Better Bank Stock Analysis
Ross Meredith, Director, Rocky Mountain Chapter, BetterInvesting

3/8/2017
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Our Agenda

• An Introduction to the business of banking
• The banking industry today
• Characteristics of high quality banks
• Introducing SSGPlus updates to help analyze banks
• Putting it all together to evaluate investment opportunities in banks
Business of Banking

• Banking is a simple business
  – Banks make money from loans
  – Loans are funded primarily from customer deposits

• Deposits
  – May represent 80% of funding liabilities
  – A low cost source of funding
  – Depositors accept low interest rates in exchange for the safety net of deposit insurance

• Low cost of funding is a key competitive advantage
Loans

• Primary asset class in community banks
  – Loans may represent 80% of assets

• Generate interest income – primary revenue source for banks

• Banks are dependent on interest rates
  – Net Interest Spread (AKA net interest margin): difference between the interest rate the bank earns from loans and interest rate the bank pays for funding

• PRICING IS A KEY MANAGEMENT SKILL
Overhead Expenses

Overhead expenses include all the costs incurred other than the cost of funding

• Efficiency Ratio: % of revenue represented by overhead expenses
• Best banks maintain efficiency ratio < 60%
Turning Loans into Profits

• Bank must earn enough to cover overhead and cost of funding
  – Today, approximately 3% of the interest rate earned is overhead
  – Funding costs are about 1% in the current market
  – Banker must charge more than 4% to make a profit
  – Average interest rate is currently 4.78% on loans
  – Average net interest spread is 3.78% (4.78% - 1%)

• When interest rates rise, banks’ earnings go up
  – 10 years ago rates were higher and net interest spread was 4.76%
Loan Quality

• The QUALITY of loans is primary.

• Maintaining a high quality portfolio of bank loans is a KEY MANAGEMENT SKILL.

• A bad loan is expensive.
  – Entire loan amount is lost, not just the interest!

• Banks that lose less than 1% of loans are preferable.
Loan Growth

• Loans are assets.
• A portion of a bank’s loans are paid off every year. This is known as loan runoff.
  – Average bank has 10% of loans paid off per year.
• To increase revenue and income, a bank must increase its loans.
  – A well run bank will grow assets about 4-5% per year.
  – Actual growth, including replacement of paid off loans, is 14-15% per year.
• The best bankers are also good marketers.
View Historical Bank Assets in SSGPlus

Sales = Net Interest Income + Non-Interest Income

Total Assets

NEW!
View Historical Bank Assets in SSGPlus

Fundamental Company Data

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2016</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Historical Sales ($M)</td>
<td>39</td>
<td>285</td>
<td>25.8%</td>
</tr>
<tr>
<td>Historical EPS ($)</td>
<td>0.65</td>
<td>2.86</td>
<td>22.7%</td>
</tr>
<tr>
<td>Pre-Tax Profit ($M)</td>
<td>12</td>
<td>159</td>
<td>37.4%</td>
</tr>
<tr>
<td>Historical Total Assets ($M)</td>
<td>846</td>
<td>6,890</td>
<td>24.4%</td>
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</tbody>
</table>
Recap

So far we know that the best bankers:
• Make good use of their deposits, a low cost source of funding
• Control their costs well
• Make good loans and price them well
• Achieve consistent growth of assets - loans are a large portion of a bank’s assets
Focus on the **Best** Banks

• The future for banking is likely pretty good and probably for a long time to come.
  – Long-term treasury bond rates:
    • 2.25% in 1946; 15% in 1981; 2.1% in 2016; ??? In 2051

• We want banks that make good loans and maintain the best profitability.

• Two numbers to pinpoint good banks:
  – Loan Loss Provision expense ratio
  – Return on Average Assets (ROAA)
Measuring Loan Quality

• Loan Loss Provision expense ratio
  – Provision for Loan Losses expense (income statement)
  – Total loans (balance sheet)
• Calculate the ratio
  – Loan loss provision expense / Total loans
• If loan losses are well below 1% of loans for 8-10 years, we have a good lender.
• Value Line provides a shortcut to the data
## Value Line Data for BBT

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<thead>
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<td>Earnings per sh A</td>
<td>2.71</td>
<td>1.15</td>
<td>1.16</td>
<td>1.83</td>
<td>2.70</td>
<td>2.19</td>
<td>2.75</td>
<td>2.56</td>
<td>2.75</td>
<td>3.00</td>
<td>220000</td>
<td>141500</td>
<td>6350</td>
<td>4475</td>
<td>6750</td>
<td>2400</td>
<td>30.0%</td>
<td>1.10%</td>
<td>22500</td>
<td>30250</td>
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<td>Div’s Decl’d per sh B</td>
<td>1.86</td>
<td>.92</td>
<td>.60</td>
<td>.65</td>
<td>.80</td>
<td>.92</td>
<td>.95</td>
<td>1.05</td>
<td>1.15</td>
<td>1.22</td>
<td>145000</td>
<td>31425</td>
<td>6500</td>
<td>4700</td>
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<td>22000</td>
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<tr>
<td>Book Value per sh D</td>
<td>23.17</td>
<td>23.55</td>
<td>23.76</td>
<td>25.07</td>
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<td>1.01%</td>
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<td>27306</td>
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<td>64.1%</td>
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<tr>
<td>Common Shs Outst’g C</td>
<td>559.25</td>
<td>689.75</td>
<td>694.38</td>
<td>697.14</td>
<td>699.73</td>
<td>706.62</td>
<td>720.70</td>
<td>780.34</td>
<td>808.00</td>
<td>800.00</td>
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<td>26.6%</td>
<td>18.2%</td>
<td>27.4%</td>
<td>44.7%</td>
<td>27.2%</td>
<td>64.2%</td>
</tr>
</tbody>
</table>

### Notes

- **Bold figures are Value Line estimates**

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**Value Line Data for BBT**

- **Better Bank Stock Analysis**
- **Ross Meredith, Director, Rocky Mountain Chapter, BetterInvesting**
BB&T had high Loan Loss Provision expense ratios in 2009-2010 (see tables below).

The higher loan losses had a negative effect on EPS as seen on the SSG.
Eagle Bancorp had less fluctuation in the Loan Loss Provision expense ratio (see tables below).

The historical EPS on the SSG reflects a well managed bank.
Return on Average Assets (ROAA)

- A good measure of profitability for a bank
- ROAA is defined as Net Income / Average Assets
  - Average Assets = (Beginning year assets + Ending year assets) / 2
- Quantifies management’s ability to control expenses and to maximize earnings from the assets
- We want banks that consistently exceed over 1% earned on assets
- Defined by Value Line as earnings divided by total assets (ROA)
**ROAA is Included for Banks in SSGPlus!**

<table>
<thead>
<tr>
<th>Evaluate Management</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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<tbody>
<tr>
<td>% Pre Tax Profit on Sales</td>
<td>38.6%</td>
<td>27.8%</td>
<td>11.8%</td>
<td>10.4%</td>
<td>18.9%</td>
<td>28%</td>
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<tr>
<td>% Return on Equity</td>
<td>13.6%</td>
<td>11.6%</td>
<td>4.9%</td>
<td>4.9%</td>
<td>7.3%</td>
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</tr>
<tr>
<td>% Debt To Capital</td>
<td>59.7%</td>
<td>61.2%</td>
<td>61.5%</td>
<td>61.4%</td>
<td>58.7%</td>
<td>61%</td>
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<tr>
<td>% Return on Avg Assets</td>
<td>1.37%</td>
<td>1.05%</td>
<td>0.46%</td>
<td>0.51%</td>
<td>0.78%</td>
<td>1.0%</td>
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**Trend**

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<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016 (p)</th>
<th>5 Yr Avg</th>
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<td>52.6%</td>
<td>50.1%</td>
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<td>49.4%</td>
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<tr>
<td>%</td>
<td>1.07%</td>
<td>0.85%</td>
<td>1.08%</td>
<td>0.99%</td>
<td>1.05%</td>
<td>1.01%</td>
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Return on Average Assets

• Today, the average bank earns a return on assets of about 0.79%.

• Over 1.25% is good, only 9% of banks do that.

• Over 1.5% is VERY good, less than 4% of banks do that.

• A high ROAA is indicative of good management.
## BB&T Falls Short

### Evaluate Management

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### Yearly Summary

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<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
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<th>2015</th>
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<td>0.99%</td>
<td>1.05%</td>
<td>1.01%</td>
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</table>
**Eagle Bancorp Shows Steady Improvement**

### Evaluate Management

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<td>34.0%</td>
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<td>6.5%</td>
<td>8.3%</td>
<td>11.3%</td>
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<tr>
<td>% Debt To Capital</td>
<td>39.0%</td>
<td>45.1%</td>
<td>23.9%</td>
<td>19.4%</td>
<td>15.6%</td>
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<tr>
<td>% Return on Avg Assets</td>
<td>0.95%</td>
<td>0.62%</td>
<td>0.49%</td>
<td>0.79%</td>
<td>0.94%</td>
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### Additional Data

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<th>2015</th>
<th>2016 (p)</th>
<th>5 Yr Avg</th>
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<tr>
<td>%</td>
<td>1.11%</td>
<td>1.29%</td>
<td>1.19%</td>
<td>1.48%</td>
<td>1.51%</td>
<td>1.32%</td>
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</table>
Recap

• A bank with consistently high returns on assets and low loan losses can be deemed well managed.

• Such a bank can sustain good earnings over time.

• Banks, especially well managed ones, may well benefit from improving industry conditions.
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Putting It All Together

1. Verify the quality of the bank.
2. Make growth and P/E projections in much the same way as any other high quality company.
3. Evaluate the completed SSG to determine when it is time to buy, hold or sell.
Quality Review

• Calculate the Loan Loss Provision Expense ratio for several years (10 is best)
  – Top quality banks consistently have loan losses that are less than 1% of their total loans.

• Look for steady historical asset growth (SSG)
  – Bank assets are the primary source of bank revenue and earnings.

• Return on Average Assets is a great measure of a bank’s profitability
  – Good Banks consistently maintain ROAA > 1.25%
  – The Best Banks consistently have ROAA > 1.50%
Forecasting Future Growth

• Evaluate historical growth
• Gather estimates from analysts
• Review available research reports
• Read company reports and presentations to learn more about their own growth goals and strategies
• Based on your research, make a forecast that is reasonable and supportable
Forecasting Future P/Es

• P/Es for banks, in general, tend to be low.
• Historical averages are often a good reflection of future P/Es for a high quality bank.
• Evaluate 10 years of data to learn how the stock price performed in the Great Recession.
• Bank P/Es may be more sensitive to economic trends, including interest rates.
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### 3. PRICE EARNINGS HISTORY as an indicator of the future

<table>
<thead>
<tr>
<th>Year</th>
<th>A High</th>
<th>B Low</th>
<th>C Earnings Per Share</th>
<th>D Price Ratio High A / C</th>
<th>E Price Ratio Low B / C</th>
<th>F Dividend Per Share</th>
<th>G % Payout</th>
<th>H % High Yield</th>
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<tbody>
<tr>
<td>2012</td>
<td>19.6</td>
<td>13.2</td>
<td>1.46</td>
<td>13.4</td>
<td>9.0</td>
<td>0.00</td>
<td>0.0%</td>
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<tr>
<td>2013</td>
<td>33.3</td>
<td>18.1</td>
<td>1.76</td>
<td>18.9</td>
<td>10.3</td>
<td>0.00</td>
<td>0.0%</td>
<td>0.0%</td>
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<tr>
<td>2014</td>
<td>37.0</td>
<td>29.2</td>
<td>1.28</td>
<td>19.0</td>
<td>15.0</td>
<td>0.00</td>
<td>0.0%</td>
<td>0.0%</td>
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<tr>
<td>2015</td>
<td>55.3</td>
<td>31.8</td>
<td>2.55</td>
<td>22.1</td>
<td>12.7</td>
<td>0.00</td>
<td>0.0%</td>
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<tr>
<td>2016</td>
<td>64.5</td>
<td>43.8</td>
<td>2.86</td>
<td>25.7</td>
<td>15.3</td>
<td>0.00</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>AVERAGE</td>
<td>27.2</td>
<td>19.2</td>
<td>12.5</td>
<td>0.00</td>
<td>0.0%</td>
<td>0.0%</td>
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</tr>
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</table>

CURRENT/TTM

**AVERAGE PRICE EARNINGS RATIO:** 15.8

**CURRENT PRICE EARNINGS RATIO:** 21.4

![Graph showing price-earnings history]

Show / Hide Price/Earnings Chart  Compare Peers
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4. EVALUATING RISK and REWARD over the next 5 years

A. HIGH PRICE - NEXT 5 YEARS
   Avg. High P/E: 18.0 \times \text{Estimate High Earnings/Share: 5.04} = \text{Forecasted High Price: 90.7}

B. LOW PRICE - NEXT 5 YEARS
   (a) \text{Avg. Low P/E: 12.0} \times \text{Estimate Low Earnings/Share: 2.86} = \text{Forecasted Low Price: 34.3}
   (b) \text{Avg. Low Price of Last 5 Years: 27.2}
   (c) \text{Recent Market Low Price: 31.8}
      \begin{align*}
      \text{2015 Low Stock Price: 31.8} & \quad \text{52 Week Low Stock Price: 43.8} \\
      \text{2016 Low Stock Price: 43.8} &
   \end{align*}
   (d) \text{Price Dividend Will Support:}
      \begin{align*}
      \text{Indicated Dividend} & = 0.00 \\
      \text{High Yield} & = \ldots
      \end{align*}

   \text{Selected Forecasted Low Price: 34.3}

C. ZONING using 25%-50%-25% (click to toggle)
   \begin{align*}
   \text{Forecasted High Price: 90.7} & \quad \text{Minus Forecasted Low Price: 34.3} = 56.4 \text{ Range: 25\% of Range: 14.1} \\
   \text{Buy Zone: 34.3 to 48.4} & \quad \text{Hold Zone: 48.4 to 76.6} \\
   \text{Sell Zone: 76.6 to 90.7} &
   \end{align*}
   \text{Closing Stock Price of 61.25 is in the HOLD Zone.}

D. UPSIDE DOWNSIDE RATIO (POTENTIAL GAIN VS. RISK OR LOSS)
   \begin{align*}
   \text{Forecasted High Price - Closing Price} & = (90.7 - 61.25) = 29.48 \\
   \text{Closing Price - Forecasted Low Price} & = (61.25 - 34.3) = 26.95
   \end{align*}

   = 1.1 To 1

E. PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)
   \begin{align*}
   \frac{\text{Forecasted High Price}}{\text{Closing Price}} & = \frac{90.7}{61.25} = (148.12 \times 100) = (148.12 - 100) = 48.1\% \text{ Appreciation}
   \end{align*}
## 5. FIVE-YEAR POTENTIAL

### A. CURRENT YIELD

<table>
<thead>
<tr>
<th>Indicated Annual Dividend</th>
<th>=</th>
<th>0.00</th>
<th>=</th>
<th>0.0000</th>
<th>=</th>
<th>0.0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closing Price</td>
<td></td>
<td>61.25</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### B. AVERAGE YIELD - USING FORECAST HIGH P/E

<table>
<thead>
<tr>
<th>Avg. % Payout</th>
<th>=</th>
<th>0</th>
<th>=</th>
<th>0.0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forecast High P/E</td>
<td>18.00</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### AVERAGE YIELD - USING FORECAST AVERAGE P/E

<table>
<thead>
<tr>
<th>Avg. % Payout</th>
<th>=</th>
<th>0</th>
<th>=</th>
<th>0.0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forecast Average P/E</td>
<td>15.00</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### C. COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E

- Annual Appreciation: 8.2%
- Average Yield: 0.0%
- Annualized Rate of Return: 8.2%

### COMPOUND ANNUAL RETURN - USING FORECAST AVERAGE P/E

- Annual Appreciation: 4.3%
- Average Yield: 0.0%
- Annualized Rate of Return: 4.3%
Example 2: US Bancorp Historical performance
Check the Loan Loss Provision expense ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>USB 2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net loans</td>
<td>144,831</td>
<td>156,588</td>
<td>184,925</td>
<td>195,101</td>
<td>200,122</td>
</tr>
<tr>
<td>Provisions for credit losses</td>
<td>544</td>
<td>792</td>
<td>3,096</td>
<td>5,557</td>
<td>4,356</td>
</tr>
<tr>
<td>Loss provision / Net loans (want this to be &lt; 1%)</td>
<td>0.38%</td>
<td>0.51%</td>
<td>1.67%</td>
<td>2.85%</td>
<td>2.18%</td>
</tr>
<tr>
<td>Diluted EPS</td>
<td>$2.61</td>
<td>$2.43</td>
<td>$1.61</td>
<td>$0.97</td>
<td>$1.73</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>10</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net loans</td>
<td>22</td>
<td>212,238</td>
<td>226,881</td>
<td>234,253</td>
<td>248,604</td>
<td>260,170</td>
</tr>
<tr>
<td>Provisions for credit losses</td>
<td>56</td>
<td>2343</td>
<td>1882</td>
<td>1340</td>
<td>1229</td>
<td>1132</td>
</tr>
<tr>
<td>Loss provision / Net loans (%)</td>
<td>1.10%</td>
<td>0.83%</td>
<td>0.57%</td>
<td>0.49%</td>
<td>0.44%</td>
<td></td>
</tr>
<tr>
<td>Diluted EPS</td>
<td>$2.46</td>
<td>$2.84</td>
<td>$3.00</td>
<td>$3.08</td>
<td>$3.16</td>
<td></td>
</tr>
</tbody>
</table>
### Evaluate Management

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Pre-Tax Profit on Sales</td>
<td>44.8%</td>
<td>27.7%</td>
<td>16.0%</td>
<td>23.4%</td>
<td>35.1%</td>
<td>38%</td>
</tr>
<tr>
<td>% Return on Equity</td>
<td>21.0%</td>
<td>15.1%</td>
<td>7.0%</td>
<td>12.0%</td>
<td>15.3%</td>
<td>1%</td>
</tr>
<tr>
<td>% Debt to Capital</td>
<td>82.8%</td>
<td>73.3%</td>
<td>71.1%</td>
<td>68.5%</td>
<td>64.8%</td>
<td>5%</td>
</tr>
<tr>
<td>% Return on Avg Assets</td>
<td>1.87%</td>
<td>1.12%</td>
<td>0.66%</td>
<td>1.13%</td>
<td>1.46%</td>
<td>1.3%</td>
</tr>
</tbody>
</table>

### Trend Analysis

<table>
<thead>
<tr>
<th>%</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016 (p)</th>
<th>5 Yr Avg</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>1%</td>
<td>38.5%</td>
<td>40.1%</td>
<td>40.1%</td>
<td>40.0%</td>
<td>38.4%</td>
<td>39.4%</td>
<td></td>
</tr>
<tr>
<td>3%</td>
<td>15.5%</td>
<td>15.5%</td>
<td>14.3%</td>
<td>13.7%</td>
<td>13.0%</td>
<td>14.4%</td>
<td></td>
</tr>
<tr>
<td>8%</td>
<td>57.1%</td>
<td>53.7%</td>
<td>58.8%</td>
<td>56.5%</td>
<td>50.0%</td>
<td>55.2%</td>
<td></td>
</tr>
<tr>
<td>46%</td>
<td>1.55%</td>
<td>1.55%</td>
<td>1.46%</td>
<td>1.36%</td>
<td>1.29%</td>
<td>1.44%</td>
<td></td>
</tr>
</tbody>
</table>
Better Bank Stock Analysis
Ross Meredith, Director, Rocky Mountain Chapter, BetterInvesting

Company: US Bancorp (USB)  Study Name: USB 2/9/17

Projection Starting Point
- Annual
- Quarter
- Trend

Recent Quarterly Figures
FY2015 Quarter Ending (12/16)

<table>
<thead>
<tr>
<th>Sales</th>
<th>EPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latest Quarter</td>
<td>5.380</td>
</tr>
<tr>
<td>Year Ago Quarter</td>
<td>5.159</td>
</tr>
<tr>
<td>Percentage Change</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

Analyst Consensus Estimates

- Sales 2 Year Estimate: 5.2%
- EPS Long Term Estimate: 6.0%

Legend
- Sales
- Pre-Tax Profit
- Price Hi/Lo
- EPS
- Book Value
- Free Cash Flow/Share
- Dividend
- Long-Term Debt
- Net Income
- Shares Outstanding
- Total Assets

Fundamental Company Data

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Historical Sales (SM)</td>
<td>13,931</td>
<td>14,543</td>
<td>16,470</td>
<td>17,939</td>
<td>18,883</td>
<td>20,064</td>
<td>19,378</td>
<td>19,939</td>
<td>20,093</td>
<td>21,105</td>
<td>4.5%</td>
<td>5</td>
</tr>
<tr>
<td>Historical EPS ($)</td>
<td>2.43</td>
<td>1.61</td>
<td>0.97</td>
<td>1.73</td>
<td>2.46</td>
<td>2.84</td>
<td>3.00</td>
<td>3.06</td>
<td>3.16</td>
<td>3.24</td>
<td>9.4%</td>
<td>4.3</td>
</tr>
<tr>
<td>Pre-Tax Profit (SM)</td>
<td>6,297</td>
<td>4,033</td>
<td>2,632</td>
<td>4,200</td>
<td>6,629</td>
<td>7,726</td>
<td>7,764</td>
<td>7,995</td>
<td>8,030</td>
<td>8,105</td>
<td>9.4%</td>
<td>4.09</td>
</tr>
<tr>
<td>Historical Total Assets (SM)</td>
<td>237,845</td>
<td>265,912</td>
<td>281,176</td>
<td>307,786</td>
<td>340,122</td>
<td>353,855</td>
<td>364,021</td>
<td>402,529</td>
<td>421,853</td>
<td>445,964</td>
<td>7.0%</td>
<td></td>
</tr>
</tbody>
</table>
### 3. Price Earnings History as an Indicator of the Future

<table>
<thead>
<tr>
<th>Year</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>High</td>
<td>Low</td>
<td>Per Share</td>
<td>High A/C</td>
<td>Low B/C</td>
<td>Per Share</td>
<td>F / C * 100</td>
<td>F / B * 100</td>
</tr>
<tr>
<td>2012</td>
<td>36.5</td>
<td>27.1</td>
<td>2.84</td>
<td>12.6</td>
<td>0.6</td>
<td>0.76</td>
<td>27.6%</td>
<td>2.0%</td>
</tr>
<tr>
<td>2013</td>
<td>40.8</td>
<td>32.0</td>
<td>3.00</td>
<td>15.0</td>
<td>10.7</td>
<td>0.89</td>
<td>29.5%</td>
<td>2.8%</td>
</tr>
<tr>
<td>2014</td>
<td>40.1</td>
<td>33.1</td>
<td>3.08</td>
<td>15.0</td>
<td>12.4</td>
<td>0.97</td>
<td>31.3%</td>
<td>2.5%</td>
</tr>
<tr>
<td>2015</td>
<td>46.3</td>
<td>30.0</td>
<td>2.16</td>
<td>14.6</td>
<td>12.2</td>
<td>1.01</td>
<td>32.0%</td>
<td>2.9%</td>
</tr>
<tr>
<td>2016</td>
<td>52.7</td>
<td>37.1</td>
<td>3.24</td>
<td>18.3</td>
<td>11.4</td>
<td>1.07</td>
<td>33.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>AVERAGE</td>
<td>34.6</td>
<td>3.25</td>
<td>14.8</td>
<td>11.3</td>
<td>30.7%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Current P/E Ratio:** 16.2

---

**Show / Hide Price/Earnings Chart**

**Compare Peers**
4. EVALUATING RISK and REWARD over the next 5 years

A. HIGH PRICE - NEXT 5 YEARS

Avg. High P/E: 14.0 \times \text{Estimate High Earnings / Share: } 4.00 = \text{Forecasted High Price: } 56.0

B. LOW PRICE - NEXT 5 YEARS

(a) Avg. Low P/E: 11.3 \times \text{Estimate Low Earnings/Share: } 3.24 = \text{Forecasted Low Price: } 36.6

(b) Avg. Low Price of Last 5 Years: 34.6

(c) Recent Market Low Price: 37.1

2015 Low Stock Price: 38.8
2016 Low Stock Price: 37.1

(d) Price Dividend Will Support: \frac{\text{Indicated Dividend}}{\text{High Yield}} = \frac{1.12}{2.9\%} = 38.8

Selected Forecasted Low Price: 36.6

C. ZONING using 25%-50%-25% (click to toggle)

Forecasted High Price: 56.0 Minus Forecast Low Price: 36.6 = 19.4 Range. 25% of Range: 4.8

Buy Zone: 36.0 to 41.4
Hold Zone: 41.4 to 51.1
Sell Zone: 51.1 to 56.0

Closing Stock Price of 52.65 is in the SELL Zone.

D. UPSIDE DOWNSIDE RATIO (POTENTIAL GAIN VS. RISK OR LOSS)

\frac{\text{Forecasted High Price} - \text{Closing Price}}{\text{Closing Price} - \text{Forecasted Low Price}} = \frac{56.0 - 52.65}{52.65 - 36.6} = 3.34 \approx 0.2 \text{ To } 1

Closing Price - Forecasted Low Price (52.65 - 36.6) = 16.05
# Better Bank Stock Analysis

Ross Meredith, Director, Rocky Mountain Chapter, BetterInvesting

## 5. Five-Year Potential

### A. Current Yield

<table>
<thead>
<tr>
<th>Indicated Annual Dividend</th>
<th>1.12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closing Price</td>
<td>52.65</td>
</tr>
</tbody>
</table>

\[
\text{CURRENT YIELD} = \frac{\text{Indicated Annual Dividend}}{\text{Closing Price}} = \frac{1.12}{52.65} = 0.0213 = 2.1\%
\]

### B. Average Yield - Using Forecast High P/E

<table>
<thead>
<tr>
<th>Avg. % Payout</th>
<th>30.7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forecast High P/E</td>
<td>14.00</td>
</tr>
</tbody>
</table>

\[
\text{AVERAGE YIELD - USING FORECAST HIGH P/E} = \frac{\text{Avg. % Payout}}{\text{Forecast High P/E}} = \frac{30.7}{14.00} = 2.2\%
\]

### Average Yield - Using Forecast Average P/E

<table>
<thead>
<tr>
<th>Avg. % Payout</th>
<th>30.7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forecast Average P/E</td>
<td>12.65</td>
</tr>
</tbody>
</table>

\[
\text{AVERAGE YIELD - USING FORECAST AVERAGE P/E} = \frac{\text{Avg. % Payout}}{\text{Forecast Average P/E}} = \frac{30.7}{12.65} = 2.4\%
\]

### C. Compound Annual Return - Using Forecast High P/E

- **Annual Appreciation**: 1.2%
- **Average Yield**: 2.2%
- **Annualized Rate of Return**: 3.4%

### Compound Annual Return - Using Forecast Average P/E

- **Annual Appreciation**: -0.8%
- **Average Yield**: 2.4%
- **Annualized Rate of Return**: 1.8%
Better Bank Stock Analysis  
Ross Meredith, Director, Rocky Mountain Chapter, BetterInvesting

Review

• Quality is Key!
  – Look for banks with consistently high returns on assets and low loan losses

• Only consider those banks that meet or exceed our quality criteria

• Make growth and P/E forecasts that are supported by your research to determine when it is time to buy and sell
Time for Questions
Resources to Learn More

• S&P Industry Survey - Banks
• The Five Rules for Successful Stock Investing by Pat Dorsey
• Khan Academy (KhanAcademy.org)
  – Subject: Finance and Capital Markets
    • Money, Banking and Central Banks
• Bank’s Investor Relations Website
• FDIC.gov
Better Bank Stock Analysis
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• Wednesday, March 15, 8:30 PM ET
  – New Features in SSGPlus for Banks

• Previous sessions about banks
  – October, 2013
  – November, 2013

www.BetterInvesting.org/TickerTalk
Questions?
rossmeredithjr@msn.com

Thank You!