



## COMPANY UPDATE/ ESTIMATES CHANGE/ TARGET PRICE CHANGE

### Key Metrics

GABC - NASDAQ (as of 10/30/17)	\$37.21
Price Target	\$34.00
52-Week Range	\$25.67-\$39.02
Shares Outstanding (mm)	22.9
Market Cap. (\$mm)	\$853
3-Mo. Average Daily Volume (000)	43.8
Institutional Ownership	36.2%
Tangible Equity / Tangible Assets	9.5%
ROE	10.9%
Tangible Book Value Per Share	\$13.27
Price/Tangible Book Value	280.4%
Dividend Yield	1.4%
Price/LTM Earnings	21.8x

### Operating EPS CY 12/31

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.37	\$0.42A	\$0.42A	\$0.49	\$0.48
2Q	\$0.60	\$0.43A	\$0.43A	\$0.49	\$0.48
3Q	\$0.43	\$0.44	\$0.42A	\$0.51	\$0.50
4Q	\$0.42	\$0.45	\$0.43	\$0.52	\$0.51
Year	\$1.82	\$1.74	\$1.70	\$2.01	\$1.98
P/E	20.4x		21.9x		18.8x

### Common Dividends

	2016A	Curr. 2017E	Prior %chg.	Curr. 2018E
1Q	\$0.12	\$0.13A	5.6	\$0.15
2Q	\$0.12	\$0.13A	8.3	\$0.15
3Q	\$0.12	\$0.13A	8.3	\$0.15
4Q	\$0.12	\$0.13	8.3	\$0.15
Year	\$0.48	\$0.52	7.6	\$0.60

**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  
October 31, 2017

## German American Bancorp, Inc.

GABC – NASDAQ – Neutral – 3

### Loan Growth Remains Robust, but NIM Disappoints; Reaffirming Neutral Rating

- **Earnings Update:** GABC reported 3Q17 GAAP and operating EPS were \$0.42, which was \$0.02 below our estimate and the Street consensus.
- **Positive Highlights:** Growth in end-of-period loans was robust at 2.7% linked-quarter (LQ), while average loans rose 2.3%.

Operating noninterest expense declined 2.9% LQ to \$18.4 million versus our estimate of \$18.9 million.

The provision for loan losses fell \$0.1 million to \$0.3 million, while Nonperforming Assets/Assets rose 15 bps to 0.32% and the net charge-off ratio inched up one bp to five bps. We had projected a provision of \$0.4 million and net charge-offs of five bps.

The effective tax rate came in at 26.7% versus our estimate of 28.4%. The decline in the effective tax rate was attributable to a tax benefit received from donating a former branch facility to a municipality in one of the company's markets.

- **Negative Highlights:** Net interest income advanced 0.4% LQ to \$24.9 million as a 1.9% rise in average earning assets and an extra day in the quarter more than offset eight bps of net interest margin (NIM) contraction to 3.70%. We had modeled net interest income of \$25.5 million and a NIM of 3.77%.

Operating noninterest income fell 7.2% sequentially to \$7.2 million, which was below our estimate of \$8.0 million.

- **Estimates & Valuation:** We are reducing our 2017 and 2018 operating EPS estimates to \$1.70 and \$1.98 from \$1.74 and \$2.01, respectively. We are trimming our 12-month price target by \$0.50 to \$34.00 and reaffirming our Neutral rating.

**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 and increased funding costs following the recent Fed rate hikes. Excluding five bps of purchase accounting accretion versus ten bps in 2Q17, the core NIM dipped three bps to 3.65%.
- The company's cost of funds increased six bps on a LQ basis.
- Management noted that while municipal deposit rates have been on the rise, retail deposit pricing competition remains benign.
- Our price target is derived through our discounted dividend model and the application of a 15.5X forward multiple to our 4Q18-3Q19 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.



*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 German American Bancorp Inc.'s outstanding common stock as of October 30, 2017.

### **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.

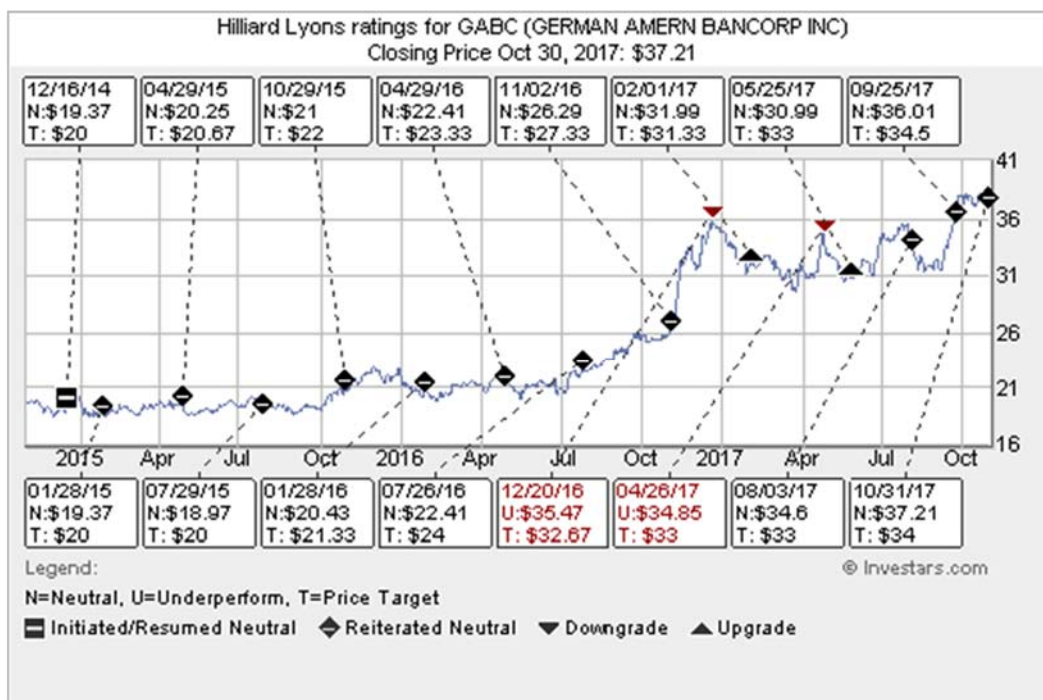
### **Definitions of Suitabilities:**

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	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**

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.

J.J.B. Hilliard, W.L. Lyons, LLC is a multi-disciplined financial services firm that regularly seeks investment banking assignments and compensation from issuers for services including, but not limited to, acting as an underwriter in an offering or financial advisor in a merger or acquisition, or serving as placement agent in private transactions.

The information herein has been obtained from sources we believe to be reliable but is not guaranteed and does not purport to be a complete statement of all material factors. This is for informational purposes and is not a solicitation of orders to purchase or sell securities. Reproduction is forbidden unless authorized. All rights reserved.