



COMPANY UPDATE/ ESTIMATES CHANGE/ TARGET PRICE CHANGE

Key Metrics

USB - NYSE (as of 01/17/18)	\$56.34
Price Target	\$58.00
52-Week Range	\$49.54-\$57.69
Shares Outstanding (mm)	1,656.0
Market Cap. (\$mm)	\$93,299
3-Mo. Average Daily Volume (000)	5,639.1
Institutional Ownership	69.9%
Tangible Equity / Tangible Assets	8.8%
ROE	12.7%
Tangible Book Value Per Share	\$20.29
Price/Tangible Book Value	280.8%
Dividend Yield	2.1%
Price/LTM Earnings	16.2x

Operating EPS CY 12/31

	2017A	Prior 2018E	Curr. 2018E	Prior 2019E	Curr. 2019E
1Q	\$0.81	\$0.92	\$0.95		\$1.03
2Q	\$0.84	\$0.98	\$1.02		\$1.11
3Q	\$0.88	\$1.05	\$1.07		\$1.15
4Q	\$0.87	\$1.05	\$1.07		\$1.15
Year	\$3.41	\$4.00	\$4.10		\$4.44
P/E	16.5x		13.7x		12.7x

Numbers may not add due to rounding

Common Dividends

	2017A	Curr. 2018E	Prior %chg.	Curr. 2019E
1Q	\$0.28	\$0.30	7.1	\$0.33
2Q	\$0.28	\$0.30	7.1	\$0.33
3Q	\$0.30	\$0.33	10.0	\$0.35
4Q	\$0.30	\$0.33	10.0	\$0.35
Year	\$1.16	\$1.26	8.6	\$1.35

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

4Q17 Earnings Review; Reiterating Neutral Rating

- **Earnings Results:** Excluding a host of non-core items, USB reported 4Q17 EPS of \$0.87, which was in line with our estimate and \$0.01 below the Street consensus.
- **Operating Highlights:** Net interest income increased 0.3% linked-quarter (LQ) to \$3.14 billion as a 1.1% rise in average earning assets more than offset two bps of net interest margin (NIM) compression to 3.08%. We had projected net interest income of \$3.16 billion and a 3.00% margin.

Operating noninterest income rose 0.8% LQ at \$2.43 billion and was in line with our estimate.

Operating noninterest expense increased 0.3% sequentially to \$3.11 billion. Results were essentially in line with our estimate of \$3.10 billion.

Loans were up 0.6% LQ on an end-of-period basis, while average loans advanced 0.8%.

The provision for credit losses fell 6.9% LQ to \$335 million, while the net charge-off ratio declined one bp to 0.46%. We had projected a provision of \$370 million and net charge-offs of 50 bps.

- **Estimates:** We are increasing our 2018 operating EPS estimate by \$0.10 to \$4.10 and introducing our 2019 estimate at \$4.44. We are increasing our price target by \$3.00 to \$58.00 and maintaining our Neutral rating.

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

OTHER TAKEAWAYS & VALUATION

- USB realized a one-time benefit of \$910 million due to the revaluation of deferred tax liabilities. In connection with this benefit, the company made a \$150 million contribution to its charitable foundation and accrued \$67 million for a one-time bonus to certain eligible employees.
- Tangible book value per share rose \$0.29 sequentially to \$20.29 largely as a result of the revaluation of deferred tax liabilities.
- Excluding interest recoveries that benefitted the Q3 NIM by two bps, the NIM would have been flat on a LQ basis in 4Q17.
- Average commercial loans rose 1.0% on a LQ basis, while retail loans grew 1.9% and total commercial real estate loans declined 1.5%. Management noted that they continue to see an elevated level of payoff activity as customers accessed capital markets to lock in current low interest rates.
- As previously noted, expense growth related to the Bank Secrecy Act/anti-money laundering compliance program has begun to normalize towards the company's overall expense growth rate. Professional fees were down 27% YOY reflecting the decrease in consulting fees with regards to compliance programs.
- The company's total payout ratio, including dividends and share buybacks was 72% in 4Q17.
- Management provided the following guidance for 1Q18 and 2018:
 - Modestly lower net interest income and fee revenue on a LQ basis in 1Q18
 - Mid-single digit growth in net interest income in 2018
 - Low-single digit growth in fee income in 2018
 - Seasonally higher noninterest expense in 1Q18
 - Mid-single digit growth in noninterest expense in 2018
 - Stable credit quality LQ
 - An effective tax rate of approximately 19% in 2018
- Management anticipates investing approximately 25% of the tax savings in growth initiatives, including technology, business automation and employees.
- Our price target is derived through our discounted dividend model and the application of a forward multiple of 13X to our 2019 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 two Fed rate hikes in 2018 and 2019 and continued flattening of the yield curve.

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			
	1Q17A	2Q17A	3Q17A	4Q17A	1Q18E	2Q18E	3Q18E	4Q18E	2016A	2017A	2018E	2019E	YOY Change	
\$Millions, Except for Per Share Data														
Balance Sheet Data:														
Average Assets	449,522	463,844	459,227	462,040	466,660	471,794	478,163	484,618	441,800	458,658	475,309	499,336	3.8%	5.1%
Average Loans HFI	273,158	275,528	277,626	279,561	282,357	285,463	289,316	293,222	267,793	276,468	287,589	302,127	3.2%	5.1%
End-of-Period Loans HFI	272,835	276,609	277,626	280,432	284,281	286,644	291,989	294,455	272,403	280,432	294,455	309,468	2.9%	5.1%
Average Earning Assets	399,281	403,883	408,825	413,510	417,645	422,239	427,939	433,717	389,833	406,375	425,385	446,888	4.2%	5.1%
Average Deposits	328,808	329,803	333,162	337,157	340,858	344,438	348,659	353,366	308,414	332,232	346,830	364,331	7.7%	4.4%
Average Common Equity	42,217	42,854	43,104	43,463	43,831	44,304	44,807	45,284	41,836	42,909	44,557	46,476	2.6%	3.8%
Statement of Operations:														
FTE Net Interest Income	2,995	3,068	3,194	3,210	3,185	3,279	3,357	3,418	11,731	12,468	13,238	14,020	6.3%	5.9%
Net Interest Income	2,945	3,017	3,135	3,144	3,120	3,211	3,287	3,347	11,528	12,241	12,965	13,731	6.2%	5.9%
Provision for Loan Losses	345	350	360	335	350	360	375	388	1,324	1,390	1,473	1,718	5.0%	6.0%
Non-Interest Income:														
Credit and Debit Card Revenue	292	319	308	333	312	341	341	346	1,177	1,252	1,341	1,435	6.4%	7.1%
Corporate Payment Products Revenue	179	184	201	189	186	191	209	197	712	753	783	814	5.8%	4.0%
Merchant Processing Services	378	407	405	400	389	419	425	420	1,592	1,590	1,654	1,703	-0.1%	4.0%
ATM Processing Services	85	90	92	95	87	92	94	97	338	362	369	377	7.1%	2.0%
Trust and Investment Management Fees	368	380	380	394	406	412	418	424	1,427	1,522	1,660	1,762	6.7%	9.1%
Deposit Service Charges	177	184	192	198	183	190	198	205	725	751	776	802	3.6%	3.3%
Treasury Management Fees	153	160	153	152	155	157	159	161	583	618	631	655	6.0%	2.1%
Commercial Products Revenue	207	210	211	211	214	217	228	218	871	849	877	912	-2.5%	3.3%
Mortgage Banking Revenue	207	212	213	202	184	214	214	191	979	834	804	813	-14.8%	-3.7%
Investment Products Fees	40	41	39	43	42	43	41	46	158	163	171	179	3.2%	4.9%
Other Income	214	223	209	214	220	222	224	226	993	860	891	922	-13.4%	3.6%
Securities Gains	29	9	9	10	0	0	0	0	16	57	0	0	256.3%	-100.0%
Total Non-Interest Income	2,329	2,419	2,422	2,441	2,378	2,499	2,552	2,528	9,571	9,611	9,957	10,373	0.4%	3.6%
Non-Core Adjustment	-29	-9	-9	-10	0	0	0	0	(196)	(57)	0	0	-70.9%	-100.0%
Adjusted Non-Interest Income	2,300	2,410	2,413	2,431	2,378	2,499	2,552	2,528	9,375	9,554	9,957	10,373	1.9%	4.2%
Non-Interest Expense:														
Compensation	1,391	1,416	1,440	1,499	1,488	1,509	1,517	1,514	5,212	5,746	6,029	6,300	10.2%	4.9%
Employee Benefits	314	287	281	280	336	306	303	288	1,119	1,186	1,233	1,288	6.0%	4.0%
Net Occupancy and Equipment	247	255	258	259	260	263	265	268	988	1,019	1,056	1,072	3.1%	3.6%
Professional Services	96	105	104	114	110	111	111	130	502	419	462	479	-16.5%	10.2%
Marketing and Business Development	90	109	92	251	85	110	115	120	435	542	430	445	24.6%	-20.7%
Technology and Communications	235	242	246	254	255	254	258	267	955	977	1,034	1,094	2.3%	5.8%
Postage, Printing and Supplies	81	81	82	79	90	91	91	92	311	323	364	375	3.9%	12.7%
Other Intangibles	44	43	44	44	44	44	44	44	178	175	176	172	-1.7%	0.6%
Other Expense	446	485	492	1,135	450	497	504	540	1,975	2,558	1,992	2,041	29.5%	-22.1%
Total Non-Interest Expense	2,944	3,023	3,039	3,939	3,118	3,184	3,210	3,263	11,675	12,945	12,775	13,266	10.9%	-1.3%
Non-Core Adjustment	0	0	0	-825	0	0	0	0	0	(825)	0	0	N/A	-100.0%
Adjusted Non-Interest Expense	2,944	3,023	3,039	3,114	3,118	3,184	3,210	3,263	11,675	12,120	12,775	13,266	3.8%	5.4%
Operating Pretax Income	1,956	2,054	2,149	2,126	2,030	2,165	2,254	2,225	7,904	8,285	8,674	9,120	4.8%	5.1%
Operating Common Net Income	1,378	1,423	1,479	1,455	1,564	1,678	1,743	1,726	5,457	5,735	6,712	7,063	5.1%	17.0%
Share & Per Share Data:														
Diluted EPS	0.82	0.85	0.88	0.87	0.95	1.02	1.07	1.07	3.24	3.51	4.10	4.44	8.3%	8.3%
Operating EPS	0.81	0.84	0.88	0.87	0.95	1.02	1.07	1.07	3.17	3.41	4.10	4.44	7.6%	20.2%
Dividends Per Share	0.28	0.28	0.30	0.30	0.30	0.30	0.33	0.33	1.07	1.16	1.26	1.35	8.4%	7.1%
Tangible Book Value	19.13	19.60	20.00	20.29	20.70	21.17	21.64	22.11	18.71	20.29	22.11	24.07	8.5%	8.9%
Common Shares Outstanding	1,692,000	1,679,000	1,667,000	1,664,000	1,644,500	1,633,000	1,620,509	1,608,350	1,696,912	1,656,000	1,608,350	1,559,754	-2.4%	-2.9%
Average Diluted Shares	1,701,000	1,690,000	1,678,000	1,664,000	1,655,250	1,643,750	1,631,754	1,619,429	1,723,750	1,683,250	1,637,546	1,589,426	-2.3%	-2.9%
Key Financial Statistics:														
Return on Assets	1.35%	1.36%	1.39%	1.48%	1.44%	1.50%	1.52%	1.48%	1.37%	1.39%	1.49%	1.49%	2	9
Return on Equity	13.14%	13.40%	13.69%	14.71%	14.47%	15.19%	15.44%	15.12%	13.36%	13.73%	15.06%	15.19%	38	132
Net Interest Margin	3.03%	3.04%	3.10%	3.08%	3.09%	3.11%	3.11%	3.13%	3.01%	3.06%	3.11%	3.14%	5	5
Operating Non-Int. Inc./Operating Rev.	43.85%	44.41%	43.49%	43.61%	43.26%	43.76%	43.70%	43.03%	44.85%	43.84%	43.44%	43.03%	(101)	(40)
Efficiency Ratio	55.60%	54.40%	53.50%	69.20%	55.26%	54.36%	53.58%	54.13%	54.83%	58.18%	54.33%	53.69%	335	(384)
Tangible Common Ratio	7.36%	7.25%	7.42%	7.43%	7.45%	7.49%	7.49%	7.49%	7.28%	7.43%	7.49%	7.53%	15	6
Reserves/Loans	1.40%	1.39%	1.41%	1.40%	1.39%	1.38%	1.35%	1.34%	1.40%	1.40%	1.34%	1.31%	(0)	(6)
NCOs/Average Loans	0.49%	0.49%	0.48%	0.47%	0.49%	0.50%	0.50%	0.52%	0.47%	0.48%	0.50%	0.54%	1	2

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.

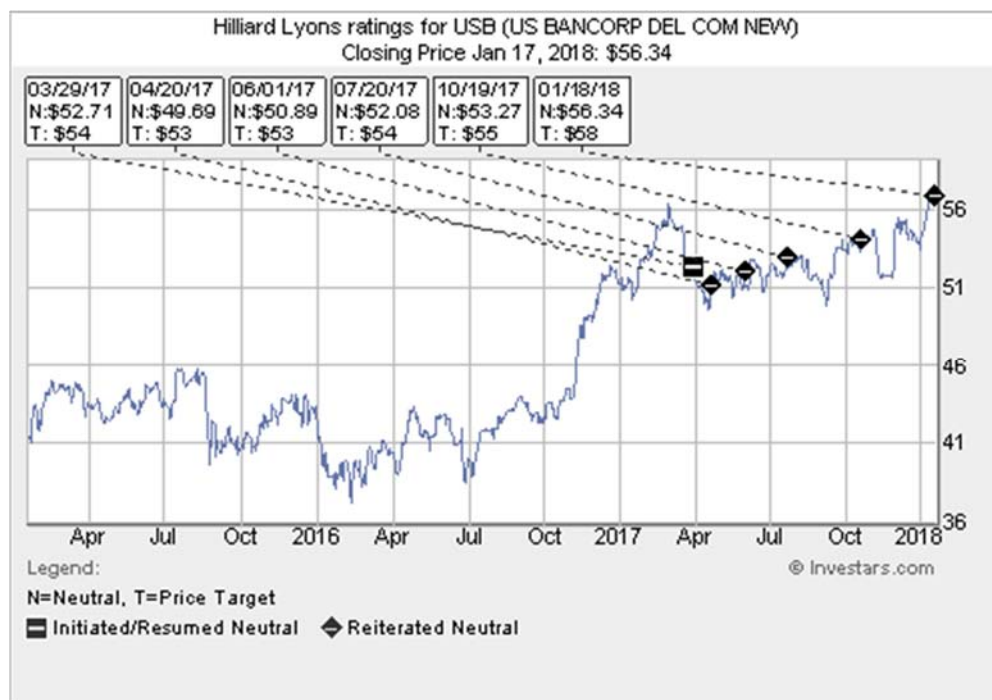
Definitions of Suitabilities:

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	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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