



## COMPANY UPDATE / ESTIMATE CHANGES

### Key Metrics

RBCAA - NASDAQ (as of 04/21/17)	\$35.89
Price Target	NA
52-Week Range	\$26.04-\$40.74
Shares Outstanding (mm)	20.9
Market Cap. (\$mm)	\$749
3-Mo. Average Daily Volume (000)	18.6
Institutional Ownership	32.4%
Tangible Equity / Tangible Assets	9.5%
ROE	7.7%
Tangible Book Value Per Share	\$28.93
Price/Tangible Book Value	124.1%
Dividend Yield	2.3%
Price/LTM Earnings	15.5x

### Operating EPS CY 12/31

	Prior 2016A	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.85	\$1.00	\$0.96A	\$1.21
2Q	\$0.42	\$0.50	\$0.52	\$0.64
3Q	\$0.50	\$0.47	\$0.43	\$0.57
4Q	\$0.48	\$0.45	\$0.42	\$0.53
Year	\$2.25	\$2.42	\$2.33	\$2.95
P/E	16.0x		15.4x	12.7x

### Common Dividends

	2016A	Curr. 2017E	Prior % chg.	Curr. 2018E
1Q	\$0.20	\$0.21A	5.6	\$0.22
2Q	\$0.21	\$0.22	5.3	\$0.22
3Q	\$0.21	\$0.22	5.3	\$0.24
4Q	\$0.21	\$0.22	5.3	\$0.24
Year	\$0.83	\$0.87	5.3	\$0.92

**Company Description** - Republic Bancorp is a commercial banking organization headquartered in Louisville, Kentucky. The company operates more than 30 offices in Kentucky, Indiana, Florida and Tennessee. In addition to traditional banking services, the company is involved in income tax refund processing and mortgage warehousing.

### Banks

Analyst: Andrew W. Stapp  
502-588-4190 / [astapp@hilliard.com](mailto:astapp@hilliard.com)  
Institutional Sales Desk: George Moorin  
502-588-9141 / [gmoorin@hilliard.com](mailto:gmoorin@hilliard.com)  
J.J.B. Hilliard, W.L. Lyons, LLC  
April 24, 2017

## Republic Bancorp, Inc.

RBCAA -- NASDAQ -- Neutral -- 3

### Strong Easy Advance Loan Production Propels NIM, Tax Refund Income Disappoints; Retaining Neutral Rating

- **Earnings Results:** RBCAA reported Q1 GAAP and operating EPS of \$0.96, which was below our estimate of \$1.00 and the Street consensus of \$0.98. A change in accounting standards related to stock-based compensation benefitted EPS by \$0.01.
- **Positive Highlights:** Net interest income rose 35.5% linked-quarter (LQ) to \$56.4 million as 122 bps of net interest margin (NIM) expansion to 4.99% and a 2.2% rise in average earning assets more than offset two fewer days in the quarter. We had projected net interest income of \$49.4 million and a 4.48% margin.
- **Negative Highlights:** Noninterest expense increased \$6.8 million LQ to \$38.9 million, which came in ahead of our estimate of \$36.6 million.

End-of-period loans declined 2.8% LQ, while average loans fell 1.1%.

The provision for loan losses rose \$7.3 million sequentially to \$12.4 million and was above our estimate of \$8.6 million. Excluding restructured loans, Nonperforming Assets/Assets rose three bps LQ to 0.39%, while the net charge-off ratio increased four bps to 0.31%.

Noninterest income was essentially flat YOY at \$24.9 million as a \$1.7 million plunge in tax refund fees was offset by gains in other line items. Results were below our projection of \$27.5 million due to the lower-than-expected tax refund fees.

- **Estimates:** We are revising our 2017 and 2018 operating EPS estimates to \$2.33 and \$2.82 from \$2.42 and \$2.95, respectively. We reaffirm our Neutral rating.

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

**OTHER KEY TAKEAWAYS**

- The sequential NIM expansion was primarily attributable to growth in the Easy Advance tax refund lending program. The company originated \$328 million in Easy Advance loans versus approximately \$120 million in 1Q16.
- Management noted that expenses will be the company's biggest challenge for the year due in part to the increase in the number of employees. However, noninterest expense growth should slow this year compared to 2016.
- Management expects an effective tax rate of approximately 35% for the remainder of 2017 versus the Q1 tax rate of 33.4%, which was impacted by accounting changes.
- 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 RBCAA is 3 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**

- **Regulatory Environment** – Banks operate in a highly regulated environment. Consequently, the company is vulnerable to regulatory uncertainties that could negatively impact shareholders.
- **Earnings at Risk** – Regulators could potentially force the company to reduce pricing on or discontinue certain high yielding loans that it offers to consumers.
- **Economy** – If the economy softens, loan demand could wane and credit quality could deteriorate.
- **Geography** – The company's operations are clustered in a few states. 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.
- **Other** – Please see the company's financial statements for a further discussion of risks and considerations.

	RBCAA: NEUTRAL														
	1Q016 A	2Q016 A	3Q016 A	4Q016 A	1Q017 A	2Q017 E	3Q017 E	4Q017 E	FY 2016 A	FY 2017 E	FY 2018 E				
<b>REPUBLIC BANCORP, INC.</b>															
\$Millions, Except for Per Share Data															
<b>Balance Sheet Data:</b>															
Assets	4,246.8	4,646.9	4,827.3	4,816.3	4,664.8	4,858.5	4,869.1	4,871.6	4,230.3	4,816.3	4,871.6	5,105.6	13.9%	1.1%	4.8%
Gross Loans	3,360.1	3,786.0	3,834.3	3,825.9	3,720.7	3,875.2	3,883.6	3,885.6	3,331.2	3,825.9	3,885.6	4,150.9	14.9%	1.6%	6.8%
Average Earning Assets	4,172.8	4,153.6	4,315.5	4,422.0	4,520.4	4,494.4	4,431.2	4,456.0	3,788.7	4,265.4	4,475.5	4,692.6	12.6%	4.9%	4.9%
Deposits	2,736.6	2,856.0	3,135.9	3,160.7	3,348.8	3,487.9	3,495.4	3,497.3	2,487.5	3,160.7	3,497.3	3,665.2	27.1%	10.6%	4.8%
Equity	591.6	595.0	600.6	604.4	620.7	627.1	631.6	635.9	576.5	604.4	635.9	676.0	4.8%	5.2%	6.3%
<b>Statement of Operations:</b>															
Net Interest Income	39.4	35.6	39.4	41.6	56.4	43.3	42.8	43.1	124.0	156.1	185.6	198.3	25.9%	18.9%	6.9%
Provision for Loan Losses	5.2	1.8	2.5	5.0	12.4	3.2	3.3	3.6	5.4	14.5	22.5	23.6	168.6%	55.0%	5.3%
Non-Interest Income:															
Deposit Service Charges	3.1	3.3	3.4	3.3	3.2	3.3	3.4	3.3	13.0	13.2	13.3	13.1	1.2%	0.8%	-1.0%
Net Return Transfer Fees	17.1	1.9	0.1	0.1	15.4	2.0	0.1	0.1	17.4	19.2	17.6	17.6	10.7%	-8.3%	0.0%
Mortgage Banking	1.3	1.6	3.1	1.0	1.2	1.5	1.5	1.2	4.4	6.9	5.3	5.4	56.0%	-23.4%	1.7%
Interchange Fees	2.1	2.2	2.4	2.3	2.3	2.4	2.4	2.5	8.4	9.0	9.6	10.2	7.9%	6.4%	6.2%
Gain on Sales of OREO	0.2	0.1	-0.1	0.1	0.0	0.0	0.0	0.0	(0.3)	0.2	0.0	0.0	-181.1%	-100.0%	N/A
BOLI	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	1.4	1.5	1.6	1.6	8.1%	3.2%	0.0%
Other	0.7	1.4	2.0	3.3	2.5	2.1	2.2	2.2	3.6	7.4	8.9	9.1	105.2%	20.2%	1.4%
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	N/A
Total Non-Interest Income	24.9	10.8	11.3	10.5	25.0	11.7	10.0	9.7	48.0	57.5	56.3	57.0	19.9%	-2.1%	1.2%
Non-Core Adjustment	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	N/A
Adjusted Non-Interest Income	24.9	10.8	11.3	10.5	25.0	11.7	10.0	9.7	47.9	57.5	56.3	57.0	20.1%	-2.1%	1.2%
Non-Interest Expense:															
Salaries & Benefits	17.1	17.8	18.1	16.9	21.2	19.5	19.7	19.8	58.1	69.9	80.2	81.9	20.3%	14.8%	2.1%
Occupancy & Equipment	5.4	5.1	5.6	5.6	6.0	5.8	5.8	5.8	20.7	21.8	23.3	23.9	5.3%	7.2%	2.2%
Communication & Transportation	1.1	0.9	1.0	1.3	1.3	1.3	1.3	1.3	3.8	4.3	5.1	5.3	13.4%	20.9%	3.4%
Marketing	0.5	1.2	1.1	1.0	1.0	1.1	1.1	1.1	3.2	3.8	4.2	4.4	19.5%	10.8%	4.9%
Other	8.5	6.9	7.7	7.3	9.5	7.3	7.6	7.6	27.6	30.4	32.0	33.1	10.1%	5.3%	3.3%
Total Non-Interest Expense	32.5	31.9	33.5	32.2	38.9	34.9	35.4	35.7	113.3	130.1	144.9	148.5	14.8%	11.4%	2.5%
Non-Core Adjustment	0.0	-0.7	-1.1	0.0	0.0	0.0	0.0	0.0	(0.4)	(1.8)	0.0	0.0	334.0%	-100.0%	N/A
Adjusted Non-Interest Expense	32.5	31.2	32.5	32.2	38.9	34.9	35.4	35.7	112.9	128.3	144.9	148.5	13.7%	12.9%	2.5%
Pretax Income	26.6	13.4	15.7	15.0	30.1	16.9	14.0	13.5	53.6	70.7	74.5	83.1	32.1%	5.3%	11.7%
Income Taxes	8.9	5.1	5.9	5.0	10.1	5.9	4.9	4.7	18.4	24.8	25.6	24.1	35.0%	3.1%	-5.9%
Net Income Available to Common	17.7	8.3	9.8	10.0	20.0	11.0	9.1	8.8	35.2	45.9	48.9	59.1	30.5%	6.5%	20.8%
<b>Share &amp; Per Share Data:</b>															
Diluted EPS	0.85	0.40	0.47	0.48	0.96	0.52	0.43	0.42	1.68	2.19	2.33	2.82	30.4%	6.6%	20.8%
Operating EPS	0.85	0.42	0.50	0.48	0.96	0.52	0.43	0.42	1.69	2.25	2.33	2.82	33.0%	3.9%	20.8%
Dividends Per Share	0.20	0.21	0.21	0.21	0.21	0.22	0.22	0.22	0.78	0.83	0.87	0.92	5.6%	5.3%	5.9%
Tangible Book Value	27.81	27.68	27.95	27.89	28.92	29.23	29.45	29.66	27.10	27.89	29.66	31.59	2.9%	6.3%	6.5%
Common Shares Outstanding	20,904	20,862	20,862	20,862	20,862	20,862	20,862	20,862	20,897	20,862	20,862	20,862	-0.2%	0.0%	0.0%
Average Diluted Shares	21,009	20,958	20,938	20,941	20,941	20,941	20,941	20,941	20,942	20,963	20,941	20,941	0.1%	-0.1%	0.0%
<b>Key Financial Statistics:</b>															
Return on Assets	1.60%	0.77%	0.87%	0.87%	1.68%	0.92%	0.74%	0.72%	0.89%	1.03%	1.01%	1.20%	14	(1)	19
Return on Equity	12.07%	5.59%	6.54%	6.62%	13.32%	7.05%	5.73%	5.50%	6.15%	7.72%	7.90%	9.01%	157	17	111
Net Interest Margin	3.78%	3.43%	3.65%	3.77%	4.99%	3.86%	3.86%	3.87%	3.27%	3.66%	4.14%	4.23%	39	49	9
Operating Non-Int. Inc./Operating Rev.	38.72%	23.29%	22.29%	20.11%	30.71%	21.24%	18.88%	18.32%	27.87%	26.93%	22.29%	21.44%	(94)	(464)	(85)
Efficiency Ratio	50.44%	68.46%	65.83%	61.42%	47.72%	63.30%	66.99%	67.44%	65.97%	61.50%	61.36%	59.70%	(447)	(13)	(166)
Tangible Common Ratio	13.72%	12.48%	12.12%	12.23%	12.98%	12.60%	12.66%	12.74%	13.42%	12.23%	12.74%	12.95%	(119)	51	21
NCOs/Average Loans	0.15%	0.46%	0.15%	0.27%	0.31%	0.65%	0.25%	0.25%	0.07%	0.25%	0.37%	0.40%	18	11	3

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.

Republic Bancorp is/was a client of Hilliard Lyons in the past 12 months, received non-investment banking securities-related services and Hilliard Lyons received compensation for these services.

### **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.

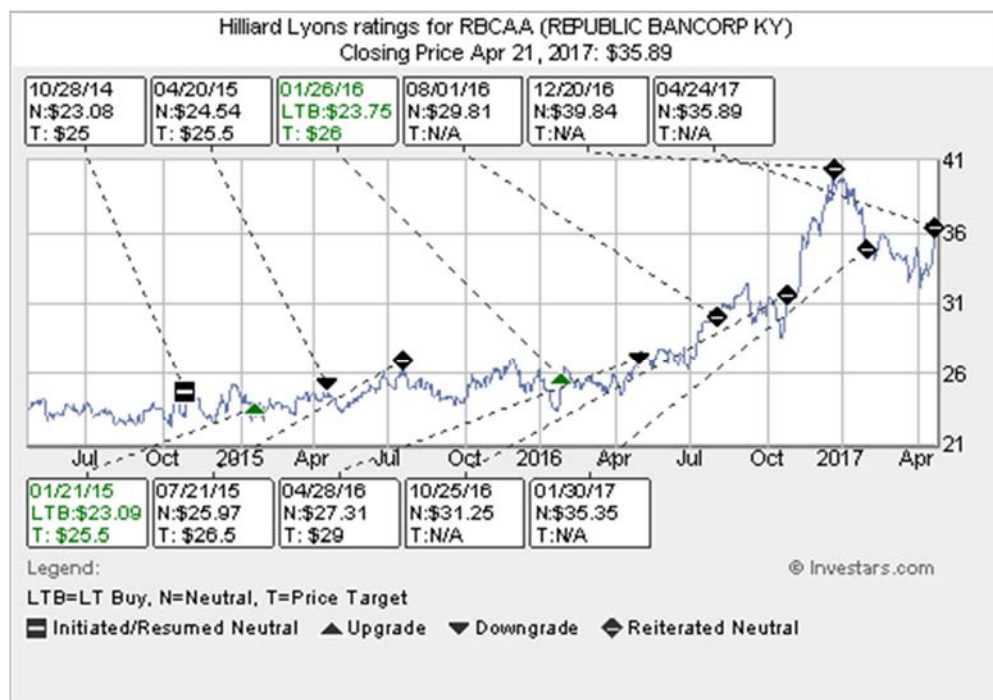
### **Definitions of Suitabilities:**

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**

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.

J.J.B. Hilliard, W.L. Lyons, LLC is a multi-disciplined financial services firm that regularly seeks investment banking assignments and compensation from issuers for services including, but not limited to, acting as an underwriter in an offering or financial advisor in a merger or acquisition, or serving as placement agent in private transactions.

The information herein has been obtained from sources we believe to be reliable but is not guaranteed and does not purport to be a complete statement of all material factors. This is for informational purposes and is not a solicitation of orders to purchase or sell securities. Reproduction is forbidden unless authorized. All rights reserved.