



## COMPANY UPDATE/ ESTIMATES CHANGE

### Key Metrics

USB - NYSE (as of 05/31/17)	\$50.89
Price Target	\$53.00
52-Week Range	\$38.48-\$56.61
Shares Outstanding (mm)	1,685.3
Market Cap. (\$mm)	\$85,764
3-Mo. Average Daily Volume (000)	6,724.6
Institutional Ownership	72.3%
Tangible Equity / Tangible Assets	874.0%
ROE	12.4%
Tangible Book Value Per Share	\$19.13
Price/Tangible Book Value	266.1%
Dividend Yield	2.2%
Price/LTM Earnings	15.4x

### Operating EPS CY 12/31

	Curr. 2016E	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.76A	\$0.81	\$0.81A	\$0.93	\$0.94
2Q	\$0.76A	\$0.87	\$0.86	\$1.03	\$1.02
3Q	\$0.83A	\$0.96	\$0.91	\$1.08	\$1.07
4Q	\$0.81	\$0.88	\$0.89	\$1.06	\$1.06
Year	\$3.17	\$3.52	\$3.47	\$4.10	\$4.09
P/E	16.1x		14.7x		12.4x

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.

### Banks

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## U.S. Bancorp

USB – NYSE – Neutral – 1

### Key Takeaways from Investor Presentation

- USB made a presentation at a competitor investor conference earlier this week. Key takeaways from the presentation are provided below.
- Management discussed some of the forces expected to impact net interest income and the net interest margin (NIM) in coming quarters. It noted that securities have reached an inflection point such that reinvestment yields are accretive to the NIM. However, the magnitude of the lift is being constrained by the flattening of the yield curve.
- USB indicated that it has somewhat higher deposit betas (the percentage change in deposit rates relative to market interest rates) than the sector due largely to deposits associated with its corporate trust business, which are more interest rate sensitive.
- The company warned of likely deposit outflows for USB and the sector as businesses put excess cash to work in a strengthening economy.
- USB reiterated confidence that its payments businesses could achieve long-term growth of 7%-9%. Revenues for this business unit are currently at the low end or slightly below this range. Management expects payment revenues to accelerate as certain headwinds dissipate.
- Management indicated that noninterest expense growth has been elevated in recent years primarily as a result of regulatory and compliance pressures. Approximately 7,000 of USB's employee base of 73,000 serve in such roles, which is up roughly 2X from a couple of years ago. Management guided to a normalized long-term growth rate in noninterest expense of 3%-5%.

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

**ESTIMATES & VALUATION**

- We are reducing our 2017 and 2018 operating EPS estimates to \$3.47 and \$4.09 from \$3.52 and \$4.10, respectively.
- We are retaining our \$53 price target and Neutral rating.
- 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. The forward multiple that we apply is appropriate relative to USB's long-term growth prospects, in our opinion.

**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.



*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	32	26%	13%	88%
Hold/Neutral	79	64%	8%	92%
Sell	12	10%	0%	100%

As of 8 May 2017

### Other Disclosures

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