



## COMPANY UPDATE/ ESTIMATES CHANGE/ TARGET PRICE CHANGE

### Banks

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J.J.B. Hilliard, W.L. Lyons, LLC  
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#### Key Metrics

USB - NYSE (as of 07/19/17)	\$52.08
Price Target	\$54.00
52-Week Range	\$41.13-\$56.61
Shares Outstanding (mm)	1,679.0
Market Cap. (\$mm)	\$87,442
3-Mo. Average Daily Volume (000)	6,126.7
Institutional Ownership	72.2%
Tangible Equity / Tangible Assets	858.3%
ROE	12.4%
Tangible Book Value Per Share	\$19.60
Price/Tangible Book Value	265.7%
Dividend Yield	2.2%
Price/LTM Earnings	15.6x

#### Operating EPS CY 12/31

	Curr. 2016E	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.76A	\$0.81A	\$0.81A	\$0.94	\$0.92
2Q	\$0.76A	\$0.86	\$0.84A	\$1.02	\$0.98
3Q	\$0.83A	\$0.91	\$0.89	\$1.07	\$1.05
4Q	\$0.81	\$0.89	\$0.88	\$1.06	\$1.04
Year	\$3.17	\$3.47	\$3.42	\$4.09	\$3.99
P/E	16.4x		15.2x		13.1x

Numbers may not add due to rounding

#### Common Dividends

	2016E	Curr. 2017E	Prior %chg.	Curr. 2018E
1Q	\$0.26A	\$0.28A	9.8	\$0.30
2Q	\$0.26A	\$0.28A	9.8	\$0.30
3Q	\$0.28A	\$0.30	7.1	\$0.32
4Q	\$0.28	\$0.30	7.1	\$0.32
Year	\$1.07	\$1.16	8.4	\$1.23

**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

### Maintains Guidance for 2H17 Strength in Lending; Reiterating Neutral Rating

- **Earnings Results:** USB reported 2Q17 EPS of \$0.85 which was \$0.02 below our estimate and in line with the Street consensus.
- **Positive Highlights:** Net interest income increased 2.4% linked-quarter (LQ) to \$3.02 billion driven by one bp of net interest margin expansion to 3.04%, a 1.2% rise in average earning assets and an extra day in the quarter. We had projected net interest income of \$2.99 billion and a 3.05% margin.

Operating noninterest income surged 4.9% LQ to \$2.40 billion due to increases in a multitude of line items. Our estimate was \$2.45 billion.

The provision for credit losses inched up \$5 million LQ to \$350 million, while the net charge-off ratio fell one bp to 0.49%. We had projected a provision of \$354 million and net charge-offs of 49 bps.

Loans were up 1.4% LQ on an end-of-period basis, while average loans advanced 0.9%.

- **Negative Highlights:** Noninterest expense rose 2.7% sequentially to \$3.02 billion largely on an 8.7% rise in “other” noninterest expense. Results modestly exceeded our estimate of \$3.00 billion.
- **Estimates:** We are reducing our 2017 and 2018 operating EPS estimates to \$3.42 and \$3.99 from \$3.47 and \$4.09, respectively. We are increasing our price target by \$1.00 to \$54.00 and maintaining our Neutral rating.

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

**OTHER TAKEAWAYS & VALUATION**

- Commercial loan demand increased during the quarter resulting in a 2.0% increase in average commercial loans on a LQ basis.
- The company's total payout ratio, including dividends and share buybacks was 81% in 3Q17. Following approval of the company's capital plan in the recent CCAR exam, USB announced a dividend increase of 7% and a new four-quarter share repurchase program of up to \$2.6 billion.
- Management stated that the growth rates of technology and personnel costs associated with regulatory compliance programs will moderate in 2H17.
- Management provided the following guidance for 3Q17:
  - Flat revenue on a year-over-year (YOY) basis
  - LQ total loan growth in a range of 1.0%-1.5%
  - 4-5 bps of NIM expansion LQ
  - Noninterest expense growth of 3%-5% YOY
  - A taxable equivalent effective tax rate of approximately 29%
- Our price target is derived through our discounted dividend model and the application of a forward multiple of 12.5X to our 3Q18-2Q19 EPS estimates. The earnings multiple that we employ is appropriate relative to the company's risk/reward prospects, in our opinion.
- Major model assumptions include a Fed rate hike in December followed by two additional hikes in 2018, 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 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	US\$ Millions, Except for Per Share Data										US\$: NEUTRAL					
	1Q16 A	2Q16 A	3Q16 A	4Q16 A	1Q17 A	2Q17 A	3Q17 E	4Q17 E	2015 A	2016 A	2017 E	2018 E	2016 A	2017 E	2018 E	
<b>Balance Sheet Data:</b>																
Average Assets	428,638	438,463	454,134	445,964	449,522	463,844	469,642	475,513	414,677	441,900	464,630	491,779	6.5%	5.2%	5.8%	
Average Loans	262,281	266,582	269,637	272,671	273,158	271,989	275,389	278,831	250,435	267,793	274,842	288,370	6.9%	2.6%	4.9%	
End-of-Period Loans	267,550	271,912	276,018	277,229	272,680	273,846	277,269	280,735	263,001	277,229	280,735	296,204	5.4%	1.3%	5.5%	
Average Earning Assets	378,208	385,368	393,763	401,971	399,281	403,883	408,932	414,043	367,406	389,833	406,535	428,207	6.1%	4.3%	5.3%	
Average Deposits	295,192	301,632	312,967	323,866	328,808	329,803	333,242	337,407	284,722	308,414	332,315	348,779	8.3%	7.7%	5.0%	
Average Common Equity	41,237	41,683	42,290	42,134	42,217	42,854	43,084	43,430	39,973	41,836	42,896	44,444	4.7%	2.5%	3.6%	
<b>Statement of Operations:</b>																
FTE Net Interest Income	2,888	2,896	2,943	3,004	2,995	3,068	3,184	3,227	11,214	11,731	12,474	13,432	4.6%	6.3%	7.7%	
Net Interest Income	2,835	2,845	2,893	2,955	2,945	3,017	3,131	3,173	11,001	11,528	12,266	13,208	4.8%	6.4%	7.7%	
Provision for Loan Losses	330	327	325	342	345	350	364	372	1,132	1,324	1,431	1,662	17.0%	8.1%	16.2%	
Non-Interest Income:																
Credit and Debit Card Revenue	266	296	289	316	292	319	321	339	1,070	1,177	1,270	1,366	10.0%	7.9%	7.5%	
Corporate Payment Products Revenue	170	181	190	171	179	184	196	176	708	712	735	761	0.6%	3.2%	3.5%	
Merchant Processing Services	373	403	412	404	378	407	428	420	1,547	1,592	1,634	1,699	2.9%	2.6%	4.0%	
ATM Processing Services	80	84	87	87	85	90	90	91	318	338	356	363	6.3%	5.4%	2.0%	
Trust and Investment Management Fees	339	358	362	368	368	380	384	388	1,321	1,427	1,519	1,610	8.0%	6.5%	5.9%	
Deposit Service Charges	168	179	182	186	177	184	199	193	702	725	752	779	3.3%	3.8%	3.5%	
Treasury Management Fees	142	147	147	147	153	160	161	162	561	583	635	659	3.9%	9.0%	3.7%	
Commercial Products Revenue	197	238	219	217	207	210	220	220	867	871	857	885	0.5%	-1.6%	3.3%	
Mortgage Banking Revenue	187	238	314	240	207	212	217	186	906	979	822	804	8.1%	-16.0%	-2.3%	
Investment Products Fees	40	39	41	38	40	41	41	41	185	158	163	171	-14.6%	3.2%	4.9%	
Other Income	184	386	172	251	214	223	220	222	907	993	879	906	9.5%	-11.5%	3.1%	
Securities Gains	3	3	10	0	29	9	0	0	0	16	38	0	0	NA	137.5%	-100.0%
Total Non-Interest Income	2,149	2,552	2,445	2,425	2,329	2,419	2,476	2,437	9,092	9,571	9,661	10,001	5.3%	0.9%	3.5%	
Non-Core Adjustment	-3	-183	-10	0	-29	9	0	0	(135)	(196)	(38)	0	45.2%	-80.6%	-100.0%	
Adjusted Non-Interest Income	2,146	2,369	2,435	2,425	2,300	2,410	2,476	2,437	8,957	9,375	9,623	10,001	4.7%	2.6%	3.9%	
Non-Interest Expense:																
Compensation	1,249	1,277	1,329	1,357	1,391	1,416	1,432	1,433	4,812	5,212	5,672	5,991	8.3%	8.8%	5.6%	
Employee Benefits	300	278	280	261	314	287	285	270	1,167	1,119	1,156	1,225	-4.1%	3.3%	6.0%	
Net Occupancy and Equipment	248	243	250	247	247	255	256	257	991	988	1,015	1,030	-0.3%	-2.7%	1.5%	
Professional Services	98	121	127	156	96	105	105	130	423	502	436	465	18.7%	-13.1%	6.7%	
Marketing and Business Development	77	149	102	107	109	110	110	115	361	435	424	439	20.5%	-2.5%	3.5%	
Technology and Communications	233	241	243	238	235	242	244	247	887	955	968	1,012	7.7%	1.4%	4.6%	
Postage, Printing and Supplies	79	77	80	75	81	81	82	82	297	311	326	335	4.7%	4.8%	2.8%	
Other Intangibles	45	44	44	44	44	44	44	44	174	178	175	168	2.3%	-1.7%	-4.0%	
Other Expense	420	562	475	518	446	485	490	525	1,819	1,975	1,946	2,004	8.6%	-1.5%	3.0%	
Total Non-Interest Expense	2,749	2,992	2,931	3,003	2,944	3,023	3,048	3,103	10,931	11,675	12,118	12,670	6.8%	3.8%	4.6%	
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	3,023	3,048	3,103	10,931	11,675	12,118	12,670	6.8%	3.8%	4.6%	
Operating Pretax Income	1,902	1,895	2,072	2,035	1,956	2,064	2,195	2,135	7,895	7,904	8,340	8,878	0.1%	5.5%	6.4%	
Operating Common Net Income	1,327	1,316	1,428	1,386	1,378	1,426	1,506	1,471	5,503	5,457	5,778	6,550	-0.8%	5.9%	13.4%	
<b>Share &amp; Per Share Data:</b>																
Diluted EPS	0.76	0.83	0.84	0.82	0.82	0.85	0.89	0.88	3.17	3.24	3.43	3.99	2.2%	5.9%	16.3%	
Operating EPS	0.76	0.76	0.83	0.81	0.81	0.84	0.89	0.88	3.11	3.17	3.42	3.99	1.9%	7.9%	16.7%	
Dividends Per Share	0.26	0.26	0.28	0.28	0.28	0.28	0.30	0.30	1.01	1.07	1.16	1.23	5.9%	8.4%	6.0%	
Tangible Book Value	17.94	18.46	18.86	18.71	19.13	19.60	19.90	20.27	17.44	18.71	20.27	22.09	7.3%	8.3%	9.0%	
Common Shares Outstanding	1,732,006	1,718,750	1,704,829	1,696,912	1,685,912	1,685,912	1,673,690	1,661,468	1,745,191	1,696,912	1,661,468	1,611,034	-2.8%	-2.1%	-3.0%	
Average Diluted Shares	1,743,000	1,731,000	1,716,000	1,705,000	1,701,000	1,690,000	1,685,801	1,673,579	1,772,000	1,723,750	1,687,595	1,642,577	-2.7%	-2.1%	-2.7%	
<b>Key Financial Statistics:</b>																
Return on Assets	1.33%	1.43%	1.38%	1.34%	1.35%	1.36%	1.40%	1.35%	1.45%	1.37%	1.36%	1.46%	(8)	(1)	10	
Return on Equity	12.89%	13.77%	13.56%	13.21%	13.14%	13.40%	13.87%	13.43%	14.03%	13.36%	13.46%	14.73%	(67)	10	127	
Net Interest Margin	3.06%	3.02%	2.98%	2.98%	3.03%	3.04%	3.09%	3.09%	3.05%	3.01%	3.06%	3.14%	(4)	5	7	
Operating Non-Int. Inc./Operating Rev.	43.08%	45.44%	45.70%	45.07%	43.85%	44.41%	44.17%	43.44%	44.88%	44.85%	43.96%	43.09%	(3)	(89)	(87)	
Efficiency Ratio	54.60%	54.90%	54.50%	55.30%	55.60%	54.40%	53.07%	54.01%	53.60%	54.83%	54.27%	53.37%	123	(55)	(90)	
Tangible Common Ratio	7.44%	7.41%	7.24%	7.28%	7.36%	7.25%	7.25%	7.23%	7.39%	7.28%	7.28%	7.24%	(11)	(5)	0	
Reserves/Loans	1.44%	1.40%	1.38%	1.38%	1.40%	1.41%	1.40%	1.39%	1.47%	1.39%	1.39%	1.35%	(1)	(1)	(4)	
NCOs/Average Loans	0.48%	0.48%	0.47%	0.47%	0.49%	0.50%	0.50%	0.50%	0.47%	0.47%	0.50%	0.54%	1	2	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.

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 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.

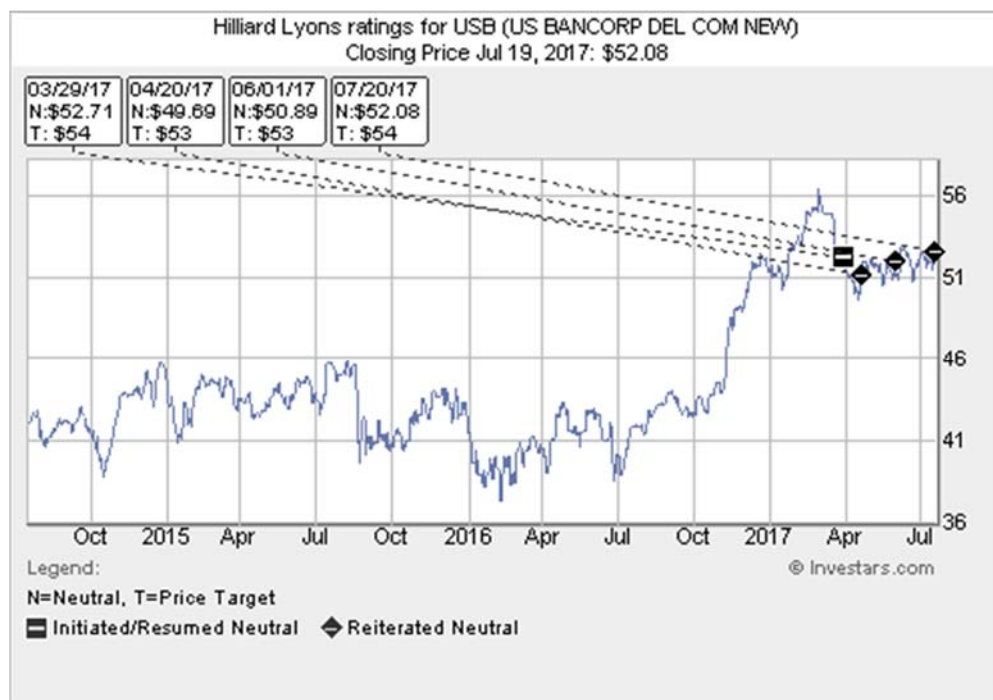
### **Definitions of Suitabilities:**

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.



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

As of 7 July 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.

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