

First Republic Bank (FRC)

\$93.40 (As of 04/08/20)

Price Target (6-12 Months): **\$98.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/16/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: F

Summary

Shares of First Republic have outperformed the industry over the past six months. Though earnings estimates have been revised downward prior to the first quarter earnings release, the company displays an impressive earnings surprise history. It surpassed the Zacks Consensus Estimate in three of the trailing four quarters. Improving loan and deposit balances might continue supporting First Republic's top-line growth. Further, increasing loan originations are expected to bolster its prospects over the long run. The company complies with all regulatory ratio requirements, reflecting a strong capital position. However, contraction of net interest margin due to lower rates 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.

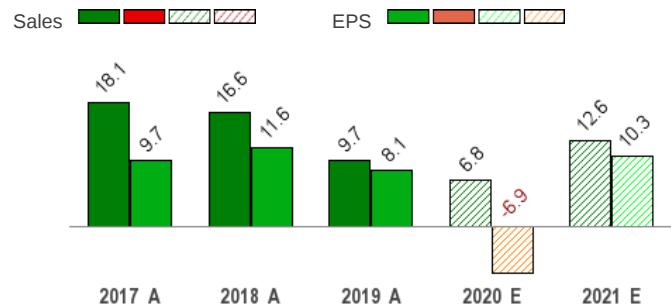
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$122.34 - \$70.06
20 Day Average Volume (sh)	2,098,699
Market Cap	\$15.7 B
YTD Price Change	-20.5%
Beta	1.02
Dividend / Div Yld	\$0.76 / 0.8%
Industry	Banks - West
Zacks Industry Rank	Bottom 8% (234 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.3%
Last Sales Surprise	3.3%
EPS F1 Est- 4 week change	-8.5%
Expected Report Date	04/14/2020
Earnings ESP	-1.5%
P/E TTM	18.0
P/E F1	19.3
PEG F1	1.7
P/S TTM	3.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	966 E	999 E	1,041 E	1,089 E	4,017 E
2020	877 E	883 E	913 E	944 E	3,569 E
2019	807 A	819 A	837 A	877 A	3,341 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.33 E	\$1.38 E	\$1.48 E	\$1.53 E	\$5.34 E
2020	\$1.13 E	\$1.14 E	\$1.22 E	\$1.26 E	\$4.84 E
2019	\$1.26 A	\$1.24 A	\$1.31 A	\$1.39 A	\$5.20 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 04/08/2020. The reports text is as of 04/09/2020.

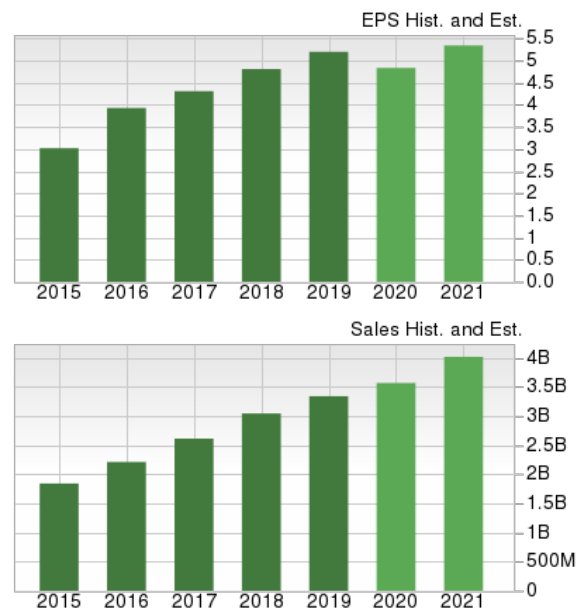
Overview

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 (contributed 89% of net income in 2019) 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 (11%) 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 (2015-2019) of 16.2%. Furthermore, with steady improvement in consumer loans, the company's NII is likely to benefit in the near term. In the same time period, its non-interest income reflects growth of 15.4%, with support from steady rise in investment management fees (accounting for 62% of fee income in 2019). Such steady growth in both NII and fee income suggests optimism about First Republic's top-line strength.
- ▲ First Republic's balance sheet growth story remains impressive. It recorded notable growth in loan balances, driven by increased loan origination volumes with a five-year CAGR (2015-2019) of 19.8%. Additionally, the company's total deposits have witnessed a CAGR of 17.1% in the same time span. Therefore, a rising trend in loans and deposits 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 Dec 31, 2019, the bank's Tier 1 leverage ratio was 8.39%. We believe a strong capital position will help it grow organically as well as through strategic acquisitions in the near future.

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 (2015-2019) of 18.3%. 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 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 led to the decline in margin in 2018. Further, the Federal Reserve recently decreased interest rates to near zero, which might keep margins under pressure in the quarters ahead.
- ▼ First Republic's capital deployment activities do not seem impressive. Though the company increased its common stock dividend by 5.5% in April 2019, it has no share buyback plans in place. Also, First Republic's debt/equity ratio does not compare favorably with the broader industry. Thus, such dividend payments might not be sustainable in the long term.
- ▼ Shares of First Republic have outperformed the industry over the past six months. Despite this favorable trend, the company's current-year earnings estimates have been revised 8.5% downward over the past 30 days. Also, the stock seems overvalued when compared with the broader industry. Its current price-to-book and price-earnings (F1) ratios are above the respective industry averages. Therefore, given the above concerns and lack of positive estimates revision, the stock has limited upside potential.

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

Last Earnings Report

First Republic Q4 Earnings Beat Estimates, Costs Rise

Driven by top-line strength, First Republic delivered a positive earnings surprise of 10.3% in fourth-quarter 2019. Earnings per share of \$1.39 surpassed the Zacks Consensus Estimate of \$1.26. Also, the bottom line jumped 7.8% 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. Also, decline in provisions was a positive factor. However, expenses witnessed a rise.

Net income available to common shareholders grew 9.5% year over year to \$235.6 million in the fourth quarter.

For full-year 2019, the company reported net income available to common shareholders of \$881.3 million or \$5.20 compared with \$796.1 million or \$4.81 in 2018.

Revenues Increase, Expenses Escalate

For 2019, the company reported net revenues of \$3.3 billion, up 9.7% from the prior-year quarter figure.

Total revenues were \$877.5 million in the quarter, up 8.2% year over year. Also, the figure surpassed the Zacks Consensus Estimate of \$849.8 million.

NII jumped 7.9% year over year to \$720.1 million, primarily supported by growth in average earning assets. Net interest margin came in at 2.73%, down from 2.98%.

Non-interest income was \$157.3 million, up 9.6% year over year. The rise was backed by increase in almost all fee components, except loan servicing fees.

Non-interest expenses for the reported quarter were up 12.1% year over year to \$558.8 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.

Efficiency ratio was 63.7% compared with 61.5% recorded in the prior-year quarter. It should be noted that rise in the efficiency ratio indicates lower profitability.

Healthy Balance Sheet

As of Dec 31, 2019, net loans climbed 5.2% sequentially to \$90.3 billion while total deposits were up 5.1% to \$90.1 billion. Loan originations were \$11.2 billion, up 2.4% sequentially.

First Republic's total wealth management assets were \$151 billion as of Dec 31, 2019, indicating 7.7% 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 \$143.2 million. Non-performing assets to total assets ratio was 0.12%, up from 0.05% in the year-ago quarter.

However, provision for loan losses decreased 62% to \$9.6 million.

Capital Position

As of Dec 31, 2019, the company's Tier 1 leverage ratio was 8.39%, indicating fall of 29 basis points from the prior-year quarter. Tier 1 capital to risk-weighted assets was 11.21%, down from 11.7%. Common equity Tier 1 capital to risk-weighted assets ratio was 9.86% compared with 10.38% a year ago.

Tangible book value per share increased 11% to \$50.24.

Outlook 2020

Loan growth is expected to be in the mid-teens. Also, earning assets are expected to grow in mid-teens.

The company anticipates net interest margin to be in the range of 2.65% to 2.75% in 2020, assuming no changes in Fed funds rates throughout 2020.

Management expects efficiency ratio to be between 63.5% and 64.5% in 2020. First-quarter 2020 efficiency ratio is expected to be higher due to the seasonal impact of payroll taxes and benefits.

Further, tax rate is anticipated to be between 20% and 21% in 2020. The tax rate in the first half of 2020 is expected to be a little lower due to the anticipated exercise of stock options that are to expire on Jul 1, 2020.

Quarter Ending **12/2019**

Report Date	Jan 14, 2020
Sales Surprise	3.26%
EPS Surprise	10.32%
Quarterly EPS	1.39
Annual EPS (TTM)	5.20

Recent News

First Republic Prices Public Offering of 2.5 Million Shares – Jan 15, 2020

First Republic has priced a public offering of nearly 2.5 million shares of its common stock, for expected gross proceeds of nearly \$295 million, before underwriting discounts and commissions and estimated offering expenses. The last reported sale price of its common stock on Jan 14, 2020 was \$120.75 per share.

The company also gave underwriters the 30-day option to buy up to an additional 375,000 shares.

It intends to use the proceeds from this offering for general corporate purposes, which may include, among other things, funding loans or purchasing investment securities for its portfolio.

Dividend Update

On Jan 14, First Republic announced a quarterly cash dividend of 19 cents per share. The dividend was paid on Feb 13 to shareholders on record as of Jan 30.

Valuation

First Republic's shares are down 20.5% in the year-to-date period and 9.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 33.8% and 26.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 28.4% and 19.5%, respectively.

The S&P 500 Index is down 14.5% in the year-to-date period and 4.7% in the past year.

The stock is currently trading at 17.12X forward 12 months earnings, which compares to 10.14X for the Zacks sub-industry, 12.48X for the Zacks sector and 16.99X 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 18.52X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$98 price target reflects 17.98X 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	17.12	10.14	12.48	16.99
	5-Year High	23.7	18.23	16.19	19.34
	5-Year Low	14.94	9.78	11.23	15.19
	5-Year Median	18.52	14.49	13.95	17.44
P/TB TTM	Current	1.87	1.26	2.41	10.39
	5-Year High	2.88	2.65	3.97	12.78
	5-Year Low	1.52	1.09	1.97	6.02
	5-Year Median	2.32	1.97	3.45	9.14
P/S F12M	Current	4.16	2.8	4.93	2.94
	5-Year High	6.2	4.75	6.65	3.44
	5-Year Low	3.64	2.71	4.93	2.54
	5-Year Median	4.67	3.97	6.03	3

As of 04/08/2020

Industry Analysis Zacks Industry Rank: Bottom 8% (234 out of 253)



Top Peers

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

Industry Comparison Industry: Banks - West				Industry Peers		
	FRC Neutral	X Industry	S&P 500	NTRS Underperform	SIVB Neutral	ZION Neutral
VGM Score	F	-	-	D	C	D
Market Cap	15.73 B	257.91 M	19.05 B	17.45 B	8.69 B	4.83 B
# of Analysts	10	4	13	6	11	13
Dividend Yield	0.81%	2.94%	2.23%	3.36%	0.00%	4.62%
Value Score	F	-	-	D	C	A
Cash/Price	0.12	0.50	0.06	2.73	0.94	0.52
EV/EBITDA	18.07	4.63	11.47	-7.57	1.57	5.05
PEG Ratio	1.80	1.14	2.00	1.24	1.43	1.09
Price/Book (P/B)	1.81	0.80	2.56	1.80	1.38	0.74
Price/Cash Flow (P/CF)	14.73	7.33	10.14	8.76	7.58	4.85
P/E (F1)	20.34	9.68	16.97	13.41	11.44	8.39
Price/Sales (P/S)	3.79	2.00	2.01	2.53	2.46	1.49
Earnings Yield	5.18%	10.34%	5.81%	7.46%	8.74%	11.92%
Debt/Equity	1.55	0.13	0.70	0.41	0.06	0.56
Cash Flow (\$/share)	6.34	2.79	7.01	9.51	22.23	6.07
Growth Score	F	-	-	D	C	F
Hist. EPS Growth (3-5 yrs)	13.27%	15.58%	10.92%	16.37%	38.74%	30.32%
Proj. EPS Growth (F1/F0)	-7.00%	-16.14%	-0.64%	-6.21%	-32.20%	-18.99%
Curr. Cash Flow Growth	10.31%	5.43%	5.93%	-5.52%	19.94%	-3.96%
Hist. Cash Flow Growth (3-5 yrs)	17.90%	14.60%	8.55%	10.90%	34.83%	17.66%
Current Ratio	1.01	0.91	1.24	0.65	0.67	0.88
Debt/Capital	57.77%	11.54%	42.36%	26.50%	4.99%	33.93%
Net Margin	22.38%	26.46%	11.64%	21.64%	32.20%	25.15%
Return on Equity	11.08%	11.08%	16.74%	15.15%	19.33%	12.19%
Sales/Assets	0.04	0.05	0.54	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	6.80%	0.00%	0.61%	-0.08%	-9.58%	-5.30%
Momentum Score	F	-	-	C	F	F
Daily Price Chg	3.56%	2.51%	4.33%	0.94%	5.30%	4.99%
1 Week Price Chg	-0.68%	-6.98%	-4.40%	4.12%	-12.55%	-10.51%
4 Week Price Chg	4.68%	-13.80%	-1.70%	16.66%	13.33%	-1.70%
12 Week Price Chg	-20.43%	-34.60%	-20.64%	-22.09%	-32.73%	-41.55%
52 Week Price Chg	-9.64%	-30.26%	-12.97%	-10.73%	-28.95%	-37.55%
20 Day Average Volume	2,098,699	36,268	4,016,075	2,246,833	854,276	5,347,044
(F1) EPS Est 1 week change	-2.32%	0.00%	-0.26%	0.00%	-6.05%	-9.40%
(F1) EPS Est 4 week change	-8.53%	-12.82%	-5.64%	-7.24%	-21.63%	-18.18%
(F1) EPS Est 12 week change	-8.98%	-14.05%	-7.49%	-14.33%	-24.64%	-20.82%
(Q1) EPS Est Mthly Chg	-9.02%	-10.71%	-9.90%	-13.38%	-19.64%	-19.59%

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	F
Growth Score	F
Momentum Score	F
VGM Score	F

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.