



## COMPANY UPDATE / ESTIMATE CHANGE

### Key Metrics

SJI - NYSE - as of	5/8/17	\$36.69
Price Target		\$40.00
52-Week Range	\$26.38 -	\$38.40
Shares Outstanding (mm)		79.5
Market Cap. (\$mm)		\$2,916.0
1-Mo. Average Daily Volume		380,507
Institutional Ownership		70.3%
Equity/Total Capital	Q4'16	49.1%
ROE	TTM	8.7%
Book Value / Share	Q4'16	\$16.19
Price / Book Value		2.3x
Dividend Yield		3.0%
LTM EBITDA Margin		30.3%

### Economic EPS (adjusted for mark-to-market) FY 12/31

	Prior 2016A	Current 2017E	Prior 2017E	Prior 2018E	Current 2018E
1Q	\$0.80	--	\$0.72	A --	--
2Q	*\$0.10	\$0.15	\$0.07	--	--
3Q	*\$0.01	\$0.03	(\$0.04)	--	--
4Q	\$0.42	\$0.58	\$0.49	--	--
Year	\$1.33	\$1.49	\$1.25	\$1.61	\$1.33
P/E	27.6x		29.4x		27.6x

\*HL-Adjusted for Special Items

### Utility Margin (\$MM)

	Prior 2016A	Current 2017E	Prior 2017E	Prior 2018E	Current 2018E
1Q	\$109.9	\$118.4	\$118.4	--	--
2Q	\$43.6	\$47.3	\$47.3	--	--
3Q	\$31.9	\$34.9	\$34.9	--	--
4Q	\$79.0	\$85.6	\$85.6	--	--
Year	\$264.3	\$286.0	\$286.2	\$303	\$303

**Company Description:** *South Jersey Industries is an energy services holding company that provides a variety of products and services. It provides natural gas to 350,000+ customers in southern New Jersey, and sells natural gas to wholesale customers in the interstate market. Through its non-utility operations, the company markets energy services including natural gas, electricity, energy management, and consulting services, and own/operates a portfolio of solar power production.*

### Natural Gas Utilities

Analyst: Spencer E. Joyce, CFA  
502.588.8402 // sjoyce@hilliard.com  
Institutional Sales Desk: George Moorin  
502.588.9141 // gmoorin@hilliard.com  
J.J.B. Hilliard, W.L. Lyons, LLC  
May 9, 2017

## South Jersey Industries, Inc.

SJI – NYSE – Long-term Buy-3

**Fine Q1'17 from SJI, but Soft FY Guide. Reiterating Long-term Buy with '2020 Plan' Still Intact.**

### Investment Highlights

- SJI generated Q1'17 Economic EPS (EEPS) of \$0.72 versus \$0.80 in Q1'16; results missed consensus for \$0.78, but fell just a penny shy of our estimate. Economic earnings were higher by 1.0%, but were offset by 11.5% greater shares outstanding.
- GAAP results in Q1 include a \$0.33/share after-tax loss from a legal judgement in favor of a gas supplier. We see negligible read-thru value tied to this item.
- Investment Tax Credits (ITC) were \$0.0MM in Q1'17, down \$1.7MM and a first 'zero' quarter since 2009.
- The Utility segment generated first quarter earnings of \$46.5MM, up \$2.1MM yr/yr despite difficult weather. TTM customer growth of 1.4% lends credence to our view that customer growth troughed in Q4 (at 1.2%).
- The Energy Group generated economic profit of \$9.8MM in Q1'17 versus \$12.2MM in the prior year, due in large part to weather-related issues. Volumes delivered under fuel supply contracts doubled, and we believe this theme can remain a driver through 2020.
- SJI initiated 2017 EEPS guidance in the range of \$1.14 to \$1.20, well below our prior estimate. A timing issue with recovery of AIRP (Accelerated Infrastructure Replacement Program) spending impacts this year, as does a spike in interest costs as SJI pivots away from variable rate debt.
- We are reiterating our LTB rating and 2-year \$40 price target. The 2017 guidance is disappointing, but SJI was adamant on the call that the 2020 plan is intact, which in turn leaves intact our core catalyst.
- Our 2018 estimates fall in sympathy with a reduced outlook for this year; however, we do not necessarily trust the revision until we can parse what may be recoverable within our investment time frame, which now extends comfortably into 2019.
- We expect SJI to file its 10-Q later this week.

**Note Important Disclosures on Pages 5-6**  
**Note Analyst Certification on Page 5**

**ADDITIONAL DISCUSSION—FINAL THOUGHTS**

As hopefully conveyed in our bullet points, we encourage investors to exercise patience at this juncture, and even add incremental exposure on the near-term miss with longer-term catalysts still intact. The relatively sharp acceleration of EPS growth we expected in 2017 despite dilution and the falloff of Investment Tax Credits seems unlikely given guidance at this point; however, with the narrative at SJI (in our view) likely to still be dominated by the 2020 plan, we expect that investors will turn to 2018 and/or 2019 targets in relatively short order.

In addition to review of SJI's quarterly filing in coming days, we are schedule to meet with management at the 2017 American Gas Associate Financial Forum during the week of 5/21. We expect to have several subsequent updates for investors, and a more convicted opinion on our rating and forward estimates, within the next several weeks.

**SUITABILITY**

We assign SJI a suitability rating of '3.' A complete description of our suitability scale is on page 5. Size versus the broad Utility sector and significant exposure to non-regulated and/or more cyclical market-based and renewable energy businesses keep SJI below our '2' suitability rating. Acceptable leverage ratios (following a recent secondary), a long history of capital return, and a strong core regulated utility franchise keep South Jersey Industries well above our most aggressive '4' rating.

**CONSIDERATIONS AND RISKS**

Utility operations are weather sensitive. Gas utilities face competition from alternative fuels. In the industrial market, customers have the capability of using natural gas or other fuels. Increases in gas prices can negatively impact the price benefits of natural gas to the end user.

Gas utilities are subject to regulation at the federal and state levels. Regulatory commissions can vary and have a significant bearing on the profitability of gas utilities. There are a number of items that can create volatility in the earnings results for the marketing segment, including weather, customer demand, supply/storage levels, gas price volatility, customer growth/retention, and accounting treatment.

SJI generates a significant portion of earnings via Investment Tax Credits (ITCs), which are subject to federal regulatory statues. A change in laws regarding these credits may materially alter the reported financial performance of the company and/or the forward earnings outlook for the firm.

Our Suitability rating is 3 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive).

*Additional information is available upon request.*

South Jersey Industries, Inc.													
Income Statement (000s)													
	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Operating Revenue:													
Utility	\$500,752	\$528,763	\$183,669	\$68,273	\$60,983	140,894	\$453,819	\$195,769				195,770	-
Nonutility	386,244	430,805	149,366	86,129	158,099	189,087	582,681	230,060	120,147	110,071	149,569	609,850	576,470
<b>Total Operating Revenue</b>	<b>886,996</b>	<b>959,568</b>	<b>333,035</b>	<b>154,402</b>	<b>219,082</b>	<b>329,981</b>	<b>1,036,500</b>	<b>425,829</b>					
Utility Margin									47,250	34,901	85,581	167,730	303,170
Operating Expenses:													
Cost of Gas -- Utility	230,093	239,763	65,206	19,508	25,353	57,087	167,154	71,379	-	-	-	71,380.00	-
Cost of Sales -- Non-Utility	306,859	319,579	87,769	78,832	117,635	129,597	413,833	215,763	98,520	90,260	97,220	501,760	435,580
Operations	140,260	148,672	38,797	36,250	34,796	42,114	151,957	39,626	17,900	20,310	27,610	105,450	91,380
Maintenance	13,457	16,183	4,384	4,259	4,150	4,756	17,549	4,981	3,780	3,140	4,280	16,180	14,760
Depreciation	63,004	72,451	20,701	22,296	23,109	24,283	90,389	24,323	23,970	24,860	26,700	99,850	106,700
Energy & Other Taxes	5,720	6,026	1,925	1,243	1,449	1,725	6,342	2,071	1,240	1,450	1,730	6,490	6,490
<b>Total Operating Expense</b>	<b>759,393</b>	<b>802,674</b>	<b>218,782</b>	<b>162,388</b>	<b>206,492</b>	<b>259,562</b>	<b>847,224</b>	<b>358,143</b>	<b>145,410</b>	<b>140,020</b>	<b>157,540</b>	<b>801,110</b>	<b>654,910</b>
<b>Operating Income</b>	<b>127,603</b>	<b>156,894</b>	<b>114,253</b>	<b>(7,986)</b>	<b>12,590</b>	<b>70,419</b>	<b>189,276</b>	<b>67,686</b>	<b>21,987</b>	<b>4,952</b>	<b>77,610</b>	<b>172,240</b>	<b>224,730</b>
Other Income / (Expense)	11,819	9,510	2,203	4,361	2,223	1,202	9,989	5,665	4,360	2,220	1,200	13,450	13,450
Interest Expense / (Income)	29,560	31,622	9,160	8,229	7,355	6,705	31,449	16,745	16,788	16,468	17,489	67,490	68,580
EBT	109,862	134,782	107,296	(11,854)	7,458	64,916	167,816	56,606	9,560	(9,296)	61,321	118,200	169,600
Income Tax / (Benefit)	4,449	1,360	39,267	(7,189)	2,807	19,266	54,151	21,870	3,730	(3,630)	22,420	44,390	66,140
Equity in Affiliated Co	(7,785)	(27,812)	158	(133)	5,013	358	5,396	3,011	(70)	2,632	188	5,760	3,020
Income from Cont'd Ops	\$97,628	\$105,610	\$68,187	(\$4,798)	\$9,664	\$46,008	\$119,061	\$37,747	\$5,760	(\$3,034)	\$39,089	\$79,570	\$106,480
Minus/plus:													
Unrlzd MTM Deriv (Gain) / Loss	4,500	(5,066)	(18,612)	22,523	(9,459)	(22,001)	(27,549)	(13,908)				(13,908)	-
Unrlzd Loss on PP&E	-	-	-	-	-	-	-	256				256	-
Unrlzd Loss De-Designt'd Int Rt Ctr								2,392				2,392	-
Other // Legal Chg	(100)	(100)	(41)	(41)	(41)	(41)	(164)	43,946				43,946	-
Tax			7,460	(9,002)	3,816	8,538	10,812	(13,205)				(13,205)	-
Rlzd (Gain) / Loss on inv hedges	427	54	3	23	(39)	696	683	332				332	-
<b>Economic Earnings</b>	<b>\$103,979</b>	<b>\$98,974</b>	<b>\$56,997</b>	<b>\$8,705</b>	<b>\$3,941</b>	<b>\$33,200</b>	<b>\$102,843</b>	<b>\$57,560</b>	<b>\$5,760</b>	<b>(\$3,034)</b>	<b>\$39,089</b>	<b>\$99,383</b>	<b>\$106,480</b>
EPS from Cont'd Ops	\$1.47		\$0.95	(\$0.06)	\$0.12	\$0.58		\$0.47					
Minus/plus:													
Unrealized MTM (gain)/loss	0.07	(0.07)	(0.26)	0.30	(0.12)	(0.28)	(0.36)	(0.17)				0.00	0.00
Tax			0.10	(0.12)	0.05	0.11	0.14	(0.17)					
Rlzd (gain)/loss on inv inject hedges	0.01	0.00	0.00	0.00	(0.00)	0.01	0.01	0.00				0.00	0.00
<b>Economic EPS</b>	<b>\$1.57</b>	<b>\$1.43</b>	<b>\$0.80</b>	<b>\$0.12</b>	<b>\$0.05</b>	<b>\$0.42</b>	<b>\$1.38</b>	<b>\$0.72</b>	<b>\$0.07</b>	<b>(\$0.04)</b>	<b>\$0.49</b>	<b>\$1.25</b>	<b>\$1.33</b>
Adjusted--Economic EPS		\$1.70		\$0.10	\$0.01		\$1.33						
Economic EPS -- ex-ITC (Adj if Nec)	\$1.11	\$1.14					\$1.21					\$1.25	\$1.33
Dillued Avg Shares	66,428	68,931	71,416	75,298	79,635	79,643	76,475	79,641	79,777	79,914	80,050	79,845	80,050
Dividends	\$0.960	\$1.018	\$0.264	\$0.264	\$0.264	\$0.273	\$1.064	\$0.273	\$0.273	\$0.273	\$0.28	\$1.101	\$1.145
<b>Rate of Change Analysis:</b>													
Utility Margin--Approx	9.2%	9.3%	4.3%	3.6%	3.3%	4.6%	4.1%	7.7%	8.5%	9.5%	8.3%	8.3%	5.9%
Operating Income	83.2%	23.0%	49.6%	-126.3%	nm	7.9%	20.6%	-40.8%	-375.3%	-60.7%	10.2%	-9.0%	30.5%
Economic EPS--Adj if Necessary	3.7%	8.0%	-7.0%	-47.1%	nm	-41.3%	-21.8%	-9.4%	-26.6%	-176.7%	17.1%	-6.1%	6.8%
EBITDA	59.8%	20.3%	44.8%	-70.0%	959.6%	11.4%	21.9%	-31.8%	221.2%	-16.5%	10.1%	-2.7%	21.8%
<b>Margin Analysis:</b>													
O + M / Utility GM	66.2%	65.0%	39.3%	93.0%	122.2%	59.3%	64.1%						
Op Income / Utility GM--Approx	54.9%	61.8%	104.0%	-18.3%	39.5%	89.1%	71.6%	57.2%	46.5%	14.2%	90.7%	60.2%	74.1%
Tax Rate	4.0%	1.0%	36.6%	60.6%	37.6%	29.7%	32.3%	38.6%	39.0%	39.1%	36.6%	37.6%	39.0%
* A portion of forward 'Operations Expense' is reflected in the Utility Margin projection	*\$30.3MM of ITC	*\$38.3MM of ITC	\$1.7MM in ITCs	\$1.1MM in ITCs **EEPS ajd for 1.3MM at gain	\$1.8MM in ITCs	\$4.5M in ITCs	*\$9.1MM of ITC	Zero ITC			initial PennEast; delayed	*EEPS Guide for \$1.14-\$1.20 **modeling \$0MM of ITC	*modeling \$0 xITC

Source: Company reports and Hilliard Lyons estimates

## South Jersey Industries, Inc.

Balance Sheet Analysis (000s)	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17E	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Cash	\$4,171	\$3,877	\$4,250	\$4,160	\$6,941	\$18,282	\$18,282	\$3,340	\$31,240	\$28,490	\$16,080	\$16,080	\$36,350
A/R	251,892	178,359	179,662	175,341	159,994	222,339	222,339	183,260	178,850	163,190	226,790	226,790	231,330
Natural Gas in Storage	63,246	54,211	38,571	44,499	50,787	53,857	53,857	39,340	45,390	51,800	54,930	54,930	56,030
Other CA	247,388	194,827	173,627	151,757	140,042	178,835	178,835	182,310	154,790	142,840	187,780	187,780	197,170
Total Current Assets	566,697	431,274	396,110	375,757	357,764	473,313	473,313	408,250	410,270	386,320	485,580	485,580	520,880
Net PP&E	2,134,103	2,448,105	2,478,166	2,514,890	2,547,107	2,623,770	2,623,770	2,664,450	2,705,480	2,800,620	2,873,920	2,873,920	3,117,220
Total Reg & Other Non-Current	505,901	520,970	546,601	556,429	568,428	590,918	590,918	578,420	565,920	553,420	540,920	540,920	440,920
Other	142,724	80,551	73,107	75,505	83,817	42,566	42,566	43,420	44,290	45,180	46,080	46,080	49,880
<b>Total Assets</b>	<b>3,349,425</b>	<b>3,480,900</b>	<b>3,493,984</b>	<b>3,522,581</b>	<b>3,557,116</b>	<b>3,730,567</b>	<b>3,730,567</b>	<b>3,694,540</b>	<b>3,725,960</b>	<b>3,785,540</b>	<b>3,946,500</b>	<b>3,946,500</b>	<b>4,128,900</b>
A/P	272,998	186,400	151,006	166,418	141,096	296,100	296,100	154,030	169,750	143,920	302,020	302,020	308,060
CP of LTD	149,909	29,454	28,604	244,605	231,909	231,909	231,909	231,000	231,000	230,000	30,000	30,000	300,000
N/P	245,700	431,700	339,500	145,400	230,200	296,100	296,100	302,100	372,100	370,100	430,100	430,100	485,100
Other CL	181,578	184,922	178,893	202,010	209,192	128,515	128,515	187,840	206,050	213,380	134,940	134,940	141,690
Total Current Liabilities	850,185	832,476	698,003	758,433	812,397	952,624	952,624	874,970	978,900	957,400	897,060	897,060	1,234,850
LTD	859,491	1,006,394	1,046,968	831,089	808,704	808,005	808,005	809,820	748,420	849,420	1,049,420	1,049,420	879,420
Def Inc Taxes	344,520	295,945	333,572	330,046	331,762	343,549	343,549	344,550	345,550	346,550	347,550	347,550	351,550
Other Liabilities	362,797	308,546	321,999	375,466	336,874	337,149	337,149	343,890	350,770	357,790	364,950	364,950	395,040
Shareholders' Equity	932,432	1,037,539	1,093,442	1,227,547	1,267,379	1,289,240	1,289,240	1,321,310	1,302,320	1,274,380	1,287,520	1,287,520	1,268,040
<b>Total Liab &amp; SE</b>	<b>3,349,425</b>	<b>3,480,900</b>	<b>3,493,984</b>	<b>3,522,581</b>	<b>3,557,116</b>	<b>3,730,567</b>	<b>3,730,567</b>	<b>3,694,540</b>	<b>3,725,960</b>	<b>3,785,540</b>	<b>3,946,500</b>	<b>3,946,500</b>	<b>4,128,900</b>
<b>Cash Flow Analysis</b>	<b>FY'14</b>	<b>FY'15</b>	<b>Q1'16</b>	<b>Q2'16</b>	<b>Q3'16</b>	<b>Q4'16</b>	<b>FY'16</b>	<b>Q1'17E</b>	<b>Q2'17E</b>	<b>Q3'17E</b>	<b>Q4'17E</b>	<b>FY'17E</b>	<b>FY'18E</b>
Net Income (Economic)	\$103,979	\$98,974	\$56,997	\$8,705	\$3,941	\$33,200	\$102,843	\$57,560	\$5,760	(\$3,030)	\$39,090	\$99,383	\$106,480
Depreciation	63,004	72,451	20,701	22,296	23,109	24,283	90,389	24,323	23,970	24,860	26,700	99,850	106,700
(Inc.) dec. in working cap.	(18,943)	51,875	(5,886)	58,792	2,634	(29,881)	25,659	(32,624)	59,810	2,700	(32,010)	(2,120)	(2,240)
Other Op	13,292	(36,506)	26,268	(29,774)	8,650	38,205	43,349	12,500	12,500	12,500	12,500	50,000	100,000
Operating CF	161,332	186,794	98,080	60,019	38,334	65,807	262,240	61,759	102,040	37,030	46,280	247,110	310,930
Cap Ex	(342,578)	(345,621)	(67,416)	(51,427)	(69,562)	(89,597)	(278,002)	(65,000)	(65,000)	(120,000)	(100,000)	(350,000)	(350,000)
Net Sale / (Purch) Rstd Inv	(22,337)	20,069	8,906	(1,125)	2,679	21,511	31,971	-	-	-	-	-	-
Other Inv	(10,104)	(45,100)	(737)	(3,312)	2,915	1,997	863	(1,000)	(1,000)	(1,000)	(1,000)	(4,000)	(4,000)
Investing CF	(375,019)	(370,652)	(59,247)	(55,864)	(63,968)	(66,089)	(245,168)	(66,000)	(66,000)	(121,000)	(101,000)	(354,000)	(354,000)
LTD Proceeds	329,000	130,000	61,000	-	-	-	61,000	-	-	131,000	-	131,000	130,000
LTD (Repay)	(21,000)	(125,009)	(12,905)	(173)	(35,379)	(909)	(49,366)	-	(61,400)	(31,000)	-	(92,400)	(30,000)
Net Borrow / (Repay) ST Facility	(108,200)	186,000	(92,200)	(194,100)	84,800	65,900	(135,600)	6,000	70,000	(2,000)	60,000	134,000	55,000
Stock Issued	80,680	63,192	5,645	208,818	(37)	-	214,426	5,000	5,000	5,000	5,000	20,000	0
Dividends	(63,869)	(70,158)	-	(18,790)	(20,962)	(42,628)	(82,380)	(21,700)	(21,740)	(21,780)	(22,690)	(87,910)	(91,660)
Other Fin	(2,571)	(461)	-	-	(7)	(10,740)	(10,747)	-	-	-	-	0	0
Financing CF	214,040	183,564	(38,460)	(4,245)	28,415	11,623	(2,667)	(10,700)	(8,140)	81,220	42,310	104,690	63,340
Net Cash Flow	353	(294)	373	(90)	2,781	11,341	14,405	(14,941)	27,900	(2,750)	(12,410)	(2,200)	20,270
FCF (including div)	(245,115)	(228,985)	30,664	(10,198)	(52,190)	(66,418)	(98,142)	(24,941)	15,300	(104,750)	(76,410)	(190,800)	(130,730)
EBITDA	190,607	229,345	134,954	14,310	35,699	94,702	279,665	92,009	45,957	29,812	104,310	272,090	331,430
EV / TTM EBITDA	14.9x	11.5x	11.3x	8.4x	11.7x	12.4x	12.4x	15.8x	13.6x	14.3x	14.6x	14.6x	11.4x
<b>Selected Financial Statistics</b>	<b>FY'14</b>	<b>FY'15</b>	<b>Q1'16</b>	<b>Q2'16</b>	<b>Q3'16</b>	<b>Q4'16</b>	<b>FY'16</b>	<b>Q1'17E</b>	<b>Q2'17E</b>	<b>Q3'17E</b>	<b>Q4'17E</b>	<b>FY'17E</b>	<b>FY'18E</b>
Book Value	\$13.83	\$14.90	\$15.31	\$16.30	\$15.91	\$16.19	\$16.19	\$16.59	\$16.32	\$15.95	\$16.08	\$16.08	\$15.84
Price / Book	2.1x	1.6x	1.9x	1.9x	1.9x	2.1x	2.1x	2.2x	2.2x	2.3x	2.3x	2.3x	2.3x
TTM earned-ROE	11.9%	10.2%	9.7%	10.8%	11.0%	8.7%	8.7%	8.3%	7.8%	7.2%	7.7%	7.7%	8.3%
Equity / Total Cap (inc ST & CP LTD)	42.6%	41.4%	43.6%	50.1%	49.9%	49.1%	49.1%	49.6%	49.1%	46.8%	46.0%	46.0%	43.2%
LT Debt / Total Cap	48.0%	49.2%	48.9%	40.4%	39.0%	38.5%	38.5%	38.0%	36.5%	40.0%	44.9%	44.9%	41.0%

Source: Company reports and Hilliard Lyons estimates

### **Analyst Certification**

I, Spencer E. Joyce, CFA, 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.

### **Suitability Ratings**

- 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 revenues, volatility, low trading volume or a narrow customer or product base

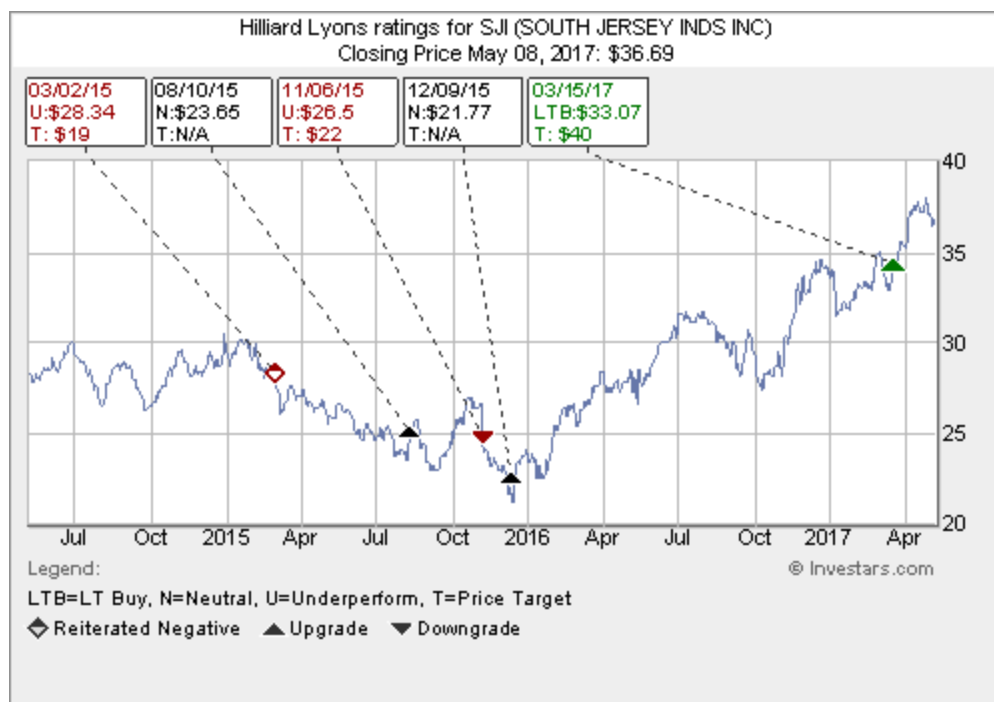
### **Investment Ratings**

**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 setback in the next 12 months.



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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