

First Republic Bank (FRC)

\$116.22 (As of 01/06/20)

Price Target (6-12 Months): **\$122.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 09/16/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

Growth: B

Momentum: A

Summary

Shares of First Republic have outperformed the industry over the past six months. Also, the company displays an impressive earnings surprise history, having surpassed the Zacks Consensus Estimate in three of the trailing four quarters. Improving loan and deposit balances will likely continue to support its top-line growth. Increasing loan originations are expected to support First Republic's growth prospects over the long run. Also, the company complies with all regulatory ratio requirements, reflecting a strong capital position. This makes it well poised to undertake any strategic expansion moves. However, due to fall in interest rates, contraction of net interest margin is a headwind as it impedes top line growth. Further, escalating expenses owing to investments in digital initiatives might affect the company's bottom-line expansion.

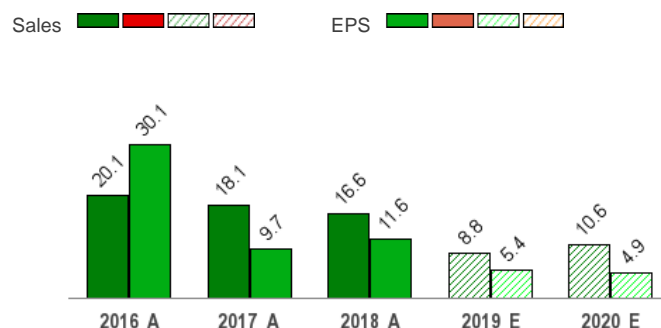
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$118.43 - \$83.68
20 Day Average Volume (sh)	771,111
Market Cap	\$19.6 B
YTD Price Change	-1.1%
Beta	0.91
Dividend / Div Yld	\$0.76 / 0.7%
Industry	Banks - West
Zacks Industry Rank	Top 41% (105 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.3%
Last Sales Surprise	0.8%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	01/14/2020
Earnings ESP	-2.0%
P/E TTM	22.8
P/E F1	21.9
PEG F1	1.9
P/S TTM	4.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	870 E	897 E	933 E	962 E	3,665 E
2019	807 A	819 A	837 A	851 E	3,314 E
2018	721 A	744 A	769 A	811 A	3,045 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.24 E	\$1.29 E	\$1.36 E	\$1.39 E	\$5.32 E
2019	\$1.26 A	\$1.24 A	\$1.31 A	\$1.26 E	\$5.07 E
2018	\$1.13 A	\$1.20 A	\$1.19 A	\$1.29 A	\$4.81 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 01/06/2020. The reports text is as of 01/07/2020.

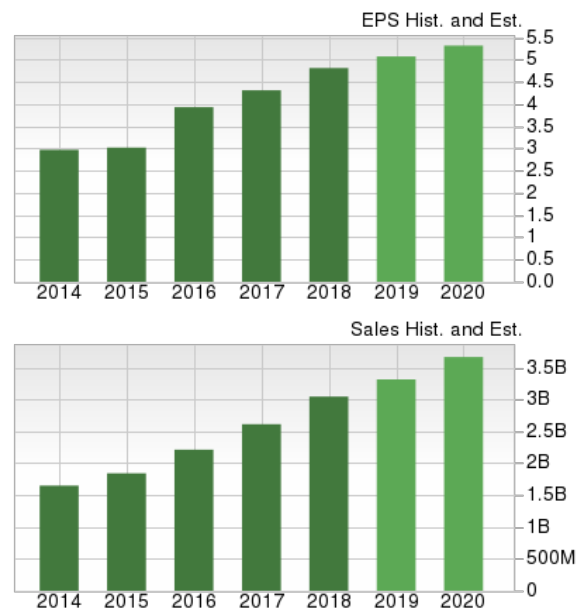
Overview

Headquartered in San Francisco, CA, First Republic Bank is a commercial bank and trust company and a member of the Federal Deposit Insurance Corporation (FDIC). The company specializes in providing personalized, relationship-based preferred banking, preferred business banking, real-estate lending, trust and wealth management services to customers in metropolitan areas across the United States. Notably, the company has been included in the S&P 500 on Jan 2, 2019.

First Republic operates through offices including San Francisco, Palo Alto, Los Angeles and Santa Barbara. It provides wealth management as well as trust services through First Republic Investment Management, Inc. and First Republic Trust Company, respectively. First Republic operates two major business segments:

- The **Commercial Banking** segment (90% of net income in 2018) accepts funds from customers, originates loans (principally real estate secured mortgage loans) and invests in investment securities. The chief sources of revenues for this segment are – interest earned on loans and investment securities, gains on sales of loans, fees earned from loan and deposit services, and income earned on loans serviced for investors.
- The **Wealth Management** segment (10%) consists of First Republic Investment Management, the money market mutual fund activities through third-party providers and the brokerage activities of First Republic Securities Company, LLC as well as operations of First Republic Trust Company, along with foreign exchange activities.

In December 2016, First Republic Bank acquired Gradifi. Gradifi is a corporate provider of education related benefit plans. Through Gradifi, employers can make direct contributions to education debt repayment or savings plans for their employees.



Reasons To Buy:

- ▲ First Republic has demonstrated considerable top-line strength over the past few years. The bank's net interest income (NII), which is also its primary source of income from operations, has exhibited a five-year CAGR (2014-2018) of 17.1%. Furthermore, with steady improvement in commercial and consumer loans, the company's NII will continue to benefit in the near term. At the same time, the company's non-interest income reflects a five-year CAGR (2014-2018) of 14.3%. Also, NII and fee income continued to increase in the first three quarters of 2019, suggesting optimism about the company's long-term prospects.
- ▲ First Republic's balance sheet growth story remains impressive. It recorded notable growth in loan balances, driven by increased loan origination volumes. It recorded a four-year CAGR (2015-2018) of 17.7%, with the trend continuing in the first nine months of 2019. Additionally, the company's total deposits have grown at a four-year CAGR of 18.2% (2015-2018). A rising trend in net loans and deposits was witnessed in the first nine months of 2019 as well. This trend is anticipated to continue with economic recovery.
- ▲ First Republic has complied with all regulatory ratio requirements since its inception. It has also been able to generate higher cash flow amid an increasingly difficult operating environment. As of Sep 30, 2019, the bank's Tier 1 leverage ratio was 8.5%. We believe a strong capital position will help it grow organically as well as through strategic acquisitions in the near future.
- ▲ Shares of First Republic have outperformed the industry so far this year. With this favorable trend, the company's 2019 earnings estimates have been revised 2.4% upward over the past 90 days. Therefore, given the progress on fundamentals and positive estimates revision, the stock has upside potential.

First Republic's growth prospects look promising driven by consistent growth in loans and deposits. Further, the company continues to benefit from an improving NII and strong capital position.

Reasons To Sell:

- ▼ Rising operating expenses have been a concern for First Republic. Costs witnessed a five-year CAGR (2014-2018) of 20%, with the trend continuing in the first nine months of 2019. Notably, cost savings from completed build-out of systems and processes required for crossing \$50 billion in total assets are being invested into digital initiatives including mobile banking applications and data analytics. As such, operating costs are likely to remain elevated in the near term which is likely to create pressure on bottom-line growth.
- ▼ First Republic's net interest margin (NIM) is affected by the flattening of yield curve — a decline in longer-term yields relative to short-term yields. Since 2013, the company's NIM has been contracting and the trend continued in the first nine months of 2019 as well. Notably, lower tax-equivalent yields on tax-advantaged investments and tax-exempt loans from the reduction of the federal tax rate for corporations also led to the decline in margin last year.
- ▼ First Republic seems overvalued when compared with the broader industry. Its current price-to-book and price-earnings (F1) ratios are above the respective industry averages.

Contracting net interest margin, despite relatively higher rates along with stretched valuation remain near term headwinds. Further, mounting expenses limit bottom-line expansion of the company.

Last Earnings Report

First Republic Q3 Earnings Beat Estimates, Costs Rise

First Republic Bank's third-quarter 2019 earnings per share of \$1.31 surpassed the Zacks Consensus Estimate of \$1.21. Also, the bottom line jumped 10.1% from the year-ago quarter.

Results were supported by increase in NII and non-interest income. Moreover, the company's balance sheet position remained strong in the quarter. However, rise in expenses was a headwind.

Net income available to common shareholders grew 13% year over year to \$222.1 million.

Revenues Climb, Expenses Escalate

Net revenues were \$837.2 million, up 8.9% year over year. Also, the figure surpassed the Zacks Consensus Estimate of \$830.6 million.

NII jumped 9.5% year over year to \$695 million, primarily supported by growth in average earning assets. Net interest margin was 2.80%, down from 2.85%.

Non-interest income was \$142.2 million, up 5.8% year over year. The rise was backed by higher brokerage and investment fees, and foreign exchange fee income, partially offset by lower investment management fees.

Non-interest expenses for the reported quarter were up 10.3% year over year to \$534 million. An increase in salaries and benefits, occupancy and information systems expenses from the continued investments in the expansion of the franchises led to the rise.

The efficiency ratio was 63.8% compared with 63% recorded in the prior-year quarter. It should be noted that rise in the efficiency ratio indicates lower profitability.

Healthy Balance Sheet

As of Sep 30, 2019, net loans climbed 5% sequentially to \$85.8 billion while total deposits were up 2.7% to \$85.7 billion. Loan originations were \$11.1 billion, up 18% from the prior quarter.

First Republic's total wealth management assets were \$140.2 billion as of Sep 30, 2019, indicating 1.9% sequential rise. This increase resulted from net new assets from existing and new clients, and market appreciation.

Notably, wealth management assets included investment management assets, brokerage assets, money market mutual funds, and trust and custody assets.

Credit Quality: A Mixed Bag

On a year-over-year basis, total non-performing assets increased significantly to approximately \$136.9 million. The non-performing assets to total assets ratio was 0.12%, up from 0.04% in the year-ago quarter.

However, provision for loan losses decreased 10.3% on a year-over-year basis to \$16.7 million.

Capital Position

As of Sep 30, 2019, the company's Tier 1 leverage ratio was 8.5%, indicating fall of 41 basis points from the prior-year quarter. Tier 1 capital to risk-weighted assets was 11.05%, down from 12.14%. Common equity Tier 1 capital to risk-weighted assets ratio was 9.91% compared with 10.47% a year ago.

Tangible book value per share increased 11% year over year to \$48.84.

Outlook

The company anticipates net interest margin to be about 2.75% in the fourth-quarter 2019 and approximately 2.82% in 2019.

Management expects efficiency ratio to be 64.5% in 2019.

Further, tax rate is anticipated to be between 20% and 21% in the fourth-quarter 2019. For 2019, effective tax rate is expected to be about 18%.

Quarter Ending **09/2019**

Report Date	Oct 15, 2019
Sales Surprise	0.79%
EPS Surprise	8.26%
Quarterly EPS	1.31
Annual EPS (TTM)	5.10

Recent News

Dividend Update

On Oct 15, First Republic announced a quarterly cash dividend of 19 cents per share. The dividend was paid on Nov 14 to shareholders on record as of Oct 31, 2019.

Valuation

First Republic's shares are up 32.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 18.2% and 16% over the past year, respectively.

The S&P 500 Index is up 24.5% in the past year.

The stock is currently trading at 21.82X forward 12 months earnings, which compares to 13.65X for the Zacks sub-industry, 14.79X for the Zacks sector and 18.17X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 23.7X and as low as 14.94X, with a 5-year median of 18.37X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$122 price target reflects 22.91X forward earnings.

The table below shows summary valuation data for FRC

Valuation Multiples - FRC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.82	13.65	14.79	18.17
	5-Year High	23.7	18.23	16.21	19.34
	5-Year Low	14.94	10.42	12.01	15.17
	5-Year Median	18.37	14.52	13.98	17.44
P/TB TTM	Current	2.41	2	3.29	12.36
	5-Year High	2.88	2.65	3.98	12.45
	5-Year Low	1.85	1.44	2.44	6.03
	5-Year Median	2.31	1.98	3.46	9.06
P/S F12M	Current	5.33	4.19	6.53	3.47
	5-Year High	6.2	4.75	6.61	3.47
	5-Year Low	3.61	3.05	5.2	2.54
	5-Year Median	4.62	3.97	6.04	3

As of 01/06/2020

Industry Analysis Zacks Industry Rank: Top 41% (105 out of 254)



Top Peers

State Street Corporation (STT)	Outperform
Bank of Hawaii Corporation (BOH)	Neutral
BOK Financial Corporation (BOKF)	Neutral
Northern Trust Corporation (NTRS)	Neutral
Regions Financial Corporation (RF)	Neutral
SVB Financial Group (SIVB)	Neutral
Webster Financial Corporation (WBS)	Neutral
Zions Bancorporation, N.A. (ZION)	Neutral

Industry Comparison Industry: Banks - West				Industry Peers		
	FRC Neutral	X Industry	S&P 500	NTRS Neutral	SIVB Neutral	ZION Neutral
VGM Score	B	-	-	C	D	D
Market Cap	19.58 B	349.96 M	23.72 B	22.30 B	12.85 B	8.71 B
# of Analysts	9	3	13	5	10	11
Dividend Yield	0.65%	1.88%	1.79%	2.66%	0.00%	2.66%
Value Score	D	-	-	D	B	B
Cash/Price	0.11	0.31	0.04	1.43	0.54	0.31
EV/EBITDA	21.69	7.33	13.90	-1.70	4.93	5.36
PEG Ratio	1.94	1.60	2.00	1.57	1.60	1.65
Price/Book (P/B)	2.31	1.41	3.34	2.25	2.12	1.25
Price/Cash Flow (P/CF)	19.80	11.13	13.67	10.92	14.58	9.11
P/E (F1)	21.85	12.81	18.72	14.73	12.80	11.59
Price/Sales (P/S)	4.85	3.32	2.66	3.22	3.83	2.69
Earnings Yield	4.58%	7.81%	5.31%	6.78%	7.81%	8.64%
Debt/Equity	1.43	0.13	0.72	0.41	0.12	0.18
Cash Flow (\$/share)	5.87	2.68	6.94	9.64	17.09	5.60
Growth Score	B	-	-	D	D	F
Hist. EPS Growth (3-5 yrs)	13.17%	16.09%	10.56%	16.57%	36.95%	29.02%
Proj. EPS Growth (F1/F0)	4.82%	-2.00%	7.42%	7.35%	-8.04%	2.52%
Curr. Cash Flow Growth	13.96%	26.53%	14.83%	25.17%	91.61%	30.46%
Hist. Cash Flow Growth (3-5 yrs)	22.33%	12.69%	9.00%	14.23%	34.23%	12.61%
Current Ratio	1.02	0.91	1.23	0.61	0.66	0.84
Debt/Capital	56.35%	11.49%	42.92%	27.18%	10.34%	14.19%
Net Margin	22.69%	26.30%	11.08%	22.10%	33.95%	26.50%
Return on Equity	11.23%	11.32%	17.16%	15.66%	20.38%	12.27%
Sales/Assets	0.04	0.05	0.55	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	10.60%	0.85%	4.15%	2.05%	0.63%	-1.18%
Momentum Score	A	-	-	A	F	F
Daily Price Chg	-1.23%	-0.30%	0.10%	-0.12%	-0.44%	-1.22%
1 Week Price Chg	0.01%	-0.50%	-0.30%	-1.51%	0.01%	0.39%
4 Week Price Chg	3.05%	1.00%	2.33%	-3.57%	5.45%	2.84%
12 Week Price Chg	19.59%	5.49%	7.02%	14.32%	24.97%	15.67%
52 Week Price Chg	32.88%	9.82%	24.61%	23.85%	21.56%	19.35%
20 Day Average Volume	771,111	16,328	1,589,897	1,001,310	370,806	1,565,490
(F1) EPS Est 1 week change	0.27%	0.00%	0.00%	0.79%	-0.10%	-0.09%
(F1) EPS Est 4 week change	0.22%	0.00%	0.00%	0.13%	-0.53%	-0.30%
(F1) EPS Est 12 week change	-0.74%	-3.83%	-0.56%	2.62%	-0.99%	1.17%
(Q1) EPS Est Mthly Chg	2.06%	0.00%	0.00%	0.81%	-1.30%	0.14%

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	D
Growth Score	B
Momentum Score	A
VGM Score	C

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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is 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. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.