

Company Update

Brian Martin, CFA
312-461-4346
bmartin@figpartners.com

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Christopher Marinac, CFA
404-601-7210

FCCO: \$10.59
“Outperform”
Price Target: \$12.00

First Community Corporation

*Adjusting 2014 EPS Estimate to Reflect Savannah Acquisition,
Establish 2015 Estimate & Maintain “Outperform” Rating.*

Summary Statistics	
Exchange	NASDAQ
Market Cap (\$M)	\$56.1
Avg. Volume	12,550
Annual Dividend	\$0.20
Dividend Yield	1.89%
Tangible Book/Share	\$9.86
Price/Tangible Book	107%
Price/2013 EPS	12.3x
Price/2014 EPS	11.1x
Total Assets (\$M)	\$633
TCE/TA	8.25%
ROAA (2013)	0.69%
ROAE (2013)	8.06%

EPS Estimates				
	2012	2013	2014	2015
Q1	\$0.19	\$0.20	\$0.20	\$0.21
Q2	\$0.23	\$0.23	\$0.19	\$0.23
Q3	\$0.19	\$0.17	\$0.24	\$0.25
Q4	\$0.19	\$0.17	\$0.23	\$0.26
FY	\$0.79	\$0.77	\$0.86	\$0.95

Industry Type	Bank
Headquarters	Lexington, SC
Offices	11
Date Established	1995
CEO	Michael C. Crapps
CFO	Joseph G. Sawyer

2013 & 2014 EPS Estimates are Core Estimates

- We are maintaining our 2013E EPS at \$0.77, increasing our 2014E EPS \$0.15 to \$0.86 to reflect the acquisition of Aiken, SC based Savannah River Financial Corporation (SRFC) and establishing our 2015 estimate at \$0.95. Our 2013 & 2014 estimates exclude one time merger related expenses which we estimate at ~\$900,000. The acquisition was announced August 14th and leads to approximately 21% EPS accretion with just under a four year payback period on the projected \$0.80-85 (8%) dilution to FCCO's tangible book value per share. Tangible book value and tangible common equity are projected to be ~\$9.40 and ~8.0%, respectively at close rising to nearly \$10 and 8.5% by 12-31-14.
- Shares remain “Outperform” rated with a \$12 Price Target which assumes a 14x PE multiple on our 2014 estimate or ~120% of projected tangible book value per share.

Transaction Details

- FCCO is acquiring Aiken, SC based Savannah River Financial Corporation in a cash and stock deal valued at \$33.6 million or approximately \$11 per share. Terms of the transaction call for a 60% / 40% cash and stock split with the exchange ratio approximating 1.0618 based on current price. Valuation metrics of the transaction were ~112% of tangible book value or ~18x EPS inclusive of projected cost saves. The core deposit premium was reasonable at 3.8%. The transaction is expected to close in early 1Q14 with the combined company having \$775 Mil. in Total Assets, \$635 Mil. in Deposits and \$449 Mill. in Loans with 13 branches.
- Annual EPS accretion is projected to be \$0.15, or ~21% which assumes no revenue enhancements, cost saves of 30%, CDI amortization and credit adjustments. This pencils to an approximate 3.7 year payback of tangible book value dilution which is estimated at ~\$0.83 or 8%. CDI is expected to be \$1.1 Mil. and total goodwill created \$3.6 Mil. Pro forma tangible book value falls to ~\$9.40 at 3-31-14 while the TCE-Tangible Common Equity ratio drops ~25 bps to 8%.

Please see important disclosures regarding FIG Partners' equity rating system, distribution of ratings, and other report disclosures on the last page of this report.



- Key positives of the transaction include: 1) strong EPS accretion, 2) logical geographic expansion into a contiguous county and Augusta, GA; the second largest city in the state of Georgia and 3) low integration risk given banks similar strategic focus and market similarities. Following the transaction, FCCO will hold the number 11 deposit market share rank (1.74%) in the Augusta-Richmond County, GA-SC MSA which holds a population of over 570,000.
- SRFC Background: SRFC is a well run 6 year old, overcapitalized bank with two banking centers in Aiken SC and Augusta, GA. At June 30th the bank had, ~\$160 Mil. in assets, \$110 Mil. in loans, and \$130 Mil. in deposits which produced an attractive 50 bps cost of funds. SRFC's loan mix is similar to FCCO's with concentrations in CRE, 1-4 family, and C&I at 43%, 25%, and 16%, respectively. NIM of 3.62% is stronger than FCCO's aided by an ~85% loan to deposit ratio. Credit is very strong with less than \$1 Mil. in NPAs representing 0.90% of Loans & OREO. The credit mark of \$2.1 Mil. covers all substandard credits and exceeds LTM net charge offs by more than 9x.

FIG Research Rating: "Outperform"

Price Target: \$12.00

	2014	Multiple	Price
Core EPS	\$0.86	13.7x	\$11.80
Dividends	\$0.20	1.0x	\$0.20
Excess Capital	<u>\$0.00</u>	<u>1.0x</u>	<u>\$0.00</u>
		Combined	\$12.00
Tangible Book	\$9.91	1.21x	\$12.00

Implied Gain/Loss versus Current Price: *na*

Alternative:

2015 EPS	\$0.95	13.8x	\$13.14
Dividends	\$0.20	1.0x	<u>\$0.20</u>
			\$13.34
Tangible Book	\$10.67	1.25x	\$13.34
		Discount Factor 10%	<u>0.90</u>
		Target Price	\$12.00

Source: FIG Partner Research, Forward Projections Thru 2015

BACKGROUND & RISKS

Headquartered in Lexington, South Carolina, First Community (FCCO) is a ~\$625 Million bank holding company (BHC) and the parent of First Community Bank, NA.

Founded in 1995 by a group of former executives from Republic National Bank (acquired by South Financial Group, Inc.), FCCO provides traditional retail, commercial and mortgage banking services through a network of 11 branches in the Midlands area of South Carolina.

We see primary risks to include (1) integration of acquisitions; (2) negative impact from persistently low or rapidly changing interest rates and/or a flattening yield curve; and (3) potential for rising credit costs in light of further growth in unemployment.

Earnings Model

	Annual			2013 Quarterly				2014 Quarterly			
	2013E	2014E	2015E	1Q13A	2Q13A	3Q13E	4Q13E	1Q14E	2Q14E	3Q14E	4Q14E
Income Data: (\$ in Millions)											
Net Interest Income	\$17.692	\$23.288	\$24.346	\$4.3	\$4.4	\$4.5	\$4.5	\$5.67	\$5.8	\$5.9	\$5.9
Loan Loss Provision	\$0.650	\$0.800	\$1.175	\$0.2	\$0.1	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2
Non-Interest Income	\$7.935	\$8.036	\$8.524	\$2.1	\$2.2	\$1.9	\$1.9	\$2.0	\$1.8	\$2.1	\$2.1
Gain/Loss on Loan Sales	\$0.000	\$0.000	\$0.000	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Gain/Loss on Securities	\$0.148	\$0.000	\$0.000	\$0.0	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
One-Time Items	(\$0.450)	(\$0.450)	\$0.000	\$0.0	\$0.0	\$0.0	(\$0.5)	(\$0.5)	\$0.0	\$0.0	\$0.0
Non-Interest Expense	\$19.519	\$22.662	\$23.047	\$4.8	\$5.0	\$4.9	\$4.9	\$5.7	\$5.7	\$5.7	\$5.7
Pre-Tax Income	\$5.156	\$7.412	\$8.649	\$1.4	\$1.7	\$1.3	\$0.8	\$1.4	\$1.8	\$2.2	\$2.1
Taxes	\$1.411	\$2.048	\$2.389	\$0.4	\$0.5	\$0.3	\$0.2	\$0.4	\$0.5	\$0.6	\$0.6
Extraordinary Items	\$0.000	\$0.000	\$0.000	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Income	\$3.7	\$5.4	\$6.3	\$1.0	\$1.2	\$0.9	\$0.6	\$1.0	\$1.3	\$1.6	\$1.5
Preferred Dividend	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Income Avail. To Common	\$3.7	\$5.4	\$6.3	\$1.0	\$1.2	\$0.9	\$0.6	\$1.0	\$1.3	\$1.6	\$1.5
Avg. Shares O/S	5.3	6.6	6.6	\$5.3	\$5.3	\$5.3	\$5.3	\$6.6	\$6.6	\$6.6	\$6.6
Earnings Per Share (EPS)	\$0.71	\$0.81	\$0.95	\$0.20	\$0.23	\$0.17	\$0.11	\$0.15	\$0.19	\$0.24	\$0.23
Per Share Data:											
Reported Book Value	\$10.16	\$10.71	\$11.46	\$10.35	\$9.98	\$10.10	\$10.16	\$10.20	\$10.34	\$10.53	\$10.71
Tangible Book Value	\$10.05	\$9.91	\$10.67	\$10.22	\$9.86	\$9.99	\$10.05	\$9.39	\$9.53	\$9.72	\$9.91
Dividends	\$0.20	\$0.20	\$0.20	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05
Pre-Tax, Pre-Provision EPS	\$1.15	\$1.32	\$1.49	\$0.31	\$0.36	\$0.30	\$0.22	\$0.25	\$0.31	\$0.37	\$0.37
CORE GAAP EPS	\$0.74	\$0.86	\$0.95	\$0.19	\$0.21	\$0.17	\$0.17	\$0.19	\$0.19	\$0.24	\$0.23
KEY Ratios:											
Net Interest Margin	3.13%	3.27%	3.35%	3.15%	3.11%	3.12%	3.13%	3.25%	3.26%	3.28%	3.28%
Return on Avg Assets	0.60%	0.69%	0.79%	0.69%	0.77%	0.58%	0.38%	0.51%	0.66%	0.81%	0.79%
Return on Avg Equity	6.92%	8.06%	8.61%	7.61%	8.72%	6.88%	4.39%	6.51%	7.54%	9.15%	8.86%
Pre-Tax Pre-Provision ROA	0.98%	1.12%	1.25%	1.09%	1.20%	1.01%	0.74%	0.86%	1.06%	1.27%	1.25%
Efficiency Ratio	75.44%	71.77%	69.56%	73.85%	73.29%	74.88%	74.73%	72.28%	72.67%	69.02%	69.15%
Overhead Ratio	3.13%	2.93%	2.92%	3.17%	3.15%	3.10%	3.11%	2.96%	2.93%	2.92%	2.90%
TCE/TA	8.41%	8.35%	8.81%	8.65%	8.25%	8.36%	8.41%	8.03%	8.11%	8.23%	8.35%
TCE/RWA	14.08%	12.75%	13.46%	14.74%	13.82%	13.99%	14.08%	12.26%	12.39%	12.57%	12.75%
Period-End Balances: (\$ in Millions)											
Earning Assets	\$587	\$733	\$748	\$582	\$587	\$587	\$587	\$722	\$726	\$730	\$733
Total Assets	\$633	\$785	\$801	\$626	\$633	\$633	\$633	\$773	\$777	\$781	\$785
Risk-Weighted Assets	\$378	\$510	\$521	\$367	\$378	\$378	\$378	\$503	\$505	\$508	\$510
Gross Loans	\$348	\$472	\$486	\$334	\$341	\$344	\$348	\$458	\$463	\$467	\$472
Total Deposits	\$512	\$645	\$653	\$497	\$510	\$511	\$512	\$640	\$641	\$643	\$645
Intangibles	\$1	\$5	\$5	\$1	\$1	\$1	\$1	\$5	\$5	\$5	\$5
Total Common Equity	\$54	\$70	\$75	\$55	\$52.83	\$53	\$54	\$66.95	\$68	\$69	\$70

Source: FIG Partners Research, SNL Financial LLC



Compliance

FIG Partners LLC Distribution of Ratings

	Buy/Outperform	Hold/Market-Perform	Sell/Underperform
% Rated	31.7%	65.4%	2.9%
IB Client % in Category	21.2%	22.1%	0.0%

Equity Rating System as of July 1, 2003

Buy/Outperform “O”	FIG expects that total return of the subject stock will outperform the industry benchmark (BIX) over the next 12 months
Hold/Market-Perform “M-P”	FIG expects that total return of the subject stock will perform inline with the industry benchmark (BIX) over the next 12 months
Sell/Underperform “U”	FIG expects that total return of the subject stock will under perform the industry benchmark (BIX) over the next 12 months

For purposes of FINRA rule 2711, outperform is classified as a buy, market perform is a hold and underperform is a sell. The industry benchmark that we use is the S&P Bank Index referred to as the BIX.

Ratings Changes for First Community Corporation (FCCO)



Additional Risks to Our Earnings Model Assumptions & Ratings:

Unexpected and/or rapid changes in interest rates may have significant negative impact on the company’s balance-sheet. Likewise, persistently low interest rates, and/or a flat yield curve may add downward pressure to revenues and the absolute level of NIM-Net Interest Margin.

Declines in asset quality beyond our estimates due to an economic slowdown in the company’s operating footprint may require increased expenses for loan losses which could decrease profitability. Further, this may cause an increase in Net Charge-offs, Nonperforming loans, and Classified Assets.

New rules set forth by regulatory agencies could reduce future profitability by eliminating certain revenue items, adding additional expenses, or requiring this institution to hold more capital. A similar effect is possible if new legislation (local, state, or federal) is passed.

Any regulatory action or litigation against the company could impact future earnings and also affect the public market perception towards this stock.



Compliance

- Neither the research analyst nor any member of the analyst's household has any financial interest in the subject company
- At the prior month end, neither FIG Partners LLC nor any of its partners or officers owned more than 1% of the outstanding equity securities of the subject company
- There are no material conflicts of interest of the analyst or FIG Partners LLC at the time of this report
- FIG has been a manager or co-manager of a public offering of any securities of the recommended issuer within the last three years
- FIG has received investment banking compensation from the subject company in the last three years
- FIG intends to seek investment banking compensation from the subject in the next three months
- The subject company is a client of FIG
- Neither the analyst nor anyone at FIG serves as an officer, director, or advisory board member of the subject company
- FIG will usually make a market in the subject security and was making a market in this security at the time of this report's publication
- All analysts are compensated based on a number of factors including the overall profits of FIG Partners LLC which includes investment banking revenues, but no analyst receives any compensation which is based on a specific investment banking service or transaction
- To determine price target, our analysts utilize a variety of valuation techniques including but not limited to: peer analysis, absolute P/E, relative P/E, projected P/E, absolute P/B, relative P/B, projected P/B, deposit premium, and a discounted cash flow model
- This research report reflects the analyst's actual opinion
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