Zacks Small-Cap Research

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Ann H. Heffron, CFA, CPA
312-265-9428
aheffron@zacks.com

scr.zacks.com
111 North Canal Street • Chicago, IL 60606

# First Business Financial Services, Inc. (FBIZ-NASDAQ)

## FBIZ: Fourth Quarter EPS on Target; Raising 2013 EPS Estimate by a Nickel

| | |
|---|---|
| **Current Recommendation** | **Outperform** |
| Prior Recommendation | Neutral |
| Date of Last Change | 11/01/2011 |
| Current Price (02/08/13) | $24.12 |
| **Twelve- Month Target Price** | **$28.00** |

## OUTLOOK

FBIZ posted net income of $2.5 million up 6% from the $2.4 million earned in the year-ago quarter. Diluted earnings per share fell 5% to $0.86 (matching our estimate) from $0.90 in last year's fourth quarter due to an increased number of average shares outstanding. In December 2012, FBIZ sold 1.265 million common shares, raising $29.1 million, which it used to retire subordinated debt. Compared to the year-ago quarter, fourth quarter results were boosted by a 6% gain in net interest income due to 3% growth in average interest-earning assets and an 8 basis-point rise in the net interest margin, as well as a 41% jump in noninterest income and a 10% drop in the loan loss provision. This was partly offset by a 19% increase in total noninterest expense, largely reflecting 31% higher compensation costs due to the hiring of additional business development officers and the start-up of First Business Factors, and a 13% increase in average diluted shares outstanding. For the year, FBIZ earned $8.9 million, or $3.29 per diluted share, up 16% from the $7.7 million, or $2.94 per diluted share in 2011, which excludes a $0.7 million, or $0.29 per diluted share, one-time tax benefit related to a change in regulation for net operating loss carryforwards by the state of Wisconsin. We are raising our 2013 diluted EPS estimate by a nickel to $3.05 from $3.00. This increase primarily reflects changes to our estimates for net interest income, the loan loss provision, and effective income tax rate.

## SUMMARY DATA

| | |
|---|---|
| **52-Week High** | **$24.74** |
| **52-Week Low** | **$17.60** |
| **One-Year Return (%)** | **34.27** |
| **Beta** | **0.03** |
| **Average Daily Volume (sh)** | **12,291** |
| **Shares Outstanding (mil)** | **3.9** |
| **Market Capitalization ($mil)** | **$95** |
| **Short Interest Ratio (days)** | **0.48** |
| **Institutional Ownership (%)** | **14** |
| **Insider Ownership (%)** | **10** |
| **Annual Cash Dividend** | **$0.28** |
| **Dividend Yield (%)** | **1.16** |
| **5-Yr. Historical Growth Rates** | |
| **Net Revenue (%)** | **11.0** |
| **Earnings Per Share (%)** | **20.0** |
| **Dividend (%)** | **1.5** |
| **P/E using TTM EPS** | **7.3** |
| **P/E using 2012** | **7.3** |
| **P/E using 2013 Estimate** | **7.9** |
| **Zacks Rank** | **N/A** |

| | |
|---|---|
| **Risk Level** | **Average** |
| **Type of Stock** | **Small-Value** |
| **Industry** | **Banks-Midwest** |
| **Zacks Rank in Industry** | **38 of 39** |

## ZACKS ESTIMATES

**Net Revenue**
(in millions of $)

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2010 | 9.5 A | 9.4 A | 9.8 A | 10.0 A | 38.7 A |
| 2011 | 10.2 A | 10.7 A | 10.8 A | 10.8 A | 42.5 A |
| 2012 | 10.8 A | 11.5 A | 12.2 A | 12.1 A | 46.6 A |
| 2013 | | | | | 51.9 E |

**Earnings per Share**
(EPS is operating earnings before nonrecurring items)

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2010 | 0.35 A | 0.46 A | 0.38 A | 0.24 A | 1.42 A |
| 2011 | 0.52 A | 0.68 A | 0.83 A | 0.90 A | 2.94 A |
| 2012 | 0.84 A | 0.60 A | 0.99 A | 0.86 A | 3.29 A |
| 2013 | | | | | 3.05 E |

Quarterly EPS may not add to total due to changes in shares outstanding.

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## FOURTH QUARTER RESULTS

FBIZ posted net income of $2.5 million up 6% from the $2.4 million earned in the year-ago quarter. Diluted earnings per share fell 5% to $0.86 from $0.90 in last year's fourth quarter due to an increased number of average shares outstanding. In December 2012, FBIZ sold 1.265 million common shares, raising gross proceeds of $29.1 million ($27.1 million net), which it used to retire subordinated debt.

The $0.86 diluted EPS matched our estimate, though we were off in a number of key areas. Significant misses included: (1) net interest income that was $0.8 million lower than our estimate as the net interest margin of 3.31% was 19 basis points lower than our 3.50% estimate, though this was partly offset by better-than expected sequential loan growth of 3.9% versus our 1.5% estimate; (2) a $0.8 million loan loss provision that was $0.2 million above our $0.6 million estimate, reflecting higher-than-expected loan growth; and (3) noninterest income that was $0.7 million above what we had anticipated, as loan fees of $0.8 million were double our $0.4 million estimate and other income of $0.64 million was $0.34 higher than our $0.3 million estimate due to the inclusion of $0.360 million of one-time fees.

Compared to the year-ago quarter, fourth quarter results were boosted by a 6% gain in net interest income due to 3% growth in average interest-earning assets and an 8 basis-point rise in the net interest margin, as well as a 41% jump in noninterest income and a 10% drop in the loan loss provision. This was partly offset by a 19% increase in total noninterest expense, largely reflecting 31% higher compensation costs due to the hiring of additional business development officers and the start-up of First Business Factors as well as higher bonus accruals, and a 13% increase in average diluted shares outstanding.

For the year, FBIZ earned $8.9 million, or $3.29 per diluted share, up 16% from the $7.7 million, or $2.94 per diluted share in 2011, which excludes a $0.7 million, or $0.29 per diluted share, one-time tax benefit related to a change in regulation for net operating loss carryforwards by the state of Wisconsin. Primary contributors to this growth were a 7% gain in net interest income on a 4 ½% increase in average interest-earning assets combined with a 7 basis-point rise in the net interest margin to 3.36% and a 23% jump in noninterest income as all line items posted substantial gains, partly offset by a 9% increase in total noninterest expense, principally due to higher compensation costs on increased staff levels.

Nonaccrual loans rose $1.3 million, or 10%, sequentially to $14.1 million due to the surprise addition of single CRE loan that lost a large tenant, while foreclosed assets decreased by $0.6 million, or 28%, to $1.6 million as several properties were sold. As a percentage of total loans and OREO, nonperforming assets rose 1 basis point sequentially to 1.72% from 1.71% at the end of the third quarter, but fell 109 basis points year over year from 2.81% at the end of 2011's December quarter.

We are raising our 2013 diluted EPS estimate by a nickel to $3.05 from $3.00. This increase primarily reflects changes to our estimates for net interest income, the loan loss provision, and effective income tax rates. We have added $1.0 million to net interest income, with our estimate now $43.5 million as we have increased our estimate for annual loan growth to 7 ½% from 5%; increased our provision for loan losses to $3.6 million from $3.0 due to higher loan growth; reduced our effective tax rates by 0.8 point to 35.0% due to the increasing proportion of tax-favored municipal income to total income.

Our $3.05 estimate in 2013 represents a 7% decline over 2012's $3.29, with the decrease due solely to a higher number of diluted shares outstanding following the late 2012 sale of 1.265 million common shares. Indeed, our 2013 net earnings estimate of $11.9 million represents a 33% gain over 2012's $8.9 million.

In other news, FBIZ 's asset-based lending company, First Business Capital Corp, has entered the factoring business with the hiring of a team of three experienced factoring professionals. The business will operate as First Business Factors in the Chicago area and has already secured its first client. This is a nice fit for FBIZ as high-growth, immature companies will start with First Business Factors, and then graduate to First Business Capital Corp., and ultimately to one of FBIZ's two banking subsidiaries.

We note that the ABA Banking Journal ranked FBIZ 15th among all publicly traded banks with $1-10 billion in total assets (of which there are about 250 companies in the US), based upon ROE in 2011, which was 12.8% for FBIZ. It is the first time FBIZ has made this list, and speaks to the tremendous improvement in operating performance the Company has made over the last few years.

Below, we discuss fourth quarter results in more fully. Details of our projections are shown at the back of our report.

Net Interest Income

Net interest income increased 6% year over year to $9.4 million, reflecting 3% growth in average interest-earning assets and an 8 basis-point jump in the net interest margin to 3.31%. The net interest margin benefitted from a lower level of nonaccruing loans, combined with yields on loans and securities that fell by lesser amounts (44 basis points to 5.54% and 42 basis points to 1.67%, respectively) than the 52 basis-point decline in deposit costs, which dropped to 1.25%.

Net interest income of $9.4 million was $0.8 million lower than our estimate as the net interest margin of 3.31% was 19 basis points lower than our 3.50% estimate, though this was partly offset by better-than expected sequential loan growth of 3.9% versus our 1.5% estimate. The fourth quarter's reduced net interest margin was the result of a substantial drop in prepayment fees in lieu of interest, which we do not expect to recur in 2013, plus lower average yields on new commercial and industrial loans.

Accordingly, we are maintaining our 3.55% net interest margin estimate for 2013, but are raising our estimate for loan growth by 250 basis points to 7 ½%, which translates into a $1.0 million increase in our net interest income estimate to $43.5 million. The 3.55% NIM estimate is 19 basis points higher than the 3.36% reported in 2012, principally reflecting a reduction in interest expense from the retirement of subordinated debt with proceeds from the sale of common shares in late 2012.

Noninterest Income

Noninterest income rose $0.8 million, or 41%, year over year to $2.7 million, $0.7 million above what we had anticipated, as loan fees of $0.8 million were double our $0.4 million estimate and other income of $0.64 million was $0.34 higher than our $0.3 million estimate due to the inclusion of one-time fees.

Loan fees rose 94% year over year due to the completion of a large loan syndication during the quarter, while trust and investment services fee income, up 22%, benefitted from an 18% year-over-year jump in assets under management and administration to $784.2 million (up $11.1 million sequentially from the end of the third quarter) on a higher stock market and the addition of new clients. We expect accelerating quarterly growth in this segment, as two recently hired business development officers, hired in 2012's first and fourth quarters, become more productive over time. Service charges on deposits grew 5% to $0.5 million as new commercial relationships resulted in higher deposit transaction volumes. Other income surged 59% to $0.6 million due to the inclusion of one-time fees.

Loan Loss Provision

The loan loss provision fell 10% year over year to $0.8 million, from $0.9 million in the year-ago quarter, and was flat sequentially with the third quarter. Relative to our estimate, it was $0.2 million higher than we had projected due to higher-than-expected loan growth.

Going forward, we have raised our estimate for the loan loss provision for 2013 by $0.6 million to $3.6 million from $3.0 million, though this is down 15% from the $4.2 million reported in 2012. The increase in our estimate reflects a 250 basis-point increase in our loan growth estimate to 7 ½%.

Noninterest Expense

Noninterest expense rose 19% year over year to $7.4 million, about the same as our estimate.

Compensation expense climbed 31% to $4.6 million, reflecting the hiring of additional business development officers and the start-up of First Business Factors, as well as higher bonus accruals. Other

noninterest expense rose 4% to $2.9 million, primarily reflecting a 25% jump in other expense to $2.3 million, partly offset by a 68% decline in FDIC insurance premiums to $0.2 million, as FBIZ has improved its risk profile (as defined by the FDIC). This lower premium should continue to benefit future results.

Because net revenues rose 12.1% while noninterest expense increased 19.2%, the Company's efficiency ratio deteriorated, falling 360 basis points to 61.4% compared to 57.8% in 2012's fourth quarter.

We expect operating efficiency to improve in 2013, as the seven new BDOs and four support staff hired in the first and fourth quarters of 2012 become more productive.

Income Taxes

The Company's effective tax rate was 34.1% compared to 34.4% in the year-ago quarter and our 36.0% estimate. We have reduced our effective tax rates by 0.8 point to 35.0% due to the increasing proportion of tax-favored municipal income to total income. This compares to a full-year effective tax rate of 34.7% in 2012.

Net Income

FBIZ posted net earnings of $2.5 million ($0.86 diluted EPS), up 6% from $2.4 million ($0.90 diluted EPS) reported in the year-ago quarter. This compares to our $2.6 million net income estimate ($0.86 diluted EPS).

Profitability

FBIZ posted a 12.9% ROE and 0.84% ROA for the fourth quarter of 2012, compared to a 15.0% ROE and 0.82% ROA for the fourth quarter of 2011.

We note that the ROE will be depressed by the late 2012 sale of common shares, with estimated ROE to decline to 11.4% in 2013 from 12.6% reported in 2012. Positively, we estimate that ROA will jump about 19 basis points to an estimated 0.94% from 0.75% reported in 2012.

Loans and Asset Quality

Loans rose $34 million, or 4%, sequentially to $913 million during the fourth quarter, marking the third quarterly increase in loans outstanding since 2010's fourth quarter. Sequentially, total mortgage loans were up $33 million, or 6%, to $624 million due to a $15 million, or 30%, jump in construction and land development loans, while total commercial & industrial loans and consumer & other loans were flat at $272 million and $16 million, respectively.

We are increasing our estimate of loan growth to 7 ½% from 5% in 2012. This compares to a year-over-year gain of 7% in 2012.

Nonaccrual loans rose $1.3 million, or 10%, sequentially to $14.1 million due to the surprise addition of single CRE loan that lost a large tenant, while foreclosed assets decreased by $0.6 million, or 28%, to $1.6 million as several properties were sold. As a percentage of total loans and OREO, nonperforming assets rose 1 basis point sequentially to 1.72% from 1.71% at the end of the third quarter, but fell 109 basis points year over year from 2.81% at the end of 2011's December quarter.

We have estimated asset quality improvement in 2013, with nonperforming assets dropping by $1.7 million to $14.0 million by the end of 2013 .

The loan loss allowance as a percent of nonperforming assets was flat at 98% at the end of the fourth quarter compared with the end of 2012's third quarter. This was the result of a higher level of nonaccrual loans and foreclosed assets, partly offset by a modestly higher loan loss allowance that increased to $15.4 million, or 1.69% of gross loans, from $14.7 million, or 1.67% of gross loans.

Liquidity and Funding

FBIZ decreased cash and short-investments by $2 million during the fourth, and the available-for-sale securities portfolio also fell by $2 million during the quarter to $200 million, though FBIZ still maintains a high level of liquidity on its balance sheet.

Though the Company remains reliant on higher-cost brokered deposits to fund its fixed-rate loan portfolio, these have been reduced by $72 million, or 16%, year over year to $374 million at December 31, 2012, representing 34% of total deposits at December quarterend (down from 37% at the end of September 2012). This is well below FBIZ's goal, which is to maintain brokered deposits at 50% or less of total deposits.

The Company has been stressing growth in in-market deposits through new business relationships that require client deposit balances. As a reslt, in-market deposits have grown $113 million, or 19%, to $718 million, representing 66% of total deposits (up from 64% at the end of September 2012). This has had a beneficial impact on the net interest margin.

Capital Adequacy and Dividends

The Company's capital adequacy ratios were mixed during the quarter. The Tier 1 capital ratio rose 242 basis points sequentially to 10.54% at the end of 2012's fourth quarter from 8.12% at September 30, 2012, following the sale of $29.1 million common shares in December 2012, while the Total capital ratio fell 36 basis points to 12.97% from 13.33%, largely due to growth in risk-weighted assets from expansion of the loan portfolio.

Tangible common equity to tangible assets rose 220 basis point to 8.12% at December 31, 2012 from 5.92% at September quarterend, due to the sale of common shares and growth in retained earnings, partly offset by an increase in total tangible assets.

Total shareholders' equity increased $29.0 million during the fourth quarter to $99.5 million following the sale of 1.265 million common shares in December 2012. Tangible book value per share declined during the fourth quarter, by $1.15 per share to $25.41 from $26.56, with the decrease due to a higher number of shares outstanding.

In addition, the sale of common stock has significantly strengthened the balance sheet by reducing double leverage at the holding company to about 125% at 2012 yearend from 179% at the yearend 2011.

In December 2012, FBIZ declared its regular quarterly $0.07 cash dividend, paid on January 15, 2013 to shareholders of record at the close of business on January 1, 2013. While FBIZ has maintained the dividend at a $0.28 annual rate for the past five years, this may change following completion of the common stock offering in December 2012, which strengthened capital adequacy. With its much improved common equity and Tier 1 capital ratios, the Company can now begin contemplating a dividend increase. We note that the board has not done anything on this matter at this point.

Basel III

Following the sale of common shares in late 2012, the Company is fully compliant with Basel III proposals. We note that FBIZ now has the financial wherewithal to retire the subordinated debt associated with the Company's trust preferred securities, which it may do over the medium term.

## OVERVIEW

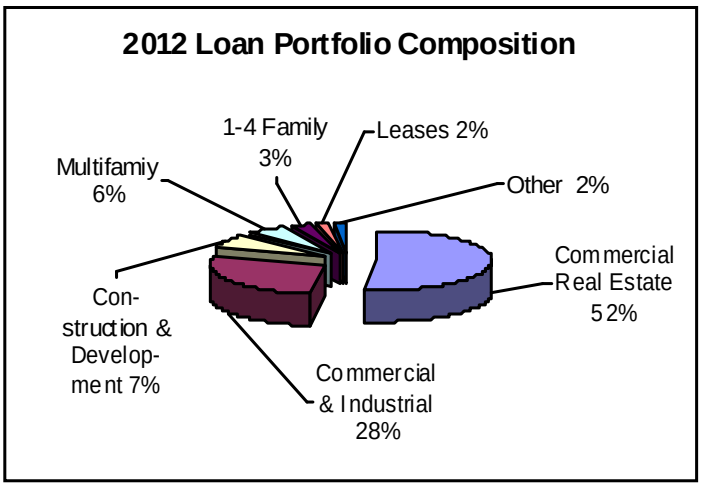
First Business Financial Services, Inc. (FBIZ or the Company) is a bank holding company headquartered in Madison, Wisconsin, with $1.2 billion in total assets at December 31, 2012. FBIZ specializes in business lending for small-medium-sized companies with sales ranging from $2-50 million. As an adjunct to these services, FBIZ also offers banking services to business owners, executives, professionals, and high net worth individuals, though this is a less significant part of its business.

Banking operations are carried on through two banks, First Business Bank (FBB) located in Madison and First Business Bank-Milwaukee (FBB-Milwaukee), as well as First Business Trust & Investments (FBTI), a division of FBB that offers trust and investment services. FBB also has three loan production offices located in northeast Wisconsin in Appleton, Oshkosh, and Green Bay.

FBB owns two non-bank subsidiaries that engage in lending that is different than that typical for banks through seven single-person business development offices, which are located in Minneapolis, Minnesota; Chicago, Illinois; St. Louis, Missouri; Detroit, Michigan; Cleveland, Ohio; Denver, Colorado, and Kansas City, Kansas. These subsidiaries include: First Business Capital Corp. (FBCC, with net income of $3.3 million in 2011), which is an asset-based commercial lender that provides secured lines of credit and term loans on equipment and real estate assets, primarily to manufacturers and wholesale distribution companies located throughout the United States; and First Business Equipment Finance, LLC (FBEF, with net income of $569,000 in 2011), which is a commercial finance company that finances equipment for small and middle market companies. FBCC recently entered the factoring business with the hiring of a team of three experienced factoring professionals in November 2012, and it will operate as First Business Factors in Chicago.

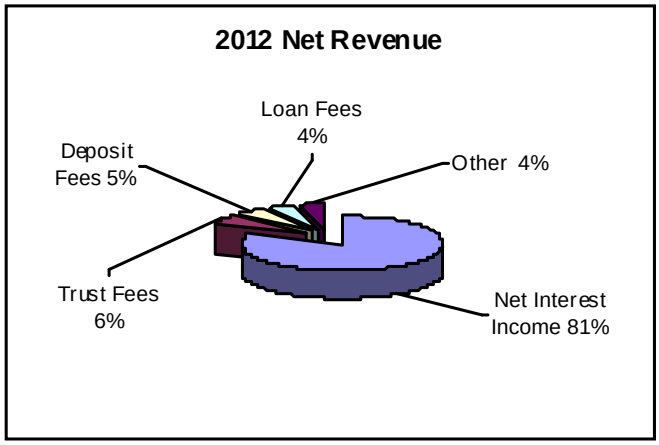
In addition, the Company has three non-bank subsidiaries that help manage other aspects of its business. These include: First Business Real Estate LLC (FBBRE, owned by FBB and having a $94,000 net loss in 2011), and First Business Bank-Milwaukee Real Estate LCC (FBBMRE, owned by FBB-Milwaukee and posting a net loss of $297,000 in 2011), which are limited liability companies that dispose of real estate and other assets acquired through foreclosure; and First Madison Investment Corp. (FMIC, owned by FBB, earning net income of $4.1 million in 2011), which is located in the state of Nevada and manages a portion of the Bank's investment portfolio, though it no longer invests in commercial real estate loans as of October 1, 2011. First Madison Capital Corp Nevada Corp was dissolved on October 1, 2011 and its assets were transferred to FBCC.

Unlike other banks, FBIZ does not have a retail branch network. Instead, the Company typically provides custom-tailored banking services to its approximately 2,000 clients at client offices. This has a couple of important implications. First, FBIZ does not have the overhead and expense connected with owning a branch network. Second, FBIZ lacks the in-market deposit base typically associated with a retail bank and must fund a significant part of its operations through the wholesale-brokered deposit market.




The loan portfolio has a concentration in commercial real estate (about one-third of which is owner occupied), accounting for 52% of total loans at December 31, 2012. The rest of the lending book consists of commercial and industrial (accounting for 28% of total gross loans), construction and land development (7%), multi-family (6%), 1-4 family (3%), direct financing leases (2%), and consumer and other (2%). Almost all loans are secured, usually by real estate, inventory, accounts receivable, equipment, machinery, or corporate assets.

The liquidity portfolio, consisting of cash, short-term investments, and US agency mortgage obligations, represents 23% of total assets, while gross loans and leases accounts for 74%. In-market deposits accounted for 66% of total deposits at December 31, 2012, with brokered CDs at 34%.




In 2012, net interest income contributed 81% of net revenue. Other significant revenue sources include trust and investment services fee income (6% of net revenues), services charges on deposits (5%), loan fees (4%), and other (4%).

FBIZ's strategic objectives include: (1) continuing organic revenue growth; (2) additional improvement in core earnings; (3) improvement in core funding mix by increasing market share of in-market core deposits from commercial clients and their owners; (4) improving asset quality of the loan portfolio; (5) maintaining strong profitability/ROA; and (6) investing in talent for future growth and profitability.

## VALUATION

FBIZ stock has risen 5.1% year to date, below the small-cap bank industry's median price increase of 6.8%, as shown in the following table, as well as the 6.4% gain for the S&P 500. We note that the share price surged 39.1% last year in 2012 compared to 13.4% for the S&P 500.

At its current price, FBIZ is trading at a discount to the industry median P/E of 32% in 2013, based upon our 2013 EPS estimate. This is slightly below the 36% P/E discount for FBIZ, based upon 5-year historical P/E averages.

Turning to Price/Tangible Book Value, FBIZ is valued at 0.95X versus the industry median of 1.01X. This represents a 12% discount, or about 12 points better than the FBIZ's average historical discount of 24% since the end of 2005. Applying this metric to our estimated book value for FBIZ twelve months out results in a price of approximately $26.75.

We believe that FBIZ should be trading in line with the industry's 1.01X Price/Tangible Book Value, given that: (1) the Company's earnings and profitability prospects are much improved, with its ROE significantly higher than the median for other banks in the Zacks small-cap index; (2) FBIZ has a superior dividend yield relative to the median for its small-cap peers; and (3) liquidity in the shares has increased following the addition of FBIZ shares to the Russell Microcap Index on June 24, 2011. Applying this metric to our estimated book value for CPKF twelve months out results in a price of approximately $28.00.

With $28.00 as our target price (versus FBIZ's $24.12 current market price) and a 1.2% dividend yield, this indicates a total return of about 17%, above our expectations for gains in the broader market index over the next year. Therefore, we are maintaining our recommendation on FBIZ at Outperform.

## Industry Comparables- Small-cap Banks

| | | Price / Earnings Ratios | | | | | Return on Equity | | Return on Assets | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Pr Chg YTD | TTM* EPS | 2013E | 2014E | 5-Yr Avg | Price/ Tang Book | TTM* | 5-Yr Avg | TTM* | 5-Yr Avg | Div Yld |
| **FIRST BUS FINL** | **5.1** | **7.3** | **7.9** | **7.7** | **10.5** | **0.95** | **12.9** | **7.8** | **0.84** | **0.42** | **1.2** |
| S&P 500 | 6.4 | 15.5 | 14.0 | 12.9 | 16.7 | 5.8 | 48.3 | ----- | 9.3 | ----- | 2.1 |
| **Median** | **6.8** | **13.3** | **11.7** | **12.7** | **16.3** | **1.01** | **8.0** | **3.9** | **0.75** | **0.34** | **0.3** |
| Average | 13.0 | 15.6 | 13.8 | 12.5 | 24.4 | 1.0 | 7.0 | 1.7 | 0.7 | 0.3 | 1.1 |
| High | 85.9 | 47.5 | 47.7 | 19.6 | 103.9 | 2.2 | 19.0 | 14.3 | 1.7 | 2.1 | 5.4 |
| Low | (5.7) | 5.0 | 5.5 | 5.8 | 6.6 | 0.6 | (16.9) | (78.0) | (1.6) | (2.4) | ----- |

*Trailing twelve months

# First Business Financial Services, Inc.

**Income Statement and Balance Sheet**

*(Dollars in millions, except per share data)*

| Summary Financial Data | 12/07 | 12/08 | 12/09 | 12/10 | 12/11 | 12/12 P | 12/13 E |
|---|---|---|---|---|---|---|---|
| Net interest income | 23.2 | 26.3 | 28.1 | 32.0 | 35.5 | 37.9 | 43.5 |
| Non-interest income | 4.4 | 5.1 | 6.4 | 6.7 | 7.1 | 8.7 | 8.4 |
| Total net revenue | 27.6 | 31.4 | 34.5 | 38.7 | 42.6 | 46.6 | 51.9 |
| Loan loss provision | 2.9 | 4.3 | 8.2 | 7.0 | 4.3 | 4.2 | 3.6 |
| Non-interest expense | 19.7 | 21.9 | 24.5 | 25.7 | 26.4 | 28.7 | 30.0 |
| Income taxes & other | 1.7 | 2.1 | 0.8 | 2.4 | 4.2 | 4.8 | 6.4 |
| Zacks adjusted income before NRI | 3.3 | 3.1 | 1.0 | 3.6 | 7.7 | 8.9 | 11.9 |
| GAAP net income | 3.3 | 3.1 | 1.0 | 0.9 | 8.4 | 8.9 | 11.9 |
| Diluted EPS before NRI | 1.32 | 1.28 | 0.41 | 1.42 | 2.94 | 3.29 | 3.05 |
| Reported EPS | 1.32 | 1.28 | 0.41 | 0.37 | 3.23 | 3.29 | 3.05 |
| Dividends per share | 0.26 | 0.28 | 0.28 | 0.28 | 0.28 | 0.28 | 0.28 |
| | | | | | | | |
| Liquid assets | 114.9 | 132.8 | 235.0 | 204.2 | 297.6 | 278.3 | 281.1 |
| Loans & leases, gross | 781.6 | 852.8 | 854.5 | 878.0 | 851.5 | 912.7 | 980.2 |
| Total assets | 918.4 | 1,010.8 | 1,117.4 | 1,107.1 | 1,177.2 | 1,226.1 | 1,298.8 |
| Core deposits | 703.6 | 746.4 | 942.2 | 949.1 | 997.3 | 1,038.3 | 1,099.8 |
| Purchased funds | 105.0 | 129.5 | 58.2 | 41.2 | 54.8 | 54.5 | 55.0 |
| Long-term debt | 49.5 | 67.8 | 51.8 | 49.8 | 49.8 | 22.2 | 22.0 |
| Shareholders' equity | 48.6 | 53.0 | 54.4 | 55.3 | 64.2 | 99.5 | 110.4 |
| | | | | | | | |
| **Profitability** | | | | | | | |
| Return on avg assets | 0.39% | 0.32% | 0.10% | 0.33% | 0.68% | 0.75% | 0.94% |
| Return on avg equity | 6.86% | 6.11% | 1.90% | 6.46% | 12.83% | 12.58% | 11.35% |
| Net interest margin | 2.87% | 2.81% | 2.77% | 3.04% | 3.29% | 3.36% | 3.55% |
| Loan loss provision % avg assets | 0.35% | 0.44% | 0.78% | 0.64% | 0.38% | 0.36% | 0.29% |
| Noninterest income % avg assets | 0.53% | 0.53% | 0.61% | 0.61% | 0.63% | 0.73% | 0.66% |
| Noninterest expense % avg assets | 2.34% | 2.26% | 2.33% | 2.33% | 2.34% | 2.42% | 2.37% |
| Preprovision pretax income % avg assets | 0.95% | 0.98% | 0.95% | 1.18% | 1.43% | 1.51% | 1.74% |
| Tangible efficiency ratio | 71% | 70% | 72% | 66% | 62% | 62% | 58% |
| Payout ratio | 20% | 22% | 66% | 75% | 9% | 9% | 9% |
| | | | | | | | |
| **Asset Quality** | | | | | | | |
| Net charge-offs % avg loans | 0.19% | 0.28% | 0.69% | 0.57% | 0.74% | 0.35% | 0.30% |
| Allowance % loans | 1.26% | 1.39% | 1.65% | 1.85% | 1.66% | 1.69% | 1.65% |
| NPAs % loans & related assets | 1.22% | 2.25% | 3.45% | 4.56% | 2.81% | 1.72% | 1.43% |
| Allowance % NPAs | 103% | 61% | 48% | 41% | 59% | 98% | 115% |
| | | | | | | | |
| **Liquidity & Funding** | | | | | | | |
| Liquid assets % purchased funds | 109% | 103% | 404% | 496% | 543% | 511% | 511% |
| Core deposits % loans | 90% | 88% | 110% | 108% | 117% | 114% | 112% |
| Liquid assets % assets | 13% | 13% | 21% | 18% | 25% | 23% | 22% |
| Loans % assets | 85% | 84% | 76% | 79% | 72% | 74% | 75% |
| | | | | | | | |
| **Capital Adequacy** | | | | | | | |
| Total equity % assets | 5.29% | 5.24% | 4.87% | 5.00% | 5.45% | 8.12% | 8.50% |
| Tangible equity % assets | 5.00% | 4.98% | 4.63% | 5.00% | 5.45% | 8.12% | 8.50% |
| Tier 1 capital ratio | 5.42% | 6.48% | 6.61% | 6.65% | 7.91% | 10.54% | |
| Total capital ratio | 10.22% | 12.00% | 12.15% | 11.23% | 13.11% | 12.97% | |
| | | | | | | | |
| **Parent Company Statistics** | | | | | | | |
| Interest coverage | (1.1)X | (0.9)X | 0.3X | 0.2X | (0.0)X | | 0.7X |
| Interest & dividend coverage | (0.9)X | (0.7)X | 0.2X | 0.2X | (0.0)X | | 0.4X |
| Short-term debt coverage | 16.9X | Lge | Lge | Lge | N/A | | N/A |
| Total debt coverage | 1.1X | 0.9X | 1.0X | 1.0X | N/A | | N/A |
| Double leverage | 169.1% | 185.6% | 187.0% | 189.5% | 179.7% | 124.9% | 123.4% |

# First Business Financial Services, Inc.

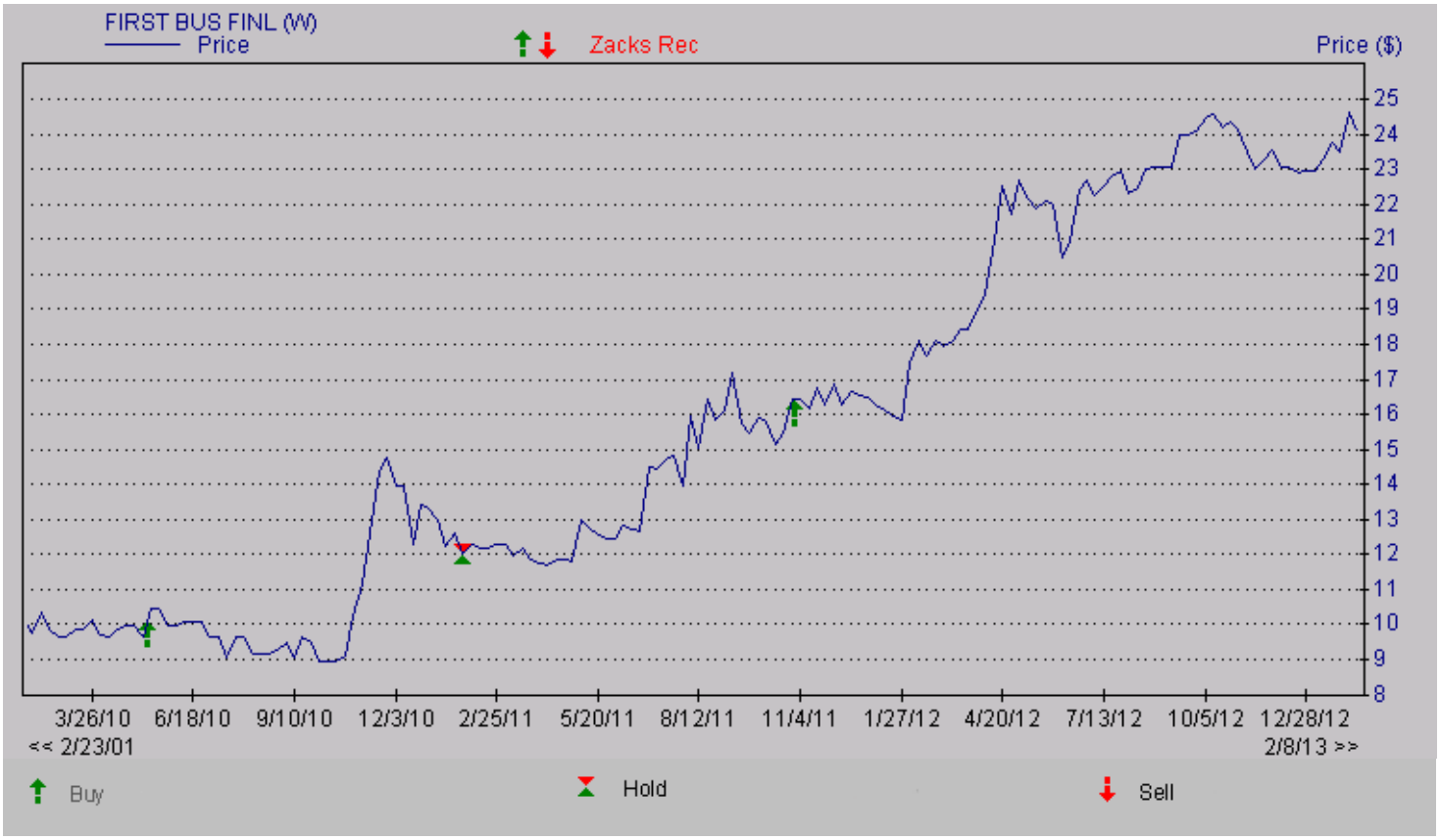
**Income Statement and Balance Sheet**

*(Dollars in millions, except per share data)*

| | 2011 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| **Summary Financial Data** | **Q1 A** | **Q2 A** | **Q3 A** | **Q4 A** | **Q1 A** | **Q2 A** | **Q3 A** | **Q4 P** |
| Net interest income | 8.5 | 9.0 | 9.1 | 8.9 | 8.9 | 9.6 | 9.9 | 9.4 |
| Non-interest income | 1.7 | 1.7 | 1.7 | 1.9 | 1.9 | 1.9 | 2.3 | 2.7 |
| Total net revenue | 10.2 | 10.7 | 10.8 | 10.8 | 10.8 | 11.5 | 12.2 | 12.1 |
| Loan loss provision | 1.4 | 1.5 | 0.4 | 0.9 | 0.5 | 2.0 | 0.9 | 0.8 |
| Non-interest expense | 6.8 | 6.6 | 6.8 | 6.2 | 6.8 | 7.1 | 7.3 | 7.4 |
| Income taxes & other | 0.7 | 0.8 | 1.4 | 1.3 | 1.3 | 0.8 | 1.4 | 1.4 |
| Zacks adjusted income before NRI | 1.3 | 1.8 | 2.2 | 2.4 | 2.2 | 1.6 | 2.6 | 2.5 |
| GAAP net income | 1.3 | 2.5 | 2.2 | 2.4 | 2.2 | 1.6 | 2.6 | 2.5 |
| Diluted EPS before NRI | 0.52 | 0.68 | 0.83 | 0.90 | 0.84 | 0.60 | 0.99 | 0.86 |
| Reported EPS | 0.52 | 0.97 | 0.83 | 0.90 | 0.84 | 0.60 | 0.99 | 0.86 |
| Dividends per share | 0.07 | 0.07 | 0.07 | 0.07 | 0.07 | 0.07 | 0.07 | 0.07 |
| | | | | | | | | |
| Liquid assets | 220.1 | 211.2 | 248.8 | 297.6 | 301.4 | 266.5 | 280.6 | 278.3 |
| Loans & leases, gross | 868.7 | 861.4 | 861.5 | 851.5 | 832.5 | 863.2 | 878.8 | 912.7 |
| Total assets | 1,112.9 | 1,096.4 | 1,135.6 | 1,177.2 | 1,162.0 | 1,160.0 | 1,192.1 | 1,226.1 |
| Core deposits | 956.9 | 938.3 | 973.9 | 997.3 | 979.8 | 975.2 | 1,007.3 | 1,038.3 |
| Purchased funds | 39.2 | 39.2 | 39.2 | 54.8 | 56.5 | 57.4 | 54.5 | 54.5 |
| Long-term debt | 49.8 | 49.8 | 49.8 | 49.8 | 49.3 | 49.3 | 49.3 | 22.2 |
| Shareholders' equity | 56.3 | 59.8 | 61.8 | 64.2 | 66.4 | 67.8 | 70.5 | 99.5 |
| | | | | | | | | |
| **Profitability** | | | | | | | | |
| Return on avg assets* | 0.48% | 0.65% | 0.78% | 0.82% | 0.74% | 0.54% | 0.88% | 0.84% |
| Return on avg equity * | 9.62% | 12.27% | 14.02% | 15.00% | 13.43% | 9.16% | 15.10% | 12.88% |
| Net interest margin | 3.14% | 3.39% | 3.40% | 3.23% | 3.15% | 3.49% | 3.50% | 3.31% |
| Loan loss provision % avg assets* | 0.50% | 0.53% | 0.16% | 0.32% | 0.17% | 0.71% | 0.29% | 0.28% |
| Noninterest income % avg assets* | 0.59% | 0.63% | 0.62% | 0.66% | 0.62% | 0.66% | 0.76% | 0.89% |
| Noninterest expense % avg assets* | 2.39% | 2.40% | 2.41% | 2.16% | 2.30% | 2.47% | 2.44% | 2.46% |
| Preprovision pretax inc.% avg assets* | 1.20% | 1.48% | 1.46% | 1.58% | 1.33% | 1.52% | 1.65% | 1.55% |
| Tangible efficiency ratio | 67% | 62% | 62% | 58% | 63% | 62% | 60% | 61% |
| Payout ratio | 13% | 7% | 8% | 8% | 8% | 12% | 7% | 8% |
| | | | | | | | | |
| **Asset Quality** | | | | | | | | |
| Net charge-offs % avg loans* | 0.40% | 1.09% | 1.04% | 0.43% | 0.10% | 0.80% | 0.44% | 0.07% |
| Allowance % loans | 1.93% | 1.85% | 1.64% | 1.66% | 1.74% | 1.72% | 1.67% | 1.69% |
| NPAs % loans & related assets | 4.77% | 4.18% | 3.37% | 2.81% | 2.73% | 2.01% | 1.71% | 1.72% |
| Allowance % NPAs | 40% | 44% | 49% | 59% | 63% | 85% | 98% | 98% |
| | | | | | | | | |
| **Liquidity & Funding** | | | | | | | | |
| Liquid assets % purchased funds | 561% | 539% | 634% | 543% | 533% | 464% | 515% | 511% |
| Core deposits % loans | 110% | 109% | 113% | 117% | 118% | 113% | 115% | 114% |
| Liquid assets % assets | 20% | 19% | 22% | 25% | 26% | 23% | 24% | 23% |
| Loans % assets | 78% | 79% | 76% | 72% | 72% | 74% | 74% | 74% |
| | | | | | | | | |
| **Capital Adequacy** | | | | | | | | |
| Total equity % assets | 5.06% | 5.46% | 5.44% | 5.45% | 5.72% | 5.84% | 5.92% | 8.12% |
| Tangible equity % assets | 5.06% | 5.46% | 5.44% | 5.45% | 5.72% | 5.84% | 5.92% | 8.12% |
| Tier 1 capital ratio | 6.92% | 7.29% | 7.60% | 7.91% | 8.21% | 8.04% | 8.12% | 10.54% |
| Total capital ratio | 11.64% | 12.20% | 12.66% | 13.11% | 13.56% | 13.31% | 13.33% | 12.97% |

*Annualized.

## HISTORICAL ZACKS RECOMMENDATIONS




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