Zacks Small-Cap Research

July 15, 2013
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First Business Financial Services, Inc. (FBIZ-NASDAQ)

FBIZ: Downgrading to Neutral

OUTLOOK

We are downgrading our recommendation on First Business Financial Services, Inc. (FBIZ) to Neutral from Buy as the stock price has exceeded our target. At the same time, we are removing FBIZ from our coverage list.

Current Recommendation	**Neutral**
Prior Recommendation	Outperform
Date of Last Change	07/12/2013
Current Price (07/12/13)	$31.98
Twelve- Month Target Price	**$31.75**

SUMMARY DATA

52-Week High	**$31.98**
52-Week Low	**$21.80**
One-Year Return (%)	**41.52**
Beta	**-0.03**
Average Daily Volume (sh)	**5,651**
Shares Outstanding (mil)	**4**
Market Capitalization ($mil)	**$120**
Short Interest Ratio (days)	**1.23**
Institutional Ownership (%)	**38**
Insider Ownership (%)	**10**
Annual Cash Dividend	**$0.56**
Dividend Yield (%)	**1.75**
5-Yr. Historical Growth Rates	
Net Revenue (%)	**11.0**
Earnings Per Share (%)	**20.0**
Dividend (%)	**1.5**
P/E using TTM EPS	**9.8**
P/E using 2013 Estimate	**9.7**
P/E using 2014 Estimate	**9.1**
Zacks Rank	**1**

Risk Level	**Average**
Type of Stock	**Small-Value**
Industry	**Banks-Midwest**
Zacks Rank in Industry	**2 of 36**

ZACKS ESTIMATES

Net Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
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	12.2 A	12.6 E	13.1 E	13.3 E	51.2 E
2014					53.6 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
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	0.83 A	0.80 E	0.83 E	0.84 E	3.30 E
2014					3.50 E

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

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UPDATE

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OVERVIEW

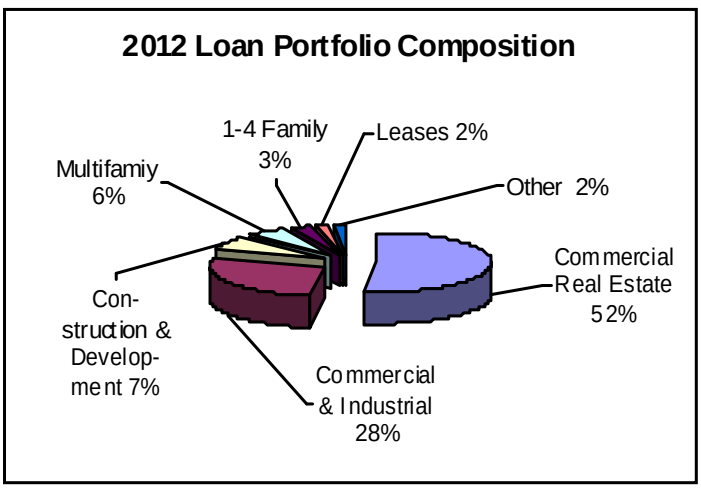
First Business Financial Services, Inc. (FBIZ or the Company) is a bank holding company headquartered in Madison, Wisconsin, with $1.2 billion in total assets at March 31, 2013. FBIZ specializes in business lending for small-medium-sized companies with sales ranging from $2-50 million. As an adjunct 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), 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, 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 operates 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 (owned by FBB) and First Business Bank-Milwaukee Real Estate LCC (owned by FBB-Milwaukee), which are limited liability companies that dispose of real estate and other assets acquired through foreclosure; and First Madison Investment Corp., which is located in the state of Nevada and manages a portion of the Bank's investment portfolio.

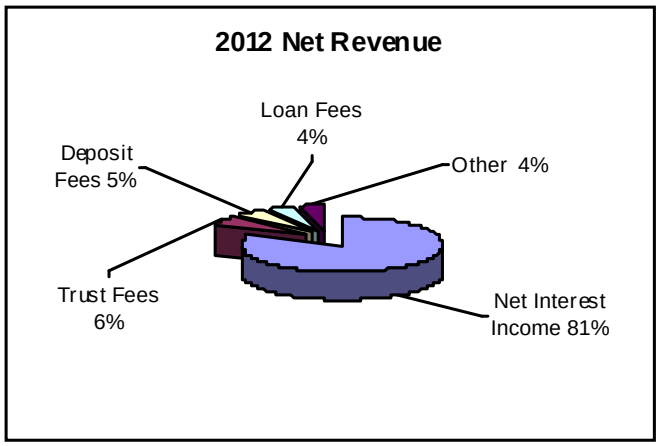
Unlike other banks, FBIZ does not have a retail branch network. Instead, the Company typically provides custom-tailored banking services to its approximately 2,000 clients at client offices. This has a couple of important implications. First, FBIZ does not have the overhead and expense connected with 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

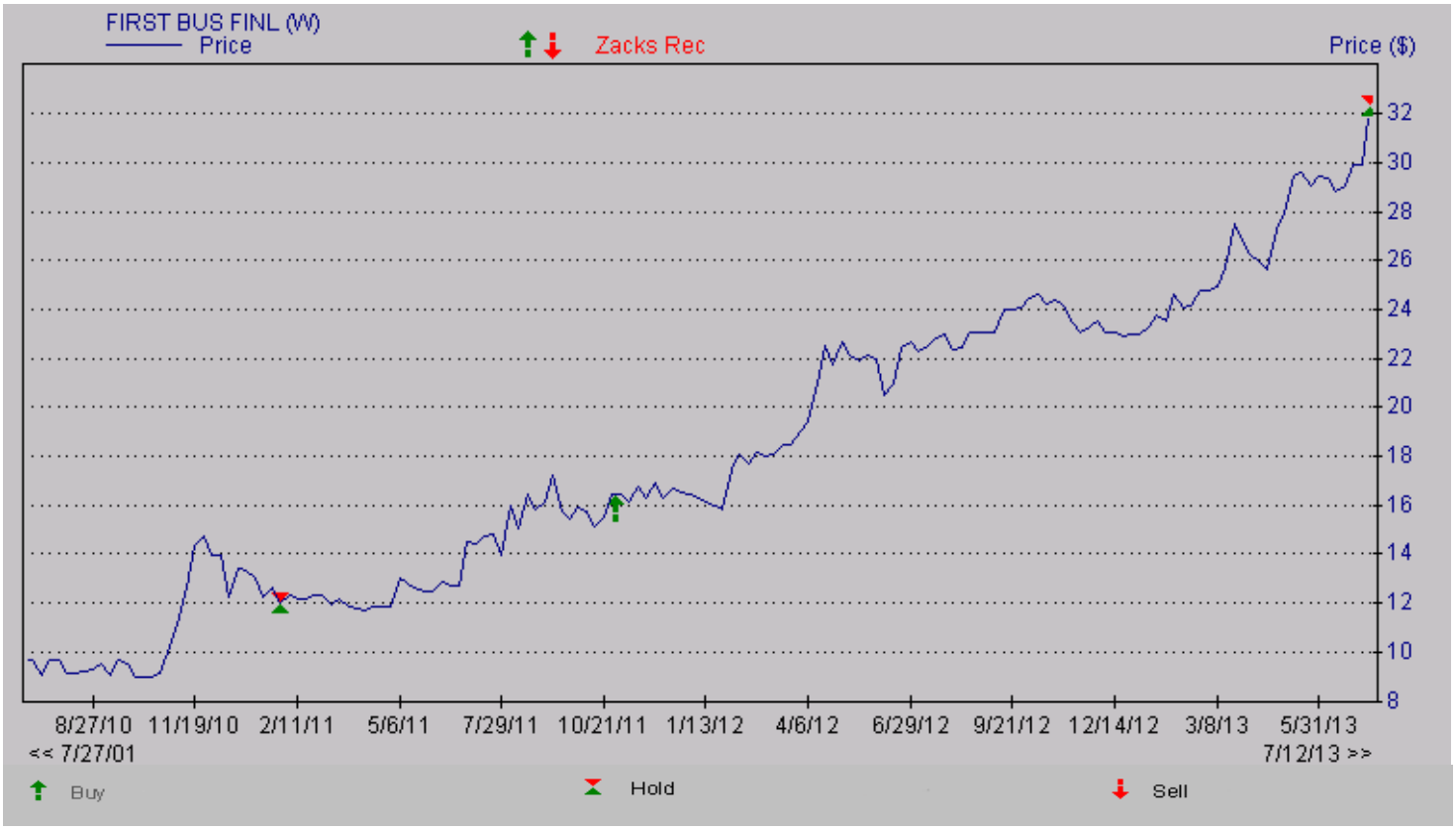
lending book consists of commercial and industrial (accounting for 28% of total gross loans), construction and land development (7%), multi-family (6%), 1-4 family (3%), direct financing leases (2%), and consumer and other (2%). Almost all loans are secured, usually by real estate, inventory, accounts 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.

HISTORICAL ZACKS RECOMMENDATIONS



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The current distribution of Zacks Ratings is as follows on the 1013 companies covered: Buy/Outperform- 14.5%, Hold/Neutral- 78.9%, Sell/Underperform – 5.8%. Data is as of midnight on the business day immediately prior to this publication.