

Associated Banc-Corp (ASB)

\$14.01 (As of 08/10/20)

Price Target (6-12 Months): **\$15.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/26/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: A

Growth: D

Momentum: C

Summary

Associated Banc-Corp's shares have underperformed the industry over the past year. Its earnings beat the Zacks Consensus Estimate twice and reported in line in the other two of the trailing four quarters. Its second-quarter 2020 results reflected benefits from the First Staunton buyout and rise in provisions to combat coronavirus-related concerns. Increase in the demand for loans and efforts to focus on fee income are expected to aid growth. Also, the inorganic growth strategy and a solid balance sheet position will likely support its financials. However, lower interest rates will likely continue to put pressure on the company's margins, in turn hurting revenues to some extent. Mounting operating costs is other near-term concern. Its loan exposure to sectors that are hit hardest by the coronavirus-induced slowdown makes us apprehensive.

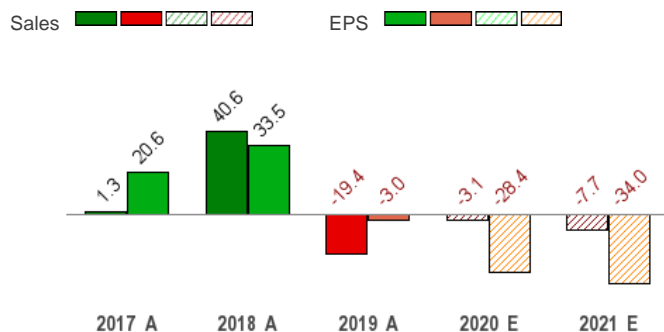
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$22.60 - \$10.23
20 Day Average Volume (sh)	1,049,699
Market Cap	\$2.2 B
YTD Price Change	-36.4%
Beta	1.23
Dividend / Div Yld	\$0.72 / 5.1%
Industry	Banks - Midwest
Zacks Industry Rank	Top 49% (124 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	38.5%
EPS F1 Est- 4 week change	-9.6%
Expected Report Date	10/22/2020
Earnings ESP	-13.0%
P/E TTM	9.4
P/E F1	9.9
PEG F1	1.4
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	270 E	275 E	279 E	278 E	1,088 E
2020	305 A	448 A	276 E	279 E	1,179 E
2019	307 A	309 A	307 A	293 A	1,217 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.23 E	\$0.24 E	\$0.29 E	\$0.31 E	\$0.93 E
2020	\$0.28 A	\$0.26 A	\$0.20 E	\$0.12 E	\$1.41 E
2019	\$0.50 A	\$0.51 A	\$0.50 A	\$0.45 A	\$1.97 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/10/2020. The reports text is as of 08/11/2020.

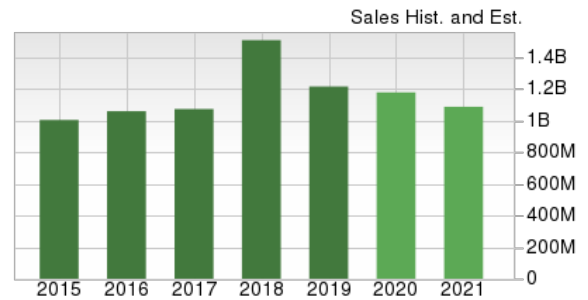
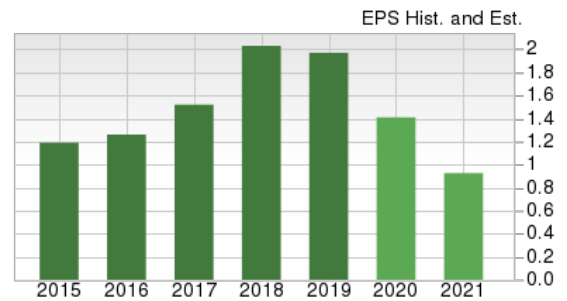
Overview

Associated Banc-Corp – founded in 1964 – is headquartered in Green Bay, WI. This bank holding company, through its subsidiaries Associated Bank, National Association and various non-banking subsidiaries, provides an array of banking and non-banking products and services.

The company provides a full range of financial products and services through more than 245 banking offices in Wisconsin, Illinois and Minnesota as well as commercial financial services in Indiana, Michigan, Missouri, Ohio and Texas.

Associated Banc-Corp operates through the following three business segments:

- **Corporate and Commercial Specialty** (constituting 35.2% of total revenues in 2019) offers lending solutions, deposit and cash management solutions and specialized financial services.
- **Community, Consumer, and Business** (61.2%) provides lending solutions, deposit and transactional solutions, investable funds solutions, benefits related products and services along with fiduciary services to individuals as well as small and mid-sized businesses.
- **Risk Management and Shared Services** (3.6%) includes Corporate Risk Management, Credit Administration, Finance, Treasury, Operations and Technology functions.



In 2015, Associated Banc-Corp acquired Ahmann & Martin Co and in 2017, it acquired Whitnell & Co. Further, in 2018, the company acquired Bank Mutual Corporation, Diversified Insurance Solutions and Anderson Insurance. In 2019, the bank acquired 32 Wisconsin branch locations from Huntington Bancshares. In February 2020, it acquired First Staunton Bancshares.

In June 2020, Associated Banc-Corp divested its insurance business – Associated Benefits & Risk Consulting.

As of Jun 30, 2020, Associated Banc-Corp had total assets of \$35.5 billion, net loans of \$24.5 billion, total deposits of \$26.6 billion and stockholders' equity of \$4 billion.



Reasons To Buy:

- ▲ Associated Banc-Corp is focused on its organic growth strategy, as evident from consistent growth in loans and deposit balances. While net interest income declined in 2019 and first-half 2020, the same has witnessed a CAGR of 4.2% over the last six years (2014-2019). Moreover, continuous change in the deposit mix due to rising non-interest-bearing deposit accounts (non-interest-bearing demand deposits, as a percentage of total deposits, were 28.5% as of Jun 30, 2020) is impressive.
- ▲ As of Jun 30, 2020, Associated Banc-Corp had total debt of \$3.4 billion, while cash and due from banks was \$443.5 million. Further, the company's bank senior notes worth \$300 million are due in 2021 and short-term funding worth \$181.8 million are due in a year. Nonetheless, its times-interest-earnings ratio of 5.9 at second quarter-end improved sequentially. Also, total debt/total capital of 44.3% declined from the first quarter. Thus, given earnings strength, the company has lower credit risk and less chance of defaulting, even if the economic situation worsens.
- ▲ Associated Banc-Corp is growing inorganically as well. In February, the company acquired First Staunton Bancshares and 32 branches in Winconsin in June 2019. Earlier in the first half of 2018, it had acquired Anderson Insurance, Diversified Insurance Solutions and Bank Mutual. These deals are expected to be accretive to the company's earnings. It is well positioned to grow further on the back of opportunistic acquisitions, given a solid liquidity position. In June, the company divested the insurance business, Associated Benefits & Risk Consulting, to USI Insurance Services LLC for \$265.8 million in cash. This will likely strengthen its balance sheet position.
- ▲ We remain encouraged by Associated Banc-Corp's enhanced capital deployment activities. The company has been raising dividends on a regular basis. The latest hike of 5.9% was announced in October 2019. Further, in December 2019, the company had announced additional share repurchase authorization of up to \$150 million. Nonetheless, the bank has suspended share buybacks for the year to enhance liquidity amid coronavirus concerns. Given its earnings strength and efforts to improve the liquidity position, the company's capital deployment activities look sustainable.
- ▲ Shares of Associated Banc-Corp have underperformed the industry over the past year. However, the company's earnings estimates for 2020 have been revised substantially higher over the past month. Further, the stock seems undervalued than the broader industry. Its current price/book and PEG ratios are below the respective industry averages. Also, the stock has a Value Score of A. Therefore, given the strength in fundamentals and positive estimate revisions, the stock has upside potential in the near term.

Associated Banc-Corp's organic and inorganic growth efforts will likely enhance profitability. Further, solid loan and deposit growth, as well as efforts to restructure operations will support growth.

Reasons To Sell:

- ▼ While Associated Banc-Corp's NIM increased from 2.80% in 2016 to 2.82% in 2017 and 2.97% in 2018, the same declined in 2019 to 2.86%. The trend continued in first half of 2020. Despite persistent growth in loans, the company's NIM is expected to be hurt by lower interest rates. Further, the Fed has signalled no change in rates in the near term.
- ▼ Associated Banc-Corp has been witnessing a consistent rise in non-interest expenses. While expenses declined in 2019 and the first six months of 2020, the same has witnessed a 3.2% CAGR over the last six years (2014-2019). The rise was mainly due to higher personnel costs and technology expenses. Operating expenses are expected to remain elevated in the near term, given the company's inorganic growth efforts and persistent investment in franchise.
- ▼ The major part of Associated Banc-Corp's loan portfolio — 63.5% as of Jun 30, 2020 — comprised total commercial loans (commercial and business lending, as well as commercial real estate lending). Higher concentration on commercial loans may pose regulatory and market challenges for the company. Also, the company's exposure to some of the sectors — retailers, energy, restaurants and transportations — hit hardest by coronavirus-induced economic slowdown was 8.8% of total loans at second quarter-end.
- ▼ Associated Banc-Corp's trailing 12-month return on equity (ROE) undercuts its growth potential. The company's ROE of 6.88% compares unfavorably with 9.16% for the industry. This reflects that it is less efficient in using shareholders' funds.

Near-zero interest rates will likely hamper Associated Banc-Corp's margins. Also, higher costs (due to investments in franchise and integration costs) will hurt the bottom line in the near term.

Last Earnings Report

Associated Banc-Corp Q2 Earnings In Line, Provisions Rise

Associated Banc-Corp's second-quarter 2020 adjusted earnings of 26 cents per share came in line with the Zacks Consensus Estimate. The bottom-line figure, nevertheless, slumped 49%, year on year.

Rise in non-interest income, improvement in loan and deposit balances, as well as decreasing operating expenses supported the results. However, lower interest rates and a significant rise in provisions were the undermining factors.

Including gain on sale of Associated Benefits and Risk Consulting in the reported quarter, net income available to common shareholders was \$145 million, up 79% year over year.

Quarter Ending 06/2020

Report Date	Jul 23, 2020
Sales Surprise	38.45%
EPS Surprise	0.00%
Quarterly EPS	0.26
Annual EPS (TTM)	1.49

Revenues Improve, Expenses Fall

Net revenues were \$444.4 million, significantly up 43.6% year over year. Moreover, the revenue figure beat the Zacks Consensus Estimate of \$323.8 million.

Net interest income summed \$190 million, reflecting a fall of 11.1% from the year-ago quarter. Net interest margin (NIM) was 2.49%, down 39 basis points (bps).

Non-interest income totaled \$254.5 million, up significantly year over year. Increase in gains from asset sales, mortgage banking income and net capital markets fees primarily drove this uptick.

Non-interest expenses decreased 7.3% year over year at \$183 million.

Efficiency ratio (on a fully tax-equivalent basis) was 42.46%, down from the prior-year quarter's 61.13%. Fall in efficiency ratio indicates increase in profitability.

As of Jun 30, 2020, net loans were \$24.5 billion, up 1.8% on a sequential basis. Total deposits increased 3.5% from the prior quarter to \$26.5 billion.

Credit Quality Deteriorates

The company reported provision for credit losses of \$61 million, up substantially from the year-ago quarter's \$8 million. This rise was mainly due to a reserve build done to combat the coronavirus crisis. Also, the ratio of net charge-offs to annual average loans was 0.36% in the second quarter, up 18 bps from the year-ago quarter.

Moreover, as of Jun 30, 2020, total non-performing assets were \$192.8 million, up 4.2% year over year. Further, total non-accrual loans were \$172 million, up 3%.

Capital & Profitability Ratios Improve

As of Jun 30, 2020, Tier 1 risk-based capital ratio was 11.62%, up from the 11.19% witnessed in the corresponding period of 2019. In addition, common equity Tier 1 capital ratio was 10.25% compared with the 10.14% recorded at the end of the prior-year quarter.

Annualized return on average assets was 1.78%, up from 1.05% in the prior-year period. Moreover, return on average tangible common equity was 25.45% compared with the year-ago quarter's 13.81%.

Outlook

Management expects to maintain a loan-to-deposit ratio of about 90% for 2020, excluding the paycheck protection program (PPP). Further, the ratio of investments to total assets (excluding PPP) is projected to be 15%.

Additionally, the company expects PPP loans to be paid off mostly in fourth-quarter 2020 and early 2021.

It expects NIM to stabilize in the third quarter and somewhat recover in the fourth quarter. Overall, NIM is anticipated in the 2.55-2.60% range for 2020.

Among the fee income components, mortgage banking fees are expected to remain solid on increased refinancing activities in the third quarter. Service charges and other fee-based revenues are anticipated to return to normal levels over the remaining quarters of the year.

Operating expenses for the remaining quarters are projected at \$175 million, given the \$15 million quarterly reduction in the same following the sale of the insurance unit.

Loan loss provisions for the second half of 2020 are expected to be lower than the first-half level.

Effective tax rate for 2020 is expected to be 18% or less.

Recent News

Associated Banc-Corp Closes Deal to Sell Insurance Business – Jun 30, 2020

Associated Banc-Corp has completed the sale of its insurance business – Associated Benefits & Risk Consulting to USI Insurance Services LLC for \$265.8 million in cash. The deal was announced in May.

Being a multi-line insurance agency with 400 employees, Associated Benefits & Risk Consulting provides employee benefits, retirement plans, compliance, business insurance, risk management and individual insurance solutions.

Associated Banc-Corp will record pre-tax book gain of roughly \$165 million related to the sale in the second quarter 2020.

Notably, at the time of announcing the transaction, the company had expected this would strengthen its capital base and lead to increase in tangible common equity by approximately \$210 million. It will lower \$99 million of goodwill and other intangible assets. Also, the bank's pro-forma efficiency ratio is projected to decline nearly 1%.

Headquartered in Valhalla, NY, USI Insurance Services is one of the largest insurance brokerage and consulting firms in the world. It delivers property and casualty, employee benefits, personal risk, program and retirement solutions to large risk management clients, middle market companies, smaller firms and individuals.

At the time of announcing the deal, Associated Banc-Corp's president and CEO, Philip B. Flynn, had stated, "This transaction allows us to monetize our investment in ABRC and further our strategic goals of enhancing shareholder value and being a source of strength for our customers, colleagues and communities."

He had further added "The capital provided from this transaction will support loan growth, create an added buffer during these trying economic times, and support our dividend policy."

Dividend Update

On Jul 27, Associated Banc-Corp announced a quarterly cash dividend of 18 cents per share. The dividend will be paid on Sep 15 to shareholders of record as of Sep 1.

Valuation

Associated Banc-Corp's shares are down 36.5% in the year-to-date period and 28.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 28.9% and 15.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 18.1% and 6.1%, respectively.

The S&P 500 index is up 3.9% and 16.3% in the year-to-date period and trailing 12-month period, respectively.

The stock is currently trading at 12.58X forward 12 months earnings, which compares to 13.43X for the Zacks sub-industry, 16.65X for the Zacks sector and 22.75X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.53X and as low as 6.28X, with a 5-year median of 13.86X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$15 price target reflects 13.51X forward earnings.

The table below shows summary valuation data for ASB

Valuation Multiples - ASB					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.58	13.43	16.65	22.75
	5-Year High	20.53	16.92	16.65	22.75
	5-Year Low	6.28	9.51	11.59	15.25
	5-Year Median	13.86	13.58	14.26	17.58
P/TB TTM	Current	0.88	2.13	3.37	15.31
	5-Year High	2.14	3.94	4	15.31
	5-Year Low	0.74	1.66	2.01	5.96
	5-Year Median	1.62	2.95	3.48	9.56
P/S F12M	Current	1.92	3.68	6.22	3.66
	5-Year High	3.83	6.05	6.66	3.66
	5-Year Low	1.42	3.15	4.96	2.53
	5-Year Median	2.81	4.81	6.06	3.05

As of 08/10/2020

Industry Analysis Zacks Industry Rank: Top 49% (124 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
First Republic Bank (FRC)	Outperform	3
Bank of Hawaii Corporation (BOH)	Neutral	4
Comerica Incorporated (CMA)	Neutral	3
New York Community Bancorp, Inc. (NYCB)	Neutral	3
Prosperity Bancshares, Inc. (PB)	Neutral	3
Signature Bank (SBNY)	Neutral	3
SVB Financial Group (SIVB)	Neutral	3
Zions Bancorporation, N.A. (ZION)	Neutral	3

Industry Comparison Industry: Banks - Midwest				Industry Peers		
	ASB	X Industry	S&P 500	BOH	FRC	SIVB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	4	-	-	4	3	3
VGM Score	B	-	-	C	D	F
Market Cap	2.15 B	335.00 M	23.56 B	2.38 B	19.99 B	12.37 B
# of Analysts	4	3	14	3	9	11
Dividend Yield	5.14%	3.03%	1.71%	4.51%	0.69%	0.00%
Value Score	A	-	-	B	C	D
Cash/Price	0.94	0.47	0.07	0.44	0.16	1.17
EV/EBITDA	5.87	5.89	13.39	3.89	22.21	-0.47
PEG Ratio	1.46	2.31	2.92	2.01	2.77	2.13
Price/Book (P/B)	0.60	0.89	3.18	1.76	2.12	1.74
Price/Cash Flow (P/CF)	5.01	7.22	12.69	8.63	18.32	10.80
P/E (F1)	10.20	11.26	22.16	16.06	21.75	17.03
Price/Sales (P/S)	1.35	1.94	2.55	3.09	4.60	3.49
Earnings Yield	10.06%	8.88%	4.33%	6.23%	4.60%	5.87%
Debt/Equity	0.87	0.38	0.77	0.04	1.82	0.12
Cash Flow (\$/share)	2.79	2.79	6.94	6.88	6.34	22.23
Growth Score	D	-	-	F	D	F
Hist. EPS Growth (3-5 yrs)	12.79%	12.81%	10.41%	8.32%	12.45%	36.25%
Proj. EPS Growth (F1/F0)	-28.43%	-19.17%	-6.51%	-33.51%	2.71%	-35.11%
Curr. Cash Flow Growth	-1.86%	14.44%	5.26%	3.89%	10.31%	19.94%
Hist. Cash Flow Growth (3-5 yrs)	9.43%	15.97%	8.55%	4.36%	17.90%	34.83%
Current Ratio	0.98	0.91	1.34	0.70	1.04	0.71
Debt/Capital	44.34%	27.49%	44.59%	4.28%	61.89%	10.15%
Net Margin	21.70%	21.59%	10.13%	23.91%	22.03%	25.26%
Return on Equity	6.88%	9.16%	14.59%	13.98%	10.68%	13.61%
Sales/Assets	0.05	0.05	0.51	0.04	0.04	0.05
Proj. Sales Growth (F1/F0)	-3.08%	1.73%	-1.54%	-1.49%	12.92%	-1.07%
Momentum Score	C	-	-	C	B	B
Daily Price Chg	1.01%	0.91%	0.91%	0.99%	0.02%	1.16%
1 Week Price Chg	8.02%	5.60%	2.30%	3.81%	3.24%	5.83%
4 Week Price Chg	11.19%	7.73%	8.54%	3.02%	8.79%	11.97%
12 Week Price Chg	5.66%	10.18%	13.68%	-2.70%	14.90%	28.08%
52 Week Price Chg	-28.85%	-19.11%	3.71%	-27.16%	24.33%	23.25%
20 Day Average Volume	1,049,699	40,808	2,015,804	228,563	609,574	260,914
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-9.63%	10.80%	1.67%	-7.81%	5.35%	10.78%
(F1) EPS Est 12 week change	1.86%	11.27%	2.27%	-6.81%	9.30%	16.78%
(Q1) EPS Est Mthly Chg	8.70%	-0.36%	0.67%	-15.81%	2.24%	4.42%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	D
Momentum Score	C
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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