

Wintrust Financial Corporation (WTFC)

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Financials

INTRODUCTION

Wintrust Financial Corporation (WTFC) is a multi-bank holding company consisting of 15 subsidiary banks with over 150 branches. Headquartered in Chicago, IL. Wintrust mainly serves the Chicago metropolitan area and communities throughout southern Wisconsin. The banks offer personal and commercial banking, wealth management, and specialty lending services, with business and commercial loans making up over 60% of their loan portfolio. Wintrust also provides niche lending for homeowner's associations, medical practices, franchisees, and municipalities. Wintrust operates three business segments: Community Banking, Specialty Finance, and Wealth Management. The Community Banking segment, which accounts for 83% of total revenue, provides individuals and businesses with a wide array of banking/lending products and services. The Specialty Finance segment, which accounts for 15% of revenue, provides financing for commercial and life insurance premiums. The Wealth Management segment, which accounts for 2% of revenue, offers financial planning and brokerage services.

RATIOS AND STATISTICS

Price (\$):	83.82	Beta:	1.27		2016A	2017A	2018E	2019E
Price Target (\$):	90-100	WACC:	10.64	Revenue (mil):	1,053	1,159	1,331	1,448
52 WK H-L (\$):	73.2-99.3	Efficiency Ratio (%):	61.5	% Growth:	14.7	9.90	15.60	8.80
Market Cap (mil):	4,158.4	CF/Share:	7.33	Operating Income:	332.6	389.8	415.5	458.0
Float (mil):	55.6	Debt/Assets (%):	4.36	EPS:	3.67	4.26	6.01	6.55
Short Interest (%):	1.61	Operating Margin (%):	33.87	% Growth:	18.2	16.3	40.9	9.0
Avg. Daily Vol:	376,764	ROA (%):	1.2	P/E:	19.78	19.31	13.95	12.80
Dividend (\$):	.19	ROE (%):	11.1	P/CF	13.26	13.18	15.41	14.01
Div. Yield (%):	.84	ROIC (%):	6.69	P/Book	1.54	1.62	1.51	1.37

RECOMMENDATION

We recommend a *Buy* for Wintrust Financial Corporation (WTFC) at a one-year target price range of \$90-\$100 due to the following reasons: Wintrust's continual rapid expansion through opportunistic acquisitions, increased focus towards product and technological advancement, and strong growth potential of their financials. Historically, Wintrust's tactical and methodical acquisition strategy has proven to successfully bolster profitability and market presence. Wintrust recently completed the acquisition of Delaware Place Bank, contributing \$215m to their existing deposit portfolio and \$145m to their existing loan portfolio. Additionally, they are set to close on an acquisition of American Enterprise Bank in Q4. We believe the combinations of these acquisitions have set up Wintrust for extraordinary growth in the near future. Wintrust is also making substantial efforts to outpace the industry by offering new products and services through newly implemented technology. We believe they will be able to heavily capitalize on the rapidly changing financial services market through these facets of product

diversification and technological outreach. The financial status of Wintrust is also incredibly strong, and we believe they are well positioned for future growth. Net revenue has grown from \$1.15B in 2017 to \$1.29B in the first three quarters of 2018, while net income has grown from \$240.2M to \$316.5M in the same time frame. This results in 14.6% and 24.5% growth for revenue and net income, respectively. Strong positioning for financial growth, product and technological advancement, and educated acquisitions are why we recommend a *Buy* for Wintrust.

INVESTMENT THESIS

Opportunistic Acquisitions: Historically, Wintrust has executed a strong growth strategy through branch openings by mergers and acquisitions. Over the past several years, Wintrust has completed numerous acquisitions of banks and other financial service related companies in order to increase their presence and profitability. Wintrust executes a very cautious and methodical approach in order to determine acquisition partners that are culturally similar, have experienced management, have significant market presence, and are undervalued. This approach allows for seamless acquisitions that, once executed, immediately increase Wintrust's profitability and market value. This experience and edge in tactical acquisitions will be key for future growth and success.

Rapid Expansion of Products and Services: Wintrust continually implements new lines of business and offers new products and services within existing lines of business to offer customers a competitive array of products and services. The financial services industry is continually undergoing rapid technological changes, and Wintrust is implementing effective use of technology to increase operational efficiency and to better serve customers. Through mergers and acquisitions and technological development, Wintrust has been able to consistently offer new products and services to its customers on a much larger scale. We believe this trend will continue in the future, leading to growth in profitability.

Consistent Financial Growth: Wintrust has a long history of consistent financial growth and increased profitability. Wintrust devotes substantial focus on improving their most viable revenue stream of interest income, primarily via diverse loan offerings and expansion of their mortgage market. Wintrust has seen 11 straight record quarters and we believe this will continue. Additionally, Wintrust has never seen negative income throughout their entire history, even through periods of financial crisis. Because of this, we believe they will continue to grow their financials, despite potential negative occurrences in the market.

Strong Customer Relations: Wintrust is able to compete with much larger banks by offering similar arrays of products and services while still offering a high level of customer service that is typical of a smaller bank. Their small geographical scope allows them to develop and maintain meaningful relationships with customers and communities that bolsters their reputation. Wintrust plays a prominent role in the Chicago metropolitan area and is viewed as a niche member of the community.

VALUATION

Determining reasonable estimates for banking stocks can be different from traditional product selling businesses. We used several methods in order to provide a diverse and reasonable valuation. Our first model was the tangible book value model. CAPM describes the relationship between systematic risk and expected return for assets, particularly stocks, and we then utilized the Return-on-Tangible-Book-Value to divide the CAPM resultant, by multiplying this figure by the bank's current tangible book value. We arrived at a future value estimate of \$86. Our second valuation method was a multiples approach. We used the P/E and P/B Ratio to estimate the future price within this methodology. Since Wintrust boasts strong earnings and growth potential, we estimate the book value per share will rise to 12% in the future with the price of \$60. We also used the estimate EPS ratio from Factset, which resulted in a value

of 6.46. For the average price from these two methods, we arrived at an estimate of \$112. Our final valuation method was the Graham Number. This figure measures a stock's fundamental value by considering the company's earnings per share and book value per share. Wintrust has strong earnings ability, interest income has been increasing stably, and their portfolio has remained healthy and strong. Under these conditions, we found the Graham Number for Wintrust to be \$89. After taking a weighted average of our different estimates, we arrived at a target price is \$97 and a target price range of \$90-\$100.

RISKS

Geographical Concentration of Business: Unlike national banks, Wintrust provides services to customers primarily in the Chicago and southern Wisconsin market areas. Local economic conditions in these areas may significantly impact the demand for products and services, the ability of customers to repay loans, and the stability of deposit funding sources. Any declines in economic conditions, including inflations, recession, unemployment, or changes in the real estate market could, in turn, have an adverse effect on Wintrust's financial condition.

High Proportion of Commercial Loans: Commercial loans make up a substantial proportion of Wintrust's loan portfolio. The repayment of Wintrust's commercial loans is dependent upon the financial success and viability of the borrower. If borrowers experience depressions in revenue or if the market in which they operate weakens, they may face a hindered ability to repay their loans. Additionally, if Wintrust is required to foreclose on underlying collateral, the unique nature of collateral may make it costly to liquidate.

Unanticipated Changes in Interest Rates: Changes in prevailing interest rates may adversely affect the value of Wintrust's assets and liabilities. Wintrust's net interest income may be affected by the fact that assets and liabilities reprice at different times and by different amounts as interest rates change. Although diversification of products and services hedges against interest rate risk, it is estimated that a .25% change in interest rates will translate into a \$20M fluctuation in net interest income, which represents the largest component of Wintrust's net income.

Competitiveness of Financial Services Industry: Wintrust faces competition in attracting and retaining deposits, making loans, and providing wealth management services throughout their market area. Many competitors, as a result of their larger size, may be able to offer a broader range of products and services, including newer technologies. The financial services industry may become even more competitive as a result of future government regulations.

MANAGEMENT AND COMPENSATION

Edward Wehmer (64) founded Wintrust in 1991 and has acted as CEO and President since May of 1998. Prior to the formation of Wintrust, Edward spent seven years as the president and COO of Lake Forest Bank & Trust. Before that, he was a CPA with Ernst & Young, specializing in the banking field, particularly in the area of mergers and acquisitions. He has over 30 years in the banking industry and has played a major role in the historical success of Wintrust. Additionally, he is the only member of the board who is also a manager of the company.

David Dykstra (57) has also been with Wintrust since its conception. He currently acts as the COO and provides leadership related to critical operational functions, technological advancement, and other strategic initiatives. Prior to 2002, he acted as Wintrust's CFO. David entered Wintrust with seven years of experience as a senior vice president, CFO, and audit manager in the banking industry.

We believe the strong team of experienced leaders and executives will continue to drive Wintrust towards substantial growth for many years to come.

STOCK PRICE GRAPH



PEER ANALYSIS

Name	Ticker	Market Cap (Million)	Revenue (Million)	EPS	PEG	P/E	ROE	Total Loans to Total Deposits
Wintrust Fin. Corp.	WTFC	4,158.4	1,291.8	5.54	1.15	13.3	11.1	94.7%
Bank of Hawaii Corp.	BOH	3,181.6	660.2	5.06	1.83	15.1	12.8	66.0%
Associated Bancorp.	ASB	3,910.8	1,198.7	1.93	1.59	12.74	7.32	91.6%
MB Financial	MBFI	3,587.0	991.4	5.25	1.68	8.1	10.7	97.0%
Cathay General Bancorp	CATY	2,984.4	599.3	3.17	2.32	11.1	11.4	101.5%
Peer Average	-	3,564.44	948.28	4.19	1.52	12.07	10.67	90.16%

The peer group consists of four companies within the banking industry of a similar size to Wintrust. We believe this is the most accurate peer group given their similar products, services, and size. Wintrust has strong financials compared to their peer group. Specifically, Wintrust leads their peer group in acquisitions and year over year growth, giving them an innovative edge.

OWNERSHIP

Ownership Type	% of Shares Owned
Inside Owners	1.32%
Institutional/Mutual Fund Owners	98.68%

TOP 5 SHAREHOLDERS

Holder	Shares	% Out
BlackRock Inc.	5,333,053	9.46%
Vanguard Group	5,017,018	8.90%
State Street Corp.	3,020,486	5.36%
Dimensional Fund Advisors	2,155,182	3.82%
Sun Life Financial Inc.	1,881,784	3.34%