

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

PNFP - NASDAQ (as of 07/19/17)	\$65.65
Price Target	\$74.00
52-Week Range	\$49.40-\$71.85
Shares Outstanding (mm)	77.6
Market Cap. (\$mm)	\$5,097
3-Mo. Average Daily Volume (000)	686.4
Institutional Ownership	51.3%
Tangible Equity / Tangible Assets	9.5%
ROE	9.5%
Tangible Book Value Per Share	\$22.58
Price/Tangible Book Value	290.7%
Dividend Yield	0.9%
Price/LTM Earnings	21.1x

**Operating EPS CY 12/31**

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.71	\$0.83A	\$0.83A	\$0.97	\$1.04
2Q	\$0.75	\$0.80	\$0.84A	\$1.07	\$1.10
3Q	\$0.78	\$0.83	\$0.88	\$1.16	\$1.23
4Q	\$0.82	\$0.87	\$0.92	\$1.21	\$1.27
Year	\$3.06	\$3.33	\$3.47	\$4.42	\$4.64
P/E	21.4x		18.9x		14.1x

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	\$0.14A	0.0	\$0.17
3Q	\$0.14	\$0.14	0.0	\$0.17
4Q	\$0.14	\$0.14	0.0	\$0.17
Year	\$0.56	\$0.56	0.0	\$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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 July 20, 2017

**Pinnacle Financial Partners**

PNFP -- NASDAQ -- Neutral -- 2

**Reports Stellar Loan Growth & Lots of Noise; Reaffirming Neutral Rating**

- **Earnings Results:** Excluding \$0.04 of merger-related charges, Q2 operating EPS were \$0.84, which beat our estimate and the Street consensus of \$0.80.
- **Positive Highlights:** Organic loan growth, excluding loans picked up in the BNC acquisition, was extremely robust at 5.5% on a LQ, end-of-period basis.

Net interest income surged \$17.9 million linked-quarter (LQ) to \$106.6 million on eight bps of net interest margin expansion (NIM) to 3.68%, a 15.8% increase in average earnings assets and an extra day in the quarter. Net interest income and earning assets were impacted by the BNB acquisition. Excluding the acquisition, organic growth in net interest income was approximately 6.2%.

The core NIM, which excludes purchase accounting accretion, realized six bps of lift to 3.45%.

Noninterest income increased 15.4% LQ to \$35.1 million, which exceeded our estimate of \$33.2 million. On an organic basis, growth was 9.7%.

The NCO ratio fell three bps to 0.17% versus our estimate of 0.22%. Nonperforming Assets/Assets rose four bps to 0.31%.

- **Negative Highlights:** Operating noninterest expense rose \$7.2 million to \$61.4 million versus our estimate of \$60.4 million. Organic growth was approximately 6.1%.

The provision for loan losses rose \$3.2 million sequentially to \$6.8 million, which was above our estimate of \$5.0 million.

- **Estimates:** We are revising our 2017 and 2018 operating EPS estimates to \$3.47 and \$4.64 from \$3.33 and \$4.42, respectively. We are increasing our price target by \$5.00 to \$74.00. We reaffirm our Neutral rating.

**Note Important Disclosures on pages 4 and 5**  
**Note Analyst Certification on page 4**

**OTHER TAKEAWAYS & VALUATION**

- PNFP's organic 5.5% loan growth was above our estimate of 3.8%. The company's legacy Tennessee footprint generated 5.5% LQ growth, while the former BNC footprint generated growth of 4.1%. Management noted that approximately 40% of growth was the result of market share gains.
- As previously mentioned, on January 1, 2017, PNFP changed accounting standards with regard to share-based compensation. This change resulted in a \$789K reduction in 2Q17 tax expense compared to a \$3.8 million reduction in 1Q17.
- PNFP added 33 revenue producers in 1H17, including 14 in the BNC markets.
- Bankers Healthcare Group (BHG) contributed \$8.8 million in income in 2Q17, up 12.8% LQ following a seasonally weak Q1. Management reiterated guidance that BHG's contribution to revenues should increase approximately 20% in 2017.
- The 2Q17 NIM benefitted from approximately 23 bps of purchase accounting accretion. Management expects a meaningful contribution to the NIM from purchase accounting accretion in coming quarters following the BNC acquisition.
- We derive our price target through our discounted dividend model and the application of a forward multiple of approximately 16.5X to our 3Q18-2Q19 EPS estimates. 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. Given the considerable uncertainties regarding corporate tax reform, we are employing conservative hurdle rates in establishing our ratings.

**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 A	3Q17 E	4Q17 E	FY 2015 A	FY 2016 A	FY 2017 E	FY 2018 E	FY 2017 E	FY 2018 E	
\$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	20,886.2	21,617.2	22,373.8	6,314.3	11,194.6	22,373.8	25,364.3	77.3%	99.9%	13.4%
Gross Loans	6,873.9	7,153.8	8,312.5	8,520.2	8,728.0	14,860.4	15,380.5	15,918.8	4,672.1	8,520.2	15,918.8	18,046.6	82.4%	86.8%	13.4%
Average Earning Assets	8,018.6	8,362.7	9,794.1	9,884.7	10,262.0	11,885.1	18,063.9	18,696.1	6,480.8	9,008.2	14,726.8	20,172.8	39.0%	63.5%	37.0%
Deposits	7,080.2	7,292.8	8,670.1	8,759.3	9,280.6	15,757.5	16,309.0	16,879.8	6,971.4	8,759.3	16,879.8	19,136.0	25.6%	92.7%	13.4%
Equity	1,228.8	1,262.2	1,475.6	1,486.7	1,723.1	3,615.3	3,673.6	3,674.8	1,155.6	1,496.7	3,674.8	4,008.9	29.5%	145.5%	9.1%
<b>Statement of Operations:</b>															
Net Interest Income	73.9	75.0	86.6	89.4	88.8	106.6	169.2	174.1	236.6	325.0	538.7	741.6	37.3%	65.8%	37.7%
Provision for Loan Losses	3.9	5.3	6.1	3.0	3.7	6.8	9.0	9.3	9.2	18.3	28.8	39.3	99.5%	57.3%	36.2%
Non-Interest Income:															
Service Charges on Deposits	3.4	3.4	3.8	3.9	3.9	4.2	6.8	6.9	12.7	14.5	21.7	28.4	13.8%	49.6%	31.0%
Investment Services	2.3	2.5	2.6	3.3	2.8	3.1	2.9	3.2	10.0	10.8	12.0	12.7	7.9%	11.8%	6.0%
Insurance	1.7	1.2	1.2	1.2	1.9	1.5	1.3	1.2	4.8	5.3	5.8	6.0	10.0%	9.5%	3.0%
Gain on Sale of Mortgage Loans	3.6	4.2	5.1	2.9	4.2	4.7	7.2	6.1	7.7	15.8	22.2	28.4	105.5%	40.8%	27.9%
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%	59.5%	40.8%
Income from Equity Method Investment	5.1	9.6	8.5	8.1	7.8	8.8	10.5	10.5	20.6	31.4	37.6	43.2	52.5%	19.7%	15.0%
Other	8.1	10.2	9.0	9.3	8.2	11.2	11.6	11.8	24.7	36.6	42.7	49.8	47.9%	16.8%	16.5%
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	35.1	43.6	43.0	86.5	121.0	152.1	182.7	39.8%	25.7%	20.1%
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	35.1	43.6	43.0	85.4	120.6	152.1	182.7	41.3%	26.1%	20.1%
Non-Interest Expense:															
Salaries & Benefits	32.5	34.3	36.1	38.0	38.4	43.7	57.4	57.1	105.9	140.8	196.6	216.6	32.9%	39.6%	10.2%
Occupancy & Equipment	8.1	8.3	9.4	9.2	9.7	10.7	15.4	15.5	27.2	35.1	51.3	61.8	28.7%	46.3%	20.4%
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%	-99.1%	-11.5%
Other	13.3	13.1	18.1	15.5	13.8	17.3	29.1	29.2	38.0	60.0	89.4	117.5	57.8%	31.4%	31.4%
Total Non-Interest Expense	54.1	55.9	63.5	62.8	62.1	71.8	102.0	102.0	170.9	236.3	337.9	396.3	38.3%	43.0%	17.3%
Non-Core Adjustment	-1.8	-1.0	-5.7	-3.3	-0.7	-3.2	0.0	0.0	(4.8)	(11.7)	(3.9)	0.0	144.9%	-66.9%	-100.0%
Adjusted Non-Interest Expense	52.2	55.0	57.9	59.5	61.4	68.6	102.0	102.0	166.1	224.5	334.0	396.3	35.2%	48.8%	18.7%
Pretax Income	43.6	47.5	54.4	57.2	54.1	66.3	101.8	105.8	146.7	202.7	328.0	488.7	38.2%	61.8%	49.0%
Income Taxes	15.7	16.7	22.0	21.1	14.5	23.2	32.6	33.9	51.2	75.5	104.1	124.3	47.4%	37.9%	19.4%
Net Income Available to Common	28.0	30.8	32.4	36.1	39.7	43.1	69.2	71.9	95.5	127.2	223.8	364.4	33.2%	75.9%	62.8%
<b>Share &amp; Per Share Data:</b>															
Diluted EPS	0.68	0.73	0.71	0.78	0.82	0.80	0.88	0.92	2.53	3.06	3.42	4.64	20.9%	11.8%	35.7%
Operating EPS	0.71	0.75	0.78	0.82	0.83	0.84	0.88	0.92	2.59	3.06	3.47	4.64	18.3%	13.3%	33.9%
Dividends Per Share	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.48	0.56	0.56	0.66	16.7%	0.0%	17.9%
Tangible Book Value	18.75	19.58	19.69	20.06	23.25	22.58	10.78	10.83	17.46	20.06	10.83	15.26	14.9%	-46.0%	40.9%
Common Shares Outstanding	41,995	42,184	46,160	46,359	49,790	77,647	77,722	78,252	40,906	46,359	77,722	78,022	13.3%	67.7%	0.4%
Average Diluted Shares	40,847	41,974	45,918	46,098	48,518	53,666	78,215	78,252	37,669	43,692	64,663	78,440	16.0%	48.0%	21.3%
<b>Key Financial Statistics:</b>															
Return on Assets	1.26%	1.32%	1.19%	1.31%	1.39%	1.29%	1.29%	1.30%	1.35%	1.27%	1.32%	1.53%	(8)	5	21
Return on Equity	9.41%	9.87%	8.98%	9.67%	9.57%	8.38%	7.53%	7.76%	10.17%	9.48%	8.31%	9.49%	(68)	(117)	118
Net Interest Margin	3.78%	3.72%	3.60%	3.72%	3.60%	3.68%	3.80%	3.78%	3.71%	3.71%	3.71%	3.76%	0	1	4
Operating Non-Int. Inc./Operating Rev.	25.92%	30.36%	26.78%	25.34%	25.50%	24.74%	20.49%	19.82%	26.49%	27.10%	22.64%	19.77%	62	(447)	(287)
Efficiency Ratio	52.55%	50.05%	51.61%	50.19%	50.10%	48.80%	45.27%	44.36%	51.71%	51.11%	47.13%	40.63%	(60)	(398)	(650)
Tangible Common Ratio	8.93%	8.88%	8.73%	8.75%	10.37%	9.22%	4.46%	4.31%	8.64%	8.75%	4.31%	5.28%	11	(444)	97
Reserves/Common Loans	0.91%	0.86%	0.72%	0.69%	0.67%	0.42%	0.42%	0.42%	0.99%	0.69%	0.42%	0.42%	(30)	(28)	0
NCOs/Average Loans	0.42%	0.35%	0.35%	0.21%	0.20%	0.31%	0.18%	0.18%	0.20%	0.33%	0.22%	0.18%	13	(12)	(4)

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.



	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
<b>Rating</b>				
<b>Buy</b>	36	29%	14%	86%
<b>Hold/Neutral</b>	79	63%	5%	95%
<b>Sell</b>	10	8%	0%	100%

As of 7 July 2017

### Other Disclosures

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