



## COMPANY UPDATE/ ESTIMATES CHANGE/ PRICE TARGET CHANGE/ RATING CHANGE

### Key Metrics

GABC - NASDAQ (as of 05/24/17)	\$30.99
Price Target	\$33.00
52-Week Range	\$20.36-\$36.31
Shares Outstanding (mm)	22.9
Market Cap. (\$mm)	\$711
3-Mo. Average Daily Volume (000)	47.9
Institutional Ownership	34.4%
Tangible Equity / Tangible Assets	9.5%
ROE	10.9%
Tangible Book Value Per Share	\$12.40
Price/Tangible Book Value	249.9%
Dividend Yield	1.7%
Price/LTM Earnings	17.9x

### Operating EPS CY 12/31

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.37	\$0.42A	\$0.42A	\$0.48	\$0.48
2Q	\$0.60	\$0.42	\$0.42	\$0.48	\$0.49
3Q	\$0.43	\$0.44	\$0.44	\$0.51	\$0.51
4Q	\$0.42	\$0.45	\$0.45	\$0.52	\$0.52
Year	\$1.82	\$1.73	\$1.73	\$1.99	\$2.00
P/E	17.0x		17.9x		15.5x

### Common Dividends

	2016A	Curr. 2017E	Prior % chg.	Curr. 2018E
1Q	\$0.18	\$0.19A	5.6	\$0.20
2Q	\$0.18	\$0.19	5.6	\$0.20
3Q	\$0.18	\$0.19	5.6	\$0.20
4Q	\$0.18	\$0.19	5.6	\$0.20
Year	\$0.72	\$0.76	5.6	\$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

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May 25, 2017

## German American Bancorp, Inc.

GABC – NASDAQ – Neutral – 3

### Upgrading to Neutral on Recent Pullback

- With the recent decline in GABC's share price, the stock is now trading below our price target. Consequently, we are raising our rating to Neutral from Underperform.
- We have made certain adjustments to our model, which were largely offsetting. We are retaining our 2017 EPS estimate at \$1.73 and increasing our 2018 estimate by a penny to \$2.00.
- Our 12-month price target remains unchanged at \$33.00. We derive our price target through our discounted dividend model and the application of a 15X multiple to our 3Q18-2Q19 EPS estimates. The 15X multiple that we employ is appropriate relative to GABC's long-term growth prospects, in our opinion.
- German American's simulation model indicates net interest would be under pressure in a rising interest rate scenario. For example, the model projects a 1.9% decline in net interest income under a scenario wherein interest rates immediately increase by 100 bps. We believe this issue is largely reflected in GABC's share price and note the stock's post-election advance of 13.8% is well below the 18.9% gain realized by the NASDAQ Bank Index.

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

**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 E	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	2,866.7	2,915.8	2,979.5	2,956.0	2,933.1	2,979.3	3,041.9	3,105.8	2,373.7	2,956.0	3,105.8	3,317.0	24.5%	5.1%	6.8%
Gross Loans	1,923.6	1,965.7	2,015.3	2,005.2	1,990.4	2,026.3	2,074.9	2,124.7	1,575.1	2,005.2	2,124.7	2,289.4	27.3%	6.0%	7.8%
Average Earning Assets	2,411.2	2,684.4	2,739.9	2,762.3	2,719.3	2,747.3	2,797.8	2,856.6	2,136.7	2,648.4	2,780.2	2,965.6	23.9%	5.0%	6.7%
Deposits	2,240.6	2,277.4	2,329.7	2,349.6	2,326.5	2,359.4	2,404.0	2,449.5	1,826.4	2,349.6	2,449.5	2,599.1	28.6%	4.3%	6.1%
Equity	321.6	332.4	341.0	330.3	341.2	346.5	352.2	358.2	252.3	330.3	358.2	385.7	30.9%	8.5%	7.7%
<b>Statement of Operations:</b>															
FTE Net Interest Income	21.8	25.8	25.8	26.1	26.0	26.1	26.9	27.4	79.1	99.5	106.4	111.7	25.8%	7.0%	5.0%
Net Interest Income	20.8	24.7	24.6	24.9	24.7	24.9	25.6	26.1	75.6	94.9	101.2	106.3	25.6%	6.7%	5.0%
Provision for Loan Losses	0.9	0.4	0.0	0.0	0.5	0.5	0.6	0.6	0.0	1.2	2.3	3.4	NA	87.6%	52.0%
Non-Interest Income:															
Trust and Investment Product Fees	1.0	1.2	1.2	1.2	1.2	1.3	1.3	1.3	4.0	4.6	5.1	5.5	17.4%	9.5%	7.3%
Service Charges on Deposit Accounts	1.2	1.5	1.6	1.6	1.5	1.6	1.7	1.7	4.8	6.0	6.4	6.5	23.8%	7.3%	0.7%
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	3.4%	2.0%	4.5%
Company Owned Life Insurance	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.8	1.0	1.0	1.0	16.7%	2.9%	0.0%
Net Gains on Sales of Loans	0.7	0.9	1.0	0.8	0.7	0.9	0.8	0.7	3.0	3.4	3.0	3.0	13.5%	-10.1%	0.5%
Other Operating Income	1.3	1.6	2.2	2.2	1.9	2.0	2.0	2.0	6.6	7.3	7.9	8.3	9.8%	7.7%	6.2%
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	173.0%	-100.0%	NA
Total Non-Interest Income	7.2	8.0	8.4	8.4	8.2	7.7	7.7	7.7	27.4	32.0	31.3	32.6	16.5%	-2.2%	4.1%
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	-6.9%	-100.0%	NA
Adjusted Non-Interest Income	7.2	7.0	7.9	7.8	8.2	7.7	7.7	7.7	25.3	30.0	31.3	32.6	18.5%	4.3%	4.1%
Non-Interest Expense:															
Salaries and Employee Benefits	11.6	10.2	10.6	11.6	11.4	10.9	11.0	11.0	35.0	44.0	44.4	45.7	25.5%	0.9%	3.1%
Occupancy & Equipment	1.9	2.2	2.2	2.2	2.2	2.2	2.2	2.2	6.8	8.6	8.8	9.0	25.6%	2.8%	2.0%
FDIC Premiums	0.3	0.3	0.4	0.1	0.2	0.2	0.2	0.3	1.1	1.2	1.0	1.0	0.6%	-14.9%	6.0%
Data Processing Fees	2.2	1.2	1.3	1.1	1.0	1.1	1.1	1.1	3.5	5.7	4.4	4.6	60.6%	-22.9%	3.9%
Professional Fees	1.3	0.8	0.8	0.8	0.8	0.8	0.8	0.8	2.7	3.7	3.2	3.3	38.0%	-11.9%	2.0%
Advertising and Promotion	0.5	0.6	0.7	0.8	0.8	0.7	0.7	0.7	3.7	2.7	3.0	3.0	-27.6%	11.6%	0.1%
Other Operating Expenses	2.2	2.5	2.5	2.5	2.3	2.3	2.3	2.3	7.7	9.7	9.3	9.4	26.3%	-3.6%	1.0%
Total Non-Interest Expense	20.2	18.2	18.7	19.4	19.0	18.6	18.6	18.7	61.3	76.4	74.9	76.5	24.6%	-2.0%	2.2%
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	121.9%	-100.0%	NA
Adjusted Non-Interest Expense	16.4	18.2	18.7	19.4	19.0	18.6	18.6	18.7	59.6	72.5	74.9	76.6	21.8%	3.3%	2.2%
Pretax Income	10.8	13.2	13.8	13.3	13.4	13.4	14.1	14.5	41.3	51.2	55.3	58.9	23.9%	8.2%	6.4%
Income Taxes	3.1	3.9	3.9	3.6	3.8	3.8	4.0	4.1	11.7	14.6	15.7	13.0	24.9%	7.6%	-17.1%
Operating Net Income	7.7	9.3	9.9	9.7	9.6	9.6	10.1	10.4	29.6	36.5	39.6	45.8	23.5%	8.4%	15.7%
<b>Share &amp; Per Share Data:</b>															
Diluted EPS	0.25	0.43	0.45	0.44	0.42	0.42	0.44	0.45	1.51	1.56	1.73	2.00	3.2%	10.9%	15.7%
Operating EPS	0.37	0.60	0.43	0.42	0.42	0.42	0.44	0.45	1.49	1.82	1.73	2.00	22.6%	-5.2%	15.7%
Dividends Per Share	0.18	0.18	0.18	0.18	0.19	0.19	0.19	0.19	0.68	0.72	0.76	0.80	5.9%	5.6%	5.3%
Tangible Book Value	11.54	12.03	12.42	11.94	12.40	12.64	12.90	13.17	11.94	11.94	13.17	14.39	3.1%	10.3%	9.3%
Common Shares Outstanding	22,896	22,887	22,887	22,904	22,929	22,929	22,929	22,929	19,918	22,904	22,929	22,929	15.0%	0.1%	0.0%
Average Diluted Shares	20,893	22,886	22,887	22,888	22,909	22,929	22,929	22,929	19,897	22,383	22,924	22,929	12.5%	2.4%	0.0%
<b>Key Financial Statistics:</b>															
Return on Assets	0.81%	1.36%	1.38%	1.36%	1.31%	1.31%	1.33%	1.34%	1.33%	1.22%	1.32%	1.44%	(10)	10	12
Return on Equity	7.39%	12.02%	12.07%	11.90%	11.39%	11.22%	11.46%	11.56%	12.48%	10.83%	11.41%	12.33%	(165)	58	92
Net Interest Margin	3.63%	3.86%	3.75%	3.77%	3.86%	3.81%	3.81%	3.81%	3.70%	3.75%	3.83%	3.77%	5	8	(6)
Operating Non-Int. Inc./Operating Rev.	25.77%	22.22%	24.40%	23.87%	24.88%	23.60%	23.20%	25.10%	24.01%	24.01%	23.61%	23.46%	(109)	(41)	(15)
Efficiency Ratio	69.75%	54.17%	54.17%	56.15%	55.69%	54.33%	53.23%	52.64%	57.51%	58.73%	53.97%	52.68%	122	(476)	(130)
Tangible Common Ratio	9.41%	9.63%	9.72%	9.43%	9.89%	9.92%	9.91%	9.90%	9.80%	9.43%	9.90%	10.12%	(37)	47	22
Reserves/Loans	0.79%	0.78%	0.75%	0.74%	0.76%	0.76%	0.76%	0.75%	0.92%	0.74%	0.75%	0.75%	(18)	1	0
NCOs/Average Loans	0.03%	0.04%	0.03%	0.07%	0.03%	0.05%	0.07%	0.09%	0.03%	0.04%	0.06%	0.10%	1	2	4

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.

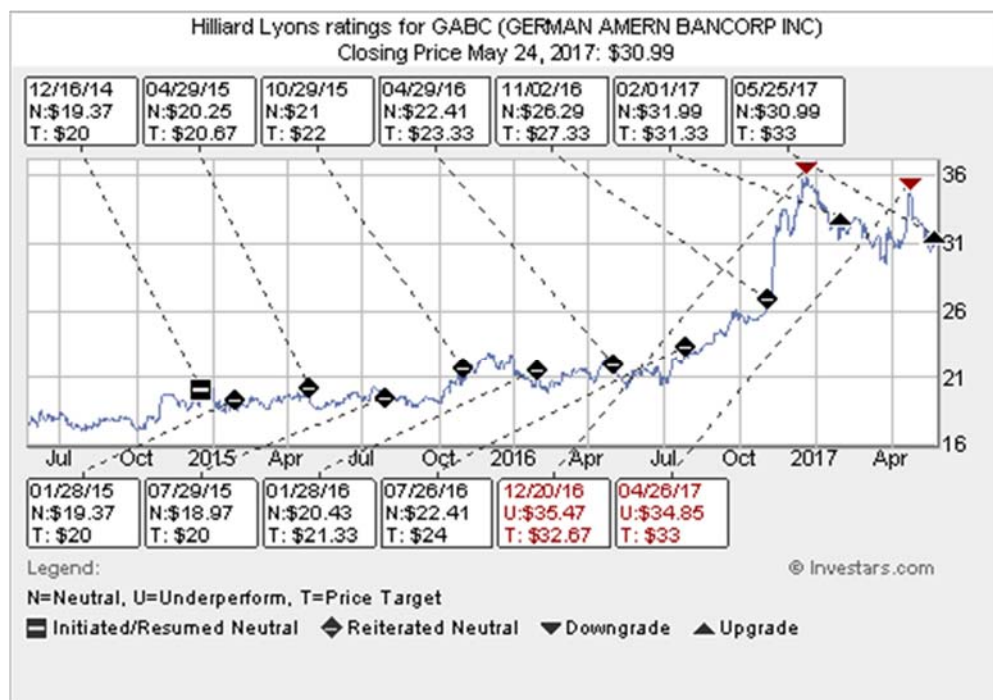
### **Definitions of Suitabilities:**

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



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	32	26%	13%	88%
Hold/Neutral	79	64%	8%	92%
Sell	12	10%	0%	100%

As of 8 May 2017

**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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