

**COMPANY UPDATE/ ESTIMATES CHANGE/  
TARGET PRICE CHANGE**
**Banks**

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**Key Metrics**

USB - NYSE (as of 04/19/17)	\$49.69
Price Target	\$53.00
52-Week Range	\$38.48-\$56.61
Shares Outstanding (mm)	1,692.0
Market Cap. (\$mm)	\$84,075
3-Mo. Average Daily Volume (000)	6,979.0
Institutional Ownership	71.3%
Tangible Equity / Tangible Assets	874.0%
ROE	12.4%
Tangible Book Value Per Share	\$19.13
Price/Tangible Book Value	259.8%
Dividend Yield	2.3%
Price/LTM Earnings	15.0x

**Operating EPS CY 12/31**

	Curr. 2016E	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.76A	\$0.79	\$0.81A	\$0.93	\$0.93
2Q	\$0.76A	\$0.87	\$0.87	\$1.02	\$1.03
3Q	\$0.83A	\$0.91	\$0.96	\$1.08	\$1.08
4Q	\$0.81	\$0.89	\$0.88	\$1.06	\$1.06
Year	\$3.17	\$3.46	\$3.52	\$4.09	\$4.10
P/E	15.7x		14.1x		12.1x

Numbers may not add due to rounding

**Common Dividends**

	2016E	Curr. 2017E	Prior %chg.	Curr. 2018E
1Q	\$0.26A	\$0.28A	9.8	\$0.31
2Q	\$0.26A	\$0.28	9.8	\$0.31
3Q	\$0.28A	\$0.31	10.7	\$0.35
4Q	\$0.28	\$0.31	10.7	\$0.35
Year	\$1.07	\$1.18	10.3	\$1.32

**Company Description** – U.S. Bancorp is the fifth largest commercial banking organization in the U.S. in terms of total assets and market capitalization. In addition to traditional retail and commercial banking services, the company offers a wide array of other products and services including retail and institutional credit cards, payment processing, wealth management, trust, securities brokerage and mortgage banking.

**U.S. Bancorp**

USB – NYSE – Neutral – 1

**Management Guides to Lower 2017 Loan Growth;  
Reiterating Neutral Rating**

- **Earnings Results:** Excluding non-core items of approximately \$0.01, USB reported 1Q17 operating EPS of \$0.81, which was \$0.02 ahead of our estimate and \$0.01 above the Street consensus.

- **Positive Highlights:** Noninterest expense dropped 2.0% linked-quarter (LQ) to \$2.94 billion predominately on declines in professional fees and “other” noninterest expense. Results were below our estimate of \$2.96 billion.

Operating noninterest income fell 5.2% LQ to \$2.30 billion largely on declines in mortgage banking and “other” noninterest income. However, results were in line with our projection.

Net interest income declined 0.3% LQ to \$3.00 billion as five bps of net interest margin (NIM) expansion to 3.03% was more than offset by a 0.7% decline in average earning assets and two fewer days in the quarter. However, results were ahead of our projection for net interest income of \$2.95 billion and a 3.00% margin.

- **Negative Highlights:** The provision for credit losses rose \$3 million LQ to \$345 million, while the net charge-off ratio was up one bp to 0.48%. We had projected a provision of \$351 million and a net charge-off ratio of 47 bps.

Loans were up 0.1% LQ on an end-of-period basis, while average loans advanced 0.2%.

- **Estimates:** We are revising our 2017 and 2018 operating EPS estimates to \$3.52 and \$4.10 from \$3.46 and \$4.09, respectively. We are reducing our price target by \$1.00 to \$53.00 and maintaining our Neutral rating.

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

**OTHER TAKEAWAYS & VALUATION**

- Management noted that commercial customers are optimistic regarding the future prospects of the economy, but are awaiting greater clarity on tax and regulatory reform, infrastructure spend and trade policies. Loan demand is expected to meaningfully increase in the second half of 2017.
- The effective tax rate was 27.0% in 1Q17 versus 28.1% in 4Q16, with the decrease reflecting the impact of new accounting guidelines related to stock-based compensation.
- The company's total payout ratio, including dividends and share buybacks was 78% in 1Q17. Management expects the total payout ratio to remain within its targeted range of 60%-80%.
- Management provided the following guidance for 2Q17:
  - Modest LQ growth in net interest income
  - Seasonally stronger loan growth in credit cards, mortgage and auto
  - Modestly stronger commercial loan growth
  - 1-2 bps of NIM expansion LQ
  - Noninterest expense growth of 2%-3% LQ
  - An effective tax rate of approximately 28%
- Management reduced its full year 2017 average loan growth guidance to mid-single digits from its previous guidance of 6%-8%, noting that it believes commercial loan growth will accelerate in 2H17. We are modeling growth in average loans of 3.5% in 2017.
- Our price target is derived through our discounted dividend model and the application of a forward multiple of 12.5X to our 2Q18-1Q19 EPS estimates. We have reduced the forward multiple that we employ from our previous multiple of 13.0X given the increase uncertainties regarding tax and regulatory reform, as well as other government policies.
- Major model assumptions include one additional Fed rate hike this year and another next year, continued flattening of the yield curve, slower 2017 loan growth in 2017 and a 28% corporate tax rate in 2018.

**SUITABILITY**

Our suitability rating on USB is 1 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.
- **Regulatory** – Banks operate in a highly regulated environment. Consequently, the company is vulnerable to regulatory uncertainties that could negatively impact shareholders. Moreover, the company is one of the largest commercial banking organizations in the nation and, accordingly, is subject to greater regulatory scrutiny compared to smaller financial institutions.
- **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.

	U.S. BANCORP										USB: NEUTRAL				
	1Q16 A	2Q16 A	3Q16 A	4Q16 A	1Q17 A	2Q17 E	3Q17 E	4Q17 E	2015 A	2016 A	2017 E	2018 E	2016 A	2017 E	2018 E
\$Millions, Except for Per Share Data															
<b>Balance Sheet Data:</b>															
Assets	428,638	438,463	454,134	445,964	449,522	456,265	465,390	475,163	421,853	445,964	475,163	500,358	5.7%	6.5%	5.3%
Gross Loans	267,550	271,912	276,018	277,229	272,680	282,906	284,320	290,291	263,001	277,229	290,291	305,683	5.4%	4.7%	5.3%
Average Earning Assets	378,208	385,368	393,783	401,971	399,281	398,546	404,146	409,141	367,406	388,833	402,778	424,263	6.1%	3.3%	5.3%
Deposits	306,348	317,590	334,595	334,590	336,873	341,926	348,765	356,089	300,400	334,590	356,089	374,969	11.4%	6.4%	5.3%
Equity	47,393	48,029	48,399	47,933	48,433	42,680	43,161	43,600	46,817	47,933	43,600	45,609	2.4%	-9.0%	4.6%
<b>Statement of Operations:</b>															
FTE Net Interest Income	2,888	2,896	2,943	3,004	2,995	3,054	3,148	3,192	11,214	11,731	12,389	13,226	4.6%	5.6%	6.8%
Net Interest Income	2,835	2,845	2,893	2,955	2,945	3,003	3,096	3,139	11,001	11,528	12,183	13,005	4.8%	5.7%	6.8%
Provision for Loan Losses	330	327	325	342	345	353	288	427	1,132	1,324	1,412	1,744	17.0%	6.7%	23.5%
<b>Non-Interest Income:</b>															
Credit and Debit Card Revenue	266	296	299	316	292	317	321	339	1,070	1,177	1,269	1,360	10.0%	7.8%	7.2%
Corporate Payment Products Revenue	170	181	190	171	179	186	196	176	708	712	737	761	0.6%	3.5%	3.3%
Merchant Processing Services	373	403	412	404	378	419	428	420	1,547	1,592	1,646	1,712	2.9%	3.4%	4.0%
ATM Processing Services	80	84	87	87	85	88	88	88	318	338	349	356	6.3%	3.2%	2.0%
Trust and Investment Management Fees	339	358	362	368	374	377	381	381	1,321	1,427	1,500	1,582	8.0%	5.1%	5.5%
Treasury Service Charges	168	179	192	186	177	185	199	193	702	725	753	780	3.3%	3.9%	3.5%
Treasury Management Fees	142	147	147	147	153	150	151	152	561	583	606	621	3.9%	4.0%	2.3%
Commercial Products Revenue	197	238	219	217	207	230	230	230	867	871	896	925	0.5%	2.8%	3.3%
Mortgage Banking Revenue	187	238	314	240	207	227	223	197	906	979	854	843	8.1%	-12.8%	-1.2%
Investment Products Fees	40	39	41	38	40	40	40	40	185	158	160	168	-14.6%	1.3%	5.0%
Other Income	184	386	172	251	214	216	218	220	907	993	867	897	9.5%	-12.7%	3.4%
Securities Gains	3	3	10	0	29	0	0	0	0	16	29	0	NA	81.3%	-100.0%
Total Non-Interest Income	2,149	2,552	2,445	2,425	2,329	2,431	2,470	2,436	9,092	9,571	9,665	10,004	5.3%	1.0%	3.5%
Non-Core Adjustment	-3	-183	-10	0	-29	0	0	0	(135)	(96)	(29)	0	45.2%	-85.2%	-100.0%
Adjusted Non-Interest Income	2,146	2,369	2,435	2,425	2,300	2,431	2,470	2,436	8,957	9,636	9,636	10,004	4.7%	2.8%	3.8%
<b>Non-Interest Expense:</b>															
Compensation	1,249	1,277	1,329	1,357	1,391	1,369	1,377	1,376	4,812	5,212	5,514	5,731	8.3%	5.8%	3.9%
Employee Benefits	300	278	280	261	314	299	289	260	1,167	1,119	1,162	1,213	-4.1%	3.8%	4.4%
Net Occupancy and Equipment	248	243	250	247	247	251	251	252	991	988	1,000	1,015	-0.3%	1.2%	1.5%
Professional Services	98	121	127	156	96	123	120	145	423	502	484	465	18.7%	-3.7%	-3.8%
Marketing and Business Development	77	149	102	107	90	105	110	115	361	435	420	435	20.5%	-3.4%	3.5%
Technology and Communications	233	241	243	238	235	237	240	242	887	955	954	993	7.7%	-0.1%	4.1%
Postage, Printing and Supplies	79	77	80	75	81	82	82	83	297	311	328	338	4.7%	5.4%	3.0%
Other Intangibles	45	44	44	44	44	44	44	44	174	178	176	168	2.3%	-1.1%	-4.5%
Other Expense	420	562	475	518	446	449	453	525	1,819	1,975	1,873	1,929	8.6%	-5.2%	3.0%
Total Non-Interest Expense	2,749	2,992	2,931	3,003	2,944	2,958	2,966	3,042	10,931	11,675	11,910	12,286	6.8%	2.0%	3.2%
Non-Core Adjustment	0	0	0	0	0	0	0	0	0	0	0	0	NA	NA	NA
Adjusted Non-Interest Expense	2,749	2,992	2,931	3,003	2,944	2,958	2,966	3,042	10,931	11,675	11,910	12,286	6.8%	2.0%	3.2%
Operating Pre-tax Income	1,902	1,895	2,072	2,035	1,956	2,124	2,312	2,106	7,895	7,904	8,497	8,978	0.1%	7.5%	5.7%
Operating Common Net Income	1,327	1,316	1,428	1,386	1,378	1,475	1,603	1,463	5,503	5,457	5,919	6,699	-0.8%	8.5%	13.2%
<b>Share &amp; Per Share Data:</b>															
Diluted EPS	0.76	0.83	0.84	0.82	0.82	0.87	0.96	0.88	3.17	3.24	3.53	4.10	2.2%	9.0%	16.1%
Operating EPS	0.76	0.76	0.83	0.81	0.81	0.87	0.96	0.88	3.11	3.17	3.52	4.10	1.9%	11.0%	16.5%
Dividends Per Share	0.26	0.26	0.28	0.28	0.28	0.28	0.31	0.31	1.01	1.07	1.18	1.32	5.9%	10.3%	11.9%
Tangible Book Value	17.94	18.46	18.86	18.71	19.13	19.56	20.02	20.43	17.44	18.71	20.43	22.38	7.3%	9.2%	9.6%
Common Shares Outstanding	1,732,006	1,718,750	1,704,829	1,696,912	1,685,912	1,672,112	1,660,414	1,650,689	1,745,191	1,696,912	1,650,689	1,604,099	-2.8%	-2.7%	-2.8%
Average Diluted Shares	1,743,000	1,731,000	1,716,000	1,705,000	1,701,000	1,686,012	1,673,263	1,662,551	1,772,000	1,723,750	1,680,707	1,634,696	-2.7%	-2.5%	-2.7%
<b>Key Financial Statistics:</b>															
Return on Assets	1.33%	1.43%	1.36%	1.34%	1.35%	1.38%	1.46%	1.30%	1.45%	1.37%	1.37%	1.45%	(6)	0	7
Return on Equity	12.89%	13.77%	13.56%	13.21%	13.32%	13.91%	14.82%	13.38%	14.03%	13.36%	13.86%	15.02%	(67)	50	116
Net Interest Margin	3.06%	3.02%	2.98%	2.98%	3.03%	3.07%	3.09%	3.10%	3.05%	3.01%	3.07%	3.12%	(4)	6	4
Operating Non-Int. Inc./Operating Rev.	43.08%	45.44%	45.07%	43.85%	44.74%	44.38%	43.69%	44.88%	44.88%	44.85%	44.16%	43.48%	(3)	(69)	(11)
Efficiency Ratio	54.60%	54.90%	54.50%	55.30%	54.77%	52.01%	52.01%	53.27%	53.60%	54.83%	53.29%	52.19%	123	(153)	(61)
Tangible Common Ratio	7.42%	7.41%	7.24%	7.28%	7.36%	7.30%	7.25%	7.33%	7.39%	7.28%	7.25%	7.32%	(11)	(3)	7
Reserves/Loans	1.44%	1.40%	1.38%	1.38%	1.36%	1.36%	1.33%	1.32%	1.47%	1.38%	1.32%	1.30%	(9)	(6)	(2)
NCCs/Average Loans	0.47%	0.47%	0.46%	0.46%	0.46%	0.48%	0.50%	0.50%	0.46%	0.47%	0.49%	0.54%	2	1	2

Source: Company reports and Hillard 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.

U.S. Bancorp is/was a client of Hilliard Lyons within the past 12 months, received non-investment banking securities-related services, and Hilliard Lyons received compensation for those 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

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