



## COMPANY UPDATE/ ESTIMATES CHANGE

### Key Metrics

GABC - NASDAQ (as of 01/30/18)	\$34.41
Price Target	\$34.00
52-Week Range	\$28.71-\$39.02
Shares Outstanding (mm)	22.9
Market Cap. (\$mm)	\$789
3-Mo. Average Daily Volume (000)	38.5
Institutional Ownership	37.1%
Tangible Equity / Tangible Assets	9.5%
ROE	11.6%
Tangible Book Value Per Share	\$13.45
Price/Tangible Book Value	255.9%
Dividend Yield	1.5%
Price/LTM Earnings	19.4x

### Operating EPS CY 12/31

	2017A	Prior 2018E	Curr. 2018E	Prior 2019E	Curr. 2019E
1Q	\$0.42	\$0.48	\$0.48	\$0.54	\$0.54
2Q	\$0.43	\$0.48	\$0.50	\$0.53	\$0.53
3Q	\$0.42	\$0.50	\$0.52	\$0.56	\$0.56
4Q	\$0.41	\$0.51	\$0.53	\$0.57	\$0.57
Year	\$1.68	\$1.98	\$2.02	\$2.20	\$2.20
P/E	20.5x		17.0x		15.6x

### Common Dividends

	2017A	Curr. 2018E	Prior % chg.	Curr. 2019E
1Q	\$0.13	\$0.15	18.4	\$0.17
2Q	\$0.13	\$0.15	15.4	\$0.17
3Q	\$0.13	\$0.15	15.4	\$0.17
4Q	\$0.13	\$0.15	15.4	\$0.17
Year	\$0.52	\$0.60	16.1	\$0.68

**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

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## German American Bancorp, Inc.

GABC – NASDAQ – Neutral – 3

### Loan Growth Continues to Outperform; Reaffirming Neutral Rating

- Earnings Update:** Excluding a \$0.10 net benefit from the revaluation of the company's deferred tax assets and liabilities, 4Q17 operating EPS were \$0.41, which was \$0.02 below our estimate and \$0.01 shy of the Street consensus.
- Positive Highlights:** Growth in end-of-period loans was robust at 2.6% linked-quarter (LQ), while average loans rose 2.0%.  
 Net interest income advanced 2.1% LQ to \$25.5 million on a 1.6% rise in average earning assets and one bp of net interest margin (NIM) expansion to 3.71%. We had modeled net interest income of \$25.6 million and a NIM of 3.70%.
- Negative Highlights:** Operating noninterest income fell 1.6% sequentially to \$7.6 million on declines in mortgage banking (28.4%) and "other" noninterest income (10.2%). Results were modestly below our estimate of \$7.7 million. Operating noninterest expense increased 5.3% LQ to \$20.0 million versus our estimate of \$19.0 million. The increase was primarily attributable to higher employee salaries and benefits (5.2%) and advertising & promotion (51.3%).  
 The provision for loan losses rose \$0.4 million to \$0.7 million, while NPAs/Assets ticked up three bps to 0.35% and the net charge-off ratio was flat at five bps. We had projected a provision of \$0.4 million and net charge-offs of five bps.
- Estimates & Valuation:** We are increasing our 2018 and operating EPS estimate by \$0.04 to \$2.02 and introducing our 2019 estimate at \$2.20. We retaining our \$34.00 12-month price target and Neutral rating.

**Note Important Disclosures on pages 4 and 5**

**Note Analyst Certification on page 4**

**OTHER TAKEAWAYS & VALUATION**

- Tangible book value per share increased \$0.18 to \$13.45 and was impacted by revaluation of the company's deferred tax assets and liabilities.
- Excluding six bps of purchase accounting accretion versus five bps in 3Q17, the core NIM was flat at 3.65%.
- The company's cost of funds increased one bps on a LQ basis to 0.44%. Management stated that while retail deposit pricing pressures have remained fairly benign, pricing on larger deposit accounts is highly competitive.
- Management noted an uptick in customer optimism following the passage of tax reform and is hopeful this will translate into stronger loan demand.
- The majority of savings from tax reform should essentially flow to the bottom line, although wage pressure is building.
- Our price target is derived through our discounted dividend model and the application of a 15.5X forward multiple to our 2019 EPS estimate. The earnings multiple that we employ is appropriate relative to the company's risk/reward prospects, in our opinion.
- Major model assumptions include two Fed rate hikes in 2018 and 2019 and continued flattening of the yield curve.

**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			
	1Q017 A	2Q017 A	3Q017 A	4Q017 A	1Q018 E	2Q018 E	3Q018 E	4Q018 E	FY 2017 A	FY 2018 E	FY 2019 E	FY 2017 A	FY 2018 E	FY 2019 E
<b>Balance Sheet Data:</b>														
Assets	2,933.1	3,004.8	3,072.9	3,144.4	3,156.2	3,217.7	3,280.4	3,344.4	2,956.0	3,144.4	3,344.4	3,344.4	3,344.4	3,562.2
Gross Loans	1,990.4	2,041.6	2,094.8	2,148.4	2,159.1	2,215.2	2,272.8	2,331.9	2,005.2	2,148.4	2,331.9	2,331.9	2,511.2	
Average Earning Assets	2,719.3	2,768.1	2,820.8	2,866.4	2,932.8	2,966.9	3,024.8	3,083.8	2,648.4	2,793.6	3,002.1	3,002.1	3,188.9	
Deposits	2,326.5	2,363.3	2,424.6	2,484.1	2,492.4	2,536.2	2,580.7	2,626.0	2,349.6	2,484.1	2,626.0	2,626.0	2,779.5	
Equity	341.2	355.0	360.6	364.6	372.0	380.0	388.4	397.2	330.3	364.6	397.2	397.2	432.2	
<b>Statement of Operations:</b>														
FTE Net Interest Income	26.0	26.1	26.2	26.8	26.2	27.1	27.9	28.4	99.5	105.1	109.7	109.7	116.3	
Net Interest Income	24.7	24.8	24.9	25.5	25.5	26.5	27.2	27.7	94.9	99.9	107.0	107.0	113.4	
Provision for Loan Losses	0.5	0.4	0.3	0.7	0.5	0.6	0.7	0.8	1.2	1.8	2.5	2.5	3.0	
<b>Non-Interest Income:</b>														
Trust and Investment Product Fees	1.2	1.4	1.3	1.4	1.4	1.5	1.5	1.5	4.6	5.3	5.9	5.9	6.4	
Service Charges on Deposit Accounts	1.5	1.5	1.6	1.6	1.5	1.5	1.6	1.6	6.0	6.2	6.3	6.3	6.4	
Insurance Revenues	2.6	1.7	1.7	1.9	2.7	1.8	1.8	2.0	7.7	8.0	8.3	8.3	8.7	
Company Owned Life Insurance	0.3	0.5	0.3	0.3	0.3	0.3	0.3	0.3	1.2	1.3	1.2	1.2	1.2	
Net Gains on Sales of Loans	0.7	1.0	1.0	0.7	0.7	0.9	0.9	0.8	3.4	3.3	3.3	3.3	3.4	
Other Operating Income	1.9	1.8	1.8	1.7	1.9	2.0	2.0	2.0	7.3	7.2	7.9	7.9	8.3	
Securities Gains	0.0	0.0	0.6	0.0	0.0	0.0	0.0	0.0	2.0	0.6	0.0	0.0	0.0	
Total Non-Interest Income	8.2	7.8	8.3	7.6	8.6	8.0	8.1	8.1	32.0	31.9	32.8	32.8	34.2	
Non-Core Adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(2.0)	(0.5)	0.0	0.0	0.0	
Adjusted Non-Interest Income	8.2	7.8	7.8	7.6	8.6	8.0	8.1	8.1	30.0	31.3	32.8	32.8	34.2	
<b>Non-Interest Expense:</b>														
Salaries and Employee Benefits	11.4	11.5	11.6	12.2	12.2	11.9	12.0	12.0	44.0	46.6	48.1	48.1	49.8	
Occupancy & Equipment	2.2	2.2	2.4	2.5	2.4	2.4	2.4	2.4	8.6	9.2	9.7	9.7	9.9	
FDC Premiums	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	1.2	1.0	1.0	1.0	1.1	
Data Processing Fees	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.1	5.7	4.3	4.4	4.4	4.5	
Professional Fees	0.8	0.9	0.6	0.6	0.8	0.8	0.8	0.8	3.7	2.8	3.0	3.0	3.1	
Advertising and Promotion	0.8	0.6	1.3	0.8	0.8	0.7	0.7	0.7	2.7	3.5	2.7	2.7	2.7	
Other Operating Expenses	2.3	2.3	2.4	2.4	2.4	2.4	2.4	2.4	9.7	9.4	9.7	9.7	9.9	
Total Non-Interest Expense	19.0	19.0	19.8	20.0	20.0	19.7	19.8	19.9	76.4	77.8	79.4	79.4	81.4	
Non-Core Adjustment	0.0	0.0	-0.8	0.0	0.0	0.0	0.0	0.0	(4.0)	(0.8)	0.0	0.0	0.0	
Adjusted Non-Interest Expense	19.0	19.0	19.0	20.0	20.0	19.7	19.8	19.9	72.4	77.0	79.4	79.4	81.4	
Pretax Income	13.4	13.3	13.5	12.4	13.6	14.2	14.9	15.2	51.3	52.5	58.0	58.0	63.3	
Income Taxes	3.8	3.4	3.7	3.1	2.7	2.8	3.0	3.0	14.7	14.0	11.6	11.6	12.7	
Operating Net Income	9.6	9.8	9.7	9.3	10.9	11.4	11.9	12.2	36.6	38.4	46.4	46.4	50.6	
<b>Share &amp; Per Share Data:</b>														
Diluted EPS	0.42	0.43	0.42	0.51	0.48	0.50	0.52	0.53	1.56	1.77	2.02	2.02	2.20	
Operating EPS	0.42	0.43	0.42	0.41	0.48	0.50	0.53	0.53	1.82	1.68	2.02	2.02	2.20	
Dividends Per Share	0.13	0.13	0.13	0.13	0.15	0.15	0.15	0.15	0.48	0.52	0.60	0.60	0.68	
Tangible Book Value	12.40	13.01	13.27	13.45	13.78	14.14	14.51	14.90	11.94	13.45	14.90	14.90	16.45	
Common Shares Outstanding	22,929	22,930	22,930	22,934	22,934	22,934	22,934	22,934	22,904	22,934	22,934	22,934	22,934	
Average Diluted Shares	22,909	22,929	22,930	22,931	22,934	22,934	22,934	22,934	22,383	22,925	22,934	22,934	22,934	
<b>Key Financial Statistics:</b>														
Return on Assets	1.31%	1.32%	1.27%	1.51%	1.41%	1.43%	1.45%	1.46%	1.22%	1.35%	1.44%	1.44%	1.48%	
Return on Equity	11.39%	11.34%	10.78%	12.83%	12.02%	12.12%	12.30%	12.31%	10.83%	11.59%	12.19%	12.19%	12.20%	
Net Interest Margin	3.86%	3.78%	3.70%	3.71%	3.62%	3.67%	3.66%	3.66%	3.75%	3.76%	3.65%	3.65%	3.65%	
Operating Non-Int. Inc./Operating Rev.	24.88%	23.91%	23.81%	22.93%	25.20%	23.17%	22.94%	22.69%	24.01%	23.88%	23.50%	23.50%	23.18%	
Efficiency Ratio	55.69%	56.03%	57.34%	58.23%	56.95%	55.55%	54.44%	53.88%	58.73%	56.82%	55.21%	55.21%	53.78%	
Tangible Common Ratio	9.89%	10.12%	10.09%	9.99%	10.20%	10.25%	10.32%	10.39%	9.43%	9.99%	10.39%	10.39%	10.76%	
Reserves/Loans	0.76%	0.75%	0.73%	0.74%	0.73%	0.72%	0.72%	0.72%	0.74%	0.73%	0.72%	0.72%	0.70%	
NCOs/Average Loans	0.03%	0.04%	0.05%	0.05%	0.05%	0.06%	0.08%	0.08%	0.04%	0.04%	0.07%	0.07%	0.09%	

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.

### **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.

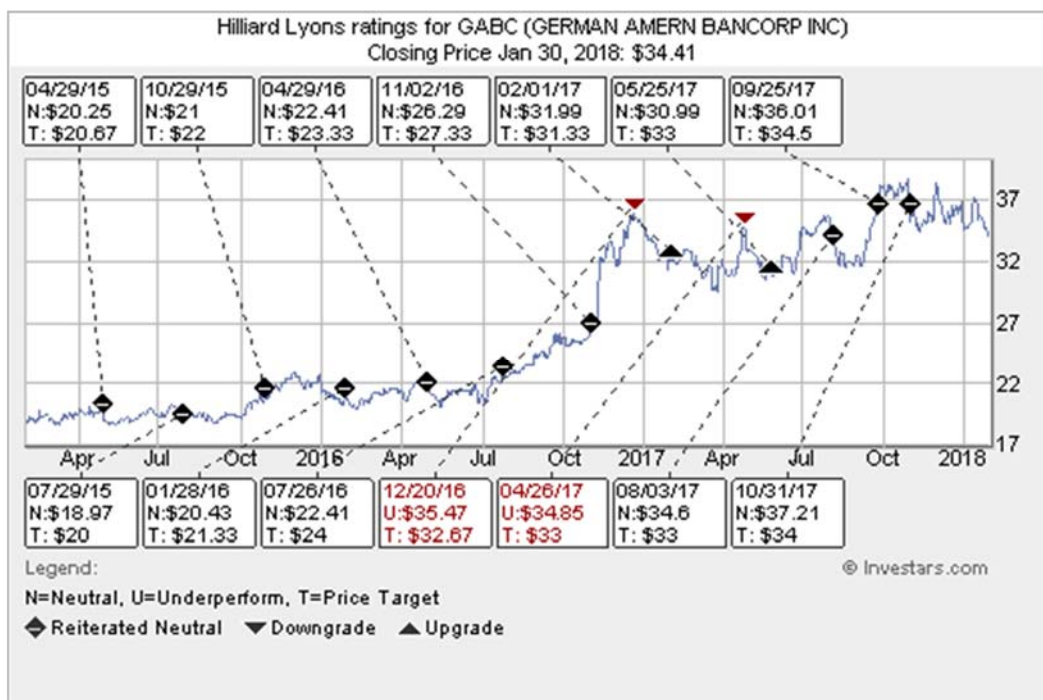
### **Definitions of Suitabilities:**

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



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	31	28%	10%	90%
Hold/Neutral	75	67%	9%	91%
Sell	6	5%	0%	100%

As of 8 January 2018

**Other Disclosures**

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

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