

**COMPANY UPDATE/ ESTIMATES CHANGE/  
PRICE TARGET CHANGE**
**Key Metrics**

ONB - NASDAQ (as of 08/08/17)	\$16.60
Price Target	\$18.00
52-Week Range	\$13.49-\$18.95
Shares Outstanding (mm)	135.5
Market Cap. (\$mm)	\$2,250
3-Mo. Average Daily Volume (000)	862.1
Institutional Ownership	72.1%
Tangible Equity/ Tangible Assets	9.5%
ROE	7.8%
Tangible Book Value Per Share	\$8.85
Price/Tangible Book Value	187.5%
Dividend Yield	3.1%
Price/LTM Earnings	15.8x

**Operating EPS CY 12/31**

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.24	\$0.26A	\$0.26A	\$0.30	\$0.31
2Q	\$0.23	\$0.28	\$0.28A	\$0.30	\$0.31
3Q	\$0.28	\$0.26	\$0.26	\$0.31	\$0.33
4Q	\$0.27	\$0.25	\$0.26	\$0.31	\$0.33
Year	\$1.01	\$1.05	\$1.05	\$1.22	\$1.28
P/E	16.5x		15.8x		13.0x

**Common Dividends**

	2016A	Curr. 2017E	Prior %chg.	Curr. 2018E
1Q	\$0.13	\$0.13A	0.0	\$0.14
2Q	\$0.13	\$0.14A	7.7	\$0.15
3Q	\$0.13	\$0.14	7.7	\$0.15
4Q	\$0.13	\$0.14	7.7	\$0.15
Year	\$0.52	\$0.55	5.8	\$0.59

**Company Description** – Old National Bancorp (ONB) is a commercial banking organization headquartered in Evansville, Indiana. The company's footprint includes markets in Indiana, Kentucky, Michigan and Wisconsin. ONB is the largest banking organization based in Indiana and ranks among the top 100 banking companies in the country. In addition to traditional banking services, Old National offers trust, wealth management and investment brokerage services.

**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  
August 9, 2017

**Old National Bancorp**

ONB – NASDAQ – Neutral – 2

**Announces Acquisition of Anchor Bancorp, Inc.;  
Reaffirming Neutral Rating**

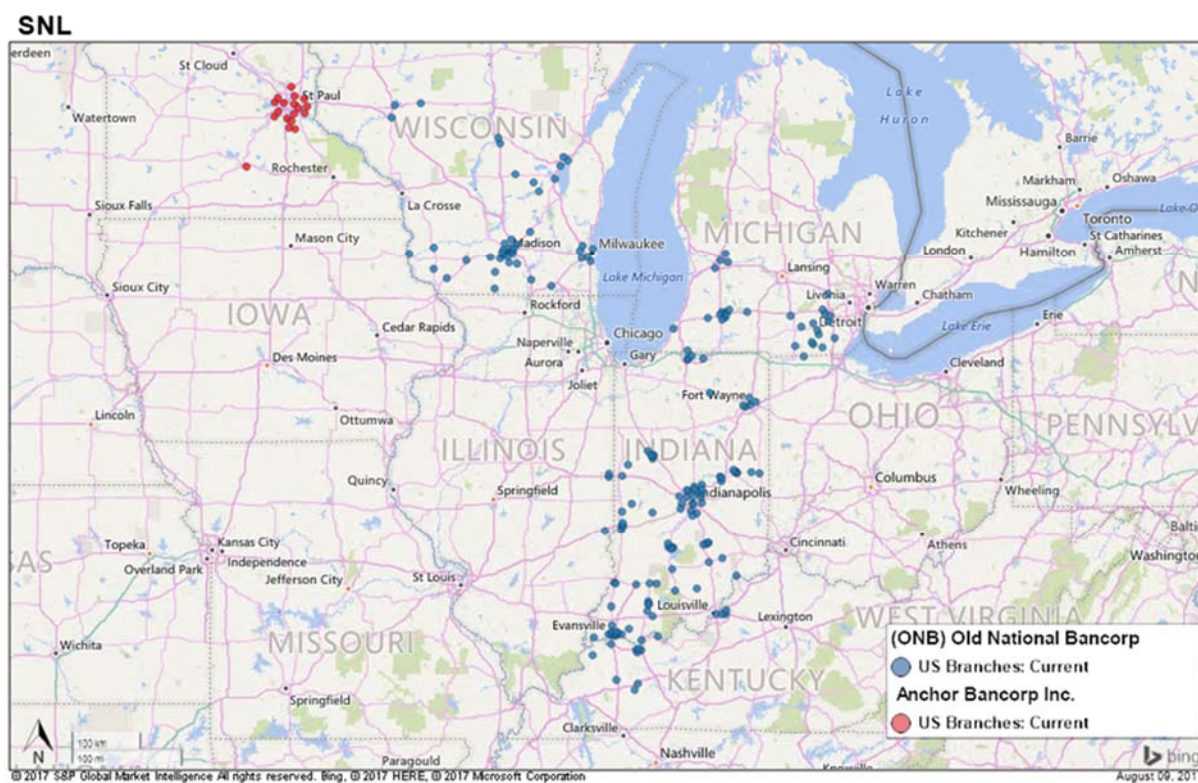
- ONB announced the acquisition of St. Paul, Minnesota-based Anchor Bancorp, Inc. (ANCB - \$25.40) in a cash and stock deal valued at \$303 million. Anchor is unaffiliated with the former Anchor Bancorp Wisconsin that Old National acquired in 2016.
- Anchor had \$2.1 billion in assets, \$1.6 billion total loans, \$1.7 billion in deposits and 18 banking offices at June 30, 2017.
- Under the terms of the deal, which is expected to close in early 1Q18, Anchor shareholders will receive 1.35 shares of ONB common stock and \$2.625 for each share held.
- Cost savings resulting from the deal are expected to be significant, especially for an out-of-market deal, at 36% of Anchor's expense base.
- Pricing at announcement was 17.1X TTM EPS and 203.2% of tangible book value, which we believe is attractive to ONB shareholders.
- Old National indicated that the acquisition is expected to be 9.2% accretive to 2019 consensus EPS.
- Tangible book value dilution is anticipated to be 3.6% at closing, with an expected earn-back period of 3.1 years.
- Management also noted that, it plans to consolidate 14 ONB offices in November 2017 as part of its ongoing efficiency improvement efforts. This action is expected to result in annual expense reductions of \$4 million.
- We are maintaining our 2017 operating EPS estimates at \$1.05 and raising our 2018 estimate by \$0.06 to \$1.28. We are increasing our 12-month price target by \$0.50 to \$18.00, while reiterating our Neutral rating.

**Note Important Disclosures on pages 5 and 6**  
**Note Analyst Certification on page 5**

## OTHER KEY TAKEAWAYS & VALUATION

- Anchor has a strong commercial orientation with commercial & industrial and owner occupied commercial real estate loans accounting for approximately 66% of total loans.
- Anchor has an attractive deposit mix with demand deposits comprising 32% of total deposits, while time deposits account for only 6%.
- The preponderance of Anchor's operations are conducted in the Minneapolis-St. Paul MSA. This is an attractive market with a median household income of \$72,729 and projected population growth over the next five years of 4.4%. Respective statistics for the nation are \$57,462 and 3.8%.
- No revenue synergies were assumed by ONB in modeling the potential EPS accretion. However, some opportunities to enhance revenues include capital markets, enhanced mortgage banking products, wealth management, trust and private banking. In addition, Anchor's expertise in commercial lending can be utilized to enhance ONB's capabilities.
- Our price target is derived from our discounted dividend model and the application of a 13.5X 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.

## PRO FORMA BRANCH NETWORK



**SUITABILITY**

Our suitability rating on ONB is 2 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 a few states. 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.

	OLD NATIONAL BANCORP							ONB: NEUTRAL								
	1Q016 A	2Q016 A	3Q016 A	4Q016 A	1Q017 A	2Q017 A	3Q017 E	4Q017 E	FY 2016 A	FY 2017 E	FY 2018 E					
Millions, Except for Per Share Data																
<b>Balance Sheet Data:</b>																
Assets	11,932.3	14,420.3	14,703.1	14,860.2	14,869.6	14,957.3	15,140.5	15,322.2	11,991.5	14,860.2	15,322.2	18,109.8	23.9%	3.1%	18.2%	
Gross Loans	7,029.6	8,874.6	8,965.5	9,101.2	9,149.1	9,259.5	9,421.5	9,586.4	6,962.2	9,101.2	9,586.4	11,822.5	30.7%	5.3%	23.3%	
Average Earning Assets	10,331.0	11,726.4	12,575.5	12,713.3	12,742.9	12,844.5	13,012.6	13,170.4	10,363.3	11,828.6	12,942.6	15,431.8	14.1%	9.4%	19.2%	
Deposits	8,588.9	10,451.6	10,646.7	10,743.3	10,821.4	10,683.7	10,814.6	10,947.1	8,400.9	10,743.3	10,947.1	13,257.2	27.9%	1.9%	21.1%	
Equity	1,508.6	1,811.1	1,834.5	1,814.4	1,846.4	1,886.6	1,901.2	1,913.2	1,491.2	1,814.4	1,913.2	2,290.3	21.7%	5.4%	19.7%	
<b>Statement of Operations:</b>																
FTE Net Interest Income	90.8	104.6	113.1	115.4	111.5	109.8	110.4	111.3	385.7	424.0	443.0	521.2	9.9%	4.5%	17.6%	
Net Interest Income	85.6	99.3	107.8	109.9	105.8	104.2	104.7	105.6	366.1	402.7	420.4	494.6	10.0%	4.4%	17.6%	
Provision for Loan Losses	0.1	1.3	1.3	-1.8	0.3	1.4	1.5	1.6	2.9	1.0	4.8	13.0	-67.2%	404.0%	168.2%	
Non-Interest Income:																
Wealth Management Fees	8.1	9.4	8.6	8.6	9.0	9.7	8.6	8.8	34.3	34.6	36.1	38.6	0.9%	4.1%	7.0%	
Deposit Service Charges	9.6	10.4	11.1	10.4	9.8	10.0	10.9	10.5	43.3	41.6	41.3	46.1	-4.1%	-0.7%	11.6%	
Debit Card & ATM Fees	3.8	4.5	4.3	4.2	4.4	4.4	4.5	4.5	21.3	16.8	17.6	17.6	-21.4%	5.2%	3.8%	
Mortgage Banking Revenue	2.9	5.2	7.7	4.4	4.2	5.2	5.2	4.5	12.6	20.2	19.2	21.6	60.4%	-5.4%	12.6%	
Insurance Premiums and Commissions	13.1	7.1	0.1	0.2	0.1	0.2	0.2	0.2	42.7	20.5	0.6	0.6	-52.0%	-97.2%	5.8%	
Investment Product Fees	3.9	4.7	5.0	5.2	5.0	5.0	5.1	5.2	17.8	18.8	20.3	21.4	5.7%	7.6%	5.8%	
Company-Owned Life Insurance	2.0	2.1	2.2	2.2	2.1	2.1	2.1	2.1	8.7	8.5	8.5	8.5	-2.1%	0.2%	-0.4%	
Change in FDIC Indemnification Asset	-0.7	0.9	0.0	0.0	0.0	0.0	0.0	0.0	(9.0)	0.2	0.0	0.0	-102.6%	-100.0%	NA	
Other Income	5.5	47.2	6.6	26.4	6.9	9.6	9.7	9.8	53.0	85.7	35.9	49.8	61.7%	-58.1%	38.6%	
Securities Gains	1.1	1.9	1.6	1.2	0.0	3.1	0.0	0.0	5.7	5.8	3.1	0.0	2.3%	-47.4%	-100.0%	
Total Non-Interest Income	49.5	93.4	47.2	62.8	41.4	49.3	46.3	45.5	230.6	252.8	182.5	204.8	9.7%	-27.8%	12.3%	
Non-Core Adjustment	-1.1	-43.7	-1.6	-14.0	0.0	-3.1	0.0	0.0	(34.2)	(60.5)	(3.1)	0.0	76.8%	-94.9%	-100.0%	
Adjusted Non-Interest Income	48.3	49.7	45.6	48.7	41.4	46.2	46.3	45.5	196.3	192.3	179.4	204.8	-2.0%	-6.7%	14.2%	
Non-Interest Expense:																
Salaries and Employee Benefits	57.0	62.7	60.9	72.3	56.6	57.6	57.3	56.7	243.9	252.9	228.1	259.4	3.7%	-9.8%	13.7%	
Occupancy	12.8	13.6	12.9	11.6	12.1	10.5	10.6	10.4	53.2	50.9	43.7	46.6	-4.2%	-14.3%	6.8%	
Equipment	2.9	3.3	3.6	3.7	3.2	3.4	3.4	3.4	13.2	13.4	13.3	13.5	2.2%	-0.9%	1.6%	
Marketing	2.5	5.1	3.5	3.5	3.1	3.7	3.5	3.5	10.4	14.6	13.7	14.2	41.0%	-6.0%	3.7%	
Data Processing	7.1	8.7	8.2	8.0	7.6	8.2	7.8	7.8	27.3	32.0	31.4	31.5	17.1%	-2.0%	0.8%	
Communication	1.9	2.5	2.8	2.8	2.4	2.3	2.4	2.4	9.5	10.0	9.6	9.9	4.8%	-3.7%	3.5%	
Professional Fees	3.4	5.2	3.3	3.9	2.7	4.1	2.9	2.9	11.7	15.7	12.5	11.8	34.1%	-20.1%	-5.9%	
Loan Expenses	1.3	2.1	2.2	2.0	1.6	1.7	1.7	1.7	6.3	7.6	6.7	6.9	20.9%	-11.9%	2.8%	
Supplies	0.6	0.6	0.8	0.9	0.6	0.6	0.6	0.6	2.3	2.9	2.4	2.4	26.6%	-17.1%	2.8%	
FDIC Assessment	1.9	2.0	2.1	2.6	2.5	2.1	2.2	2.2	7.5	8.7	9.0	9.0	15.5%	3.2%	0.1%	
OREO Expense	0.4	2.1	0.7	0.9	1.1	1.0	0.9	0.9	2.8	4.2	4.0	3.0	50.8%	-4.1%	-25.4%	
Intangible Amortization	2.6	3.4	3.2	3.2	3.0	2.8	2.5	2.3	11.9	12.5	10.6	11.0	5.2%	-14.7%	3.4%	
Other Expense	3.9	10.2	3.9	10.3	5.4	4.8	8.9	10.0	31.0	28.7	29.2	28.5	-7.5%	1.5%	-2.3%	
Total Non-Interest Expense	98.4	121.5	108.1	126.3	101.9	102.8	104.7	104.9	430.9	464.1	414.2	447.9	5.4%	-8.8%	8.1%	
Non-Core Adjustment	-1.4	-13.8	-5.5	-18.3	-1.4	-1.7	0.0	0.0	(25.7)	(39.0)	(3.1)	0.0	51.6%	-92.0%	-100.0%	
Adjusted Non-Interest Expense	97.0	107.7	102.6	108.0	100.5	101.1	104.7	104.9	405.2	415.2	411.1	447.9	2.5%	-1.0%	8.9%	
Pretax Income	36.9	40.0	49.5	52.4	46.4	47.9	44.8	44.7	154.3	178.9	183.8	236.6	15.9%	2.8%	29.8%	
Income Taxes	9.8	10.7	12.3	16.2	11.0	10.1	10.0	9.9	43.2	49.0	41.0	42.8	13.5%	-16.3%	4.3%	
Operating Net Income	27.2	29.2	37.2	36.2	35.4	37.8	34.8	34.8	111.1	129.8	142.8	193.8	16.8%	10.0%	37.1%	
<b>Share &amp; Per Share Data:</b>																
Diluted EPS	0.24	0.31	0.25	0.25	0.27	0.29	0.26	0.26	1.00	1.04	1.06	1.28	4.1%	2.4%	20.5%	
Operating EPS	0.24	0.23	0.28	0.27	0.26	0.28	0.26	0.26	0.96	1.01	1.05	1.28	5.5%	4.2%	21.8%	
Dividends Per Share	0.13	0.13	0.13	0.13	0.13	0.14	0.14	0.14	0.48	0.52	0.55	0.59	8.3%	5.8%	7.3%	
Tangible Book Value	7.80	8.23	8.43	8.30	8.54	8.86	8.98	9.09	7.62	8.30	9.09	9.48	8.9%	9.5%	4.3%	
Common Shares Outstanding	114,352	135,005	134,985	135,159	135,435	135,435	135,435	135,435	114,297	135,159	135,435	152,429	18.3%	0.2%	12.5%	
Average Diluted Shares	114,563	127,973	135,011	135,383	135,431	135,954	135,954	135,954	116,315	128,164	135,823	152,948	10.2%	6.0%	12.6%	
<b>Key Financial Statistics:</b>																
Return on Assets	0.91%	1.16%	0.96%	0.91%	0.98%	1.02%	0.92%	0.91%	0.98%	0.98%	0.95%	1.11%	(3)	(3)	(3)	16
Return on Equity	7.18%	9.22%	7.62%	7.33%	7.89%	8.35%	7.29%	7.23%	7.88%	7.84%	7.69%	8.86%	(15)	(15)	(15)	119
Net Interest Margin	3.52%	3.57%	3.60%	3.63%	3.50%	3.42%	3.39%	3.38%	3.72%	3.58%	3.42%	3.38%	(16)	(16)	(16)	(5)
Operating Non-Int. Inc./Operating Rev.	36.08%	33.33%	29.72%	30.71%	28.13%	30.71%	30.11%	30.11%	34.91%	32.49%	29.90%	29.29%	(259)	(259)	(259)	(61)
Efficiency Ratio	69.11%	75.65%	63.95%	64.29%	63.13%	61.81%	65.21%	65.39%	67.39%	68.28%	63.88%	60.18%	(439)	(439)	(439)	(370)
Tangible Common Ratio	7.88%	8.10%	8.13%	7.92%	8.16%	8.41%	8.42%	8.41%	7.66%	7.92%	8.41%	8.37%	49	49	49	(4)
Reserves/Loans	0.72%	0.58%	0.57%	0.55%	0.54%	0.55%	0.55%	0.54%	0.75%	0.55%	0.54%	0.45%	(1)	(1)	(1)	(9)
NCOs/Average Loans	0.09%	0.01%	0.07%	0.00%	0.01%	0.01%	0.05%	0.05%	-0.03%	0.04%	0.03%	0.10%	(1)	(1)	(1)	7

Source: Company reports and Hilliard Lyons estimate.

*Additional information is available upon request.*

Other stocks mentioned: Anchor Bancorp Inc. (ANCB) \$25.40

### **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.

Old National 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.

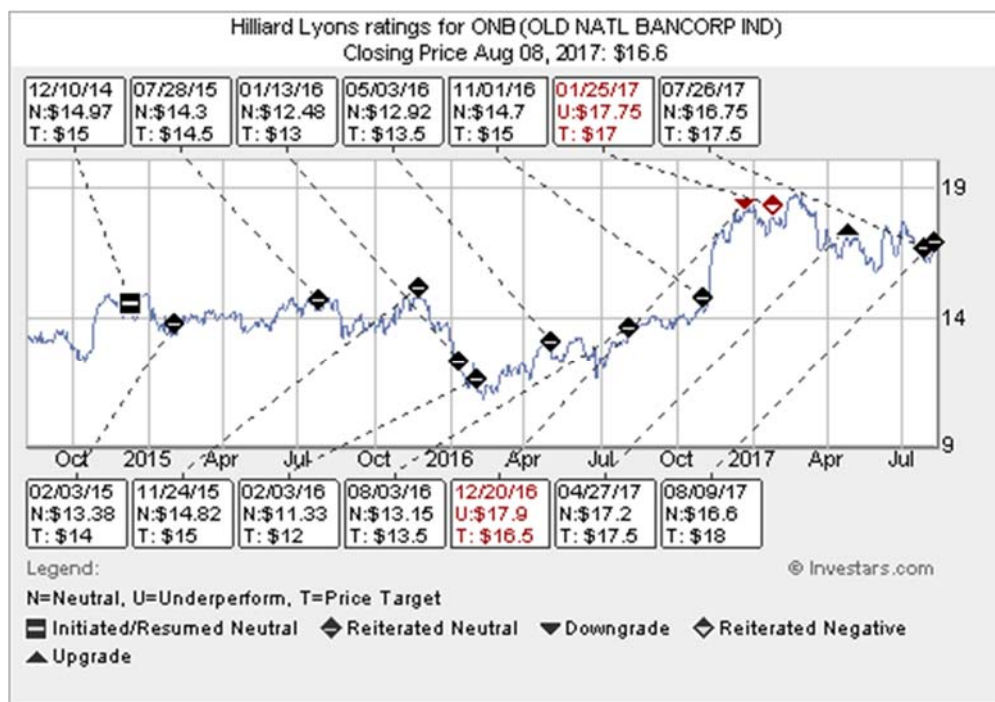
### **Definitions of Suitabilities:**

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



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**

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.