



COMPANY UPDATE/ ESTIMATES CHANGES/ PRICE TARGET CHANGE/ RATING CHANGE

Key Metrics

FFBC - NASDAQ (as of 01/19/18)	\$29.20
Price Target	\$33.00
52-Week Range	\$22.80-\$29.40
Shares Outstanding (mm)	62.1
Market Cap. (\$mm)	\$1,812
3-Mo. Average Daily Volume (000)	320.1
Institutional Ownership	79.5%
Tangible Equity / Tangible Assets	9.5%
ROE	10.8%
Tangible Book Value Per Share	NA
Price/Tangible Book Value	256.4%
Dividend Yield	2.3%
Price/LTM Earnings	18.7x

Operating EPS CY 12/31

	Curr. 2017A	Prior 2018E	Curr. 2018E	Prior 2019E	Curr. 2019E
1Q	\$0.39	\$0.40	\$0.47		\$0.55
2Q	\$0.36	\$0.48	\$0.50		\$0.58
3Q	\$0.39	\$0.51	\$0.55		\$0.58
4Q	\$0.45	\$0.53	\$0.57		\$0.58
Year	\$1.43	\$1.92	\$2.09		\$2.28
P/E	20.4x		13.9x		12.8x

Common Dividends

	2017A	Curr. 2018E	Prior %chg.	Curr. 2019E
1Q	\$0.17	\$0.18	5.9	\$0.19
2Q	\$0.17	\$0.18	5.9	\$0.19
3Q	\$0.17	\$0.18	5.9	\$0.19
4Q	\$0.17	\$0.18	5.9	\$0.19
Year	\$0.68	\$0.72	5.9	\$0.76

Company Description – First Financial Bancorp (FFBC) is a commercial banking organization headquartered in Cincinnati, Ohio. The company's primary operations are conducted in Ohio, Indiana and northern Kentucky. In addition to traditional retail and commercial banking services, First Financial offers trust, wealth management and investment brokerage services, as well as speciality lending niches including franchise lending, asset-based lending and equipment finance.

Banks

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First Financial Bancorp

FFBC -- NASDAQ -- Buy -- 2

Big Beat on NIM Pop; Upgrading to Buy

- **Earnings Results:** Excluding non-core items of \$0.05, operating EPS were \$0.45, which was \$0.05 ahead of our estimate and the Street consensus.
- **Positive Highlights:** Net interest income increased 7.3% sequentially to \$75.6 million on 25 bps of net interest margin (NIM) expansion to 3.82% and a 0.2% rise in average earning assets. We had modeled net interest income of \$72.5 million and a 3.62% margin.

Operating noninterest income rose 8.9% linked-quarter (LQ) to \$18.4 million primarily on higher trust and wealth management fees (8.2%) and “other” noninterest income (59.0%), which tends to be lumpy. We had projected noninterest income of \$17.2 million.

The company recorded a negative loan loss provision of \$0.2 million as a result of strong credit performance as exhibited by reductions in net charge-offs, nonperforming loans and classified assets. NPAs/Assets fell 10 bps to 0.50%, while the net charge-off ratio decreased 20 bps to 0.02%. We had modeled a provision of \$3.1 million and net charge-offs of 15 bps.

- **Negative Highlights:** Operating noninterest expense surged 9.3% LQ to \$54.5 million which was well above our estimate of \$50.3 million.

Loan growth softened LQ with period-end loans increased 0.6% sequentially, while average loans advanced 0.9%.

- **Estimates:** We are increasing our 2018 EPS estimate by \$0.17 to \$2.09 and introducing our 2019 estimate at \$2.28. We are boosting our 12-month price target by \$3.50 to \$33.00. Although FFBC’s share price surged after reporting impressive Q4 results, we think there is more room to run. With our price target suggesting a potential return of 15.5%, including dividends, we are raising our rating to Buy from Neutral.

Note Important Disclosures on pages 5 and 6
Note Analyst Certification on page 5

OTHER TAKEAWAYS & VALUATION

- Tangible book value per share rose \$0.26 to \$11.62 on a LQ basis.
- The surge in the NIM was due to elevated loan fees, interest recoveries on previously charged-off loans, execution of recent deposit strategies and favorable shifts in earning asset and funding mix.
- While many banks realized a meaningful increase in deposit costs in 4Q17, FFBC's cost of interest bearing deposits fell 9 bps to 0.70%.
- First Financial expects the 1Q18 NIM to be in a range from 3.70%-3.75%, reflecting more normalized loan fees and interest recoveries.
- FFBC guided to mid-single digit loan growth in 2018. The company noted an uptick in customer optimism late in 4Q17 and its loan pipeline entered 2018 at a higher level than the beginning of 2017.
- Management reiterated guidance for \$48 million in cost savings associated with the MainSource (MSFG-\$40.31) acquisition. Management anticipates a first quarter deal close and second quarter systems conversion.
- 4Q17 noninterest expense included approximately \$4 million related to higher incentive compensation and performance-based 401(k) contributions. Excluding one-time expenses, management estimates that noninterest expense will be approximately \$51 million in 1Q18.
- The full year 2018 effective tax rate is anticipated to be approximately 21%.
- Our price target is derived through our discounted dividend model and the application of a forward multiple of 14.5X to our 2019 EPS estimate. The multiple that we employ is appropriate relative to FFBC's risk/reward profile, in our opinion.
- Major model assumptions include two Fed rate hikes in 2018 and 2019 and continued flattening of the yield curve.

SUITABILITY

Our suitability rating on FFBC is 2 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.
- **Geography** – The company's operations are primarily 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.
- **Regulatory Environment** – Banks operate in a highly regulated environment. Consequently, the company is vulnerable to regulatory uncertainties that could negatively impact shareholders.

- **Other** – Please see the company’s financial statements for a further discussion of risks and considerations.

	FIRST FINANCIAL BANCORP										FFBC: BUY				
	\$Millions, Except for Per Share Data										FY 2017 A	FY 2018 E	FY 2019 E		
	1Q17A	2Q17A	3Q17A	4Q17A	1Q18E	2Q18E	3Q18E	4Q18E	FY 2017 A	FY 2018 E	FY 2019 E	YOY Change			
Balance Sheet Data:															
Assets	8,531.2	8,710.0	8,761.7	8,896.9	13,417.8	13,652.6	13,891.5	14,137.4	8,438.0	8,896.9	14,137.4	14,933.3	5.4%	58.9%	0.5%
Gross Loans	5,761.7	5,885.7	5,993.5	6,024.7	9,179.8	9,340.5	9,503.9	9,672.1	5,770.6	6,024.7	9,672.1	10,216.7	4.4%	60.5%	0.5%
Average Earning Assets	7,695.7	7,855.6	7,990.0	8,005.1	8,147.4	12,352.3	12,568.4	12,789.6	7,523.4	7,886.6	11,484.4	13,195.8	4.8%	45.4%	10.4%
Deposits	6,529.9	6,468.9	6,726.1	6,895.0	10,489.5	10,673.1	10,859.9	11,052.1	6,525.8	6,895.0	11,052.1	11,674.3	5.7%	60.3%	0.5%
Equity	880.1	898.1	915.0	930.7	1,958.7	1,967.4	2,003.8	2,042.4	865.2	930.7	2,042.4	2,193.6	7.6%	119.5%	1.8%
Statement of Operations:															
FTE Net Interest Income	70.2	69.8	71.8	77.0	74.7	114.9	118.2	120.5	276.9	288.8	428.2	493.2	4.3%	48.3%	10.6%
Net Interest Income	68.9	68.5	70.5	75.6	73.4	112.8	116.0	118.3	272.7	283.5	420.5	484.3	4.0%	48.3%	10.6%
Provision for Loan Losses	0.4	0.5	3.0	-0.2	2.3	4.3	5.0	5.1	10.1	3.6	16.7	23.2	-64.7%	366.1%	15.3%
Non-Interest Income:															
Service Charges on Deposit Accounts	4.6	4.8	5.2	5.2	4.9	10.2	10.8	10.8	18.9	19.8	36.6	42.2	4.4%	85.2%	14.5%
Trust and Wealth Management Fees	3.7	3.4	3.3	3.6	4.1	5.2	5.2	5.3	13.2	14.1	19.8	22.8	6.6%	40.9%	8.9%
Bankcard Income	3.1	3.5	3.3	3.4	3.3	6.8	6.6	6.8	12.1	13.3	23.6	22.5	9.6%	77.5%	14.6%
Net Gains From Sales of Loans	1.2	1.3	1.5	1.2	1.0	5.1	5.1	4.1	6.8	5.2	15.4	17.4	-24.0%	197.9%	10.3%
Other	4.1	3.6	9.4	5.0	4.4	5.7	5.6	5.6	18.3	22.2	21.3	22.1	21.2%	-4.0%	5.0%
Securities Gains	0.5	0.8	0.3	0.0	0.0	0.0	0.0	0.0	0.2	1.6	0.0	0.0	604.7%	-100.0%	NA
Total Non-Interest Income	17.4	17.5	22.9	18.4	17.7	33.0	33.4	32.6	69.6	76.1	116.8	127.1	9.4%	53.3%	11.3%
Non-Core Adjustment	-0.5	-0.8	-6.1	0.0	0.0	0.0	0.0	0.0	(2.6)	(7.4)	0.0	0.0	188.1%	-100.0%	NA
Adjusted Non-Interest Income	16.8	16.6	16.9	18.4	17.7	33.0	33.4	32.6	67.0	68.7	116.8	127.1	2.5%	70.0%	11.3%
Non-Interest Expense:															
Salaries and Employee Benefits	31.8	31.5	33.8	35.4	31.8	47.7	46.2	44.5	122.4	132.6	170.1	181.8	8.3%	28.3%	8.2%
Net Occupancy	4.5	4.3	4.3	4.3	4.1	6.2	5.5	5.6	18.3	17.4	21.4	22.6	-5.1%	22.9%	7.0%
Furniture and Equipment	2.2	2.1	2.2	2.0	2.0	5.4	5.2	5.0	8.7	8.4	17.5	20.2	-2.5%	107.8%	17.3%
Data Processing	3.3	3.5	3.5	3.8	3.5	3.5	3.5	3.6	11.4	14.0	14.1	14.4	22.9%	0.6%	0.5%
Marketing	0.5	1.0	0.6	1.1	0.5	1.8	1.2	1.6	4.0	3.2	5.2	5.6	-19.3%	61.3%	10.8%
Communication	0.4	0.5	0.4	0.5	0.5	0.9	0.9	0.9	1.9	1.8	3.2	3.8	-3.7%	77.6%	14.4%
Professional Services	1.8	1.5	2.0	9.8	1.9	1.5	1.5	1.5	6.3	15.0	6.5	6.7	138.3%	-56.6%	0.7%
Other	6.6	7.2	7.6	26.2	7.1	11.4	11.9	11.9	28.5	47.5	42.4	47.5	66.7%	-10.8%	9.3%
Total Non-Interest Expense	51.0	51.6	54.4	82.9	51.4	78.4	76.0	74.6	201.4	239.9	280.4	302.5	19.1%	16.9%	8.4%
Non-Core Adjustment	0.0	-0.2	-4.6	-27.8	0.0	0.0	0.0	0.0	(1.2)	(32.6)	0.0	0.0	2648.7%	-100.0%	NA
Adjusted Non-Interest Expense	51.0	51.4	49.8	55.1	51.4	78.4	76.0	74.6	200.2	207.3	280.4	302.5	3.6%	35.3%	8.4%
Pretax Income	34.4	33.3	34.5	39.1	37.4	63.1	68.4	71.2	129.3	141.3	240.1	285.7	9.3%	69.9%	13.2%
Income Taxes	10.3	11.0	10.5	11.4	7.8	13.2	14.5	15.1	41.7	43.1	50.5	60.3	3.4%	17.2%	13.5%
Operating Net Income	24.1	22.3	24.1	27.7	29.6	49.8	54.0	56.2	87.6	98.2	189.6	225.3	12.1%	93.1%	13.1%
Share & Per Share Data:															
Diluted EPS	0.39	0.37	0.40	0.40	0.47	0.50	0.55	0.57	1.42	1.56	2.09	2.28	9.4%	34.5%	3.8%
Operating EPS	0.39	0.36	0.39	0.45	0.47	0.50	0.55	0.57	1.43	1.58	2.09	2.28	10.5%	32.6%	3.8%
Dividends Per Share	0.17	0.17	0.17	0.17	0.18	0.18	0.18	0.18	0.64	0.68	0.72	0.76	6.3%	5.9%	1.4%
Tangible Book Value	10.80	11.07	11.36	11.62	10.92	11.03	10.98	11.42	10.59	11.62	11.42	12.35	9.8%	-1.7%	-0.3%
Common Shares Outstanding	62,134	62,141	62,061	62,069	97,564	97,564	97,564	97,564	61,980	62,069	97,564	97,564	0.1%	57.2%	0.0%
Average Diluted Shares	62,140	62,234	62,190	62,132	62,605	98,678	98,678	98,678	62,011	62,174	89,660	98,678	0.3%	44.2%	10.1%
Key Financial Statistics:															
Return on Assets	1.16%	1.06%	1.14%	1.14%	1.35%	1.48%	1.55%	1.59%	1.07%	1.12%	1.49%	1.56%	5	37	5
Return on Equity	11.21%	10.22%	10.94%	10.79%	6.09%	10.18%	10.79%	11.01%	10.47%	10.79%	9.52%	10.65%	32	(127)	114
FTE Net Interest Margin	3.70%	3.56%	3.82%	3.82%	3.72%	3.73%	3.73%	3.74%	3.66%	3.66%	3.73%	3.74%	(2)	7	0
Operating Non-Int. Inc./Operating Rev.	19.64%	19.52%	19.31%	19.54%	19.42%	22.64%	22.37%	21.62%	19.72%	19.50%	21.51%	20.79%	(22)	201	32
Efficiency Ratio	58.18%	59.23%	56.52%	60.06%	55.57%	51.14%	77.88%	45.40%	58.81%	58.50%	57.50%	58.77%	(31)	(100)	510
Tangible Common Ratio	8.07%	8.11%	8.27%	8.32%	8.50%	8.43%	8.43%	8.44%	7.97%	8.32%	8.44%	8.64%	35	12	(5)
Reserves/Gross Loans	0.98%	0.93%	0.91%	0.90%	0.59%	0.59%	0.60%	0.60%	1.00%	0.90%	0.60%	0.62%	(11)	(29)	0
NCOs/Average Loans	0.14%	0.13%	0.22%	0.02%	0.15%	0.15%	0.15%	0.15%	0.09%	0.13%	0.15%	0.18%	4	2	0

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.

First Financial 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.



Hilliard Lyons Recommended Issues			Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	31	28%	10%	90%
Hold/Neutral	75	67%	9%	91%
Sell	6	5%	0%	100%

As of 8 January 2018

Other Disclosures

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