## FIRST COMMUNITY CORPORATION (FCCO-NASDAQ)

Banking

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COMPANY COMMENT

# Upgrading to Outperform; $16 Target; Quality Franchise With a Proven Credit Culture

### RECOMMENDATION

We are upgrading First Community (FCCO) shares from Market Perform to **Outperform** and establishing a $16 target following a strong 2Q20, where results came in better than expected on both a reported and PTPP basis (loan growth and expense management were the major highlights). As a result of this quarter's $1.3 million provision expense (near our $1.5 million estimate), the loan loss reserve ratio (ex. PPP loans) was up 13% (+13 bp) sequentially to 1.16%, comparable with peers. Touching briefly on underlying results, core loan growth (ex. PPP loans) was a pleasant surprise, where the company recorded ~3% organic growth in the quarter, citing increasing demand across its footprint (an outlier thus far in our coverage). Moreover, expenses came in lower despite a record quarter for mortgage (which resulted in higher variable comp). Moving forward, with generally strong underlying trends, our focus remains on credit. Importantly, as highlighted in the second bullet below, deferrals have been trending positively in July, with nearly 50% of initially deferred balances now off deferral, and "at-risk" exposure appears manageable (see below). All in, with shares now trading in line with peers (historically enjoyed a modest premium given the strength of the franchise), solid capital levels (9% TCE), and with a demonstrated, strong credit culture at the bank (see below), we are now constructive on FCCO shares and see the risk/reward balance as positive at this time (burn-down on page 4).

- **Active in PPP loans, which will impact nearer-term margin:** The company has now facilitated $80.7 million in PPP loans, with $49.7 million direct loans on balance sheet at July 17. As a result, nearer-term margin will be impacted as the associated fees flow through interest income; we model core margin ex. PPP impacts to contract 7 bp q/q to 3.33%.
- **Deferral trends appear positive:** Notably, deferrals stood at 22.7% of the loan portfolio ex. PPP at June 30, and are now down meaningfully to 14.4% at July 16, where management cited payments being restarted at the conclusion of their deferral (had previously disclosed 27% of loans under deferral in May; 1Q coverage median of 11.4%), and we believe re-deferral activity is very limited.
- **Burn-down analysis drives our loss assumptions:** As illustrated in the table on page 3, our modeled loss/provisioning expectations are driven by our burn-down analysis (page 4). Our analysis suggests that the company would remain well-capitalized (7.9% TCE ratio in an 8-quarter stress period) even under our "doomsday" Scenario 4, which calls for double the Scenario 3 loss rates (think Great Recession), or 4.0% (we continue to assume just 1.0% in cumulative losses, in line with our Scenario 2 loss rate given the company's strong credit culture).
- **Estimates:** We are raising our 2020E/2021E EPS from $1.05/$0.95 to $1.20/$1.05, respectively.

### VALUATION

FCCO trades at 0.9x its 2Q20 TBV of $15.35. Our new $16 target assumes shares trade at 1.0x, a slight premium to micro-cap peers at 0.9x. We believe the company's strong core trends, credit culture, and capital levels warrant a slight premium valuation.

**Outperform 2** ↑ old: Market Perform 3
**Target Price $16.00** old: NM

| Bear Case | Jul-24-20 | Target Price | Bull Case |
|---|---|---|---|
| 9.00 | 13.66 | 16.00 | 22.00 |
| -31% | | +21% | +65% |

** potential return inclusive of dividend*

| Suitability | High Risk/ Growth |
|---|---|

### MARKET DATA

| | |
|---|---|
| Current Price (Jul-24-20) | $13.66 |
| Market Cap (mln) | $102 |
| Current Net Debt (mln) | $37 |
| Enterprise Value (mln) | $140 |
| Shares Outstanding (mln) | 7.5 |
| 30-Day Avg. Daily Value (mln) | $0.7 |
| Dividend | $0.48 |
| Dividend Yield | 3.5% |
| 52-Week Range | $12.51 - $22.00 |
| BVPS | $17.47 |
| Tangible BVPS | $15.35 |

### KEY FINANCIAL METRICS

| | 1Q | 2Q | 3Q | 4Q |
|---|---|---|---|---|
| Non-GAAP EPS ($, Dec FY) | | | | |
| 2019A | 0.33 | 0.36 | 0.39 | 0.39 |
| 2020E | 0.24 | 0.17 | 0.32 | 0.32 |
| **new** | **0.24 A** | **0.30 A** | **0.35** | **0.31** |
| 2021E | UR | UR | UR | UR |
| **new** | **0.14** | **0.25** | **0.32** | **0.33** |

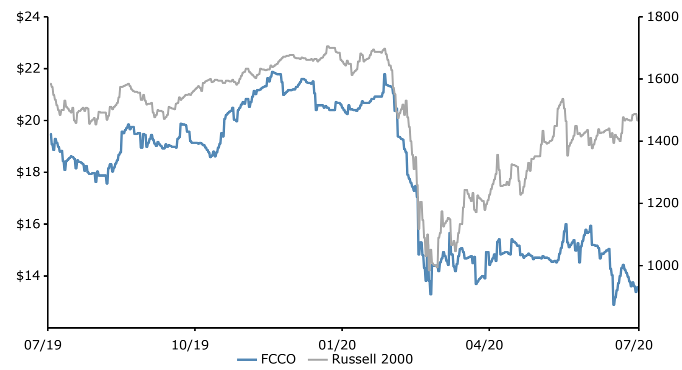
| | 2019A | 2020E | 2021E |
|---|---|---|---|
| Non-GAAP EPS ($, Dec FY) | | | |
| old | 1.46 | 1.05 | 0.95 |
| **new** | **1.46** | **1.20** | **1.05** |
| P/E (Non-GAAP) | | | |
| | 9.3x | 11.4x | 13.0x |
| GAAP EPS ($, Dec FY) | | | |
| old | 1.45 | 1.05 | 0.95 |
| **new** | **1.45** | **1.20** | **1.05** |
| Revenue (mln) ($, Dec FY) | | | |
| old | 49 | 51 | 51 |
| **new** | **49** | **52** | **52** |

*Source: Thomson One, Raymond James & Associates. Quarterly figures may not add to full year due to rounding.*
*Non-GAAP EPS is operating earnings and excludes one-time items.*

## THE BIG PICTURE

All in, with shares now trading in line with peers (historically enjoyed a modest premium given the strength of the franchise), solid capital levels (8.8% TCE), and with a demonstrated, strong credit culture at the bank (see below), we are now constructive on FCCO shares and see the risk/reward skew as positive at this time (burn-down on page 4 implies a scenario-weighted fair value of $18).

## RELATIVE PERFORMANCE




## COMPANY DESCRIPTION

First Community Corporation, headquartered in Lexington, South Carolina, is a more than $1 billion asset bank holding company that operates approximately 20 branches, primarily in the midlands region of the state, with a small presence in eastern Georgia.

## FIRST COMMUNITY CORPORATION RISK/REWARD

| Bear Case | | Current Price | | Price Target (Base Case) | | Bull Case |
|---|---|---|---|---|---|---|
| $9.00 | « (31)% « | $13.66 | » 21% » | $16.00 | » 65% » | $22.00 |

Shares trade at 0.8x our stressed forward-year TBV, or in line with our Scenario 4 implied fair value of $9

Shares trade at 1.0x our base case forward-year TBV, or $16, still a discount to our scenario-weighted fair value of $18

Shares trade at 1.5x our bull case forward year TBV, or in line with our Scenario 1 implied fair value of $22

## BULL/BEAR CASE ON FIRST COMMUNITY CORPORATION (FCCO)

| Debate | Bear Case | Bull Case | Our Take |
|---|---|---|---|
| **Core NIM** | Loan growth continues to slow and yield pressures continue to intensify, driving core margin contraction | Fed ends up hiking rates earlier than anticipated, driving core margin expansion | We model a ~3.31% core margin in 2021 |
| **Credit** | Our Scenario 4 calls for 4.00% in cumulative losses through 2021 | Our Scenario 1 calls for 0.50% in cumulative losses through 2021 | Our model assumes Scenario 2 loss rates, or 1.0% in cumulative losses through 2021 |

**Raising Earnings Estimates**

| *($ in thousands)* | 2020E | | | 2021E | | |
|---|---|---|---|---|---|---|
| | **Old** | **Current** | **Change** | **Old** | **Current** | **Change** |
| **Operating EPS** | **$1.05** | **$1.20** | **$0.15** | **$0.95** | **$1.05** | **$0.10** |
| **GAAP EPS** | **$1.05** | **$1.20** | **$0.15** | **$0.95** | **$1.05** | **$0.10** |
| Core PTPP* Earnings | 14,412 | 16,099 | 12% | 14,018 | 15,054 | 7% |
| Avg. Earning Assets | 1,088,062 | 1,135,135 | 4% | 1,139,318 | 1,197,327 | 5% |
| NIM | 3.50% | 3.44% | -5 bps | 3.39% | 3.31% | -8 bps |
| Net Interest Income | 38,492 | 39,632 | 3% | 38,590 | 39,599 | 3% |
| Provision | 4,475 | 4,725 | 6% | 4,900 | 5,000 | 2% |
| Operating Fee Income | 12,271 | 12,512 | 2% | 12,578 | 12,559 | 0% |
| Operating Expense | 36,416 | 36,139 | -1% | 37,195 | 37,149 | 0% |
| Operating Efficiency | 72% | 69% | -243 bps | 73% | 71% | -147 bps |
| Tax Rate | 20.7% | 20.3% | -36 bps | 21.0% | 21.0% | 0 bps |
| Diluted shares | 7,488 | 7,482 | 0% | 7,548 | 7,540 | 0% |
| Dividends per share | $0.48 | $0.48 | $0.00 | $0.48 | $0.48 | $0.00 |
| Loan Growth | 7.3% | 8.6% | 126 bps | 2.9% | 3.7% | 76 bps |
| Reserves/Loans | 1.10% | 1.18% | 8 bps | 1.02% | 1.09% | 7 bps |
| NPAs/Loans | 0.62% | 0.56% | -6 bps | 0.86% | 0.77% | -8 bps |
| NCOs/Avg. Loans | 0.30% | 0.24% | -6 bps | 0.66% | 0.66% | 0 bps |

*PTPP = pre-tax, pre-provision

Source: Company documents and Raymond James research.

**Tangible Common Equity Burn-Down Analysis**

# First Community Corporation (FCCO)

**Tangible Common Equity Burn-Down and 2022 EPS Scenario Analysis**

## Tangible Common Equity Burn-Down Analysis

| Drivers | Scenario 1 | Scenario 2 | Current Model | Scenario 3 | Scenario 4 |
|---|---|---|---|---|---|
| Estimated Cumulative Loss (NCO Rate) | **0.50%** | **1.00%** | **1.00%** | **2.00%** | **4.00%** |
| Estimated Cumulative Losses (NCOs) | $3,690 | $7,379 | $7,298 | $14,759 | $29,518 |
| Estimated Loan Loss Reserve Ratio | 1.11% | 1.12% | 1.09% | 1.13% | 1.14% |

**Assumes Losses are Realized over 2020-2021**

*Tangible Common Equity Ratio Analysis*

| | Scenario 1 | Scenario 2 | Current Model | Scenario 3 | Scenario 4 |
|---|---|---|---|---|---|
| **Estimated TCE/TA Ratio at YE 2021** | **9.18%** | **9.05%** | **8.79%** | **8.71%** | **7.92%** |
| 4Q19 TCE/TA Ratio | 9.02% | 9.02% | 9.02% | 9.02% | 9.02% |
| *basis point change in TCE ratio* | *16 bp* | *4 bp* | *-23 bp* | *-31 bp* | *-110 bp* |
| *% change in TCE ratio* | *2%* | *0%* | *-3%* | *-3%* | *-12%* |

*Tangible Book Value Analysis*

| | Scenario 1 | Scenario 2 | Current Model | Scenario 3 | Scenario 4 |
|---|---|---|---|---|---|
| **Estimated TBV/Share at YE 2021** | **$16.59** | **$16.20** | **$16.21** | **$15.43** | **$13.88** |
| 4Q19 TBV/Share | $13.99 | $13.99 | $13.99 | $13.99 | $13.99 |
| *impact ($'s)* | *$2.60* | *$2.21* | *$2.22* | *$1.44* | *-$0.11* |
| *% impact* | *19%* | *16%* | *16%* | *10%* | *-1%* |

## 2022 EPS Scenario Analysis

| Drivers | Scenario 1 | Scenario 2 | Scenario 3 | Scenario 4 |
|---|---|---|---|---|
| Estimated Cumulative Loss (NCO Rate) | 0.13% | 0.25% | 0.50% | 1.00% |
| Estimated Loan Growth | 3.0% | 2.5% | 2.0% | 0.0% |
| Estimated Operating Revenue Growth | 4.5% | 2.5% | 0.0% | -9.0% |
| Estimated Operating Expense Growth | 3.5% | 2.0% | 0.0% | -8.0% |

*2022 EPS Scenario Analysis*

| | Scenario 1 | Scenario 2 | Scenario 3 | Scenario 4 |
|---|---|---|---|---|
| **EPS** | **$1.57** | **$1.42** | **$1.15** | **$0.56** |
| **TCE/TA** | **9.51%** | **9.36%** | **8.92%** | **7.98%** |
| **TBV/Share** | **$17.71** | **$17.17** | **$16.13** | **$14.00** |
| **ROTCE** | ***9.4%*** | ***8.7%*** | ***7.5%*** | ***4.3%*** |

*2022 Implied Fair Value Scenario Analysis*

| | Scenario 1 | Scenario 2 | Scenario 3 | Scenario 4 |
|---|---|---|---|---|
| **Probability** | **10%** | **55%** | **30%** | **5%** |
| **TBV/Share Multiple** | **1.5x** | **1.4x** | **1.2x** | **0.8x** |
| **Discount Rate (2.5 years at 8.50%)** | ***23%*** | ***23%*** | ***23%*** | ***23%*** |
| **Implied Fair Value** | ***$22.24*** | ***$19.60*** | ***$15.39*** | ***$9.04*** |

**Scenario Weighted Implied Fair Value: $18.07**

Source: S&P Global; Raymond James research

## First Community Regional Peer Group Comparison

| | | Balance Sheet Ratios | | | | Income Statement Ratios | | | | | | | Credit | | | | Capital | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | Ticker | Assets ($M) | Core Deposits | Nonint Deposits | Loans/ Deposits | NIM | Loan Yields | Yield on Earning Assets | Cost of Deposits | Cost of Funds | Fee Income/ Revenue | Efficiency Ratio | NCOs/ Avg. Loans | NPAs/ Loans | Reserves/ Loans | Reserves/ NPAs | TCE ratio | Leverage Ratio | Tier 1 risk-based |
| South State Corporation | SSB | $16,643 | 87% | 27% | 93% | 3.65% | 4.63% | 4.21% | 0.47% | 0.59% | 26% | 58% | 0.05% | 0.60% | 1.25% | 207% | 8.2% | 9.6% | 12.0% |
| Security Federal Corporation | SFDL | $1,030 | 71% | 0% | 60% | 2.99% | 5.36% | 4.00% | 0.75% | 0.00% | 21% | 85% | 0.05% | 1.11% | 2.10% | 190% | 9.2% | 10.3% | 18.3% |
| GrandSouth Bancorporation | GRRB | $925 | 53% | 17% | 96% | 4.83% | 6.82% | 6.32% | 1.37% | 1.46% | 6% | 68% | 0.21% | 0.59% | 1.42% | 240% | 8.4% | 10.2% | 11.3% |
| South Atlantic Bancshares, Inc. | SABK | $745 | 79% | 0% | 93% | 3.95% | 5.05% | 4.74% | 0.83% | 0.83% | 20% | 77% | -0.01% | 0.17% | 0.91% | 535% | 11.3% | 8.9% | 10.8% |
| First Reliance Bancshares, Inc. | FSRL | $661 | 73% | 29% | 95% | 4.09% | 4.91% | 4.91% | 0.66% | 0.82% | 23% | 80% | 0.04% | 1.16% | 0.75% | 65% | 8.6% | 10.3% | 11.8% |
| Bank of South Carolina Corporation | BKSC | $500 | 95% | 43% | 64% | 3.72% | 5.63% | 4.31% | 0.09% | 0.00% | 13% | 59% | -0.01% | 1.12% | 1.41% | 127% | 10.5% | 11.6% | 0.0% |
| **First Community Corporation** | **FCCO** | **$1,185** | **83%** | **30%** | **76%** | **3.53%** | **0.00%** | **4.00%** | **0.42%** | **0.50%** | **24%** | **72%** | **0.00%** | **0.65%** | **1.01%** | **156%** | **9.3%** | **9.9%** | **13.4%** |
| **Peer Group Medians:** | | **$925** | **79%** | **27%** | **93%** | **3.72%** | **5.05%** | **4.31%** | **0.66%** | **0.59%** | **21%** | **72%** | **0.04%** | **0.65%** | **1.25%** | **190%** | **9.2%** | **10.2%** | **11.8%** |

*Peer group consists of banks based in SC with assets between roughly $500 million and $10 billion and excludes Mutual Holding Companies. Data as of most recent quarter. Core deposits exclude all time deposits.*
*Note: Peer comparisons can be skewed during earnings reporting season due to the timing of reports. Credit metrics include covered NPA and Loan balances for banks that have acquired institutions with FDIC loss share arrangements which can skew credit metrics negatively. SNL calculates certain metrics differently than individual companies in some cases which can cause variance from our models.*
*Source: S&P Global and Raymond James research*

**Select Valuation and Profitability Metrics**

| | | | | Valuation Metrics | | | | | Profitability Metrics | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Count | Mkt Cap (M) | Assets (M) | P/TBV | 2020E P/E | 2021E P/E | Deposit Premium | Dividend Yield | ROA (1Q20) | ROE (1Q20) | ROTCE (1Q20) | ROTCE (2020E) | ROTCE (2021E) | 2020E EPS Growth | 2021E EPS Growth |
| **Industry Medians** | **499** | **$174** | **$2,009** | **0.97x** | **12.4x** | **11.3x** | **3%** | **3.6%** | **0.67%** | **6.0%** | **7.4%** | **8.9%** | **8.6%** | **-26%** | **6%** |
| Large Cap (>$10B) | 14 | $32,583 | $315,442 | 1.25x | 16.1x | 11.3x | 5% | 4.6% | 0.36% | 3.4% | 5.1% | 8.5% | 10.0% | -44% | 44% |
| Mid-Cap ($2B - $10B) | 44 | $3,082 | $28,349 | 1.21x | 13.1x | 11.5x | 4% | 3.9% | 0.64% | 5.3% | 7.7% | 9.3% | 10.4% | -32% | 14% |
| Small-Cap ($500M - $2B) | 90 | $942 | $8,600 | 1.12x | 13.7x | 12.1x | 3% | 3.6% | 0.72% | 5.5% | 8.0% | 9.1% | 9.1% | -30% | 8% |
| Micro-Cap (<$500M) | 351 | $113 | $1,251 | 0.88x | 11.1x | 10.8x | 3% | 3.4% | 0.68% | 6.3% | 7.4% | 8.7% | 7.7% | -22% | 0% |
| **Asset Size Medians** | | | | | | | | | | | | | | | |
| Over $50B | 22 | $11,939 | $129,060 | 1.19x | 16.0x | 10.8x | 4% | 4.8% | 0.33% | 3.1% | 4.5% | 7.4% | 9.6% | -44% | 44% |
| $10B to $50B | 70 | $1,983 | $18,036 | 1.11x | 12.9x | 11.2x | 2% | 3.9% | 0.63% | 4.8% | 7.3% | 8.6% | 9.5% | -35% | 8% |
| $5B to $10B | 62 | $646 | $6,695 | 1.06x | 12.8x | 12.2x | 4% | 3.2% | 0.68% | 5.8% | 7.3% | 8.9% | 9.1% | -25% | 11% |
| $1B to $5B | 224 | $150 | $1,748 | 0.90x | 11.6x | 11.3x | 3% | 3.5% | 0.76% | 6.8% | 8.0% | 8.9% | 8.0% | -21% | -1% |
| $500M to $1B | 121 | $61 | $716 | 0.90x | 9.0x | 7.9x | 4% | 3.2% | 0.56% | 5.3% | 6.9% | 14.2% | 9.6% | -1% | 2% |

Priced as of July 24, 2020.

Note: Excludes banks with less than $500 million in assets, Mutual Holding Companies, and trust banks. Forward P/E and ROTE metrics are based on FactSet consensus

Source: S&P Global, FactSet, and Raymond James research

## First Community Corporation

| **Income Statement** | **2018** | **1Q19** | **2Q19** | **3Q19** | **4Q19** | **2019** | **1Q20** | **2Q20** | **3Q20E** | **4Q20E** | **2020E** | **1Q21E** | **2Q21E** | **3Q21E** | **4Q21E** | **2021E** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *($ in thousands)* | **31-Dec** | **31-Mar** | **30-Jun** | **30-Sep** | **31-Dec** | **31-Dec** | **31-Mar** | **30-Jun** | **30-Sep** | **31-Dec** | **31-Dec** | **31-Mar** | **30-Jun** | **30-Sep** | **31-Dec** | **31-Dec** |
| Net Interest Income | 35,748 | 9,020 | 9,116 | 9,353 | 9,359 | 36,848 | 9,417 | 9,743 | 10,044 | 10,428 | 39,632 | 9,702 | 9,772 | 10,013 | 10,112 | 39,599 |
| Provision for loan losses | 346 | 105 | 9 | 25 | 0 | 139 | 1,075 | 1,250 | 800 | 1,600 | 4,725 | 2,100 | 1,300 | 900 | 700 | 5,000 |
| **Net Interest Income after Provision** | **35,402** | **8,915** | **9,107** | **9,328** | **9,359** | **36,709** | **8,342** | **8,493** | **9,244** | **8,828** | **34,907** | **7,602** | **8,472** | **9,113** | **9,412** | **34,599** |
| Deposit service charges | 1,769 | 411 | 380 | 421 | 437 | 1,649 | 399 | 210 | 221 | 217 | 1,047 | 324 | 321 | 423 | 476 | 1,545 |
| Mortgage origination fees | 3,895 | 844 | 1,238 | 1,251 | 1,222 | 4,555 | 982 | 1,572 | 1,258 | 1,195 | 5,006 | 956 | 1,147 | 1,135 | 852 | 4,090 |
| Investment advisory fees and commissions | 1,683 | 438 | 489 | 509 | 585 | 2,021 | 634 | 671 | 684 | 698 | 2,688 | 719 | 733 | 748 | 763 | 2,964 |
| Gain on sale of securities | (340) | (29) | 164 | 0 | 1 | 136 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gain (loss) on sale of other assets | 24 | 0 | (3) | 0 | 0 | (3) | 6 | 0 | 0 | 0 | 6 | 0 | 0 | 0 | 0 | 0 |
| Loss on early extinguishment of debt | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 3,613 | 845 | 918 | 932 | 684 | 3,379 | 907 | 934 | 953 | 972 | 3,765 | 981 | 1,011 | 960 | 1,008 | 3,961 |
| **Noninterest Income** | **10,644** | **2,509** | **3,186** | **3,113** | **2,929** | **11,737** | **2,928** | **3,387** | **3,115** | **3,082** | **12,512** | **2,980** | **3,212** | **3,267** | **3,099** | **12,559** |
| Non-Operating items | (340) | (29) | 164 | 0 | (282) | (147) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Operating Noninterest Income** | **10,984** | **2,538** | **3,022** | **3,113** | **3,211** | **11,884** | **2,928** | **3,387** | **3,115** | **3,082** | **12,512** | **2,980** | **3,212** | **3,267** | **3,099** | **12,559** |
| **Total Revenue** | **46,392** | **11,529** | **12,302** | **12,466** | **12,288** | **48,585** | **12,345** | **13,130** | **13,159** | **13,509** | **52,144** | **12,682** | **12,984** | **13,280** | **13,211** | **52,158** |
| **Total Operating Revenue** | **46,732** | **11,558** | **12,138** | **12,466** | **12,570** | **48,732** | **12,345** | **13,130** | **13,159** | **13,509** | **52,144** | **12,682** | **12,984** | **13,280** | **13,211** | **52,158** |
| Salaries and employee benefits | 19,515 | 5,170 | 5,210 | 5,465 | 5,416 | 21,261 | 5,653 | 5,840 | 5,723 | 5,695 | 22,911 | 5,808 | 5,867 | 5,925 | 5,984 | 23,585 |
| Occupancy | 2,380 | 655 | 647 | 703 | 691 | 2,696 | 643 | 679 | 686 | 693 | 2,700 | 700 | 707 | 714 | 721 | 2,841 |
| Equipment | 1,513 | 386 | 389 | 365 | 353 | 1,493 | 318 | 298 | 299 | 301 | 1,216 | 307 | 310 | 312 | 313 | 1,242 |
| Marketing and public relations | 919 | 175 | 430 | 159 | 351 | 1,115 | 354 | 247 | 235 | 239 | 1,075 | 299 | 305 | 244 | 249 | 1,097 |
| FDIC assessment | 375 | 74 | 71 | (10) | (78) | 57 | 42 | 88 | 89 | 88 | 307 | 86 | 86 | 85 | 85 | 341 |
| Other real estate expense | 98 | 29 | 18 | 31 | 3 | 81 | 35 | 40 | 10 | 10 | 95 | 15 | 10 | 10 | 10 | 45 |
| Amortization of intangibles | 563 | 132 | 132 | 133 | 126 | 523 | 105 | 95 | 94 | 93 | 387 | 92 | 91 | 90 | 89 | 363 |
| Other | 6,760 | 1,702 | 1,743 | 1,944 | 2,001 | 7,390 | 1,888 | 1,844 | 1,862 | 1,853 | 7,448 | 1,909 | 1,899 | 1,918 | 1,909 | 7,635 |
| **Noninterest Expense** | **32,123** | **8,323** | **8,640** | **8,790** | **8,863** | **34,616** | **9,038** | **9,131** | **8,999** | **8,972** | **36,139** | **9,217** | **9,274** | **9,298** | **9,360** | **37,149** |
| Non-Operating items | 164 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Operating Noninterest Expense** | **31,959** | **8,323** | **8,640** | **8,790** | **8,863** | **34,616** | **9,038** | **9,131** | **8,999** | **8,972** | **36,139** | **9,217** | **9,274** | **9,298** | **9,360** | **37,149** |
| **Income Before Tax** | **13,923** | **3,101** | **3,653** | **3,651** | **3,425** | **13,830** | **2,232** | **2,749** | **3,361** | **2,938** | **11,279** | **1,366** | **2,410** | **3,082** | **3,151** | **10,009** |
| Income tax expense | 2,694 | 606 | 772 | 753 | 727 | 2,858 | 438 | 532 | 706 | 617 | 2,293 | 287 | 506 | 647 | 662 | 2,102 |
| **GAAP Net Income** | **11,229** | **2,495** | **2,881** | **2,898** | **2,698** | **10,972** | **1,794** | **2,217** | **2,655** | **2,321** | **8,987** | **1,079** | **1,904** | **2,435** | **2,489** | **7,907** |
| **Operating Net Income** | **11,469** | **2,518** | **2,756** | **2,898** | **2,920** | **11,093** | **1,794** | **2,217** | **2,655** | **2,321** | **8,987** | **1,079** | **1,904** | **2,435** | **2,489** | **7,907** |
| Diluted shares | 7,731 | 7,725 | 7,704 | 7,463 | 7,469 | 7,590 | 7,468 | 7,465 | 7,495 | 7,500 | 7,482 | 7,520 | 7,525 | 7,555 | 7,560 | 7,540 |
| GAAP EPS - diluted | $1.45 | $0.32 | $0.37 | $0.39 | $0.36 | $1.45 | $0.24 | $0.30 | $0.35 | $0.31 | $1.20 | $0.14 | $0.25 | $0.32 | $0.33 | $1.05 |
| **Operating EPS - diluted** | **$1.48** | **$0.33** | **$0.36** | **$0.39** | **$0.39** | **$1.46** | **$0.24** | **$0.30** | **$0.35** | **$0.31** | **$1.20** | **$0.14** | **$0.25** | **$0.32** | **$0.33** | **$1.05** |
| **Financial Highlights** | | | | | | | | | | | | | | | | |
| TBV/share | $12.56 | $13.04 | $13.46 | $13.84 | $13.99 | $13.99 | $14.55 | $15.35 | $15.53 | $15.72 | $15.72 | $15.71 | $15.85 | $16.00 | $16.21 | $16.21 |
| TCE/Assets | 8.9% | 9.2% | 9.2% | 9.2% | 9.0% | 9.0% | 9.3% | 8.8% | 8.8% | 8.8% | 8.8% | 8.7% | 8.7% | 8.8% | 8.8% | 8.8% |
| Loans/Deposits | 78% | 78% | 78% | 77% | 75% | 75% | 76% | 73% | 74% | 74% | 74% | 75% | 76% | 78% | 78% | 78% |
| Loan Growth | 11.1% | 0.0% | 1.2% | 1.1% | 0.4% | 2.6% | 1.7% | 9.1% | 0.2% | -2.3% | 8.6% | 0.2% | 1.0% | 1.0% | 1.5% | 3.7% |
| Deposit Growth | 4.2% | -0.6% | 1.9% | 1.2% | 4.1% | 6.8% | -0.2% | 13.4% | -1.0% | -2.0% | 9.8% | -1.0% | -1.0% | -1.0% | 1.0% | -2.0% |
| NPAs/Loans | 0.56% | 0.57% | 0.56% | 0.50% | 0.51% | 0.51% | 0.43% | 0.40% | 0.46% | 0.56% | 0.56% | 0.70% | 0.80% | 0.83% | 0.77% | 0.77% |
| NPAs/Loans (ex PPP) | 0.56% | 0.57% | 0.56% | 0.50% | 0.51% | 0.51% | 0.43% | 0.42% | 0.48% | 0.57% | 0.57% | 0.71% | 0.80% | 0.84% | 0.78% | 0.78% |
| NCOs/Avg. Loans | -0.02% | 0.01% | 0.00% | -0.09% | -0.04% | -0.03% | 0.00% | 0.00% | 0.20% | 0.75% | 0.24% | 1.00% | 0.75% | 0.50% | 0.40% | 0.66% |
| NCOs/Avg. Loans (ex PPP) | -0.02% | 0.01% | 0.00% | -0.09% | -0.04% | -0.03% | 0.00% | 0.00% | 0.21% | 0.78% | 0.25% | 1.02% | 0.76% | 0.51% | 0.40% | 0.67% |
| Reserves/Loans | 0.87% | 0.88% | 0.88% | 0.89% | 0.90% | 0.90% | 1.03% | 1.09% | 1.14% | 1.18% | 1.18% | 1.19% | 1.15% | 1.12% | 1.09% | 1.09% |
| Reserves/Loans (ex PPP) | 0.87% | 0.88% | 0.88% | 0.89% | 0.90% | 0.90% | 1.03% | 1.16% | 1.20% | 1.20% | 1.20% | 1.20% | 1.16% | 1.13% | 1.10% | 1.10% |
| NIM | 3.69% | 3.73% | 3.67% | 3.65% | 3.56% | 3.65% | 3.55% | 3.38% | 3.35% | 3.50% | 3.44% | 3.33% | 3.29% | 3.30% | 3.31% | 3.31% |
| NIM (ex. PPP) | 3.69% | 3.73% | 3.67% | 3.65% | 3.56% | 3.65% | 3.55% | 3.40% | 3.33% | 3.30% | 3.39% | 3.30% | 3.30% | 3.31% | 3.31% | 3.31% |
| G&A/Avg. Assets | 2.97% | 3.06% | 3.13% | 3.14% | 3.08% | 3.10% | 3.07% | 2.88% | 2.70% | 2.66% | 2.82% | 2.70% | 2.69% | 2.67% | 2.66% | 2.68% |
| Efficiency Ratio | 68% | 72% | 71% | 71% | 71% | 71% | 73% | 70% | 68% | 66% | 69% | 73% | 71% | 70% | 71% | 71% |
| Effective tax rate | 19.3% | 19.5% | 21.1% | 20.6% | 21.2% | 20.7% | 19.6% | 19.4% | 21.0% | 21.0% | 20.3% | 21.0% | 21.0% | 21.0% | 21.0% | 21.0% |
| ROA (operating) | 1.07% | 0.92% | 1.00% | 1.03% | 1.01% | 0.99% | 0.61% | 0.70% | 0.80% | 0.69% | 0.70% | 0.32% | 0.55% | 0.70% | 0.71% | 0.57% |
| ROE (operating) | 10.7% | 8.9% | 9.4% | 9.9% | 9.8% | 9.5% | 5.8% | 7.0% | 8.1% | 7.0% | 7.0% | 3.2% | 5.7% | 7.2% | 7.2% | 5.8% |
| ROTCE (operating) | 12.8% | 10.5% | 11.0% | 11.6% | 11.4% | 11.1% | 6.8% | 8.1% | 9.2% | 8.0% | 8.0% | 3.7% | 6.5% | 8.2% | 8.2% | 6.6% |
| Dividends per share | $0.40 | $0.11 | $0.11 | $0.11 | $0.11 | $0.44 | $0.12 | $0.12 | $0.12 | $0.12 | $0.48 | $0.12 | $0.12 | $0.12 | $0.12 | $0.48 |

*Source: Company reports and Raymond James research*

## First Community Corporation

| **Balance Sheet** <br> *($ in thousands)* | 4Q18 <br> 31-Dec | 1Q19 <br> 31-Mar | 2Q19 <br> 30-Jun | 3Q19 <br> 30-Sep | 4Q19 <br> 31-Dec | 1Q20 <br> 31-Mar | 2Q20 <br> 30-Jun | 3Q20E <br> 30-Sep | 4Q20E <br> 31-Dec | 1Q21E <br> 31-Mar | 2Q21E <br> 30-Jun | 3Q21E <br> 30-Sep | 4Q21E <br> 31-Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Stated Equity** | **112,497** | **116,434** | **117,489** | **118,780** | **120,194** | **124,614** | **130,801** | **132,554** | **133,972** | **134,146** | **135,145** | **136,671** | **138,250** |
| Intangibles | 16,643 | 16,511 | 16,379 | 16,246 | 16,120 | 16,015 | 15,920 | 15,826 | 15,733 | 15,641 | 15,549 | 15,459 | 15,370 |
| **Tangible Common Equity** | **95,854** | **99,923** | **101,110** | **102,534** | **104,074** | **108,599** | **114,881** | **116,728** | **118,239** | **118,506** | **119,595** | **121,212** | **122,880** |
| | | | | | | | | | | | | | |
| Book Value | $14.74 | $15.19 | $15.64 | $16.03 | $16.16 | $16.70 | $17.47 | $17.64 | $17.81 | $17.79 | $17.91 | $18.04 | $18.24 |
| Tangible BV | **$12.56** | **$13.04** | **$13.46** | **$13.84** | **$13.99** | **$14.55** | **$15.35** | **$15.53** | **$15.72** | **$15.71** | **$15.85** | **$16.00** | **$16.21** |
| Shares Outstanding | 7,634 | 7,665 | 7,511 | 7,409 | 7,440 | 7,462 | 7,486 | 7,516 | 7,521 | 7,541 | 7,546 | 7,576 | 7,581 |
| | | | | | | | | | | | | | |
| Equity/Assets | 10.3% | 10.6% | 10.5% | 10.5% | 10.3% | 10.5% | 9.9% | 9.9% | 9.9% | 9.8% | 9.8% | 9.8% | 9.8% |
| **TCE ratio** | **8.9%** | **9.2%** | **9.2%** | **9.2%** | **9.0%** | **9.3%** | **8.8%** | **8.8%** | **8.8%** | **8.7%** | **8.7%** | **8.8%** | **8.8%** |
| | | | | | | | | | | | | | |
| **Capital Ratios** | | | | | | | | | | | | | |
| Common Equity Tier 1 | 13.19% | 13.30% | 13.47% | 13.79% | 13.44% | 13.35% | 13.02% | | | | | | |
| Tier 1 Capital Ratio | 13.19% | 13.30% | 13.47% | 13.79% | 13.44% | 13.35% | 13.02% | | | | | | |
| Total Capital Ratio | 13.96% | 14.07% | 14.24% | 14.58% | 14.23% | 14.25% | 14.03% | | | | | | |
| Leverage Ratio | 9.98% | 10.19% | 10.19% | 10.38% | 9.95% | 9.91% | 9.31% | | | | | | |
| | | | | | | | | | | | | | |
| **Total Assets** | **1,091,595** | **1,097,396** | **1,115,968** | **1,129,990** | **1,170,279** | **1,185,307** | **1,324,800** | **1,344,672** | **1,358,119** | **1,371,700** | **1,385,417** | **1,399,271** | **1,413,264** |
| Other short-term investments | 17,940 | 22,677 | 24,989 | 13,156 | 32,741 | 25,637 | 77,666 | | | | | | |
| Investment securities | 256,022 | 248,909 | 252,302 | 267,060 | 288,792 | 290,943 | 297,972 | | | | | | |
| Loans held for sale | 3,223 | 7,299 | 8,730 | 10,775 | 11,155 | 11,937 | 33,496 | | | | | | |
| Loans | **718,462** | **718,420** | **726,707** | **734,374** | **737,028** | **749,529** | **817,372** | **819,228** | **800,102** | **802,022** | **809,769** | **817,598** | **829,554** |
| Allowance for loan losses | (6,263) | (6,354) | (6,362) | (6,560) | (6,627) | (7,694) | (8,936) | (9,327) | (9,409) | (9,506) | (9,295) | (9,178) | (9,054) |
| Other assets | 102,211 | 106,445 | 109,602 | 111,185 | 107,190 | 114,955 | 107,230 | | | | | | |
| | | | | | | | | | | | | | |
| **Total Liabilities** | **979,098** | **980,962** | **998,479** | **1,011,210** | **1,050,085** | **1,060,693** | **1,193,999** | | | | | | |
| Total deposits | 925,523 | 919,773 | 937,391 | 948,827 | 988,201 | 986,645 | 1,118,872 | 1,107,683 | 1,085,530 | 1,074,674 | 1,063,928 | 1,053,288 | 1,063,821 |
| Securities sold under repo | 28,022 | 32,007 | 33,889 | 34,321 | 33,296 | 46,041 | 45,651 | | | | | | |
| FHLB advances | 231 | 2,226 | 221 | 216 | 211 | 0 | 0 | | | | | | |
| Junior sub debt | 14,964 | 14,964 | 14,964 | 14,964 | 14,964 | 14,964 | 14,964 | | | | | | |
| Other liabilities | 10,358 | 11,992 | 12,014 | 12,882 | 13,413 | 13,043 | 14,512 | | | | | | |

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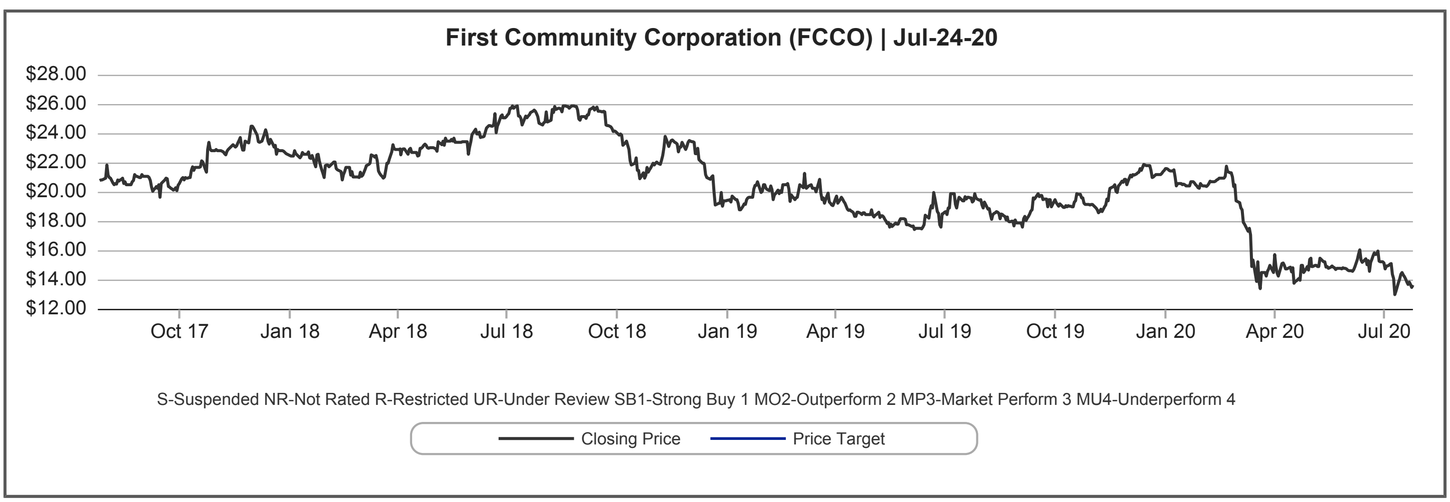


**Valuation Methodology**

**First Community Corporation**
For First Community Corporation, our valuation methodology utilizes a 12-month estimate of intrinsic value and also takes into consideration the company's price/tangible book value and P/E ratio in comparison to its return on tangible equity and its peer group.

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**Company Specific Risk Factors**

**First Community Corporation**
**Interest Rate Risk:** As a commercial bank, First Community's revenue stream is sensitive to changes in interest rates, and earnings estimates could vary based on changes in the slope of the yield curve.

**Credit Risk:** First Community originates residential, commercial, and consumer loans, which may enter default, especially during times of economic stress. Depending on the health of the economy and the creditworthiness of its borrowers, loans could default more rapidly than anticipated, which could translate into higher losses at the bank.

**Macroeconomic Risk:** If unemployment levels rise or if the housing market weakens further, credit losses could accelerate more rapidly than anticipated, causing downside to our earnings expectations. Conversely, if unemployment levels decline and the housing market strengthens meaningfully, or if losses in weak markets are less than expected, there could be upside to our estimates.

**Competition:** Substantial competition exists in all of First Community's primary markets, from domestic banks and thrifts, foreign banks, and specialty finance companies. The level and aggressiveness of competition could lead to adverse pressures on both asset yields and funding costs, which could negatively impact First Community's margins and pressure its profitability.

**Regulatory Reform:** With the myriad regulatory and legislative changes facing the industry, these amendments will pressure fee income across the industry. First Community's asset size excludes it from the debit interchange provision in the Durbin amendment under the Dobb-Frank Act; however, competitive industry pressures will likely force the company to charge similar fees in order to compete, which will ultimately impact profitability.

**Acquisition Risk:** First Community recently announced its acquisition of Cornerstone Bancorp (April 2017). Acquiring a financial services company involves a number of risks, including those related to asset quality issues, loss of customers, entering new and unfamiliar markets, and integration of the acquired bank. In particular, integration poses a number of challenges, as the company must expend substantial resources to integrate acquired entities. Such failure to integrate acquired entities may adversely affect the company's results of operations and financial condition.

**Suitability Rating High Risk/Growth:** We have assigned a High Risk/Growth (H/GRW) suitability rating to shares of First Community Corporation due to the highly competitive banking industry and the potentially adverse impact of continued loan growth pressures on the company's net interest income.

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| Company Name | Disclosure |
|---|---|
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| | Coverage Universe Rating Distribution* | | Investment Banking Relationships | |
|---|---|---|---|---|
| | RJA | RJL | RJA | RJL |
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| **Market Perform (Hold)** | 41% | 32% | 15% | 10% |
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** Columns may not add to 100% due to rounding.*

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