



COMPANY UPDATE/ ESTIMATES CHANGE / TARGET PRICE CHANGE

Key Metrics

PNFP - NASDAQ (as of 01/18/18)	\$64.30
Price Target	\$76.00
52-Week Range	\$58.40-\$71.55
Shares Outstanding (mm)	77.7
Market Cap. (\$mm)	\$4,997
3-Mo. Average Daily Volume (000)	435.9
Institutional Ownership	69.7%
Tangible Equity / Tangible Assets	9.5%
ROE	6.3%
Tangible Book Value Per Share	\$23.71
Price/Tangible Book Value	271.2%
Dividend Yield	0.9%
Price/LTM Earnings	23.8x

Operating EPS CY 12/31

	2017A	Prior 2018E	Curr. 2018E	Prior 2019E	Curr. 2019E
1Q	\$0.83	\$1.04	\$1.09		\$1.24
2Q	\$0.84	\$1.11	\$1.14		\$1.25
3Q	\$0.90	\$1.17	\$1.20		\$1.32
4Q	\$0.97	\$1.23	\$1.23		\$1.34
Year	\$3.54	\$4.55	\$4.66		\$5.15
P/E	18.2x		13.8x		12.5x

Numbers may not add due to rounding

Common Dividends

	2017A	Curr. 2018E	Prior % chg.	Curr. 2019E
1Q	\$0.14	\$0.14	0.0	\$0.15
2Q	\$0.14	\$0.14	0.0	\$0.15
3Q	\$0.14	\$0.15	7.1	\$0.17
4Q	\$0.14	\$0.15	7.1	\$0.17
Year	\$0.56	\$0.58	3.6	\$0.64

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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Pinnacle Financial Partners

PNFP – NASDAQ – Buy – 2

Sell-Off Overdone – Reaffirming Buy Rating

- **Earnings Results:** Excluding a \$31.5 million charge related to the revaluation of deferred tax assets and other non-core items, Q4 operating EPS were \$0.97, which beat our estimate of \$0.95 and the Street consensus of \$0.96.
- **Positive Highlights:** Operating noninterest income increased 4.1% linked-quarter (LQ) to \$44.8 million as gains in investment services (29.0%) and income from Bankers Healthcare Group (39.2%) were partially offset by a 35.6% plunge in mortgage banking. Results were below our estimate of \$45.8 million.
Period-end loans were up 2.4% LQ, while average loans rose 2.9%.
The provision for loan losses fell \$0.6 million sequentially to \$6.3 million, which was below our estimate of \$8.0 million. The NCO ratio fell one bp to 0.13% versus our estimate of 0.18%. Nonperforming Assets/Assets inched up two bps to 0.38%.
- **Negative Highlights:** Net interest income rose 0.9% LQ to \$174.7 million as eleven bps of net interest margin (NIM) compression to 3.76% was more than offset by a 3.7% increase in average earning assets. We had modeled net interest income of \$175.5 million and a margin of 3.76%. The core NIM, which excludes purchase accounting accretion, realized nine bps of compression to 3.33%.
Operating noninterest expense rose \$3.0 million to \$103.9 million versus our estimate of \$102.2 million. The primary driver of the increase was a \$3.9 million rise in “other” noninterest expense to \$16.3 million.
- **Estimates:** We are raising our 2018 operating EPS estimate by \$0.11 to \$4.66 and introducing our 2019 estimate at \$5.15. We are increasing our price target by \$3.00 to \$76.00. With our price target suggesting a potential return of 19%, including dividends, we believe the recent sell-off provides a compelling entry point.

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

OTHER TAKEAWAYS & VALUATION

- Non-core items during the quarter included the following:
 - A \$31.5 million charge resulting from the revaluation of the company's deferred tax assets
 - Merger-related charges of \$19.1 million
 - Losses of \$8.3 million stemming from the sale of certain investment securities to provide protection from a potentially flatter yield curve. Management expects the repositioning of the securities portfolio will benefit the NIM by 4-5 bps in 2018.
- Management guided to an effective tax rate of approximately 22% in 2018.
- The BNC markets continued to experience subdued loan growth in 4Q17. The BNC loan portfolio is skewed toward commercial real estate loans, which have been impacted by heavy payoff activity. Management also attributed the slower BNC loan growth to distractions stemming from the integration into PNFP.
- CRE loans crossed the 300% of risk-weighted assets regulatory concentration guideline as a result of the aforementioned non-core items. The company believes it will build sufficient capital to be within the guideline in a few quarters.
- PNFP added a total of 77 revenue producers in 2017, including 27 in its BNC markets. Moreover, it has targeted the addition of 64 commercial lenders and private bankers in the Carolinas and Virginia over five years, seven of which have already been hired. We believe these actions position the company to continue to generate outsized balance sheet and revenue growth, despite the near-term headwinds associated with its CRE concentration.
- Mortgage banking revenues declined 35.6% LQ, but is expected to increase 12% in 2018 resulting from marketing enhancements. BNC's mortgage banking operations have historically operated as a stand-alone unit with no cross-selling efforts targeting bank clients. These operations are transitioning to the PNFP model wherein at least one-half of mortgage originations are generated from referrals from bankers.
- Bankers Healthcare Group (BHG) contributed \$12.4 million in income in 4Q17, up 39.2% LQ. Management expects BHG to generate 12%-15% growth in 2018.
- The 4Q17 NIM benefitted from approximately 43 bps of purchase accounting accretion versus 45 bps in 3Q17.
- Excluding purchase accounting accretion, the core NIM fell nine bps LQ to 3.33% primarily due to a seven bp increase in the cost of interest-bearing liabilities to 0.73%.
- Managing funding costs will be a priority in 2018 and management expects the NIM to remain relatively stable in 2018.
- We derive our price target through our discounted dividend model and the application of a forward multiple of 15X to our 2019 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 two Fed rate hikes in 2018 and 2019 and continued flattening of the yield curve.

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:BUY							
	\$Millions, Except for Per Share Data	1Q17 A	2Q17 A	3Q17 A	4Q17 A	1Q18 E	2Q18 E	3Q18 E	4Q18 E	FY 2016 A	FY 2017 A	FY 2018 E	FY 2019 E
Balance Sheet Data:													
Assets	11,724.6	20,886.2	21,790.4	22,205.7	22,649.8	23,272.7	24,087.2	24,930.3	27,924.6	11,194.6	22,205.7	24,930.3	27,924.6
Gross Loans	8,728.0	14,860.4	15,385.2	15,762.3	16,038.1	16,479.2	17,056.0	17,652.9	19,773.2	8,520.2	15,762.3	17,652.9	19,773.2
Average Earning Assets	10,262.0	11,885.1	18,137.9	18,809.7	19,299.1	19,758.2	20,376.6	21,089.8	22,622.1	9,008.2	14,773.7	20,130.9	22,622.1
Deposits	9,280.6	15,757.5	15,789.6	16,451.7	16,780.7	17,242.2	17,845.7	18,470.3	20,688.7	8,759.3	16,451.7	18,470.3	20,688.7
Equity	1,723.1	3,615.3	3,673.3	3,708.0	3,746.6	3,827.6	3,912.9	4,000.7	4,366.7	1,496.7	3,708.0	4,000.7	4,366.7
Statement of Operations:													
Net Interest Income	88.8	106.6	173.2	174.7	174.2	180.1	187.0	193.3	200.0	325.0	543.3	734.6	814.3
Provision for Loan Losses	3.7	6.8	6.9	6.3	7.3	8.0	9.3	10.1	11.2	18.3	23.7	34.6	46.2
Non-Interest Income:													
Service Charges on Deposits	3.9	4.2	5.9	6.1	6.0	6.2	6.4	6.3	6.3	14.5	20.0	24.9	26.0
Investment Services	2.8	3.1	3.7	4.7	5.7	5.9	6.0	6.1	6.1	10.8	14.3	23.6	25.4
Insurance	1.9	1.5	2.1	2.0	1.9	1.5	2.2	2.0	2.0	5.3	7.4	7.7	8.1
Gain on Sale of Mortgage Loans	4.2	4.7	6.0	3.8	4.6	5.1	6.6	4.2	4.2	15.8	18.6	20.5	21.3
Trust Fees	1.7	1.7	2.6	2.6	2.7	2.8	2.9	3.1	3.1	6.3	8.7	11.5	12.9
Income from Equity Method Investment	7.8	8.8	8.9	12.4	10.3	10.6	10.9	11.2	11.2	31.4	38.0	42.9	48.3
Other	8.2	11.2	13.7	13.1	13.0	13.3	13.6	14.0	14.0	36.6	46.2	54.0	58.0
Securities Gains	0.0	0.0	0.0	-8.3	0.0	0.0	0.0	0.0	0.0	0.4	(8.3)	0.0	0.0
Total Non-Interest Income	30.4	35.1	43.0	36.5	44.3	45.4	48.6	46.9	46.9	121.0	144.9	185.1	200.0
Non-Core Adjustment	0.0	0.0	0.0	8.3	0.0	0.0	0.0	0.0	0.0	(0.4)	8.3	0.0	0.0
Adjusted Non-Interest Income	30.4	35.1	43.0	44.8	44.3	45.4	48.6	46.9	46.9	120.6	153.2	185.1	200.0
Non-Interest Expense:													
Salaries & Benefits	38.4	43.7	64.3	63.3	63.9	65.4	67.4	67.7	67.7	140.8	209.7	264.4	292.1
Occupancy & Equipment	9.7	10.7	16.6	17.1	16.7	16.3	16.5	16.7	16.7	35.1	54.1	66.2	68.3
OREO Expense	0.3	0.1	0.5	0.3	0.3	0.3	0.3	0.3	0.3	62.5	1.1	1.0	1.0
Other	13.8	17.3	28.3	42.3	22.9	22.6	22.9	23.2	23.2	60.0	101.7	91.7	95.7
Total Non-Interest Expense	62.1	71.8	109.7	123.0	103.8	104.6	107.0	107.8	107.8	236.3	366.6	423.3	457.2
Non-Core Adjustment	-0.7	-3.2	-8.8	-19.1	0.0	0.0	0.0	0.0	0.0	(11.7)	(31.8)	0.0	0.0
Adjusted Non-Interest Expense	61.4	68.6	100.9	103.9	103.8	104.6	107.0	107.8	107.8	224.5	334.7	423.3	457.2
Pretax Income	54.1	66.3	108.4	109.3	107.4	112.8	119.3	122.4	122.4	202.7	338.1	461.9	510.9
Income Taxes	14.5	23.2	43.9	82.5	23.3	24.5	26.0	26.6	26.6	75.5	164.1	100.5	111.2
Net Income Available to Common	39.7	43.1	64.4	26.8	84.1	88.3	93.3	95.7	95.7	127.2	174.0	361.3	399.8
Share & Per Share Data:													
Diluted EPS	0.82	0.80	0.83	0.35	1.09	1.14	1.20	1.23	1.23	3.06	2.80	4.66	5.15
Operating EPS	0.83	0.84	0.90	0.97	1.09	1.14	1.20	1.23	1.23	3.06	3.54	4.66	5.15
Dividends Per Share	0.14	0.14	0.14	0.14	0.14	0.14	0.15	0.15	0.15	0.56	0.56	0.58	0.64
Tangible Book Value	23.25	22.58	23.32	23.71	24.23	25.30	26.41	27.56	27.56	20.06	23.71	27.56	32.33
Common Shares Outstanding	49,790	77,647	77,652	77,740	77,790	77,840	77,890	77,940	77,940	46,359	77,740	77,940	78,140
Average Diluted Shares	48,518	53,666	77,232	77,437	77,462	77,486	77,511	77,536	77,536	43,692	64,213	77,499	77,597
Key Financial Statistics:													
Return on Assets	1.39%	1.29%	1.22%	0.49%	1.52%	1.54%	1.56%	1.55%	1.55%	1.27%	1.10%	1.54%	1.52%
Return on Equity	9.57%	8.38%	7.05%	2.89%	9.15%	9.35%	9.56%	9.60%	9.60%	9.48%	6.97%	9.41%	9.56%
Net Interest Margin	3.60%	3.68%	3.87%	3.76%	3.74%	3.73%	3.72%	3.71%	3.71%	3.71%	3.72%	3.72%	3.67%
Operating Non-Int. Inc./Operating Rev.	25.50%	24.74%	19.88%	20.39%	20.26%	20.13%	20.62%	19.52%	19.52%	27.10%	22.63%	20.13%	19.72%
Efficiency Ratio	50.10%	48.80%	48.50%	53.76%	45.37%	44.34%	43.44%	42.91%	42.91%	51.11%	50.29%	44.01%	43.19%
Tangible Common Ratio	10.37%	9.22%	9.09%	9.06%	9.07%	9.19%	9.25%	9.31%	9.31%	8.75%	9.06%	9.31%	9.69%
Reserves/Gross Loans	0.67%	0.42%	0.42%	0.43%	0.43%	0.44%	0.44%	0.44%	0.44%	0.69%	0.43%	0.44%	0.44%
NCOs/Average Loans	0.20%	0.31%	0.10%	0.11%	0.13%	0.14%	0.15%	0.16%	0.16%	0.33%	0.18%	0.15%	0.20%

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.

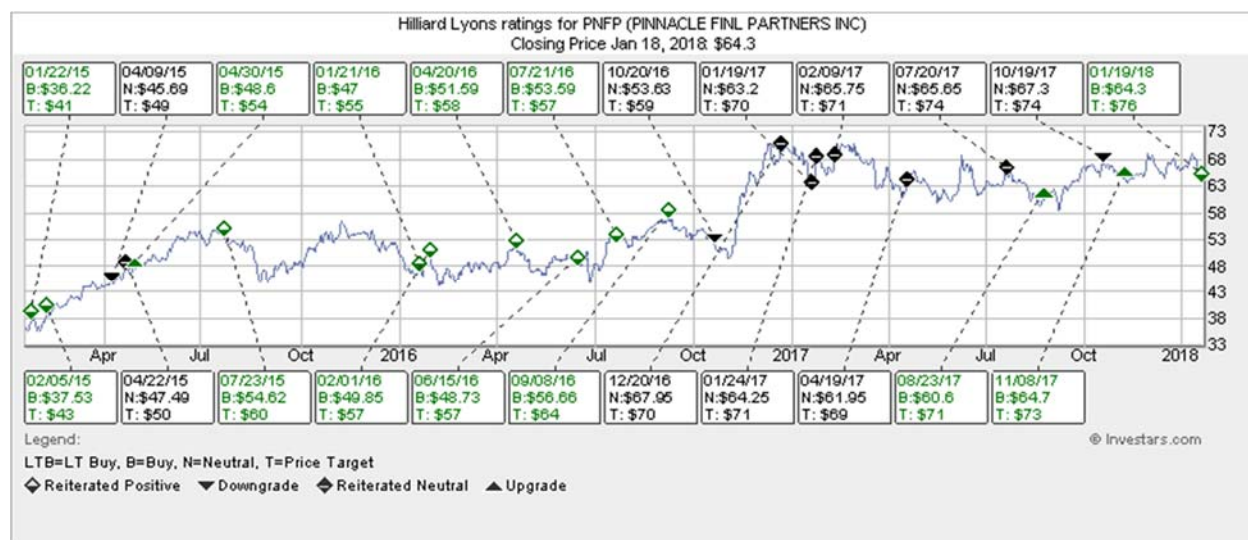
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is 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	31	28%	10%	90%
Hold/Neutral	75	67%	9%	91%
Sell	6	5%	0%	100%

As of 8 January 2018

Other Disclosures

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