



## COMPANY UPDATE/ ESTIMATES CHANGE / TARGET PRICE CHANGE

### Key Metrics

PNFP - NASDAQ (as of 04/18/17)	\$61.95
Price Target	\$69.00
52-Week Range	\$44.61-\$71.85
Shares Outstanding (mm)	49.8
Market Cap. (\$mm)	\$3,084
3-Mo. Average Daily Volume (000)	390.1
Institutional Ownership	70.0%
Tangible Equity / Tangible Assets	9.5%
ROE	9.5%
Tangible Book Value Per Share	\$23.25
Price/Tangible Book Value	266.4%
Dividend Yield	0.9%
Price/LTM Earnings	20.4x

### Operating EPS CY 12/31

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.71	\$0.76	\$0.83A	\$1.02	\$0.97
2Q	\$0.75	\$0.80	\$0.80	\$1.10	\$1.07
3Q	\$0.78	\$0.86	\$0.83	\$1.20	\$1.16
4Q	\$0.82	\$0.89	\$0.87	\$1.25	\$1.21
Year	\$3.06	\$3.31	\$3.33	\$4.58	\$4.42
P/E	20.2x		18.6x		14.0x

Numbers may not add due to rounding

### Common Dividends

	2016A	Curr. 2017E	Prior % chg.	Curr. 2018E
1Q	\$0.14	\$0.14A	0.0	\$0.15
2Q	\$0.14	\$0.15	7.1	\$0.17
3Q	\$0.14	\$0.15	7.1	\$0.17
4Q	\$0.14	\$0.15	7.1	\$0.17
Year	\$0.56	\$0.59	5.4	\$0.66

**Company Description** - Founded in 2000, Pinnacle Financial Partners (PNFP) is a growth-oriented commercial banking organization with operations primarily in metropolitan Chattanooga, Knoxville, Memphis and Nashville. It is the second largest banking institution headquartered in Tennessee. In addition to traditional banking services, PNFP offers wealth management, insurance and trust services.

### Banks

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April 19, 2017

## Pinnacle Financial Partners

PNFP -- NASDAQ -- Neutral -- 2

### Loan Growth Accelerates; Reaffirming Neutral Rating

- **Earnings Results:** Excluding \$0.01 of merger-related charges, Q1 operating EPS were \$0.83, which beat our estimate of \$0.76 and the Street consensus of \$0.77.

- **Positive Highlights:** End-of-period loans rose 2.3% linked-quarter (LQ), while average loans were up 2.4%.

The provision for loan losses rose \$0.6 million sequentially to \$3.7 million, which was meaningfully below our estimate of \$4.6 million. The NCO ratio fell one bp to 0.20% versus our estimate of 0.25%. Nonperforming Assets/Assets declined three bps to 0.27%.

The effective tax rate was 25.8% versus our estimate of 33.0% due to an accounting change adopted during the quarter.

Operating noninterest income was essentially flat LQ at \$30.4 million, but was in line with our estimate.

- **Negative Highlights:** Net interest income declined 0.7% LQ to \$88.8 million as 12 bps of net interest margin (NIM) compression to 3.60% and two fewer days in the quarter more than offset a 3.8% rise in average earning assets. We had modeled net interest income of \$89.6 million and a 3.66% margin.

Operating noninterest expense increase 3.2% to \$61.4 million due largely to increases in equipment & occupancy (4.8%) and "other" noninterest expense (14.5%). We had estimated noninterest expense of \$59.9 million.

- **Estimates:** We are revising our 2017 and 2018 operating EPS estimates to \$3.33 and \$4.42 from \$3.31 and \$4.58, respectively. We are reducing our price target by \$2.00 to \$69.00. We reaffirm our Neutral rating.

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

**OTHER TAKEAWAYS & VALUATION**

- On January 1, 2017, PNFP changed accounting standards with regard to share-based compensation. This change resulted in a \$3.8 million reduction in 1Q17 tax expense. Management noted that there is the potential for an additional \$1.0 million tax benefit over the remainder of 2017 related to this accounting change.
- Management expects an effective tax rate of approximately 33.0% for 2017, less the potential tax benefit related to the tax accounting change.
- PNFP added 11 revenue producers in 1Q17, including 4 in Chattanooga and 5 in Memphis.
- The company experienced significant loan and core deposit growth in the Chattanooga and Memphis markets in 1Q17. Core deposits grew 20.4% and 8.3% LQ, while end-of-period loans rose 6.6% and 3.7% LQ in these markets, respectively.
- The 2.3% end-of-period loan growth was above our estimate of 1.7%. While loan growth for the sector has been challenged by subdued commercial loan demand, PNFP is relatively immune to these headwinds given that it generates its outsized loan growth primarily through market share gains.
- Management stated that the loan pipeline entering 2Q17 is around 2x-3x the level it stood at year-end 2016.
- Bankers Healthcare Group (BHG) contributed \$7.8 million in income in 1Q17, down 3.8% LQ due to seasonality. Management indicated that BHG's contribution to revenues should increase approximately 20% in 2017.
- The 1Q17 NIM benefitted from approximately 19 bps of purchase accounting accretion. Management expects 10-20 bps of purchase accounting accretion in 2Q17.
- We derive our price target through our discounted dividend model and the application of a forward multiple of approximately 16.5X to our 2018 EPS estimate. The forward multiple that we employ is appropriate relative to the company's risk/reward profile, in our opinion.
- Major model assumptions include one additional Fed rate hike this year and another next year, continued flattening of the yield curve and a 28% corporate tax rate in 2018.

**SUITABILITY**

Our suitability rating on PNFP 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 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.

	Pinnacle Financial Partners, Inc.										PNFP-NEUTRAL				
	1Q16 A	2Q16 A	3Q16 A	4Q16 A	1Q17 A	2Q17 E	3Q17 E	4Q17 E	FY 2015 A	FY 2016 A	FY 2017 E	FY 2018 E	YOY Change		
\$Millions, Except for Per Share Data															
<b>Balance Sheet Data:</b>															
Assets	9,262.3	9,735.7	10,978.4	11,194.6	11,724.6	12,052.9	20,739.8	21,362.0	6,314.3	11,194.6	21,362.0	24,158.5	77.3%	90.8%	13.1%
Gross Loans	6,873.9	7,153.8	8,312.5	8,520.2	8,728.0	9,059.6	14,941.2	15,486.5	4,672.1	8,520.2	15,486.5	17,432.5	82.4%	81.8%	12.6%
Average Earning Assets	8,018.6	8,362.7	9,794.1	9,884.7	10,262.0	10,681.6	18,078.4	18,630.0	6,480.8	9,008.2	14,413.0	20,022.1	39.0%	60.0%	38.9%
Deposits	7,080.2	7,292.8	8,670.1	8,759.3	9,280.6	9,540.5	15,898.7	16,375.6	6,971.4	8,759.3	16,375.6	18,519.4	25.6%	87.0%	13.1%
Equity	1,228.8	1,262.2	1,475.6	1,496.7	1,723.1	1,760.5	3,648.9	3,645.0	1,155.6	1,496.7	3,645.0	3,960.6	29.5%	143.5%	8.7%
<b>Statement of Operations:</b>															
Net Interest Income	73.9	75.0	86.6	89.4	88.8	93.9	163.5	169.7	236.6	325.0	515.9	722.3	37.3%	58.7%	40.0%
Provision for Loan Losses	3.9	5.3	6.1	3.0	3.7	5.0	6.1	7.5	9.2	18.3	22.2	36.7	99.5%	21.0%	65.7%
Non-Interest Income:															
Service Charges on Deposits	3.4	3.4	3.8	3.9	3.9	4.0	6.8	6.9	12.7	14.5	21.5	28.4	13.8%	48.3%	32.1%
Investment Services	2.3	2.5	2.6	3.3	2.8	2.9	2.9	3.2	10.0	10.8	11.8	12.7	7.9%	9.7%	8.0%
Insurance	1.7	1.2	1.2	1.2	1.9	1.2	1.3	1.2	4.8	5.3	5.6	5.8	10.0%	5.3%	3.0%
Gain on Sale of Mortgage Loans	3.6	4.2	5.1	2.9	4.2	4.3	7.2	6.1	7.7	15.8	21.8	28.4	105.5%	38.4%	30.0%
Trust Fees	1.6	1.5	1.5	1.7	1.7	1.7	3.3	3.4	5.5	6.3	10.1	14.2	15.9%	60.4%	40.1%
Income from Equity Method Investment	5.1	9.6	8.5	8.1	7.8	9.9	9.9	9.9	20.6	31.4	37.6	42.7	52.5%	19.8%	13.5%
Other	8.1	10.2	9.0	9.3	8.2	9.2	11.6	11.8	24.7	36.6	40.7	49.9	47.9%	11.3%	22.6%
Securities Gains	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.6	0.4	0.0	0.0	-28.4%	-100.0%	NA
Total Non-Interest Income	25.9	32.7	31.7	30.7	30.4	33.2	43.1	42.5	86.5	121.0	149.2	182.1	39.8%	23.3%	22.1%
Non-Core Adjustment	0.0	0.0	0.0	-0.4	0.0	0.0	0.0	0.0	(1.2)	(0.4)	0.0	0.0	-65.7%	-100.0%	NA
Adjusted Non-Interest Income	25.9	32.7	31.7	30.3	30.4	33.2	43.1	42.5	85.4	120.6	149.2	182.1	41.3%	23.7%	22.1%
Non-Interest Expense:															
Salaries & Benefits	32.5	34.3	36.1	38.0	38.4	38.0	57.4	57.1	105.9	140.8	190.9	216.6	32.9%	35.6%	13.5%
Occupancy & Equipment	8.1	8.3	9.4	9.2	9.7	9.5	15.4	15.5	27.2	35.1	50.0	61.8	28.7%	42.7%	23.4%
OREO Expense	62.2	0.2	0.0	0.0	0.3	0.1	0.1	0.1	(0.3)	62.5	0.6	0.5	-20465.5%	-99.0%	-20.3%
Other	13.3	13.1	18.1	15.5	13.8	12.8	28.3	28.4	38.0	60.0	83.3	106.0	57.8%	38.8%	27.3%
Total Non-Interest Expense	54.1	55.9	63.5	62.8	62.1	60.4	101.2	101.2	170.9	236.3	324.9	384.9	38.3%	37.5%	18.5%
Non-Core Adjustment	-1.8	-1.0	-5.7	-3.3	-0.7	0.0	0.0	0.0	(4.8)	(11.7)	(0.7)	0.0	144.9%	-94.3%	-100.0%
Adjusted Non-Interest Expense	52.2	55.0	57.9	59.5	61.4	60.4	101.3	101.2	166.1	224.5	324.2	384.9	35.2%	44.4%	18.7%
Pretax Income	43.6	47.5	54.4	57.2	54.1	61.9	99.2	103.5	146.7	202.7	318.6	482.7	38.2%	57.2%	51.5%
Income Taxes	15.7	16.7	22.0	21.1	14.5	21.5	34.3	35.8	51.2	75.5	106.1	137.0	47.4%	40.5%	29.1%
Net Income Available to Common	28.0	30.8	32.4	36.1	39.7	40.3	64.9	67.7	95.5	127.2	212.5	345.7	33.2%	67.0%	62.7%
<b>Share &amp; Per Share Data:</b>															
Diluted EPS	0.68	0.73	0.71	0.78	0.82	0.80	0.83	0.87	2.53	3.06	3.32	4.42	20.9%	8.4%	33.2%
Operating EPS	0.71	0.75	0.78	0.82	0.83	0.80	0.83	0.87	2.59	3.06	3.33	4.42	18.3%	8.7%	32.9%
Dividends Per Share	0.14	0.14	0.14	0.14	0.14	0.15	0.15	0.15	0.48	0.56	0.59	0.66	16.7%	5.4%	11.9%
Tangible Book Value	18.75	19.58	19.69	20.06	23.25	23.99	26.44	26.42	17.46	20.06	26.42	30.56	14.9%	31.7%	15.7%
Common Shares Outstanding	41,995	42,184	46,160	46,359	49,790	49,865	77,455	77,530	40,906	46,359	77,530	77,830	13.3%	67.2%	0.4%
Average Diluted Shares	40,847	41,974	45,918	46,098	48,518	50,323	77,950	77,988	37,669	43,692	63,695	78,175	16.0%	45.8%	22.7%
<b>Key Financial Statistics:</b>															
Return on Assets	1.26%	1.32%	1.19%	1.31%	1.39%	1.36%	1.26%	1.28%	1.35%	1.27%	1.32%	1.52%	(8)	5	20
Return on Equity	9.41%	9.87%	8.98%	9.67%	9.57%	9.29%	9.52%	7.36%	10.17%	9.48%	8.93%	9.09%	(68)	(55)	16
Net Interest Margin	3.78%	3.72%	3.60%	3.72%	3.60%	3.62%	3.68%	3.71%	3.71%	3.71%	3.65%	3.70%	0	(5)	5
Operating Non-Int. Inc./Operating Rev.	25.92%	30.36%	26.78%	25.34%	25.50%	26.13%	20.85%	20.03%	26.49%	27.10%	23.13%	20.14%	62	(398)	(298)
Efficiency Ratio	52.55%	50.05%	51.61%	50.19%	50.10%	45.65%	44.05%	44.82%	51.71%	51.11%	46.65%	40.16%	(60)	(445)	(649)
Tangible Common Ratio	8.93%	8.88%	8.73%	8.75%	10.37%	10.41%	10.70%	10.36%	8.64%	8.75%	10.36%	10.54%	11	161	17
Reserves/Gross Loans	0.91%	0.86%	0.72%	0.69%	0.67%	0.65%	0.38%	0.38%	0.99%	0.69%	0.38%	0.39%	(30)	(31)	1
NCOs/Average Loans	0.42%	0.35%	0.35%	0.21%	0.20%	0.22%	0.17%	0.17%	0.20%	0.33%	0.19%	0.17%	13	(14)	(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.

### **Definitions of Ratings:**

**Buy** - We believe the stock has significant total return potential in the coming 12 months.

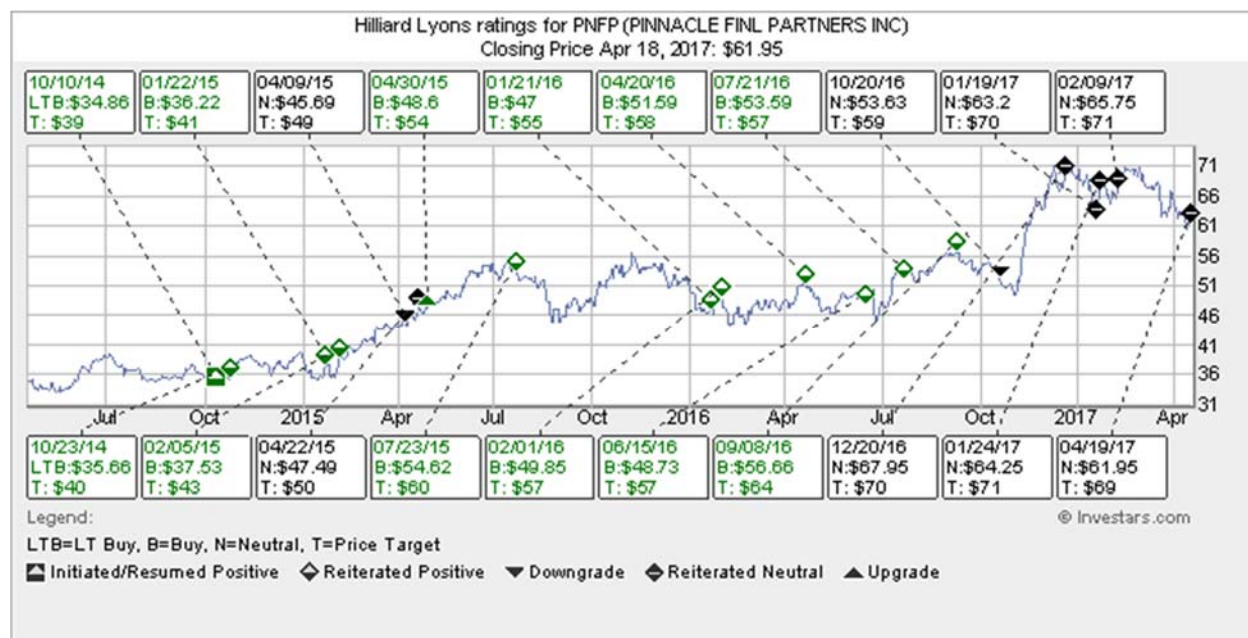
**Long-term Buy** - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

**Neutral** - We believe the stock is 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	30%	14%	86%
Hold/Neutral	71	58%	6%	94%
Sell	15	12%	7%	93%

As of 5 April 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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