-4190 / [astapp@hilliard.com](mailto:astapp@hilliard.com)  
Institutional Sales Desk: George Moorin  
502-588-9141 / [gmoorin@hilliard.com](mailto:gmoorin@hilliard.com)  
J.J.B. Hilliard, W.L. Lyons, LLC  
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## German American Bancorp, Inc.

GABC – NASDAQ – Neutral – 3

### Loan Growth Accelerates; Reaffirming Neutral Rating

- **Earnings Update:** GABC reported GAAP and operating EPS of \$0.43, which was \$0.01 ahead of our estimate and the Street consensus.
- **Positive Highlights:** Growth in end-of-period loans was robust at 2.4% linked-quarter (LQ), while average loans rose 2.1%.

Net interest income advanced 0.4% LQ to \$24.8 million as eight bps of net interest margin (NIM) contraction to 3.86% was more than offset by a 1.8% rise in average earning assets and an extra day in the quarter. We had modeled net interest income of \$24.9 million and a NIM of 3.81%.

Asset quality remained pristine. The provision for loan losses fell \$0.2 million to \$0.4 million, while Nonperforming Assets/Assets declined one bp to 0.15% and the net charge-off ratio inched up a bp to 0.04%. We had projected a provision of \$0.9 million and net charge-offs of five bps.

Noninterest income fell 4.8% sequentially to \$7.8 million primarily due to a seasonal decline in contingent insurance income. Results modestly exceeded our projection for noninterest income of \$7.7 million.

- **Negative Highlights:** Noninterest expense declined 0.2% LQ to \$19.0 million, but was above our estimate of \$18.6 million.
- **Estimates & Valuation:** We are maintaining our 2017 operating EPS estimates to \$1.73 and increasing our 2018 estimate by \$0.01 to \$2.00. We reaffirm our Neutral rating and 12-month price target of \$33.00.

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

**OTHER TAKEAWAYS & VALUATION**

- The reduction in the NIM was primarily attributable to a decline in the level of purchase accounting accretion. Excluding 10 bps of purchase accounting accretion versus 17 bps in 1Q17, the core NIM dipped a single bp to 3.68%.
- The core yield on loans increased approximately 3 bps LQ due to the Fed rate hike and a reduction in competitive pricing pressures.
- GABC noted that it has not been forced to raise retail deposit rates. However, pricing pressure is building on larger accounts, such as municipals.
- Loan growth was driven by sequential advances in commercial & industrial, agricultural and consumer loans of 3.8%, 7.0% and 4.3%, respectively. Management noted the loan pipeline remains strong.
- 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 GABC is 3 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 clustered in one state. 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.

|  | GERMAN AMERICAN BANCORP, INC. |         |         |         |         |         |         |         | GABC: 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 |
| <b>\$Millions, Except for Per Share Data</b> |                               |         |         |         |         |         |         |         |               |           |           |           |
| <b>Balance Sheet Data:</b>                   |                               |         |         |         |         |         |         |         |               |           |           |           |
| Assets                                       | 2,866.7                       | 2,915.8 | 2,979.5 | 2,956.0 | 2,933.1 | 3,004.8 | 3,067.9 | 3,132.3 | 2,373.7       | 2,956.0   | 3,132.3   | 3,370.2   |
| Gross Loans                                  | 1,923.6                       | 1,965.7 | 2,015.3 | 2,005.2 | 1,990.4 | 2,041.6 | 2,084.5 | 2,128.2 | 1,575.1       | 2,005.2   | 2,128.2   | 2,289.9   |
| Average Earning Assets                       | 2,411.2                       | 2,684.4 | 2,739.9 | 2,762.3 | 2,719.3 | 2,768.1 | 2,829.3 | 2,888.7 | 2,136.7       | 2,648.4   | 2,801.3   | 3,008.3   |
| Deposits                                     | 2,240.6                       | 2,277.4 | 2,329.7 | 2,349.6 | 2,326.5 | 2,363.3 | 2,408.0 | 2,453.5 | 1,826.4       | 2,349.6   | 2,453.5   | 2,620.8   |
| Equity                                       | 321.6                         | 332.4   | 341.0   | 330.3   | 341.2   | 348.1   | 355.2   | 362.4   | 252.3         | 330.3     | 362.4     | 394.8     |
| <b>Statement of Operations:</b>              |                               |         |         |         |         |         |         |         |               |           |           |           |
| FTE Net Interest Income                      | 21.8                          | 25.8    | 25.8    | 26.1    | 26.0    | 26.1    | 26.9    | 27.3    | 79.1          | 99.5      | 106.3     | 112.4     |
| Net Interest Income                          | 20.8                          | 24.7    | 24.6    | 24.9    | 24.7    | 24.8    | 25.6    | 26.0    | 75.6          | 94.9      | 101.1     | 106.8     |
| Provision for Loan Losses                    | 0.9                           | 0.4     | 0.0     | 0.0     | 0.5     | 0.4     | 0.5     | 0.6     | 0.0           | 1.2       | 1.9       | 2.8       |
| Non-Interest Income:                         |                               |         |         |         |         |         |         |         |               |           |           |           |
| Trust and Investment Product Fees            | 1.0                           | 1.2     | 1.2     | 1.2     | 1.2     | 1.4     | 1.3     | 1.3     | 4.0           | 4.6       | 5.2       | 5.4       |
| Service Charges on Deposit Accounts          | 1.2                           | 1.5     | 1.6     | 1.6     | 1.5     | 1.5     | 1.6     | 1.6     | 4.8           | 6.0       | 6.2       | 6.2       |
| Insurance Revenues                           | 2.7                           | 1.6     | 1.7     | 1.7     | 2.6     | 1.7     | 1.8     | 1.8     | 7.5           | 7.7       | 7.9       | 8.3       |
| Company Owned Life Insurance                 | 0.2                           | 0.2     | 0.2     | 0.3     | 0.3     | 0.5     | 0.3     | 0.3     | 0.8           | 1.0       | 1.2       | 1.0       |
| Net Gains on Sales of Loans                  | 0.7                           | 0.9     | 1.0     | 0.8     | 0.7     | 1.0     | 0.9     | 0.7     | 3.0           | 3.4       | 3.3       | 3.3       |
| Other Operating Income                       | 1.3                           | 1.6     | 2.2     | 2.2     | 1.9     | 1.8     | 2.0     | 2.1     | 6.6           | 7.3       | 7.7       | 8.5       |
| Securities Gains                             | 0.0                           | 1.0     | 0.5     | 0.6     | 0.0     | 0.0     | 0.0     | 0.0     | 0.7           | 2.0       | 0.0       | 0.0       |
| Total Non-Interest Income                    | 7.2                           | 8.0     | 8.4     | 8.4     | 8.2     | 7.8     | 7.7     | 7.7     | 27.4          | 32.0      | 31.5      | 32.7      |
| Non-Core Adjustment                          | 0.0                           | -1.0    | -0.5    | -0.6    | 0.0     | 0.0     | 0.0     | 0.0     | (2.1)         | (2.0)     | 0.0       | 0.0       |
| Adjusted Non-Interest Income                 | 7.2                           | 7.0     | 7.9     | 7.8     | 8.2     | 7.8     | 7.8     | 7.7     | 25.3          | 30.0      | 31.5      | 32.7      |
| Non-Interest Expense:                        |                               |         |         |         |         |         |         |         |               |           |           |           |
| Salaries and Employee Benefits               | 11.6                          | 10.2    | 10.6    | 11.6    | 11.4    | 11.5    | 11.3    | 11.3    | 35.0          | 44.0      | 45.4      | 46.9      |
| Occupancy & Equipment                        | 1.9                           | 2.2     | 2.2     | 2.2     | 2.2     | 2.2     | 2.2     | 2.2     | 6.8           | 8.6       | 8.9       | 9.1       |
| FDIC Premiums                                | 0.3                           | 0.3     | 0.4     | 0.1     | 0.2     | 0.2     | 0.2     | 0.2     | 1.1           | 1.2       | 0.9       | 1.0       |
| Data Processing Fees                         | 2.2                           | 1.2     | 1.3     | 1.1     | 1.0     | 1.0     | 1.1     | 1.1     | 3.5           | 5.7       | 4.2       | 4.3       |
| Professional Fees                            | 1.3                           | 0.8     | 0.8     | 0.8     | 0.8     | 0.9     | 0.8     | 0.8     | 2.7           | 3.7       | 3.4       | 3.4       |
| Advertising and Promotion                    | 0.5                           | 0.6     | 0.7     | 0.8     | 0.8     | 0.6     | 0.7     | 0.7     | 3.7           | 2.7       | 2.8       | 2.8       |
| Other Operating Expenses                     | 2.2                           | 2.5     | 2.5     | 2.5     | 2.3     | 2.3     | 2.3     | 2.3     | 7.7           | 9.7       | 9.2       | 9.4       |
| Total Non-Interest Expense                   | 20.2                          | 18.2    | 18.7    | 19.4    | 19.0    | 19.0    | 18.8    | 18.9    | 61.3          | 76.4      | 75.8      | 77.5      |
| Non-Core Adjustment                          | -3.9                          | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | (1.8)         | (3.9)     | 0.0       | 0.0       |
| Adjusted Non-Interest Expense                | 16.4                          | 18.2    | 18.7    | 19.4    | 19.0    | 19.0    | 18.8    | 18.9    | 59.6          | 72.5      | 75.8      | 77.5      |
| Pretax Income                                | 10.8                          | 13.2    | 13.8    | 13.3    | 13.4    | 13.3    | 14.1    | 14.2    | 41.3          | 51.2      | 54.9      | 59.3      |
| Income Taxes                                 | 3.1                           | 3.9     | 3.9     | 3.6     | 3.8     | 3.4     | 4.0     | 4.0     | 11.7          | 14.6      | 15.2      | 13.1      |
| Operating Net Income                         | 7.7                           | 9.3     | 9.9     | 9.7     | 9.6     | 9.8     | 10.1    | 10.2    | 29.6          | 36.5      | 39.7      | 46.2      |
| <b>Share &amp; Per Share Data:</b>           |                               |         |         |         |         |         |         |         |               |           |           |           |
| Diluted EPS                                  | 0.25                          | 0.43    | 0.45    | 0.44    | 0.42    | 0.43    | 0.44    | 0.44    | 1.51          | 1.56      | 1.73      | 2.01      |
| Operating EPS                                | 0.37                          | 0.60    | 0.43    | 0.42    | 0.42    | 0.43    | 0.44    | 0.44    | 1.49          | 1.82      | 1.73      | 2.01      |
| Dividends Per Share                          | 0.12                          | 0.12    | 0.12    | 0.12    | 0.13    | 0.13    | 0.13    | 0.13    | 0.45          | 0.48      | 0.52      | 0.60      |
| Tangible Book Value                          | 11.54                         | 12.03   | 12.42   | 11.94   | 12.40   | 13.01   | 13.03   | 13.35   | 11.57         | 11.94     | 13.35     | 14.80     |
| Common Shares Outstanding                    | 22,896                        | 22,887  | 22,887  | 22,904  | 22,929  | 22,930  | 22,930  | 22,930  | 19,918        | 22,904    | 22,930    | 22,930    |
| Average Diluted Shares                       | 20,893                        | 22,886  | 22,887  | 22,888  | 22,909  | 22,929  | 22,930  | 22,930  | 19,897        | 22,383    | 22,924    | 22,930    |
| <b>Key Financial Statistics:</b>             |                               |         |         |         |         |         |         |         |               |           |           |           |
| Return on Assets                             | 0.81%                         | 1.36%   | 1.38%   | 1.36%   | 1.31%   | 1.32%   | 1.32%   | 1.30%   | 1.33%         | 1.22%     | 1.31%     | 1.43%     |
| Return on Equity                             | 7.39%                         | 12.02%  | 12.07%  | 11.90%  | 11.39%  | 11.34%  | 11.39%  | 11.27%  | 12.48%        | 10.83%    | 11.35%    | 12.21%    |
| Net Interest Margin                          | 3.63%                         | 3.86%   | 3.75%   | 3.77%   | 3.86%   | 3.78%   | 3.77%   | 3.76%   | 3.70%         | 3.75%     | 3.80%     | 3.74%     |
| Operating Non-Int. Inc./Operating Rev.       | 25.77%                        | 22.22%  | 24.40%  | 23.87%  | 24.88%  | 23.91%  | 23.50%  | 22.85%  | 25.10%        | 24.01%    | 23.78%    | 23.46%    |
| Efficiency Ratio                             | 69.75%                        | 54.17%  | 54.64%  | 56.15%  | 55.69%  | 56.03%  | 53.64%  | 53.35%  | 57.51%        | 58.73%    | 54.68%    | 53.01%    |
| Tangible Common Ratio                        | 9.41%                         | 9.63%   | 9.72%   | 9.43%   | 9.89%   | 9.89%   | 9.92%   | 9.95%   | 9.80%         | 9.43%     | 9.95%     | 10.24%    |
| Reserves/Loans                               | 0.79%                         | 0.78%   | 0.75%   | 0.74%   | 0.76%   | 0.75%   | 0.75%   | 0.75%   | 0.92%         | 0.74%     | 0.75%     | 0.75%     |
| NCOs/Average Loans                           | 0.03%                         | 0.04%   | 0.03%   | 0.07%   | 0.03%   | 0.04%   | 0.05%   | 0.05%   | 0.03%         | 0.04%     | 0.04%     | 0.07%     |

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.

German American 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.

Hilliard Lyons customers own at least 5% of the outstanding common stock of German American Bancorp.

### **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.

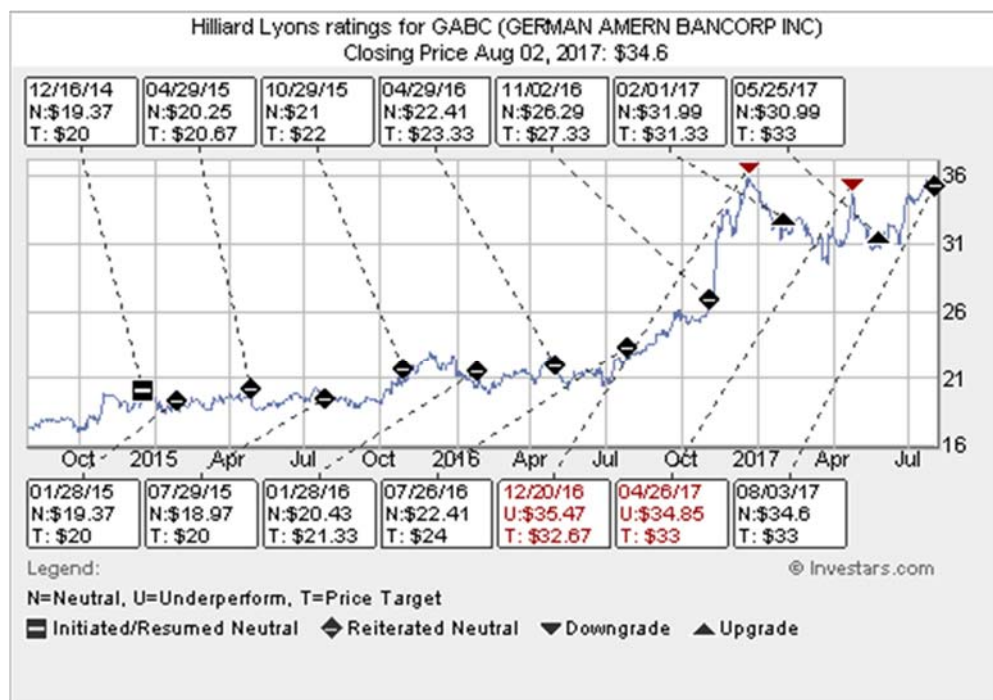
### **Definitions of Suitabilities:**

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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