

Banks & Thrifts

July 16, 2019

| | |
|-------------------------|-------------------|
| Price: | \$58.17 |
| Fair Value Estimate: | \$60.00 |
| 52-Week Range: | \$53.40 - \$69.10 |
| Market Cap (MM): | \$6,428 |
| Shr.O/S-Diluted (mm): | 110.5 |
| Average Daily Volume: | 413,052 |
| Dividend: | \$1.04 |
| Yield: | 1.8% |
| Tang Book Value: | NA |
| Tang Comn Equity Ratio: | 11.1% |
| Price/Tangible Book: | 2.37x |

| | | | | |
|----------------------|---------|---------|---------|---------|
| FYE: Dec | 2017A | 2018A | 2019E | 2020E |
| EPS - non-GAAP | \$2.64A | \$3.78A | \$3.72E | \$3.76E |
| Adjusted: | | | | |
| Prior EPS - non-GAAP | | | NC | NC |
| Adjusted: | | | | |

| | | | | |
|------------------------------------|---------|---------|---------|----|
| Quarterly EPS - non-GAAP Adjusted: | | | | |
| Q1 | \$0.63A | \$0.86A | \$0.87A | -- |
| Q2 | \$0.68A | \$0.99A | \$0.96A | -- |
| Q3 | \$0.67A | \$0.97A | \$0.96E | -- |
| Q4 | \$0.67A | \$0.97A | \$0.95E | -- |



Commerce Bancshares, Inc. (CBSH) - NEUTRAL

2Q19 1st Look – Results Beat on Better Fee Income

PORTFOLIO MANAGER BRIEF

- 2Q19 results: Reported EPS = \$0.96 / Core = \$0.96 / Janney Est. = \$0.94 / Consensus Est. = \$0.94.
- The higher results were driven by better fee income and a lower provision and partially offset by lower NII.
- EOP loan growth was also slightly better (commercial + consumer) and credit quality remains strong.
- While results were better than expected, CBSH did state that “the recent drop in forward rate expectations is putting downward pressure on net interest income”.

ANALYST NOTES

- 2Q19 results were: Reported EPS = \$0.96 / Core = \$0.96 / Janney Est. = \$0.94 / Consensus Est. = \$0.94.
- Core EPS exclude net securities losses of \$110k and miscellaneous gains of \$576k.
- Core EPS vs. Janney Estimates: NII was up 3.9% Q/Q to \$215.2 million vs. \$217.5 million estimate (-0.02/share) as the reported and core NIM were lower than expected. Inflation income was in-line at +\$6.5 million vs. -\$1.8 million in 1Q19; core fee income (ex-securities losses and misc. gains) was better (+.02/share) on higher bankcard fees and mortgage revenue; the provision for loan losses was \$11.8 million vs. \$13.0 million estimate and NCOs of \$11.3 million (+.01/share); and operating expenses were in-line at \$189.8 million vs. \$190.0 million estimate.
- The reported NIM was up 9 bps Q/Q to 3.61% vs. 3.65% estimate. The core NIM was down 5 bps to 3.50%. Loan yields were down 3 bps to 4.82% (vs. +13 bps in 1Q19). The cost of interest-bearing deposits was up 4 bps to 0.55% (vs. +10 in 1Q19). The total cost of interest bearing liabilities was up 5 bps to 0.70%. CBSH stated in the press release “the recent drop in forward rate expectations is putting downward pressure on net interest income”.
- Loan trends: EOP balances were up 1.0% Q/Q vs. +0.75% estimate driven by higher commercial (C&I) and certain consumer loans. Average loans were up 0.2% Q/Q and up 1.4% Y/Y. The loan/deposit ratio = 72% vs. 71% at 3/31.
- Total NPAs (ex-performing TDRs) were down 3% to \$28.6 million or 0.20% of Loans+OREO. This compared to 0.21% at 3/31. The reserve was down 1 bps to 1.13% of loans.
- TBV was up 5.5% Q/Q to \$26.16/share. AOCI was +\$109 million vs. +\$12 million at 3/31. TCE was 11.2% vs. 11.0% at 3/31. CBSH repurchased 780k shares during the quarter at an average price of \$59.48.

- CBSH does not have a conference call and our EPS estimates are under review.
No change to 'Neutral' rating.

IMPORTANT DISCLOSURES

Research Analyst Certification

I, John Rodis, the Primarily Responsible Analyst for this research report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views I expressed in this research report.

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Data sources for the report are Bloomberg Financial L.P., SNL Financial LC, Stockcharts.com, Thomson Financial and regulatory filings.

The research analyst is compensated based on, in part, Janney Montgomery Scott's and/or its affiliate, FIG's profitability, which includes its investment banking revenues.

Janney Montgomery Scott LLC and/or its affiliate, FIG intends to seek or expects to receive compensation for investment banking services from Commerce Bancshares, Inc. in the next three months.

Janney Montgomery Scott LLC and/or its affiliate, FIG, currently acts as a market-maker in the securities of Commerce Bancshares, Inc.

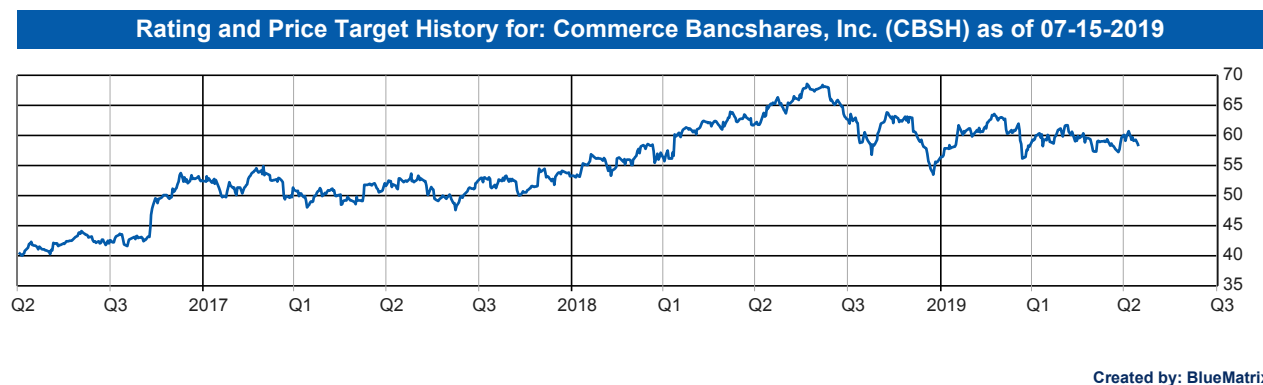
Definition of Ratings

BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

NEUTRAL: Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

SELL: Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

Price Charts



Janney Montgomery Scott Ratings Distribution as of 06/30/2019

| Rating | Count | Percent | IB Serv./Past 12 Mos.* | |
|--------------------|-------|---------|------------------------|---------|
| | | | Count | Percent |
| BUY [B] | 179 | 55.59 | 40 | 22.35 |
| NEUTRAL [N] | 142 | 44.10 | 14 | 9.86 |
| SELL [S] | 1 | 0.31 | 0 | 0.00 |

*Percentages of each rating category where Janney has performed Investment Banking services over the past 12 months.

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