

FCCO– First Community Corp.

Expands Presence in Greenville, SC Market; Solid EPS Accretion w/Modest TBV Dilution

- **FCCO announces financially attractive & strategic deal in Greenville, SC MSA**
- **Deal expected to be 5% accretive to 2018 EPS, 2.1% Dilutive to TBV w/ 3.5 yr. earn back.**
- **Deal increases asset base ~15% and should help accelerate growth in attractive MSA**
- **Adjust EPS, Boost Price Target to \$22 (+\$1), Reiterate Outperform**

We reiterate our “Outperform” rating and increasing our Price Target to \$22 (+\$1) which reflects ~16.5x our 2018 EPS or ~185% of Tangible Book Value one year out.

We are trimming our Core 2017 EPS by \$0.02 to \$1.10 and increasing our Core 2018 EPS to \$1.30 (+\$0.07) to account for the acquisition of Cornerstone Bancorp. Our Core EPS forecast assumes the transaction closes on October 1, 2017 and excludes ~\$1.5 Million in projected pre-tax merger related expenses. Our forecast assumes no change to the current tax rate of approximately 27%; however, we estimate each 1% drop in the rate could add about two cents to 2018 EPS. Our EPS forecast corresponds to a ROAA and ROTCE of 0.90% and 10.5%, respectively, in 2018. We expect TCE to approximate 8.2% at close and increase to over 8.6% in 2018.

Transaction Details.

FCCO announced the acquisition of \$145 Million in Asset, Easley, South Carolina based Cornerstone Bancorp (CTOT) in a stock (70%) and cash (30%) deal valued at approximately \$26 Million. CTOT shareholders may opt to receive \$11.00 in cash or 0.54 shares of FCCO stock for every share of CTOT they hold. FCCO intends to fund the cash portion of the transaction via internal funds.

Terms of the transaction are (1) 39.7x LTM Earnings, (2) 14.1x 2018 EPS inclusive of projected cost saves, (3) 139% of Tangible Book Value (~160% of normalized TBV when adjusting excess capital), or (4) a 8.1% Core Deposit Premium (sans CDs). The transaction is slated to close in early 4Q17 with FCCO incurring approximately \$1.5 Million in one-time, pre-tax merger related expense. We estimate the systems conversion is a late 2017 or early 2018 event.

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

FCCO: \$20.25

“Outperform”// Price Target: 22.00

Summary Statistics

Exchange	NASDAQ
Market Cap (\$M)	\$135.9
Avg. Volume	9,151
Annual Dividend	\$0.28
Dividend Yield	1.38%
Tangible Book/Share	\$11.28
Price/Tangible Book	179%
Price/2017 EPS	18.5x
Price/2018 EPS	15.6x
Total Assets (\$M)	\$914,793
TCE/TA	8.33%
ROAA (2017)	0.80%
ROAE (2017)	8.92%

EPS Estimates

	2015	2016	2017	2018
Q1	\$0.21	\$0.21	\$0.21	-
Q2	\$0.20	\$0.25	\$0.27	-
Q3	\$0.25	\$0.25	\$0.33	-
Q4	\$0.24	\$0.27	\$0.29	-
FY	\$0.90	\$0.98	\$1.09	\$1.30

Industry Type	Bank
Headquarters	Lexington, SC
Offices	15
Date Established	1995
CEO	Michael C. Crapps
CFO	Joseph G. Sawyer

Source (all data): FIG Partners Research, SNL Financial LC



We estimate the deal to be approximately 6% accretive to 2018 EPS. Tangible Book Value dilution is pegged at about 2.5% with an estimated earn back of 3.5 years. EPS accretion assumes no revenue enhancements, cost savings of 40%, and a gross credit mark of approximately 3.6% (\$2.6 Million). We project ~\$9.0 Million in Total Intangibles (~\$7.9 Million Goodwill & ~\$1.1 Million Core Deposit Intangible) will be added in conjunction with the transaction. We estimate Pro Forma Tangible Book Value at \$11.03 and TBV and TCE at close to approximate \$11.80 and 8.2-8.3%, respectively.

Overall, we see this transaction as a positive for FCCO as it makes strategic sense and is financially reasonable with mid-single digit EPS accretion in the first full year and an approximate 3.5 year earn back. Strategically, the deal expands FCCO's presence in the Greenville market (boosting its branch count to 4 from 1), bolsters its commercial lending talent and adds a solid core deposit franchise (71% Core Deposits sans CDs) with a low COF (39 bps vs 32 bps at FCCO). FCCO entered the Greenville MSA a year ago, hiring a local team of lenders and opening an LPO (transitioning to full service office in near term) in the market. The company has enjoyed good success in the market and the acquisition of CTOT will add increased scale and allow FCCO to more fully serve their customer base. Importantly, we expect loan and deposit growth to accelerate as the two teams come together. FCCO's larger balance sheet will provide greater lending capacity to CTOT borrowers while CTOT's attractive deposit base provides FCCO good sales opportunity.

FCCO-First Community Corporation Acquires Cornerstone Bancorp (CTOT)

- \$26 Million Deal Value
- 70% Stock / 30% Cash - CTOT shareholders may receive \$11 in cash or 0.54 shares of FCCO.
- Seller Assets = \$146 Mil. / Buyer Assets = \$915 Mil. (16% Seller vs. Buyer relative size).
- EPS accretion is targeted at ~5-6% in Year 1 (2018) ex transaction costs.
- TBV Dilution pegged at ~2.2% with an earn-back of ~3.5 years.
- Cost Savings of 40% targeted w/no branch closures
- Pricing Details 1) 39.7 LTM Core EPS, 2) 14.1x 2018 EPS inclusive of fully phased in cost saves, 3) 139% of TBV (~160% of normalized TBV adjusted for excess capital) or a 4) 8.1% Core Deposit Premium (sans CDs).
- Gross Credit Mark ~\$3.1 Mil. or 3.6% of Loans (includes 20% mark on OREO).
- Loan Book – 58% CRE, 16% C&D, and 14% 1-4 Family.
- Funding Base 71% Core Deposits (ex CD) w/18% Noninterest Bearing & 39 bps Cost of IBD.



FIG Partners LLC Distribution of Ratings

	Buy / Outperform	Hold / Market- Perform	Sell / Underperform
% Rated	32.0%	68.0%	0.0%
IB Client % in Category	29.3%	16.1%	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 Corp. (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 not been a manager or co-manager of a public offering of any securities of the recommended issuer within the last 12 months.
- FIG has not received investment banking compensation from the subject company in the last 12 months.
- 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.
- No research analyst is subject to the supervision or control of any employee of the member's investment banking department.
- No employee of the investment banking department has reviewed or approved this report prior to publication
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