Zacks Small-Cap Research

May 6, 2013
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: Impressive First Quarter Driven by Improved Credit Quality

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	11/01/2011
Current Price (05/03/13)	$27.90
Twelve- Month Target Price	**$31.75**

OUTLOOK

FBIZ posted net income of $3.2 million, up 47% from the $2.2 million earned in the year-ago quarter. Diluted earnings per share, which fell 1% to $0.83 from $0.84 in last year's first quarter due to an increased number of average shares outstanding, beat our $0.75 estimate by a wide $0.08 margin, largely due to strong gains in asset quality. Specifically, the loan loss provision of $80,000 came in $0.72 million below our $0.8 million estimate and collateral liquidation costs and the loss on foreclosed properties posted small gains rather than the $125,000 and $50,000 losses we had projected. Nonaccrual loans decreased $2.4 million, or 17%, sequentially to $11.7 million due to cash pay-offs on certain existing nonaccrual loans, while foreclosed assets declined by $0.7 million, or 43%, to $0.9 million as several properties were sold. As a percentage of total loans and OREO, nonperforming assets fell 35 basis points to 1.37% from 1.72% at the end of the fourth quarter. We are raising our 2013 diluted EPS estimate by a quarter to $3.30 from $3.05, primarily to reflect a reduction to our estimate for the loan loss provision. Our $3.30 estimate is flat with 2012's $3.29, 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 $13.0 million represents a 46% gain over 2012's $8.9 million. Our initial 2014 estimate calls for a $0.20, or 6%, advance in diluted per share earnings to $3.50. FBIZ recently doubled its quarterly dividend rate to $0.14 from $0.07, its first increase since 2008.

SUMMARY DATA

52-Week High	**$27.90**
52-Week Low	**$20.53**
One-Year Return (%)	**24.75**
Beta	**0.06**
Average Daily Volume (sh)	**6,510**
Shares Outstanding (mil)	**4**
Market Capitalization ($mil)	**$109**
Short Interest Ratio (days)	**1.55**
Institutional Ownership (%)	**38**
Insider Ownership (%)	**10**
Annual Cash Dividend	**$0.56**
Dividend Yield (%)	**2.01**
5-Yr. Historical Growth Rates	
Net Revenue (%)	**11.0**
Earnings Per Share (%)	**20.0**
Dividend (%)	**1.5**
P/E using TTM EPS	**8.5**
P/E using 2013 Estimate	**8.5**
P/E using 2014 Estimate	**8.0**
Zacks Rank	**1**

Risk Level	**Average**
Type of Stock	**Small-Value**
Industry	**Banks-Midwest**
Zacks Rank in Industry	**5 of 34**

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.

© Copyright 2013, Zacks Investment Research. All Rights Reserved.

FIRST QUARTER RESULTS

FBIZ posted net income of $3.2 million, up 47% from the $2.2 million earned in the year-ago quarter. Diluted earnings per share fell 1% to $0.83 from $0.84 in last year's first 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 $0.83 diluted EPS beat our $0.75 estimate by a wide $0.08 margin, largely due to strong gains in asset quality. Specifically, the loan loss provision of $80,000 came in $720,000 below our $0.8 million estimate and collateral liquidation costs and the loss on foreclosed properties posted small gains rather than the $125,000 and $50,000 losses we had projected. This improvement was supported by a $3.1 million, or 20%, drop in nonperforming assets, and recoveries that actually exceeded charge-offs.

That said, certain line items were worse than we had expected. Significant misses included: (1) net interest income that was $0.4 million lower than our estimate as the net interest margin of 3.53%, though a record for the Company, was 2 basis points lower than our 3.55% estimate and sequential loan growth of 0.5% was weaker than our 1.8% estimate (we note that the first quarter loan growth is typically the slowest for the year and FBIZ expects to make up this shortfall in the second quarter); (2) service charges on deposits and loan fees combined were $0.1 million lower than we had anticipated; and (3) compensation costs were $0.2 million higher than we had projected, largely due to payroll taxes and 401k accruals for 2012 bonuses that were paid out in the first quarter.

Compared to the year-ago quarter, first quarter results were boosted by a 15% gain in net interest income due to 3% growth in average interest-earning assets and a 38 basis-point surge in the net interest margin to a record 3.53%, as well as a 6% jump in noninterest income due largely to record trust & investment services income (up 20%), and an 84% drop in the loan loss provision. This was partly offset by a 5% increase in total noninterest expense, largely reflecting 18% higher compensation costs due to the hiring of additional business development officers and the start-up of First Business Factors, though these were partly offset by lower charges for FDIC premiums (down 65%) and other costs, and a 51% increase in average diluted shares outstanding.

Nonaccrual loans decreased $2.4 million, or 17%, sequentially to $11.7 million due to cash pay-offs on certain existing nonaccrual loans, while foreclosed assets declined by $0.7 million, or 43%, to $0.9 million as several properties were sold. As a percentage of total loans and OREO, nonperforming assets fell 35 basis points sequentially to 1.37% from 1.72% at the end of the fourth quarter and 136 basis points year over year from 2.73% at the end of 2012's March quarter.

We are raising our 2013 diluted EPS estimate by a quarter to $3.30 from $3.05. This increase primarily reflects a reduction to our estimate for the loan loss provision to $1.0 million from $3.6 million before.

Our $3.30 estimate in 2013 is flat with 2012's $3.29, 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 $13.0 million represents a 46% gain over 2012's $8.9 million.

Our initial 2014 estimate calls for a $0.20, or 6%, advance in diluted per share earnings to $3.50, based upon 5% loan growth, a small 5 basis-point decline in the net interest margin, and improved efficiency with expenses growing a bit slower than revenues.

In other news, FBIZ recently doubled its quarterly dividend rate to $0.14 from $0.07, its first increase since 2008.

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 first quarter results in more fully. Details of our projections are shown at the back of our report.

Net Interest Income

Net interest income increased 15% year over year to $10.2 million, due to 3% growth in average interest-earning assets and a 38 basis-point surge in the net interest margin to a record 3.53%. The net interest margin benefitted from a lower level of nonaccruing loans, as well as a significant 32% decline in brokered deposit costs to $1.7 million, due to lower usage (the average balance slid 17% to $359 million) and a 42 basis-point drop in the average rate paid to 1.93% from 2.35%. In addition, interest costs on subordinated debt dipped $0.5 million, or 68%, to $0.2 million as the Company repurchased $27 million of subordinated debt.

Net interest income of $10.2 million was $0.4 million lower than our estimate as the net interest margin of 3.53%, though a record for the Company, was 2 basis points below our 3.55% estimate and sequential loan growth of 0.5% was weaker than our 1.8% estimate (we note that the first quarter loan growth is typically the slowest for the year and FBIZ expects to make up this shortfall in the second quarter)

We are maintaining our 3.55% net interest margin estimate for 2013, as well as our 7 ½% estimate for loan growth. 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.

For 2014, we are projecting a modest 5 basis-point decline in the net interest margin to 3.50% and loan growth of 5%. While we expect loan pricing to come under pressure, this is likely to be partly offset by lower interest costs as the Company reduces high-cost subordinated debt balances.

Noninterest Income

Noninterest income rose $0.1 million, or 6%, year over year to $1.95 million, $0.1 million below what we had anticipated, as service charges on deposits and loan fees combined were $0.1 million lower than our estimate. Services charges on deposits suffered from lower customer transaction volumes, while loan fees were hurt by increased competitive pressures, which will likely continue over the foreseeable future.

That said, trust & investment services income leapt 20% year over year to a record $0.83 million, and benefitted from a 14% year-over-year jump in assets under management and administration to $843.0 million (up $58.5 million sequentially from the end of the fourth 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.

Loan Loss Provision

The loan loss provision fell 84% year over year to $80,000 from $504,000 in the year-ago quarter, and droppped 91% sequentially from the$844,000 in the fourth quarter. Relative to our estimate, it was $0.72 million better than the $0.8 million we had projected. This improvement was supported by a $3.1 million, or 20%, sequential drop in nonperforming assets, and recoveries that actually exceeded charge-offs.

Going forward, we have reduced our estimate for the loan loss provision for 2013 by $2.6 million to $1.0 million from $3.6 million, as we continue to believe that asset quality will improve, though at a less spectacular rate than occurred on the first quarter. For 2014, we are estimating a loan loss provision of $1.2 million, with the increase due to growth in the loan portfolio. This compares to a $4.2 million loan loss provision reported in 2012.

Noninterest Expense

Noninterest expense rose 5% year over year to $7.2 million, about $0.2 million better than our $7.4 million estimate.

Compensation expense climbed 18% to $4.7 million, reflecting the hiring of additional business development officers and the start-up of First Business Factors, as well as higher payroll taxes and 401k accruals for 2012 bonuses that were paid out in the first quarter.

While most other line items for noninterest expense also increased, there were three notable exceptions: (1) FDIC insurance premiums declined 65% to $0.2 million, as FBIZ has improved its risk profile (as defined by the FDIC), with this lower level to continue in the future; (2) collateral liquidation costs posted a credit of $14,000, up from a $108,000 loss last year, for a positive swing of $122,000; and (3) the loss on foreclosed properties reported a credit of $30,000 versus a loss of $175,000, for a positive swing of $205,000. While these results are impressive, we expect collateral and foreclosure costs to revert to more normal levels in the future.

Because net revenues rose 13.0% while noninterest expense increased only 5.1%, the Company's efficiency ratio improved, falling 450 basis points to 58.9% compared to 63.4% in 2012's first quarter.

We expect operating efficiency to improve a bit more in 2013 and 2014, 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 35.8% in the year-ago quarter and our 35.0% estimate. We are maintaining our estimated effective tax rate at 35.0% for both 2013 and 2014. This compares to a full-year effective tax rate of 34.7% in 2012.

Net Income

FBIZ posted net earnings of $3.2 million ($0.83 diluted EPS), up 47% from $2.2 million ($0.84 diluted EPS) reported in the year-ago quarter. This compares to our $2.9 million net income estimate ($0.75 diluted EPS).

Profitability

FBIZ posted a 12.8% ROE and 1.06% ROA for the first quarter of 2013, compared to a 13.4% ROE and 0.74% ROA for the first quarter of 2012.

We note that the ROE will be somewhat depressed by the late 2012 sale of common shares, with estimated ROE to decline from 12.6% reported in 2012 to 12.4% in 2013 and 11.9% in 2014. Positively, we estimate that ROA will jump about 29 basis points to an estimated 1.04% in 2013-14 from 0.75% reported in 2012.

Loans and Asset Quality

Loans rose $5 million, or 0.5%, sequentially to $917 million during the first quarter, marking the fourth quarterly increase in loans outstanding since 2010's fourth quarter. Sequentially, total mortgage loans were up $7 million, or 1%, to $631 million due to a $9.5 million, or 15%, jump in construction and land development loans, while total commercial & industrial loans and consumer & other loans were flattish at $270-272 million and $16-17 million, respectively.

While loan growth of 0.5% fell short of our 1.8% estimate in the first quarter, we believe this shortfall will be made up in the second quarter and, therefore, are maintaining our 7.5% estimate for 2013. Our initial estimate for loan growth in 2014 is 5%.

Nonaccrual loans decreased $2.4 million, or 17%, sequentially to $11.7 million due to cash pay-offs on certain existing nonaccrual loans, while foreclosed assets declined by $0.7 million, or 43%, to $0.9 million as several properties were sold. As a percentage of total loans and OREO, nonperforming assets fell 35

basis points sequentially to 1.37% from 1.72% at the end of the fourth quarter and 136 basis points year over year from 2.73% at the end of 2012's March quarter.

We have estimated asset quality improvement in 2013, with nonperforming assets dropping by an additional $1.2 million to $11.4 million in 2013 and $0.9 million to $10.5 million in 2014.

The loan loss allowance as a percent of nonperforming assets increased to 123% at the end of the first quarter compared with 98% at the end of 2012's fourth quarter. This was the result of a lower level of nonaccrual loans and foreclosed assets and a modestly higher loan loss allowance that increased to $15.5 million, or 1.69% of gross loans, from $15.4 million, or 1.69% of gross loans.

Liquidity and Funding

FBIZ decreased cash and short-investments by $10 million during the first quarter, and the available-for-sale securities portfolio increased by $1 million during the quarter to $201 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 $66 million, or 16%, year over year to $349 million at March 31, 2013, representing 33% of total deposits at March quarterend (down from 34% at the end of December 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 of in-market deposits through new business relationships that require client deposit balances. As a result, in-market deposits have grown $104 million, or 17%, year over year to $722 million, representing 67% of total deposits (up from 66% at the end of December 2012). This has had a beneficial impact on the net interest margin.

Capital Adequacy and Dividends

The Company's capital adequacy ratios improved during the quarter, largely due to strong growth in retained earnings. The Tier 1 capital ratio rose 23 basis points sequentially to 10.77% at the end of 2013's first quarter from 10.54% at December 31, 2012, while the Total capital ratio rose 22 basis points to 13.19% from 12.97%.

Tangible common equity to tangible assets rose 25 basis point to 8.37% at March 31, 2013 from 8.12% at December 31, 2012, stemming from growth in retained earnings.

Total shareholders' equity increased $2.6 million during the first quarter to $102.1 million, while tangible book value per share climbed by $0.66 per share to $26.07 from $25.41.

On March 8, 2013, FBIZ doubled the quarterly dividend rate from $0.07 to $0.14 per share, paid on April 15, 2013 to shareholders of record on April 1, 2013, which represents less than 20% of earnings.

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 junior subordinated debt associated with the Company's trust preferred securities, which it may do over the medium term.

OVERVIEW

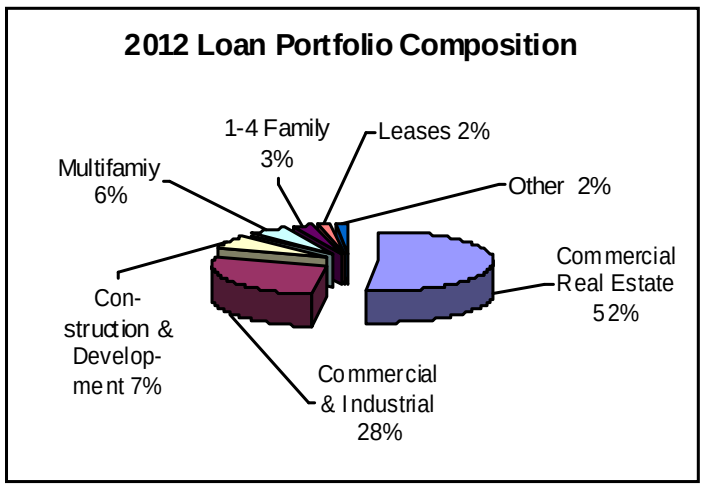
First Business Financial Services, Inc. (FBIZ or the Company) is a bank holding company headquartered in Madison, Wisconsin, with $1.2 billion in total assets at March 31, 2013. FBIZ specializes in business lending for small-medium-sized companies with sales ranging from $2-50 million. As an adjunct 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.

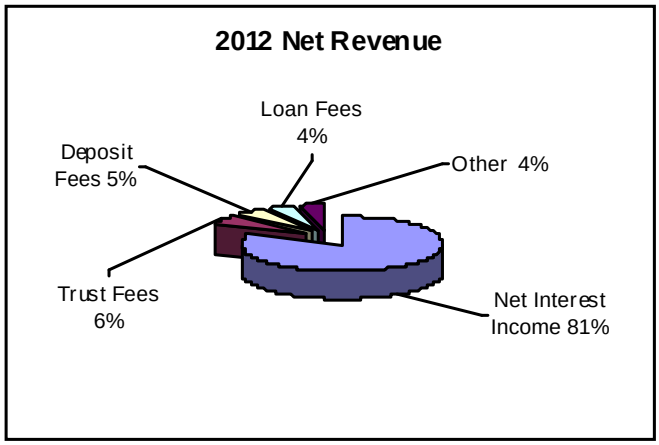
Unlike other banks, FBIZ does not have a retail branch network. Instead, the Company typically provides custom-tailored banking services to its approximately 2,000 clients at client offices. This has a couple of important implications. First, FBIZ does not have the overhead and expense connected with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

VALUATION

FBIZ stock has risen 21.6% year to date, well above the small-cap bank industry's median price increase of 11.8%, as shown in the following table, as well as the 13.2% 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 35%, based upon our 2014 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 1.10X versus the industry median of 1.05X. This represents a 5% premium, much 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 $31.75.

We believe that the 5% premium on FBIZ 's Price/Tangible Book Value is justified, given that: (1) the Company's earnings and profitability prospects are much improved, with its ROE and ROA higher than the median for other banks in the Zacks small-cap index; (2) FBIZ recently doubled its dividend and now has a yield in line with the S&P 500 and more than double the 0.7% median yield for its small-cap peers; (3) the balance sheet has been significantly strengthened with the sale of 1.265 million common shares and the subsequent retirement of subordinated debt; and (4) liquidity in the shares has increased following the addition of FBIZ shares to the Russell Microcap Index on June 24, 2011.

With $31.75 as our target price (versus FBIZ's $27.90 current market price) and a 2.0% dividend yield, this indicates a total return of almost 16%, 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

	Pr Chg YTD	Price / Earnings Ratios TTM* EPS	2013E	2014E	5-Yr Avg	Price/ Tang Book	Return on Equity TTM*	5-Yr Avg	Return on Assets TTM*	5-Yr Avg	Div Yld
FIRST BUS FINL	**21.6**	**8.5**	**8.5**	**8.0**	**10.3**	**1.10**	**11.7**	**8.0**	**0.83**	**0.44**	**2.0**
S&P 500	13.2	16.7	15.0	14.1	16.7	4.4	28.4	-----	8.8	-----	2.0
Median	**11.8**	**14.6**	**12.2**	**12.3**	**16.2**	**1.05**	**7.8**	**4.1**	**0.73**	**0.36**	**0.7**
Average	17.7	16.4	14.5	12.6	24.2	1.0	7.4	1.6	0.7	0.3	1.2
High	89.4	44.8	51.4	21.2	104.1	2.0	14.6	14.3	1.6	2.0	4.6
Low	(7.5)	5.3	7.2	7.0	6.4	0.5	(1.6)	(78.4)	(0.1)	(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	12/08	12/09	12/10	12/11	12/12	12/13 E	12/14 E
Net interest income	26.3	28.1	32.0	35.5	37.9	42.5	44.5
Non-interest income	5.1	6.4	6.7	7.1	8.7	8.7	9.1
Total net revenue	31.4	34.5	38.7	42.6	46.6	51.2	53.6
Loan loss provision	4.3	8.2	7.0	4.3	4.2	1.0	1.2
Non-interest expense	21.9	24.5	25.7	26.4	28.7	30.1	31.3
Income taxes & other	2.1	0.8	2.4	4.2	4.8	7.1	7.3
Zacks adjusted income before NRI	3.1	1.0	3.6	7.7	8.9	13.0	13.8
GAAP net income	3.1	1.0	0.9	8.4	8.9	13.0	13.8
Diluted EPS before NRI	1.28	0.41	1.42	2.94	3.29	3.30	3.50
Reported EPS	1.28	0.41	0.37	3.23	3.29	3.30	3.50
Dividends per share	0.28	0.28	0.28	0.28	0.28	0.56	0.56
Liquid assets	132.8	235.0	204.2	297.6	278.3	263.2	265.9
Loans & leases, gross	852.8	854.5	878.0	851.5	912.7	980.2	1,029.1
Total assets	1,010.8	1,117.4	1,107.1	1,177.2	1,226.1	1,287.3	1,349.7
Core deposits	746.4	942.2	949.1	997.3	1,038.3	1,093.1	1,148.8
Purchased funds	129.5	58.2	41.2	54.8	54.5	55.0	55.0
Long-term debt	67.8	51.8	49.8	49.8	22.2	22.0	25.5
Shareholders' equity	53.0	54.4	55.3	64.2	99.5	110.3	121.9
Profitability							
Return on avg assets	0.32%	0.10%	0.33%	0.68%	0.75%	1.04%	1.04%
Return on avg equity	6.11%	1.90%	6.46%	12.83%	12.58%	12.40%	11.86%
Net interest margin	2.81%	2.77%	3.04%	3.29%	3.36%	3.55%	3.50%
Loan loss provision % avg assets	0.44%	0.78%	0.64%	0.38%	0.36%	0.08%	0.09%
Noninterest income % avg assets	0.53%	0.61%	0.61%	0.63%	0.73%	0.69%	0.69%
Noninterest expense % avg assets	2.26%	2.33%	2.33%	2.34%	2.42%	2.42%	2.37%
Preprovision pretax income % avg assets	0.98%	0.95%	1.18%	1.43%	1.51%	1.69%	1.70%
Tangible efficiency ratio	70%	72%	66%	62%	62%	59%	58%
Payout ratio	22%	66%	75%	9%	9%	17%	16%
Asset Quality							
Net charge-offs % avg loans	0.28%	0.69%	0.57%	0.74%	0.35%	0.09%	0.16%
Allowance % loans	1.39%	1.65%	1.85%	1.66%	1.69%	1.58%	1.47%
NPAs % loans & related assets	2.25%	3.45%	4.56%	2.81%	1.72%	1.16%	1.02%
Allowance % NPAs	61%	48%	41%	59%	98%	136%	144%
Liquidity & Funding							
Liquid assets % purchased funds	103%	404%	496%	543%	511%	479%	483%
Core deposits % loans	88%	110%	108%	117%	114%	112%	112%
Liquid assets % assets	13%	21%	18%	25%	23%	20%	20%
Loans % assets	84%	76%	79%	72%	74%	76%	76%
Capital Adequacy							
Total equity % assets	5.24%	4.87%	5.00%	5.45%	8.12%	8.57%	9.03%
Tangible equity % assets	4.98%	4.63%	5.00%	5.45%	8.12%	8.57%	9.03%
Tier 1 capital ratio	6.48%	6.61%	6.65%	7.91%	10.54%		
Total capital ratio	12.00%	12.15%	11.23%	13.11%	12.97%		
Parent Company Statistics							
Interest coverage	(0.9)X	0.3X	0.2X	(0.0)X	(0.2)X	0.7X	0.7X
Interest & dividend coverage	(0.7)X	0.2X	0.2X	(0.0)X	(0.1)X	0.3X	0.3X
Short-term debt coverage	Lge	Lge	Lge	N/A	N/A	N/A	N/A
Total debt coverage	0.9X	1.0X	1.0X	N/A	N/A	N/A	N/A
Double leverage	185.6%	187.0%	189.5%	179.7%	121.7%	121.6%	121.3%

First Business Financial Services, Inc.

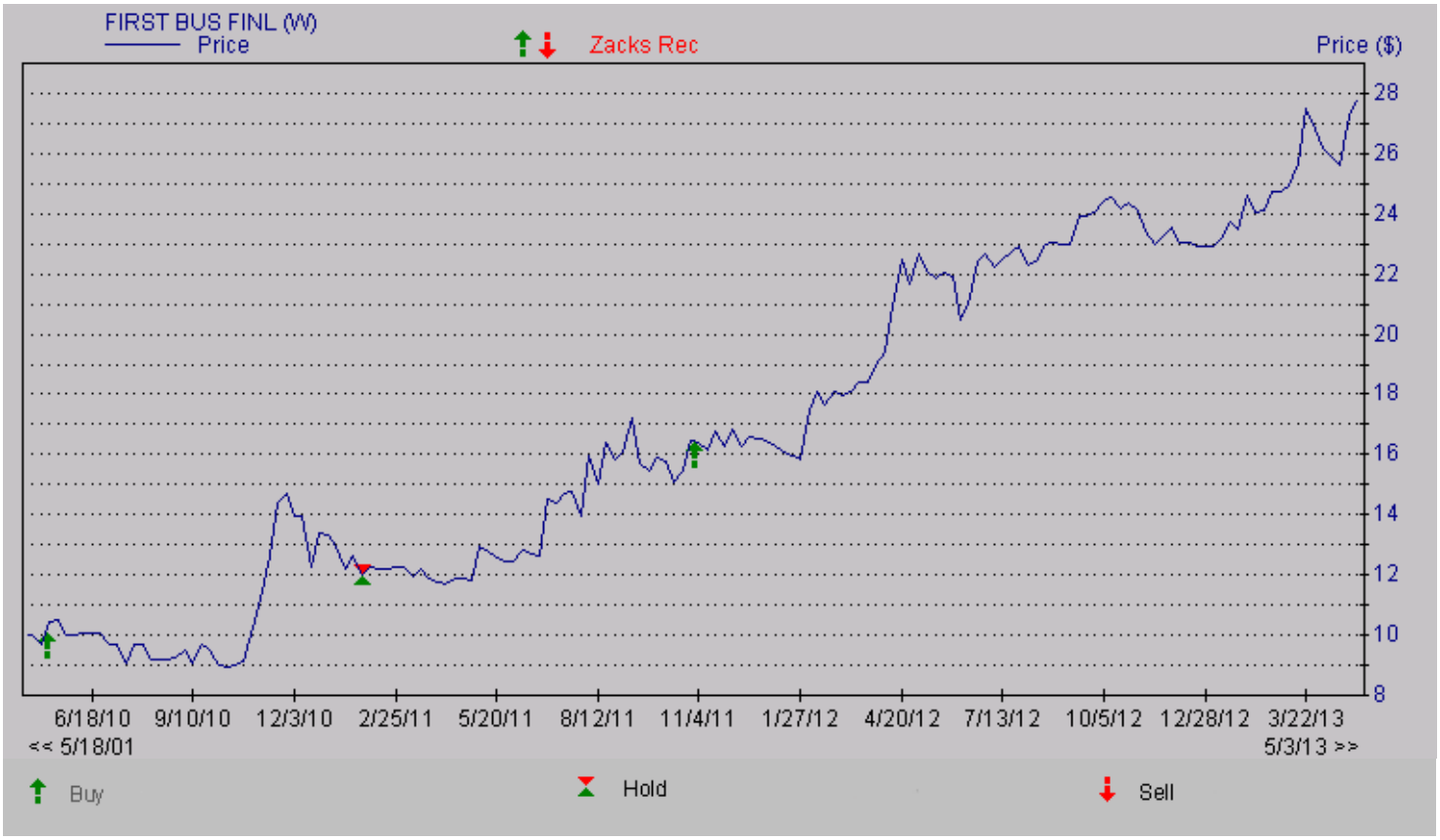
Income Statement and Balance Sheet

(Dollars in millions, except per share data)

	2012				2013			
Summary Financial Data	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 A**	**Q1 A**	**Q2 E**	**Q3 E**	**Q4 E**
Net interest income	8.9	9.6	9.9	9.4	10.2	10.5	10.8	11.0
Non-interest income	1.9	1.9	2.3	2.7	2.0	2.1	2.3	2.3
Total net revenue	10.8	11.5	12.2	12.1	12.2	12.6	13.1	13.3
Loan loss provision	0.5	2.0	0.9	0.8	0.1	0.3	0.3	0.3
Non-interest expense	6.8	7.1	7.3	7.4	7.2	7.5	7.7	7.8
Income taxes & other	1.3	0.8	1.4	1.4	1.7	1.6	1.8	1.9
Zacks adjusted income before NRI	2.2	1.6	2.6	2.5	3.2	3.2	3.3	3.3
GAAP net income	2.2	1.6	2.6	2.5	3.2	3.2	3.3	3.3
Diluted EPS before NRI	0.84	0.60	0.99	0.86	0.83	0.80	0.83	0.84
Reported EPS	0.84	0.60	0.99	0.86	0.83	0.80	0.83	0.84
Dividends per share	0.07	0.07	0.07	0.07	0.14	0.14	0.14	0.14
Liquid assets	301.4	266.5	280.6	278.3	261.3	261.9	262.6	263.2
Loans & leases, gross	832.5	863.2	878.8	912.7	917.4	945.9	962.9	980.2
Total assets	1,162.0	1,160.0	1,192.1	1,226.1	1,220.3	1,250.8	1,268.9	1,287.3
Core deposits	979.8	975.2	1,007.3	1,038.3	1,036.2	1,062.1	1,077.5	1,093.1
Purchased funds	56.5	57.4	54.5	54.5	50.6	55.0	55.0	55.0
Long-term debt	49.3	49.3	49.3	22.2	22.2	22.0	22.0	22.0
Shareholders' equity	66.4	67.8	70.5	99.5	102.1	104.8	107.5	110.3
Profitability								
Return on avg assets*	0.74%	0.54%	0.88%	0.84%	1.06%	1.03%	1.04%	1.04%
Return on avg equity *	13.43%	9.16%	15.10%	12.88%	12.80%	12.25%	12.32%	12.24%
Net interest margin	3.15%	3.49%	3.50%	3.31%	3.53%	3.55%	3.55%	3.55%
Loan loss provision % avg assets*	0.17%	0.71%	0.29%	0.28%	0.03%	0.10%	0.10%	0.09%
Noninterest income % avg assets*	0.62%	0.66%	0.76%	0.89%	0.64%	0.67%	0.74%	0.73%
Noninterest expense % avg assets*	2.30%	2.47%	2.44%	2.46%	2.36%	2.42%	2.45%	2.43%
Preprovision pretax inc.% avg assets*	1.33%	1.52%	1.65%	1.55%	1.64%	1.68%	1.72%	1.72%
Tangible efficiency ratio	63%	62%	60%	61%	59%	59%	59%	59%
Payout ratio	8%	12%	7%	8%	17%	17%	17%	17%
Asset Quality								
Net charge-offs % avg loans*	0.10%	0.80%	0.44%	0.07%	(0.01)%	0.13%	0.13%	0.12%
Allowance % loans	1.74%	1.72%	1.67%	1.69%	1.69%	1.64%	1.61%	1.58%
NPAs % loans & related assets	2.73%	2.01%	1.71%	1.72%	1.37%	1.29%	1.22%	1.16%
Allowance % NPAs	63%	85%	98%	98%	123%	127%	132%	136%
Liquidity & Funding								
Liquid assets % purchased funds	533%	464%	515%	511%	516%	476%	477%	479%
Core deposits % loans	118%	113%	115%	114%	113%	112%	112%	112%
Liquid assets % assets	26%	23%	24%	23%	21%	21%	21%	20%
Loans % assets	72%	74%	74%	74%	75%	76%	76%	76%
Capital Adequacy								
Total equity % assets	5.72%	5.84%	5.92%	8.12%	8.37%	8.38%	8.47%	8.57%
Tangible equity % assets	5.72%	5.84%	5.92%	8.12%	8.37%	8.38%	8.47%	8.57%
Tier 1 capital ratio	8.21%	8.04%	8.12%	10.54%	10.77%			
Total capital ratio	13.56%	13.31%	13.33%	12.97%	13.19%			

*Annualized.

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

The following disclosures relate to relationships between Zacks Investment Research ("ZIR") and Zacks Small-Cap Research ("Zacks SCR") and the issuers covered by the Zacks SCR analysts in the Small-Cap Universe.

ZIR or Zacks SCR Analysts do not hold or trade securities in the issuers which they cover. Each analyst has full discretion on the rating and price target based on their own due diligence. Analysts are paid in part based on the overall profitability of Zacks SCR. Such profitability is derived from a variety of sources and includes payments received from issuers of securities covered by Zacks SCR for non-investment banking services. No part of analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in any report or blog.

ZIR and Zacks SCR do not make a market in any security nor do they act as dealers in securities. Zacks SCR has never received compensation for investment banking services on the small-cap universe. Zacks SCR does not expect received compensation for investment banking services on the small-cap universe. Zacks SCR has received compensation for non-investment banking services on the small-cap universe, and expects to receive additional compensation for non-investment banking services on the small-cap universe, paid by issuers of securities covered by Zacks SCR. Non-investment banking services include investor relations services and software, financial database analysis, advertising services, brokerage services, advisory services, investment research, and investment management.

Additional information is available upon request. Zacks SCR reports are based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Because of individual objectives, the report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed by Zacks SCR Analysts are subject to change. Reports are not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. Zacks SCR uses the following rating system for the securities it covers. Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters. Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters. Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution of Zacks Ratings is as follows on the 1020 companies covered: Buy/Outperform- 14.7%, Hold/Neutral- 79.0%, Sell/Underperform – 5.5%. Data is as of midnight on the business day immediately prior to this publication.