



## COMPANY UPDATE/ ESTIMATES CHANGE

### Key Metrics

PRK - NASDAQ (as of 04/24/17)	\$107.28
Price Target	NA
52-Week Range	\$85.44-\$122.88
Shares Outstanding (mm)	15.3
Market Cap. (\$mm)	\$1,641
3-Mo. Average Daily Volume (000)	36.8
Institutional Ownership	42.7%
Tangible Equity / Tangible Assets	9.5%
ROE	11.7%
Tangible Book Value Per Share	\$43.92
Price/Tangible Book Value	244.3%
Dividend Yield	3.5%
Price/LTM Earnings	18.9x

### Operating EPS CY 12/31

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$1.21	\$1.31	\$1.31A	\$1.48	\$1.59
2Q	\$1.30	\$1.44	\$1.43	\$1.58	\$1.68
3Q	\$1.78	\$1.50	\$1.50	\$1.67	\$1.74
4Q	\$1.53	\$1.46	\$1.50	\$1.72	\$1.70
Year	\$5.83	\$5.71	\$5.75	\$6.45	\$6.71
P/E	18.4x		18.7x		16.0x

### Common Dividends

	2016A	Curr. 2017E	Prior %chg.	Curr. 2018E
1Q	\$0.94	\$0.94A	0.0	\$0.94
2Q	\$0.94	\$0.94	0.0	\$0.94
3Q	\$0.94	\$0.94	0.0	\$0.94
4Q	\$0.94	\$0.94	0.0	\$0.94
Year	\$3.76	\$3.76	0.0	\$3.76

**Company Description** – Park National Corporation (PRK) is a commercial banking organization headquartered in Newark, Ohio. The company's footprint encompasses central and southwestern Ohio. In addition to traditional depository and lending services, Park National is involved in trust services, wealth management, indirect automobile lending and aircraft leasing.

## Park National Corporation

PRK – NASDAQ – Neutral – 2

### Misses Street by \$0.02; Reaffirming Neutral Rating

- **Earnings Results:** PRK reported 1Q17 GAAP and operating EPS of \$1.31, which was in line with our estimate and \$0.02 below the Street.
- **Positive Highlights:** End-of-period loans rose 0.8% linked-quarter (LQ) to \$5.31 billion versus our estimate of \$5.28 billion.

The provision for loan losses rose \$2.2 million LQ to \$0.7 million on a LQ basis. The 4Q16 provision benefitted from strong problem loan recoveries. The net charge-off ratio declined a single bp to 0.12%, while NPAs/Assets fell nine bps to 1.27%. We had modeled a Q1 provision of \$1.7 million.

Operating noninterest expense plummeted 7.9% LQ to \$47.5 million primarily as steep declines in professional fees (44.9%) and “miscellaneous” expenses (57.0%) more than offset a 4.6% advance in salaries & benefits. We had projected noninterest expense of \$46.5 million.

- **Negative Highlights:** Net interest income tumbled 5.3% LQ to \$59.9 million as 19 bps of net interest margin (NIM) compression to 3.49% and two fewer days in the quarter more than offset a 2.2% lift in average earning assets. Similar to the provision, the 4Q16 NIM benefitted from strong interest recoveries on problem loans. We had modeled net interest income of \$57.9 million and a 3.44% margin.

Noninterest income plunged 20.7% LQ to \$17.5 million, but was up 0.7% YOY. The primary drivers of the sequential decline were reductions in “miscellaneous” income (75.7%), other service income (44.2%) and deposit service charges (9.3%). We had modeled noninterest income of \$19.0 million.

- **Estimates:** We are revising our 2017 and 2018 operating EPS estimates to \$5.75 and \$6.71 from \$5.71 and \$6.45, respectively. We reaffirm our Neutral rating.

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

**OTHER KEY TAKEAWAYS**

- The seasonally strong loan growth was primarily driven by 22% annualized growth in consumer loans, most of which was used auto lending. The company is not seeing credit deterioration in its auto portfolio and focuses on prime customers.
- The LQ deposit growth was primarily attributable to the seasonal inflow of municipal deposits.
- The significant sequential increase in data processing was due to large issuances of debit cards enabled with chip technology. This expense item is expected to moderate by 3Q17.
- Approximately \$350 million of high-cost (approximately 3.3%) FHLB borrowings will mature in November 2017, which should result in meaningful NIM expansion.
- The 1Q17 effective tax rate of 27.9% benefitted from purchases of municipal securities. Management expects an effective tax rate of approximately 28% for the remainder of 2017.
- 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 PRK 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.

	PARK NATIONAL CORPORATION										PRK: NEUTRAL			
	1Q016 A	2Q016 A	3Q016 A	4Q016 A	1Q017 A	2Q017 A	3Q017 E	4Q017 E	FY 2015 A	FY 2016 A	FY 2017 E	FY 2018 E	FY 2017 E	FY 2018 E
<b>\$Millions, Except for Per Share Data</b>														
<b>Balance Sheet Data:</b>														
Assets	7,428.2	7,431.6	7,364.1	7,467.6	7,744.7	7,667.2	7,743.9	7,821.4	7,311.4	7,467.6	7,821.4	8,093.5	2.1%	3.5%
Gross Loans	5,062.2	5,127.6	5,187.0	5,271.9	5,313.6	5,369.4	5,425.8	5,482.8	5,068.1	5,271.9	5,482.8	5,695.0	4.0%	3.9%
Average Earning Assets	6,828.9	6,816.4	6,918.4	6,824.3	6,963.5	7,012.4	7,097.6	7,168.6	6,738.7	6,847.2	7,060.5	7,305.0	1.6%	3.1%
Deposits	5,606.8	5,623.9	5,519.7	5,522.0	5,920.6	5,861.4	5,920.6	5,979.2	5,347.6	5,522.0	5,979.2	6,187.2	3.3%	3.5%
Equity	729.7	739.9	751.1	742.2	744.1	750.3	757.5	764.6	713.4	742.2	764.6	803.7	4.0%	5.1%
<b>Statement of Operations:</b>														
FTE Net Interest Income	60.3	58.0	59.2	63.0	60.0	61.0	62.4	63.5	228.5	240.5	246.9	260.8	5.3%	5.6%
Net Interest Income	59.8	57.5	58.5	62.2	59.0	59.9	61.2	62.4	227.6	238.1	242.5	256.1	4.6%	5.6%
Provision for Loan Losses	0.9	2.6	-7.4	-1.3	0.9	2.1	2.1	2.1	5.0	(5.1)	7.1	11.0	-202.2%	54.8%
Non-Interest Income:														
Income From Fiduciary Activities	5.1	5.4	5.3	5.5	5.5	5.6	5.7	5.7	20.2	21.4	22.5	23.9	6.0%	6.1%
Service Charges on Deposit Accounts	3.4	3.6	3.6	3.5	3.1	3.4	3.7	3.5	14.8	14.3	13.8	14.0	-3.3%	2.0%
Other Service Income	2.6	3.4	3.4	3.6	4.9	2.8	3.3	2.7	11.4	14.4	12.3	12.2	26.1%	-0.5%
Checkcard Fee Income	3.5	3.9	3.8	3.9	3.8	4.1	4.0	4.1	14.6	15.1	15.9	16.4	3.4%	3.0%
Other	2.7	2.5	4.0	4.3	2.3	2.7	2.8	3.6	16.5	13.6	11.4	12.0	-17.7%	5.8%
Securities Gains	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	-100.0%	N/A
Total Non-Interest Income	17.4	18.7	20.5	22.1	17.5	19.4	19.3	19.5	77.6	78.7	75.8	78.5	1.5%	3.6%
Non-Core Adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(1.4)	0.0	0.0	0.0	-100.0%	N/A
Adjusted Non-Interest Income	17.4	18.7	20.5	22.1	17.5	19.4	19.3	19.5	76.1	78.7	75.8	78.5	3.4%	3.6%
Non-Interest Expense:														
Salaries and Employee Benefits	26.3	26.2	27.2	26.7	27.9	26.8	26.6	26.3	107.5	106.3	107.6	109.7	-1.1%	2.0%
Occupancy Expense	2.5	2.6	2.5	2.5	2.6	2.7	2.6	2.6	9.7	10.2	10.5	10.7	5.7%	2.4%
Furniture and Equipment Expense	3.4	3.4	3.4	3.4	3.6	3.5	3.5	3.5	11.8	13.8	14.2	14.3	16.6%	1.0%
Data Processing Fees	1.2	1.4	1.5	1.6	2.0	1.6	1.6	1.6	5.0	5.6	6.7	6.4	11.3%	19.2%
Professional Fees and Services	6.7	5.4	6.4	8.8	4.8	5.6	5.6	5.7	23.5	27.2	21.7	22.9	15.9%	-20.1%
Marketing	1.4	1.4	1.4	1.1	1.1	1.1	1.1	1.1	4.0	4.5	4.3	4.3	13.6%	2.0%
Insurance	1.4	1.4	1.4	1.6	1.6	1.5	1.5	1.5	5.6	5.8	5.9	5.9	3.5%	-0.2%
Communication	1.2	1.4	1.2	1.3	1.3	1.3	1.3	1.3	5.1	5.0	5.3	5.3	-2.8%	5.4%
Other	9.7	6.3	5.9	14.1	6.5	6.4	6.4	8.0	29.1	35.9	27.4	27.9	23.3%	-23.8%
Total Non-Interest Expense	49.9	45.3	46.8	57.1	47.5	46.5	47.7	47.7	186.6	199.0	188.0	192.0	6.6%	-5.5%
Non-Core Adjustment	0.0	0.0	0.0	-5.6	0.0	0.0	0.0	0.0	(1.1)	(5.6)	0.0	0.0	404.9%	-100.0%
Adjusted Non-Interest Expense	49.9	45.3	46.8	51.5	47.5	46.5	47.7	47.7	185.5	193.5	188.0	192.0	4.3%	-2.8%
Pretax Income	26.4	28.3	39.7	34.1	28.1	30.7	32.2	32.1	113.3	128.4	123.1	131.7	13.4%	-4.1%
Income Taxes	7.7	8.3	12.2	10.5	7.9	8.6	9.1	9.0	32.7	38.7	34.6	28.7	18.5%	-10.6%
Operating Net Income	18.7	20.0	27.4	23.6	20.2	22.1	23.1	23.1	80.6	89.7	88.6	103.0	11.3%	-1.3%
<b>Share &amp; Per Share Data:</b>														
Diluted EPS	1.21	1.30	1.78	1.30	1.31	1.43	1.50	1.50	5.26	5.59	5.75	6.71	6.4%	2.8%
Operating EPS	1.21	1.30	1.78	1.53	1.31	1.43	1.50	1.50	5.23	5.83	5.75	6.71	11.3%	-1.3%
Dividends Per Share	0.94	0.94	0.94	0.94	0.94	0.94	0.94	0.94	3.76	3.76	3.76	3.76	0.0%	0.0%
Tangible Book Value	42.88	43.54	44.27	43.67	43.92	44.36	44.88	45.39	41.81	43.67	45.39	48.14	4.4%	3.9%
Common Shares Outstanding	15,331	15,331	15,331	15,341	15,297	15,282	15,267	15,252	15,331	15,341	15,252	15,192	0.1%	-0.6%
Average Diluted Shares	15,407	15,399	15,400	15,415	15,433	15,410	15,395	15,380	15,405	15,406	15,405	15,343	0.0%	0.0%
<b>Key Financial Statistics:</b>														
Return on Assets	1.01%	1.08%	1.47%	1.08%	1.07%	1.15%	1.19%	1.18%	1.11%	1.16%	1.15%	1.30%	5	(1)
Return on Equity	10.32%	10.92%	14.75%	10.68%	10.90%	11.86%	12.15%	12.05%	11.45%	11.66%	11.74%	13.14%	21	8
Net Interest Margin	3.55%	3.43%	3.42%	3.68%	3.49%	3.49%	3.48%	3.52%	3.40%	3.52%	3.50%	3.57%	12	(2)
Operating Non-Int. Inc./Operating Rev.	22.38%	24.46%	25.25%	25.74%	22.55%	24.13%	23.67%	23.52%	24.98%	24.45%	23.47%	23.14%	(53)	(98)
Efficiency Ratio	64.25%	59.04%	58.39%	60.41%	61.20%	57.88%	56.73%	57.41%	61.25%	60.54%	58.31%	56.59%	(70)	(224)
Tangible Common Ratio	8.94%	9.07%	9.31%	9.06%	8.76%	8.93%	8.93%	8.93%	8.86%	9.06%	8.93%	9.12%	(15)	(12)
Reserves/Loans	1.12%	1.14%	1.03%	0.96%	0.94%	0.94%	0.94%	0.94%	1.11%	1.11%	0.94%	0.94%	(2)	0
NCOs/Average Loans	0.04%	0.07%	-0.17%	0.13%	0.12%	0.12%	0.12%	0.12%	0.06%	0.02%	0.12%	0.16%	(4)	10

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.

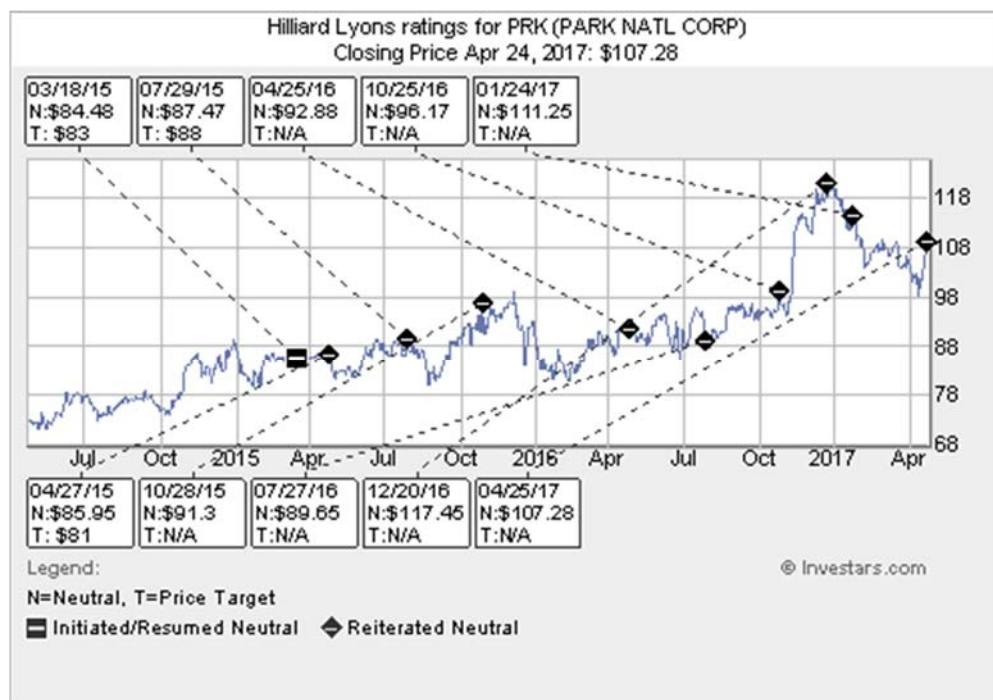
### **Definitions of Suitabilities:**

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



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# 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**

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