



## COMPANY UPDATE/ ESTIMATES CHANGE/ TARGET PRICE CHANGE

### Key Metrics

PNC - NYSE (as of 01/12/18)	\$151.84
Price Target	\$158.00
52-Week Range	\$113.66-\$153.50
Shares Outstanding (mm)	473.0
Market Cap. (\$mm)	\$71,820
3-Mo. Average Daily Volume (000)	1,789.7
Institutional Ownership	83.1%
Tangible Equity/ Tangible Assets	9.5%
ROE	11.6%
Tangible Book Value Per Share	\$71.95
Price/Tangible Book Value	211.0%
Dividend Yield	2.0%
Price/LTM Earnings	14.7x

### Operating EPS CY 12/31

	2017A	Prior 2018E	Curr. 2018E	Prior 2019E	Curr. 2019E
1Q	\$1.94	\$2.22	\$2.40		\$2.76
2Q	\$2.08	\$2.48	\$2.61		\$2.95
3Q	\$2.17	\$2.49	\$2.74		\$3.01
4Q	\$2.29	\$2.65	\$2.84		\$3.10
Year	\$8.48	\$9.85	\$10.59		\$11.82
P/E	17.9x		14.3x		12.8x

### Common Dividends

	2017A	Curr. 2018E	Prior %chg.	Curr. 2019E
1Q	\$0.55	\$0.75	36.4	\$0.85
2Q	\$0.55	\$0.75	36.4	\$0.85
3Q	\$0.75	\$0.85	13.3	\$1.00
4Q	\$0.75	\$0.85	13.3	\$1.00
Year	\$2.60	\$3.20	23.1	\$3.70

**Company Description** – PNC Financial is a commercial banking organization headquartered in Pittsburgh, Pennsylvania and one of the largest financial services firms in the country. The company's products and services include retail banking, corporate and institutional banking, asset management and residential mortgage banking. PNC's primary markets are located in the Mid-Atlantic, Midwest and Southeast regions of the U.S., although many of its products and services are provided nationally. The company also provides certain financial services internationally.

### Banks

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## The PNC Financial Services Group, Inc.

PNC -- NYSE -- Neutral -- 1

### Reports Beat and Plenty of Noise

- **Earnings Results:** Excluding a host of non-core items totaling \$1.89, PNC reported 4Q17 operating EPS of \$2.29, which was above our estimate of \$2.17 and the Street consensus of \$2.20.

- **Positive Highlights:** Excluding the impact of tax legislation, net interest income rose 1.1% linked-quarter (LQ) to \$2.37 billion. The GAAP net interest margin eroded three bps to 2.88%, while average earning assets increased 1.0%. The reduction in the margin was attributable to the impact of the new tax law on leveraged leases. We had projected net interest income of \$2.34 billion and a margin of 2.91%.

Operating noninterest income increased 4.6% LQ to \$1.86 billion primarily on gains in asset management (10.7%) and corporate services revenues (14.0%). Results exceeded our estimate of \$1.75 billion.

The provision for credit losses decreased \$5 million LQ to \$125 million as lower provisions on commercial loans more than offset higher provisions associated with consumer loans. Nonperforming Assets/Assets fell two bps to 0.53%, while the net charge-off ratio rose three bps to 0.22%. We had modeled a provision of \$125 million and net charge-offs of 20 bps.

- **Negative Highlights:** Operating noninterest expense rose 4.2% sequentially to \$2.56 billion, which exceeded our estimate of \$2.47 billion. Drivers of the increase included salaries & benefits (4.6%) and "other" noninterest expense (1.4%).

End-of-period loans dipped 0.3% LQ, while average loans increased 0.9%.

- **Estimates:** We are increasing our 2018 operating EPS estimate to \$10.59 from \$9.85 and introducing our 2019 estimate at \$11.82. We are raising our price target by \$20.00 to \$158.00 and reaffirming our Neutral rating.

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

**OTHER KEY TAKEAWAYS & VALUATION**

- The primary driver of the substantial increase in our 2018 EPS estimate is tax reform.
- Tangible book value per share rose \$2.56 sequentially due largely to the revaluation of deferred tax liabilities.
- Management indicated that commercial loan production was healthy during the quarter, but growth was negatively impacted by pay-downs as borrowers continue to access capital markets to lock in low long-term interest rates.
- While Nonperforming Assets/Assets improved, delinquencies ticked up slightly for the second consecutive quarter. The LQ increase in delinquencies was driven by residential mortgages, auto and credit cards due in part to seasonality and the residual impact of hurricanes.
- Corporate Services revenue grew 14.0% LQ due primarily to record M&A advisory fees, as well as gains in treasury management and loan syndications fees.
- Excluding a one-time \$254 million tax legislation benefit related to PNC's equity investment in BlackRock, Asset Management revenue rose 10.7% to \$466 million due to higher equity valuations and assets under management.
- PNC achieved its 2017 target of \$350 million in expense savings as part of its Continuous Improvement program. Management is targeting \$250 million in savings in 2018, which will be used to partially fund business and technology investments.
- Management anticipates to continue its recent annual pace of approximately 100 branch consolidations in 2018.
- The company returned \$0.9 billion of 4Q17 earnings to shareholders through \$0.5 billion in share repurchases and \$0.4 billion in common stock dividends. PNC returned a total of \$3.6 billion of capital during the full year 2017.
- PNC offered the following guidance for 1Q18 and full year 2018 on its call:
  - Mid-single digit loan growth YOY in 2018 with modest sequential loan growth in 1Q18
  - Stable net interest income in 1Q18 on a LQ basis
  - Low mid-single digit sequential decline in fee income in 1Q18
  - 1Q18 "other" noninterest income of \$250 million - \$300 million
  - Low single-digit LQ decrease in noninterest expense in 1Q18
  - A 1Q18 loan loss provision of \$100 million - \$150 million
  - Mid single-digit revenue growth in 2018
  - Low single-digit increase in noninterest expense in 2018
  - A full year 2017 effective tax rate of approximately 17%
- Our price target is derived through our discounted dividend model and the application of a 13X 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 PNC is 1 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 primarily clustered in three regions. Accordingly, its earnings are vulnerable to any regional shock and/or slowdown.
- **Competition** – The industry is highly competitive and is impacted by non-bank financial services firms.
- **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. Moreover, the company is one of the largest commercial banking organizations in the nation and, accordingly, is subject to greater regulatory scrutiny compared to smaller financial institutions.
- **Other** – Please see the company’s financial statements for a further discussion of risks and considerations.

	THE PNC FINANCIAL SERVICES GROUP, INC.						PNC: NEUTRAL						
	1Q17 A	2Q17 A	3Q17 A	4Q17 A	1Q18 E	2Q18 E	3Q18 E	4Q18 E	FY 2017 A	FY 2018 E	FY 2019 E	YOY Change - %	
\$Millions, Except for Per Share Data													
<b>Balance Sheet Data:</b>													
End-of-Period Assets	370,944	372,190	375,191	380,768	386,480	391,581	396,750	401,987	366,380	380,768	401,987	417,956	3.9%
EOPI Loans Held for Investment	212,826	218,034	221,109	220,458	222,663	226,337	230,071	233,867	210,833	220,458	233,867	246,753	4.6%
Average Loans Held for Investment	212,253	216,373	219,218	221,121	221,560	224,500	228,204	231,969	208,812	217,241	226,558	240,021	4.0%
Average Earning Assets	321,093	324,828	324,788	328,028	329,916	334,566	338,982	343,457	309,541	324,684	336,730	352,282	4.9%
End-of-Period Deposits	260,710	259,176	260,735	265,053	269,443	273,905	278,441	283,052	257,164	265,053	283,052	302,273	3.1%
End-of-Period Equity	41,774	42,103	42,406	43,564	43,513	43,528	43,719	43,915	41,797	43,564	43,915	44,712	4.2%
<b>Statement of Operations:</b>													
FTE Net Interest Income	2,212	2,312	2,400	2,399	2,375	2,460	2,526	2,581	8,586	9,323	9,941	10,627	8.6%
Net Interest Income	2,160	2,258	2,345	2,345	2,321	2,405	2,469	2,523	8,391	9,108	9,717	10,388	8.5%
Provision for Loan Losses	88	98	130	125	126	157	161	178	433	441	622	819	1.8%
<b>Non-Interest Income:</b>													
Asset Management	403	398	421	720	443	451	467	480	1,521	1,942	1,841	1,957	27.7%
Consumer Services	332	360	357	366	349	378	375	384	1,388	1,415	1,486	1,560	1.9%
Corporate Services	393	434	371	423	410	414	418	422	1,504	1,621	1,665	1,732	7.8%
Residential Mortgage	113	104	104	104	98	115	115	102	567	350	430	435	-38.3%
Deposit Service Charges	161	170	181	183	165	175	186	188	667	695	713	731	4.2%
Other	324	336	346	194	300	300	300	300	1,108	1,200	1,200	1,210	8.3%
Securities Gains	2	13	1	0	0	0	0	0	16	10	0	0	-37.5%
Total Non-Interest Income	1,724	1,815	1,779	1,915	1,765	1,833	1,861	1,876	6,771	7,233	7,334	7,625	6.8%
Non-Core Adjustment	45	13	1	28	0	0	0	0	16	85	0	0	431.3%
Adjusted Non-Interest Income	1,679	1,802	1,780	1,887	1,765	1,833	1,861	1,876	6,755	7,148	7,334	7,625	5.8%
<b>Non-Interest Expense:</b>													
Personnel	1,249	1,263	1,274	1,438	1,285	1,306	1,319	1,326	4,841	5,224	5,236	5,410	7.9%
Occupancy	222	202	204	220	204	205	207	214	861	868	846	859	0.8%
Equipment	251	281	259	274	274	277	281	284	974	1,065	1,117	1,174	9.3%
Marketing	55	67	62	60	55	68	63	61	247	244	248	253	-1.2%
Other	625	666	657	1,049	665	669	673	678	2,553	2,997	2,685	2,753	17.4%
Total Non-Interest Expense	2,402	2,479	2,456	3,061	2,499	2,526	2,543	2,563	9,476	10,398	10,131	10,448	9.7%
Non-Core Adjustment	0	0	0	-502	0	0	0	0	0	-502	0	0	NA
Adjusted Non-Interest Expense	2,402	2,479	2,456	2,559	2,499	2,526	2,543	2,563	9,476	9,896	10,131	10,448	4.4%
Operating Pretax Income	1,349	1,483	1,539	1,548	1,461	1,555	1,625	1,657	5,237	5,919	6,298	6,746	13.0%
Operating Net Income for EPS	963	1,022	1,049	1,104	1,139	1,222	1,272	1,306	3,678	4,138	4,939	5,310	12.5%
<b>Share &amp; Per Share Data:</b>													
Diluted EPS	1.94	2.09	2.16	4.18	2.40	2.61	2.74	2.84	7.30	10.37	10.59	11.82	42.1%
Operating EPS	1.94	2.08	2.17	2.29	2.40	2.61	2.74	2.84	7.33	8.48	10.59	11.82	15.7%
Dividends Per Share	0.55	0.55	0.75	0.75	0.75	0.75	0.85	0.85	2.12	2.60	3.20	3.70	22.6%
Tangible Book Value	66.84	67.87	69.12	72.02	72.78	73.69	74.82	76.00	66.85	72.02	76.00	80.84	7.7%
Common Shares Outstanding	485,000	480,000	476,000	473,000	467,600	462,200	457,961	453,631	485,000	473,000	453,631	447,084	-2.5%
Average Diluted Shares	492,000	488,000	483,000	480,000	474,300	468,900	464,081	459,796	500,125	485,750	466,769	449,337	-2.9%
<b>Key Financial Statistics:</b>													
Return on Assets	1.17%	1.18%	1.21%	2.22%	1.28%	1.33%	1.36%	1.37%	1.10%	1.44%	1.33%	1.35%	34
Return on Common Equity	9.50%	9.81%	9.92%	18.96%	10.61%	11.26%	11.57%	11.83%	8.72%	12.05%	11.32%	11.89%	333
Net Interest Margin	2.77%	2.84%	2.91%	2.86%	2.92%	2.95%	2.96%	2.98%	2.71%	2.85%	2.95%	2.99%	14
Noninterest Income/Operating Revenues	43.74%	44.38%	43.15%	44.59%	43.19%	43.25%	42.98%	42.85%	44.58%	43.96%	43.02%	42.33%	(61)
Efficiency Ratio	61.03%	61.06%	58.76%	75.39%	60.01%	58.49%	57.64%	57.18%	61.58%	64.06%	58.33%	56.93%	248
Tangible Common Ratio	8.97%	8.98%	9.00%	9.18%	9.03%	8.91%	8.85%	8.78%	9.08%	9.18%	8.78%	8.65%	9
Reserves/Loans	1.20%	1.17%	1.18%	1.17%	1.16%	1.16%	1.15%	1.15%	1.23%	1.17%	1.15%	1.14%	(6)
NCOs/Average Loans	0.22%	0.20%	0.19%	0.22%	0.22%	0.23%	0.23%	0.25%	0.26%	0.21%	0.23%	0.23%	(5)
YOY Change - BPS													
													34
													(11)
													57
													(73)
													10
													(95)
													(69)
													(140)
													(39)
													(1)
													2

Source: Company reports and Hilliard Lyons estimates.

Additional information is available upon request.

**Analyst Certification**

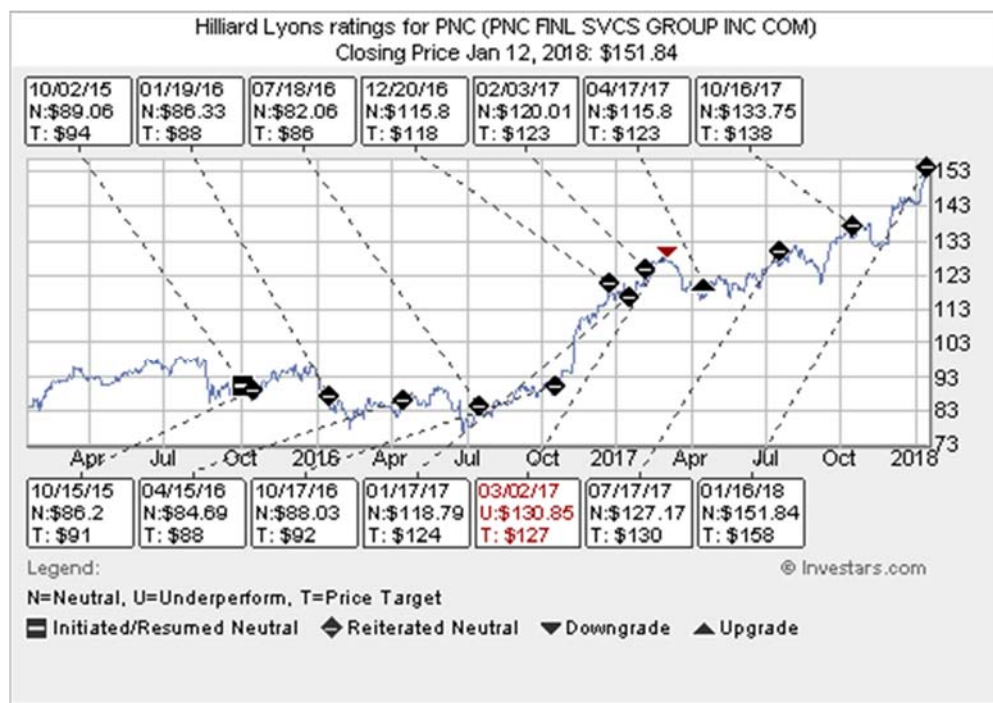
I, Andrew W. Stapp, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing 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.

From 1998 to 2008, Hilliard Lyons was owned by PNC Financial.

PNC Financial 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 Recommended Issues			Investment Banking Provided in Past 12 Mo.	
Rating	# 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

**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

**Other Disclosures**

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