



COMPANY UPDATE/ ESTIMATE CHANGES/ TARGET PRICE CHANGE

Key Metrics

GABC - NASDAQ (as of 09/22/17)	\$36.01
Price Target	\$34.50
52-Week Range	\$24.86-\$36.31
Shares Outstanding (mm)	22.9
Market Cap. (\$mm)	\$826
3-Mo. Average Daily Volume (000)	44.8
Institutional Ownership	36.3%
Tangible Equity / Tangible Assets	9.5%
ROE	10.9%
Tangible Book Value Per Share	\$13.01
Price/Tangible Book Value	276.8%
Dividend Yield	1.4%
Price/LTM Earnings	20.7x

Operating EPS CY 12/31

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.37	\$0.42A	\$0.42A	\$0.48	\$0.49
2Q	\$0.60	\$0.43A	\$0.43A	\$0.49	\$0.49
3Q	\$0.43	\$0.44	\$0.44	\$0.51	\$0.51
4Q	\$0.42	\$0.44	\$0.45	\$0.52	\$0.52
Year	\$1.82	\$1.73	\$1.74	\$2.00	\$2.01
P/E	19.8x		20.7x		17.9x

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	\$0.13	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
Institutional Sales Desk: George Moorin
502-588-9141 / gmoorin@hilliard.com
J.J.B. Hilliard, W.L. Lyons, LLC
September 25, 2017

German American Bancorp, Inc.

GABC – NASDAQ – Neutral – 3

Adjusting Model and Retaining Neutral Rating

- With GABC's share price surpassing our price target by a substantial margin, we decided to take a fresh look at our model. Based on this review, we have made various tweaks to our model.
- Our new 2017 and 2018 EPS estimates are \$1.74 and \$2.03, up from our previous estimates of \$1.73 and \$2.01, respectively. While these increases are modest, we have made more meaningful revisions in the outer years of our discounted dividend model.
- We are increasing our 12-month price target by \$1.50 to \$34.50, which we derive 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.
- We reaffirm our Neutral rating.

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 A	4Q017 E	FY 2015 A	FY 2016 A	FY 2017 E	FY 2018 E	FY 2016 A	FY 2017 E	FY 2018 E
Balance Sheet Data:															
Assets	2,866.7	2,915.8	2,979.5	2,956.0	2,933.1	3,004.8	3,049.9	3,126.1	2,373.7	2,956.0	3,126.1	3,377.4	24.5%	5.8%	8.0%
Gross Loans	1,923.6	1,965.7	2,015.3	2,005.2	1,990.4	2,041.6	2,072.2	2,124.0	1,575.1	2,005.2	2,124.0	2,294.7	27.3%	5.9%	8.0%
Average Earning Assets	2,411.2	2,684.4	2,739.9	2,762.3	2,719.3	2,768.1	2,820.9	2,877.4	2,136.7	2,648.4	2,796.4	3,007.1	23.9%	5.6%	7.5%
Deposits	2,240.6	2,277.4	2,329.7	2,349.6	2,326.5	2,363.3	2,395.2	2,449.1	1,826.4	2,349.6	2,449.1	2,625.8	28.6%	4.2%	7.2%
Equity	321.6	332.4	341.0	330.3	341.2	348.1	355.3	362.5	252.3	330.3	362.5	395.3	30.9%	9.8%	9.0%
Statement of Operations:															
FTE Net Interest Income	21.8	25.8	25.8	26.1	26.0	26.1	26.8	27.3	79.1	99.5	106.2	112.3	25.8%	6.7%	5.8%
Net Interest Income	20.8	24.7	24.6	24.9	24.7	24.8	25.5	25.9	75.6	94.9	100.9	106.8	25.6%	6.4%	5.8%
Provision for Loan Losses	0.9	0.4	0.0	0.0	0.5	0.4	0.4	0.5	0.0	1.2	1.8	2.8	NA	47.6%	58.6%
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	17.4%	11.3%	5.0%
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	23.8%	3.2%	0.8%
Insurance Revenues	2.7	1.6	1.7	1.7	2.6	1.7	1.8	1.8	7.5	7.7	7.9	8.5	3.4%	2.5%	6.5%
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	16.7%	25.8%	-18.2%
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	13.5%	-2.0%	0.3%
Other Operating Income	1.3	1.6	2.2	2.2	1.9	1.8	2.2	2.2	6.6	7.3	8.0	9.1	9.8%	10.4%	13.2%
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	7.8	8.0	7.9	27.4	32.0	31.8	33.5	16.5%	-0.4%	5.2%
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	7.8	8.0	7.9	25.3	30.0	31.8	33.5	18.5%	6.2%	5.2%
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	25.5%	3.3%	3.2%
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	25.6%	3.8%	2.4%
FDC 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	0.6%	-17.8%	5.5%
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	60.6%	-26.9%	2.7%
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	38.0%	-8.2%	-0.4%
Advertising and Promotion	0.5	0.6	0.7	0.8	0.8	0.6	0.7	0.7	2.7	2.7	2.8	2.8	-27.6%	5.8%	1.3%
Other Operating Expenses	2.2	2.5	2.5	2.5	2.3	2.3	2.4	2.4	7.7	9.7	9.4	9.7	26.3%	-3.1%	3.2%
Total Non-Interest Expense	20.2	18.2	18.7	19.4	19.0	19.0	18.9	19.0	61.3	76.4	75.9	77.7	24.6%	-0.7%	2.4%
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	19.0	18.9	19.0	59.6	72.5	75.9	77.7	21.8%	4.6%	2.4%
Pretax Income	10.8	13.2	13.8	13.3	13.4	13.3	14.2	14.3	41.3	51.2	55.1	59.7	23.9%	7.7%	8.4%
Income Taxes	3.1	3.9	3.9	3.6	3.8	3.4	4.0	4.0	11.7	14.6	15.3	13.2	24.9%	4.8%	-13.7%
Operating Net Income	7.7	9.3	9.9	9.7	9.6	9.8	10.2	10.2	29.6	36.5	39.8	46.5	23.5%	8.9%	16.9%
Share & Per Share Data:															
Diluted EPS	0.25	0.43	0.45	0.44	0.42	0.43	0.44	0.45	1.51	1.56	1.74	2.03	3.2%	11.4%	16.9%
Operating EPS	0.37	0.60	0.43	0.42	0.42	0.43	0.44	0.45	1.49	1.82	1.74	2.03	22.6%	-4.8%	16.9%
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	5.9%	7.6%	16.1%
Tangible Book Value	11.54	12.03	12.42	11.94	12.40	13.01	13.03	13.36	11.57	11.94	13.36	14.82	3.1%	11.9%	10.9%
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	15.0%	0.1%	0.0%
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	12.5%	2.4%	0.0%
Key Financial Statistics:															
Return on Assets	0.81%	1.36%	1.38%	1.36%	1.31%	1.32%	1.33%	1.32%	1.33%	1.22%	1.32%	1.44%	(10)	10	12
Return on Equity	7.39%	12.02%	12.07%	11.90%	11.39%	11.34%	11.46%	11.32%	12.48%	10.83%	11.38%	12.29%	(165)	55	91
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%	5	4	(6)
Operating Non-Int. Inc./Operating Rev.	25.77%	22.22%	24.40%	23.87%	24.88%	23.91%	23.89%	23.28%	25.10%	24.01%	23.99%	23.90%	(109)	(2)	(9)
Efficiency Ratio	69.75%	54.17%	54.64%	56.15%	55.69%	56.03%	53.71%	53.39%	57.51%	58.73%	54.71%	52.90%	122	(403)	(181)
Tangible Common Ratio	9.41%	9.63%	9.72%	9.43%	9.89%	9.89%	9.98%	9.98%	9.80%	9.43%	9.98%	10.23%	(37)	55	25
Reserves/Loans	0.79%	0.78%	0.75%	0.74%	0.76%	0.75%	0.74%	0.74%	0.92%	0.74%	0.74%	0.74%	(18)	0	0
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%	1	(0)	3

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.

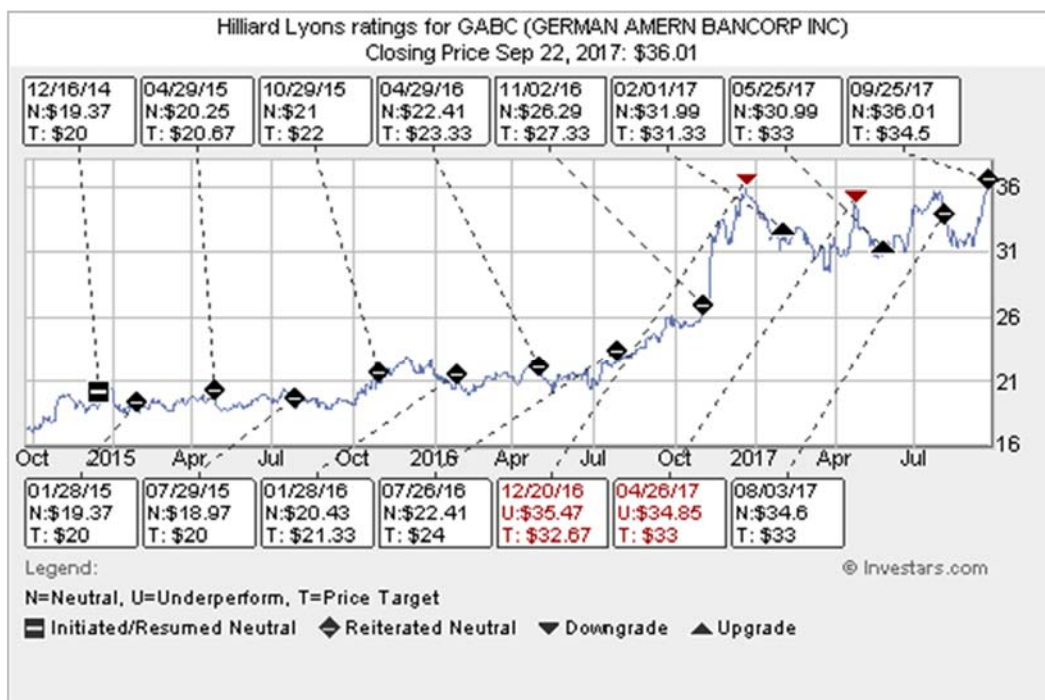
Definitions of Suitabilities:

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	40	32%	10%	90%
Hold/Neutral	77	62%	8%	92%
Sell	8	6%	0%	100%

As of 6 September 2017

Other Disclosures

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