## FIRST COMMUNITY CORPORATION (FCCO-NASDAQ)

Banking
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**COMPANY COMMENT**

# Maintain Market Perform; Generally Sound Quarter, but Margin Pressures in Focus

### RECOMMENDATION

We are maintaining our **Market Perform** rating on FCCO shares following 2Q19 results that were in line with consensus expectations, and a penny above our estimate. While results were generally sound, margin was the focal point and came in below expectations as flat earning asset yields were coupled with an increase in money market/time deposits costs. We believe margin trends bear very close monitoring moving forward, especially with a Fed rate cut potentially looming, where we will be focused on management's ability to hold/potentially reduce funding costs should the Fed cut. Elsewhere, as noted, core trends were largely as expected; fee income beat on an especially strong quarter for mortgage, while operating expenses were higher than expected on higher marketing expenses related to recent branch openings. Moving forward, while we expect the company to ultimately reap the benefits of recent investments in physical infrastructure/staffing, we believe nearer-term earnings will be pressured given the challenging rate environment. As such, we have lowered our earnings outlook (by 10% in 2020), largely on our expectation for continued margin/spread revenue pressures. That said, we continue to view the risk/reward dynamic as balanced at this time as we believe franchise value is appropriately reflected at current premium valuation levels, juxtaposed with our lowered earnings forecast/ increasingly cautious view on margin.

- **2Q18 results meet the Street, beat RJ:** FCCO reported 2Q19 GAAP EPS of $0.37. Excluding $164,000 in gains on the sale of securities, we estimate operating EPS were $0.36, in line with consensus expectations and above our Street-low $0.35 estimate.
- **Loan growth momentum rebounds:** After reporting no net loan growth in 1Q19, the company grew loans 1.2% sequentially in 2Q19, citing stronger loan production (but high payoff activity). Moving forward, management believes relatively high payoff activity will persist, but remains constructive on loan growth prospects; as a result, we continue to forecast ~5% loan growth through 2020.
- **Expect margin compression:** Net interest margin contracted 6 bp linked quarter to 3.67%, below our 3.73% estimate, as flat earning asset yields were coupled with increased funding costs. Moving forward, we expect margin to contract to 3.63% in 3Q19 (assumes a 25 bp rate cut in July), before contracting to 3.58% in 2020 (assumes a second 25 bp rate cut in 2H19).
- **Estimates:** We are decreasing our 2019E/2020E EPS from $1.40/$1.45 to $1.35/$1.30, respectively.

**Valuation:** FCCO trades at 1.5x 2Q19 TBV of $13.46, 14.6x our 2019E EPS, and 15.1x our 2020E EPS, versus micro-cap peers at 1.3x, 12.1x, and 11.1x, respectively. We believe current premium valuations appropriately reflect franchise value, though we do not see much upside given our reduced earnings outlook, as noted.

**Market Perform 3**
**Target Price NM**

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

### MARKET DATA

| | |
|---|---|
| Current Price (Jul-17-19) | $19.62 |
| Market Cap (mln) | $150 |
| Current Net Debt (mln) | $34 |
| Enterprise Value (mln) | $184 |
| Shares Outstanding (mln) | 7.7 |
| 30-Day Avg. Daily Value (mln) | $0.2 |
| Dividend | $0.44 |
| Dividend Yield | 2.2% |
| 52-Week Range | $17.31 - $26.25 |
| BVPS | 15.64 |
| Tangible BVPS | 13.46 |

### KEY FINANCIAL METRICS

| | 1Q | 2Q | 3Q | 4Q |
|---|---|---|---|---|
| Non-GAAP EPS ($, Dec FY) | | | | |
| 2018A | **0.36** | **0.37** | **0.37** | **0.38** |
| 2019E | 0.33 | 0.35 | 0.36 | 0.37 |
| **new** | **0.33 A** | **0.36 A** | **0.34** | **0.32** |
| 2020E | UR | UR | UR | UR |
| **new** | **0.32** | **0.33** | **0.32** | **0.33** |

| | 2018A | 2019E | 2020E |
|---|---|---|---|
| Non-GAAP EPS ($, Dec FY) | | | |
| old | 1.48 | 1.40 | 1.45 |
| **new** | **1.48** | **1.35** | **1.30** |
| P/E (Non-GAAP) | 13.2x | 14.6x | 15.1x |
| GAAP EPS ($, Dec FY) | | | |
| old | 1.45 | 1.40 | 1.45 |
| **new** | **1.45** | **1.36** | **1.30** |
| Revenue (mln) ($, Dec FY) | | | |
| old | 47 | 48 | 51 |
| **new** | **47** | **48** | **50** |

*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.*

## Guidance Tracker – First Community Corporation (FCCO)

RAYMOND JAMES®

| Source | Category | Target Period | Trending | Guidance |
|---|---|---|---|---|
| 2018Q4 Earnings | NIM | Long-term | | One of First Community's primary strategic initiatives is to re-mix the asset side of its balance sheet, moving toward a goal of an 80% loan-to-earning asset mix; thereby enhancing net interest income and earnings per share. |
| 2019Q1 Earnings | Noninterest Income | 2019Y/2020Y | | Management expects to grow mortgage banking revenue over the coming quarters. |
| 2019Q1 Earnings | Tax Rate | 2019Y | | The company anticipates the tax rate will be approximately 20.5% in 2019. |

Source: Raymond James research; company reports

**Lowering 2019E/2020E EPS, Primarily on Lower Spread Revenue and Higher Expenses**

| *($ in thousands)* | 2019E | | | 2020E | | |
|---|---|---|---|---|---|---|
| | **Old** | **Current** | **Change** | **Old** | **Current** | **Change** |
| **Operating EPS** | **$1.40** | **$1.35** | **($0.05)** | **$1.45** | **$1.30** | **($0.15)** |
| **GAAP EPS** | **$1.40** | **$1.36** | **($0.03)** | **$1.45** | **$1.30** | **($0.15)** |
| Core PTPP* Earnings | 14,401 | 13,560 | -6% | 15,760 | 13,726 | -13% |
| Avg. Earning Assets | 1,013,496 | 1,011,250 | 0% | 1,059,824 | 1,061,944 | 0% |
| NIM | 3.73% | 3.66% | -7 bps | 3.71% | 3.58% | -13 bps |
| Net Interest Income | 37,294 | 36,560 | -2% | 38,888 | 37,618 | -3% |
| Provision | 755 | 514 | -32% | 1,400 | 1,125 | -20% |
| Operating Fee Income | 10,890 | 11,275 | 4% | 12,059 | 11,955 | -1% |
| Operating Expense | 33,842 | 34,342 | 1% | 35,232 | 35,892 | 2% |
| Operating Efficiency | 70% | 72% | 156 bps | 69% | 72% | 325 bps |
| Tax Rate | 20.3% | 20.7% | 41 bps | 21.0% | 21.0% | 0 bps |
| Diluted shares | 7,742 | 7,641 | -1% | 7,800 | 7,609 | -2% |
| Dividends per share | $0.44 | $0.44 | $0.00 | $0.48 | $0.48 | $0.00 |
| Loan Growth | 5.1% | 4.7% | -36 bps | 4.6% | 4.6% | 0 bps |
| Reserves/Loans | 0.89% | 0.88% | -1 bps | 0.93% | 0.90% | -3 bps |
| NPAs/Loans | 0.60% | 0.58% | -2 bps | 0.64% | 0.62% | -3 bps |
| NCOs/Avg. Loans | 0.04% | 0.02% | -2 bps | 0.10% | 0.09% | -1 bps |

*PTPP = pre-tax, pre-provision

Source: Company documents and Raymond James research.

**Comparison of Actual Results to Raymond James and Consensus Estimates**

As illustrated in the following table, First Community reported 2Q19 operating EPS of $0.36, above our Street-low $0.35 estimate and in line with the $0.36 consensus. Relative to our model, lower spread revenue and higher operating expenses were essentially offset by lower provision expense and higher fee income. The company reported 1.2% loan growth in the quarter, below both our 1.5% estimate and the 1.4% consensus. The company's reported NIM of 3.67% came in below both our 3.73% estimate and the 3.71% consensus.

**Actual vs. Raymond James and Consensus**

| | Actual | Raymond James | dif (+/-) | Consensus | dif (+/-) | Consensus High | Consensus Low | Consensus # of Estimates |
|---|---|---|---|---|---|---|---|---|
| **PER SHARE DATA** | | | | | | | | |
| Operating EPS | $0.36 | $0.35 | $0.01 | $0.36 | $0.00 | $0.37 | $0.35 | 3 |
| Book value per share | 15.64 | 15.42 | 0.22 | 15.44 | 0.21 | 15.46 | 15.42 | 3 |
| Tangible book value | 13.46 | 13.29 | 0.17 | 13.29 | 0.17 | 13.31 | 13.28 | 3 |
| Dividends per share | 0.11 | 0.11 | 0.00 | 0.11 | 0.00 | 0.11 | 0.11 | 3 |
| Avg. fully diluted shares (mil.) | 7.7 | 7.7 | 0.0 | 7.7 | 0.0 | 7.7 | 7.7 | 3 |
| **INCOME STATEMENT** | | | | | | | | |
| Net interest income | 9.1 | 9.3 | -0.1 | 9.2 | -0.1 | 9.3 | 9.2 | 3 |
| Loan loss provision | 0.0 | 0.2 | -0.1 | 0.1 | -0.1 | 0.2 | 0.1 | 3 |
| Fee income | 3.0 | 2.7 | 0.3 | 2.8 | 0.2 | 2.9 | 2.7 | 3 |
| Revenue | 12.1 | 12.0 | 0.2 | 12.0 | 0.1 | 12.0 | 12.0 | 2 |
| Non-interest expense | 8.6 | 8.4 | 0.2 | 8.4 | 0.3 | 8.4 | 8.3 | 3 |
| Pre-tax income | 3.7 | 3.4 | 0.3 | 3.5 | 0.1 | 3.6 | 3.4 | 3 |
| Taxes | 0.8 | 0.7 | 0.1 | 0.7 | 0.0 | 0.8 | 0.7 | 3 |
| Net income | 2.8 | 2.7 | 0.1 | 2.8 | 0.0 | 2.9 | 2.7 | 3 |
| **BALANCE SHEET** | | | | | | | | |
| Loans | 727 | 729 | -2 | 728 | -2 | 730 | 726 | 3 |
| Loan growth | 1.2% | 1.5% | -35 bp | 1.4% | -22 bp | 1.5% | 1.1% | 3 |
| Average Deposits | 937 | 947 | -10 | 938 | -1 | 947 | 929 | 2 |
| **FINANCIAL RATIOS** | | | | | | | | |
| Net interest margin (NIM) | 3.67% | 3.73% | -6 bp | 3.71% | -4 bp | 3.73% | 3.67% | 3 |
| Efficiency ratio | 71.2% | 70.5% | 72 bp | 69.0% | 218 bp | 70.0% | 68.0% | 3 |
| Net charge-offs / Avg. loans | 0.00% | 0.03% | -3 bp | 0.04% | -4 bp | 0.05% | 0.03% | 2 |
| ROA | 1.00% | 0.97% | 3 bp | 1.01% | -1 bp | 1.05% | 0.97% | 3 |
| ROE | 9.4% | 9.2% | 22 bp | 9.5% | -8 bp | 9.9% | 9.2% | 3 |

Source: S&P Global; FactSet; Raymond James research; company reports
Note: Dollar amounts in millions, except per share data

## 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 | $15,407 | 85% | 27% | 94% | 3.87% | 4.77% | 4.47% | 0.57% | 0.66% | 20% | 60% | 0.02% | 0.38% | 0.51% | 134% | 9.2% | 10.5% | 12.9% |
| Carolina Financial Corporation | CARO | $3,842 | 64% | 20% | 92% | 3.93% | 5.43% | 4.99% | 0.92% | 1.17% | 20% | 55% | 0.02% | 0.52% | 0.57% | 110% | 12.1% | 12.8% | 16.1% |
| Southern First Bancshares, Inc. | SFST | $2,014 | 78% | 20% | 99% | 3.47% | 4.94% | 4.78% | 1.29% | 1.36% | 16% | 57% | 0.00% | 0.74% | 0.92% | 124% | 9.0% | 10.2% | 11.5% |
| Security Federal Corporation | SFDL | $937 | 68% | NA | 55% | 3.45% | 5.59% | 4.17% | 0.73% | NA | 18% | 76% | 0.44% | 1.61% | 2.01% | 125% | 9.0% | 9.8% | 16.1% |
| GrandSouth Bancorporation | GRRB | $829 | 51% | 15% | 93% | 5.28% | 7.49% | 6.82% | 1.49% | 1.62% | 3% | 66% | 0.25% | 1.02% | 1.40% | 138% | 8.0% | 10.6% | 12.1% |
| South Atlantic Bancshares, Inc. | SABK | $680 | 80% | NA | 95% | 4.16% | 5.26% | 5.02% | NA | 0.84% | 12% | 76% | -0.01% | 0.20% | 0.83% | 421% | 11.1% | 9.2% | 10.1% |
| First Reliance Bancshares, Inc. | FSRL | $604 | 62% | 23% | 88% | 4.17% | 5.43% | 5.05% | 0.90% | NA | 28% | 86% | -0.06% | 1.33% | 0.65% | 49% | 8.6% | 9.5% | 11.0% |
| Bank of South Carolina Corporation | BKSC | $432 | 93% | 35% | 73% | 4.19% | 6.03% | 4.67% | 0.26% | NA | 8% | 55% | 0.34% | 0.21% | 1.44% | 670% | 11.0% | 11.1% | 15.3% |
| **First Community Corporation** | **FCCO** | **$1,097** | **80%** | **28%** | **78%** | **3.68%** | **4.76%** | **4.16%** | **0.44%** | **0.56%** | **22%** | **70%** | **0.01%** | **0.87%** | **0.88%** | **101%** | **9.2%** | **10.2%** | **13.4%** |
| **Peer Group Medians:** | | **$937** | **78%** | **23%** | **92%** | **3.93%** | **5.43%** | **4.78%** | **0.81%** | **1.00%** | **18%** | **66%** | **0.02%** | **0.74%** | **0.88%** | **125%** | **9.2%** | **10.2%** | **12.9%** |

*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 | 2019E P/E | 2020E P/E | Deposit Premium | Dividend Yield | ROA (1Q19) | ROE (1Q19) | ROTCE (1Q19) | ROTCE (2019E) | ROTCE (2020E) | 2019E EPS Growth | 2020E EPS Growth |
| **Industry Medians** | **507** | **$271** | **$1,926** | **1.56x** | **12.0x** | **11.3x** | **5%** | **2.5%** | **1.13%** | **9.9%** | **11.7%** | **13.1%** | **12.8%** | **6%** | **7%** |
| Large Cap (>$10B) | 18 | $25,876 | $194,139 | 1.69x | 10.3x | 9.7x | 8% | 3.3% | 1.26% | 10.1% | 16.0% | 16.2% | 15.4% | 7% | 5% |
| Mid-Cap ($2B - $10B) | 66 | $3,312 | $21,762 | 1.75x | 11.4x | 10.5x | 8% | 2.7% | 1.36% | 9.9% | 14.9% | 15.1% | 14.3% | 6% | 5% |
| Small-Cap ($500M - $2B) | 109 | $798 | $6,045 | 1.67x | 12.5x | 11.9x | 8% | 2.7% | 1.28% | 10.3% | 13.5% | 13.7% | 13.4% | 6% | 6% |
| Micro-Cap (<$500M) | 314 | $153 | $1,123 | 1.34x | 12.1x | 11.1x | 4% | 2.4% | 1.01% | 9.5% | 10.6% | 11.1% | 11.2% | 8% | 9% |
| **Asset Size Medians** | | | | | | | | | | | | | | | |
| Over $50B | 21 | $20,195 | $161,342 | 1.59x | 10.4x | 9.7x | 7% | 3.2% | 1.22% | 10.0% | 15.4% | 15.5% | 15.2% | 8% | 5% |
| $10B to $50B | 75 | $2,911 | $17,453 | 1.75x | 11.4x | 10.6x | 8% | 2.8% | 1.33% | 9.9% | 14.7% | 15.0% | 14.3% | 5% | 5% |
| $5B to $10B | 59 | $1,069 | $6,659 | 1.69x | 13.0x | 12.1x | 8% | 2.4% | 1.25% | 10.5% | 13.5% | 13.5% | 13.4% | 8% | 7% |
| $1B to $5B | 222 | $245 | $1,766 | 1.42x | 12.2x | 11.4x | 5% | 2.4% | 1.11% | 10.0% | 11.0% | 11.6% | 11.6% | 7% | 8% |
| $500M to $1B | 130 | $86 | $713 | 1.27x | 13.2x | 11.0x | 3% | 2.4% | 0.92% | 9.2% | 10.0% | 9.5% | 11.7% | 13% | 15% |

Priced as of July 16, 2019.

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

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

## First Community Corporation

| Income Statement<br>*($ in thousands)* | 2017<br>31-Dec | 1Q18<br>31-Mar | 2Q18<br>30-Jun | 3Q18<br>30-Sep | 4Q18<br>31-Dec | 2018<br>31-Dec | 1Q19<br>31-Mar | 2Q19<br>30-Jun | 3Q19E<br>30-Sep | 4Q19E<br>31-Dec | 2019E<br>31-Dec | 1Q20E<br>31-Mar | 2Q20E<br>30-Jun | 3Q20E<br>30-Sep | 4Q20E<br>31-Dec | 2020E<br>31-Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net Interest Income | 29,394 | 8,534 | 8,939 | 8,883 | 9,392 | 35,748 | 9,020 | 9,116 | 9,181 | 9,243 | 36,560 | 9,231 | 9,300 | 9,495 | 9,592 | 37,618 |
| Provision for loan losses | 530 | 202 | 29 | 21 | 94 | 346 | 105 | 9 | 175 | 225 | 514 | 200 | 250 | 350 | 325 | 1,125 |
| **Net Interest Income after Provision** | **28,864** | **8,332** | **8,910** | **8,862** | **9,298** | **35,402** | **8,915** | **9,107** | **9,006** | **9,018** | **36,046** | **9,031** | **9,050** | **9,145** | **9,267** | **36,493** |
| Deposit service charges | 1,486 | 463 | 423 | 434 | 449 | 1,769 | 411 | 380 | 406 | 430 | 1,627 | 440 | 407 | 430 | 454 | 1,731 |
| Mortgage origination fees | 3,791 | 951 | 1,016 | 1,159 | 769 | 3,895 | 844 | 1,238 | 1,176 | 882 | 4,140 | 926 | 1,158 | 1,100 | 990 | 4,174 |
| Investment advisory fees and commissions | 1,291 | 383 | 401 | 423 | 476 | 1,683 | 438 | 489 | 504 | 529 | 1,960 | 555 | 572 | 589 | 601 | 2,317 |
| Gain on sale of securities | 399 | (102) | 94 | 0 | (332) | (340) | (29) | 164 | 0 | 0 | 135 | 0 | 0 | 0 | 0 | 0 |
| Gain (loss) on sale of other assets | 235 | 15 | 22 | (29) | 16 | 24 | 0 | (3) | 0 | 0 | (3) | 0 | 0 | 0 | 0 | 0 |
| Loss on early extinguishment of debt | (446) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 2,882 | 921 | 955 | 855 | 882 | 3,613 | 845 | 918 | 872 | 916 | 3,551 | 925 | 953 | 905 | 950 | 3,733 |
| **Noninterest Income** | **9,638** | **2,631** | **2,911** | **2,842** | **2,260** | **10,644** | **2,509** | **3,186** | **2,958** | **2,757** | **11,410** | **2,846** | **3,089** | **3,024** | **2,995** | **11,955** |
| Non-Operating items | 188 | (102) | 94 | 0 | (332) | (340) | (29) | 164 | 0 | 0 | 135 | 0 | 0 | 0 | 0 | 0 |
| **Operating Noninterest Income** | **9,450** | **2,733** | **2,817** | **2,842** | **2,592** | **10,984** | **2,538** | **3,022** | **2,958** | **2,757** | **11,275** | **2,846** | **3,089** | **3,024** | **2,995** | **11,955** |
| **Total Revenue** | **39,032** | **11,165** | **11,850** | **11,725** | **11,652** | **46,392** | **11,529** | **12,302** | **12,139** | **12,000** | **47,970** | **12,077** | **12,389** | **12,519** | **12,587** | **49,573** |
| **Total Operating Revenue** | **38,844** | **11,267** | **11,756** | **11,725** | **11,984** | **46,732** | **11,558** | **12,138** | **12,139** | **12,000** | **47,835** | **12,077** | **12,389** | **12,519** | **12,587** | **49,573** |
| Salaries and employee benefits | 17,003 | 4,577 | 4,881 | 5,079 | 4,978 | 19,515 | 5,170 | 5,210 | 5,314 | 5,367 | 21,062 | 5,448 | 5,502 | 5,585 | 5,641 | 22,176 |
| Occupancy | 2,166 | 614 | 583 | 611 | 572 | 2,380 | 655 | 647 | 679 | 683 | 2,664 | 690 | 696 | 703 | 710 | 2,800 |
| Equipment | 1,770 | 381 | 398 | 388 | 346 | 1,513 | 386 | 389 | 401 | 381 | 1,556 | 388 | 392 | 394 | 396 | 1,571 |
| Marketing and public relations | 901 | 89 | 194 | 177 | 459 | 919 | 175 | 430 | 301 | 307 | 1,213 | 301 | 316 | 322 | 306 | 1,245 |
| FDIC assessment | 312 | 81 | 83 | 94 | 117 | 375 | 74 | 71 | 94 | 86 | 326 | 88 | 89 | 100 | 91 | 368 |
| Other real estate expense | 42 | 18 | 31 | 37 | 12 | 98 | 29 | 18 | 10 | 10 | 67 | 15 | 10 | 10 | 10 | 45 |
| Amortization of intangibles | 343 | 142 | 143 | 142 | 136 | 563 | 132 | 132 | 131 | 129 | 524 | 128 | 127 | 126 | 124 | 505 |
| Other | 6,821 | 1,692 | 1,912 | 1,606 | 1,550 | 6,760 | 1,702 | 1,743 | 1,734 | 1,752 | 6,931 | 1,769 | 1,787 | 1,805 | 1,823 | 7,183 |
| **Noninterest Expense** | **29,358** | **7,594** | **8,225** | **8,134** | **8,170** | **32,123** | **8,323** | **8,640** | **8,665** | **8,715** | **34,342** | **8,826** | **8,920** | **9,045** | **9,101** | **35,892** |
| Non-Operating items | 1,109 | 0 | 164 | 0 | 0 | 164 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Operating Noninterest Expense** | **28,249** | **7,594** | **8,061** | **8,134** | **8,170** | **31,959** | **8,323** | **8,640** | **8,665** | **8,715** | **34,342** | **8,826** | **8,920** | **9,045** | **9,101** | **35,892** |
| **Income Before Tax** | **9,144** | **3,369** | **3,596** | **3,570** | **3,388** | **13,923** | **3,101** | **3,653** | **3,299** | **3,060** | **13,114** | **3,051** | **3,219** | **3,124** | **3,161** | **12,556** |
| Income tax expense | 3,329 | 660 | 595 | 737 | 702 | 2,694 | 606 | 772 | 693 | 643 | 2,714 | 641 | 676 | 656 | 664 | 2,637 |
| **GAAP Net Income** | **5,815** | **2,709** | **3,001** | **2,833** | **2,686** | **11,229** | **2,495** | **2,881** | **2,606** | **2,418** | **10,400** | **2,410** | **2,543** | **2,468** | **2,497** | **9,919** |
| **Operating Net Income** | **7,426** | **2,791** | **2,896** | **2,833** | **2,949** | **11,469** | **2,518** | **2,756** | **2,606** | **2,418** | **10,299** | **2,410** | **2,543** | **2,468** | **2,497** | **9,919** |
| Diluted shares | 6,986 | 7,713 | 7,726 | 7,724 | 7,732 | 7,731 | 7,725 | 7,704 | 7,564 | 7,569 | 7,641 | 7,589 | 7,594 | 7,624 | 7,629 | 7,609 |
| GAAP EPS - diluted | $0.83 | $0.35 | $0.39 | $0.37 | $0.35 | $1.45 | $0.32 | $0.37 | $0.34 | $0.32 | $1.36 | $0.32 | $0.33 | $0.32 | $0.33 | $1.30 |
| **Operating EPS - diluted** | **$1.06** | **$0.36** | **$0.37** | **$0.37** | **$0.38** | **$1.48** | **$0.33** | **$0.36** | **$0.34** | **$0.32** | **$1.35** | **$0.32** | **$0.33** | **$0.32** | **$0.33** | **$1.30** |
| **Financial Highlights** | | | | | | | | | | | | | | | | |
| TBV/share | $11.66 | $11.64 | $11.85 | $11.98 | $12.56 | $12.56 | $13.04 | $13.46 | $13.98 | $14.20 | $14.20 | $14.39 | $14.62 | $14.79 | $15.01 | $15.01 |
| TCE/Assets | 8.6% | 8.4% | 8.4% | 8.5% | 8.9% | 8.9% | 9.2% | 9.2% | 9.3% | 9.3% | 9.3% | 9.3% | 9.4% | 9.4% | 9.5% | 9.5% |
| Loans/Deposits | 73% | 73% | 73% | 76% | 78% | 78% | 78% | 78% | 78% | 78% | 78% | 77% | 77% | 78% | 78% | 78% |
| Loan Growth | 18.3% | 3.4% | 2.4% | 1.8% | 3.2% | 11.1% | 0.0% | 1.2% | 1.5% | 2.0% | 4.7% | 0.5% | 1.5% | 1.5% | 1.0% | 4.6% |
| Deposit Growth | 15.9% | 3.6% | 1.5% | -1.2% | 0.4% | 4.2% | -0.6% | 1.9% | 1.5% | 1.0% | 3.8% | 2.5% | 1.0% | 1.0% | 1.0% | 5.6% |
| NPAs/Loans | 0.82% | 0.75% | 0.70% | 0.69% | 0.56% | 0.56% | 0.57% | 0.56% | 0.57% | 0.58% | 0.58% | 0.58% | 0.59% | 0.61% | 0.62% | 0.62% |
| NCOs/Avg. Loans | -0.01% | 0.01% | -0.04% | -0.06% | 0.02% | -0.02% | 0.01% | 0.00% | 0.02% | 0.04% | 0.02% | 0.06% | 0.08% | 0.10% | 0.12% | 0.09% |
| Reserves/Loans | 0.90% | 0.90% | 0.89% | 0.89% | 0.87% | 0.87% | 0.88% | 0.88% | 0.88% | 0.88% | 0.88% | 0.89% | 0.89% | 0.90% | 0.90% | 0.90% |
| NIM | 3.52% | 3.66% | 3.71% | 3.60% | 3.79% | 3.69% | 3.73% | 3.67% | 3.63% | 3.60% | 3.66% | 3.59% | 3.58% | 3.58% | 3.58% | 3.58% |
| G&A/Avg. Assets | 3.01% | 2.88% | 3.00% | 2.99% | 2.99% | 2.97% | 3.06% | 3.13% | 3.09% | 3.07% | 3.09% | 3.06% | 3.06% | 3.07% | 3.06% | 3.06% |
| Efficiency Ratio | 73% | 67% | 69% | 69% | 68% | 68% | 72% | 71% | 71% | 73% | 72% | 73% | 72% | 72% | 72% | 72% |
| Effective tax rate | 36.4% | 19.6% | 16.5% | 20.6% | 20.7% | 19.3% | 19.5% | 21.1% | 21.0% | 21.0% | 20.7% | 21.0% | 21.0% | 21.0% | 21.0% | 21.0% |
| ROA (operating) | 0.79% | 1.06% | 1.08% | 1.04% | 1.08% | 1.07% | 0.92% | 1.00% | 0.93% | 0.85% | 0.93% | 0.84% | 0.87% | 0.84% | 0.84% | 0.85% |
| ROE (operating) | 8.4% | 10.6% | 10.9% | 10.5% | 10.8% | 10.7% | 8.9% | 9.4% | 8.8% | 8.1% | 8.8% | 7.9% | 8.3% | 7.9% | 7.9% | 8.0% |
| ROTCE (operating) | 9.2% | 12.6% | 13.0% | 12.4% | 12.8% | 12.7% | 10.4% | 10.9% | 10.2% | 9.3% | 10.2% | 9.1% | 9.5% | 9.1% | 9.0% | 9.2% |
| Dividends per share | $0.36 | $0.10 | $0.10 | $0.10 | $0.10 | $0.40 | $0.11 | $0.11 | $0.11 | $0.11 | $0.44 | $0.12 | $0.12 | $0.12 | $0.12 | $0.48 |

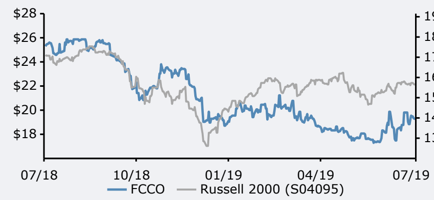
*Source: Company reports and Raymond James research*

## First Community Corporation

| **Balance Sheet** | 4Q17 | 1Q18 | 2Q18 | 3Q18 | 4Q18 | 1Q19 | 2Q19 | 3Q19E | 4Q19E | 1Q20E | 2Q20E | 3Q20E | 4Q20E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *($ in thousands)* | 31-Dec | 31-Mar | 30-Jun | 30-Sep | 31-Dec | 31-Mar | 30-Jun | 30-Sep | 31-Dec | 31-Mar | 30-Jun | 30-Sep | 31-Dec |
| **Stated Equity** | **105,663** | **105,483** | **106,997** | **108,186** | **112,497** | **116,434** | **117,489** | **119,284** | **120,891** | **122,413** | **124,069** | **125,645** | **127,250** |
| Intangibles | 17,157 | 17,016 | 16,846 | 16,779 | 16,643 | 16,511 | 16,379 | 16,248 | 16,119 | 15,991 | 15,864 | 15,739 | 15,614 |
| **Tangible Common Equity** | **88,506** | **88,467** | **90,151** | **91,407** | **95,854** | **99,923** | **101,110** | **103,036** | **104,772** | **106,423** | **108,205** | **109,907** | **111,636** |
| | | | | | | | | | | | | | |
| Book Value | $13.93 | $13.88 | $14.07 | $14.18 | $14.74 | $15.19 | $15.64 | $16.18 | $16.39 | $16.55 | $16.76 | $16.91 | $17.11 |
| Tangible BV | **$11.66** | **$11.64** | **$11.85** | **$11.98** | **$12.56** | **$13.04** | **$13.46** | **$13.98** | **$14.20** | **$14.39** | **$14.62** | **$14.79** | **$15.01** |
| Shares Outstanding | 7,588 | 7,600 | 7,605 | 7,630 | 7,634 | 7,665 | 7,511 | 7,371 | 7,376 | 7,396 | 7,401 | 7,431 | 7,436 |
| | | | | | | | | | | | | | |
| Equity/Assets | 10.1% | 9.9% | 9.8% | 9.9% | 10.3% | 10.6% | 10.5% | 10.6% | 10.6% | 10.5% | 10.6% | 10.6% | 10.6% |
| **TCE ratio** | **8.6%** | **8.4%** | **8.4%** | **8.5%** | **8.9%** | **9.2%** | **9.2%** | **9.3%** | **9.3%** | **9.3%** | **9.4%** | **9.4%** | **9.5%** |
| Leverage Ratio | 10.35% | 10.18% | 10.20% | 10.32% | 10.47% | 10.19% | 10.19% | | | | | | |
| Tier 1 Capital Ratio | 14.25% | 13.90% | 13.75% | 13.76% | 13.83% | 13.30% | 13.47% | | | | | | |
| Total Capital Ratio | 15.05% | 14.69% | 14.52% | 14.54% | 14.60% | 14.07% | 14.24% | | | | | | |
| | | | | | | | | | | | | | |
| **Total Assets** | **1,050,731** | **1,070,539** | **1,092,149** | **1,091,142** | **1,091,595** | **1,097,396** | **1,115,968** | **1,127,128** | **1,144,035** | **1,161,195** | **1,172,807** | **1,184,535** | **1,196,380** |
| Other short-term investments | 15,788 | 25,683 | 28,798 | 22,709 | 17,940 | 22,677 | 24,989 | | | | | | |
| Investment securities | 284,395 | 272,637 | 273,730 | 269,963 | 256,022 | 248,909 | 252,302 | | | | | | |
| Loans held for sale | 5,093 | 7,546 | 6,969 | 5,528 | 3,223 | 7,299 | 8,730 | | | | | | |
| Loans | **646,805** | **668,583** | **684,333** | **696,515** | **718,462** | **718,420** | **726,707** | **737,608** | **752,360** | **756,122** | **767,463** | **778,975** | **786,765** |
| Allowance for loan losses | (5,797) | (5,986) | (6,087) | (6,212) | (6,263) | (6,354) | (6,362) | (6,500) | (6,651) | (6,738) | (6,835) | (6,992) | (7,082) |
| Other assets | 104,447 | 102,076 | 104,406 | 102,639 | 102,211 | 106,445 | 109,602 | | | | | | |
| | | | | | | | | | | | | | |
| **Total Liabilities** | **945,068** | **965,056** | **985,152** | **982,956** | **979,098** | **980,962** | **998,479** | | | | | | |
| Total deposits | 888,323 | 919,898 | 933,368 | 921,722 | 925,523 | 919,773 | 937,391 | 951,452 | 960,966 | 984,991 | 994,840 | 1,004,789 | 1,014,837 |
| Securities sold under repo | 19,270 | 21,959 | 28,203 | 33,226 | 28,022 | 32,007 | 33,889 | | | | | | |
| FHLB advances | 14,250 | 245 | 241 | 4,236 | 231 | 2,226 | 221 | | | | | | |
| Junior sub debt | 14,964 | 14,964 | 14,964 | 14,964 | 14,964 | 14,964 | 14,964 | | | | | | |
| Other liabilities | 8,261 | 7,990 | 8,376 | 8,808 | 10,358 | 11,992 | 12,014 | | | | | | |

**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.

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|---|---|---|---|---|
| | RJA | RJL | RJA | RJL |
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** Columns may not add to 100% due to rounding.*

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| Company Name | Disclosure |
|---|---|
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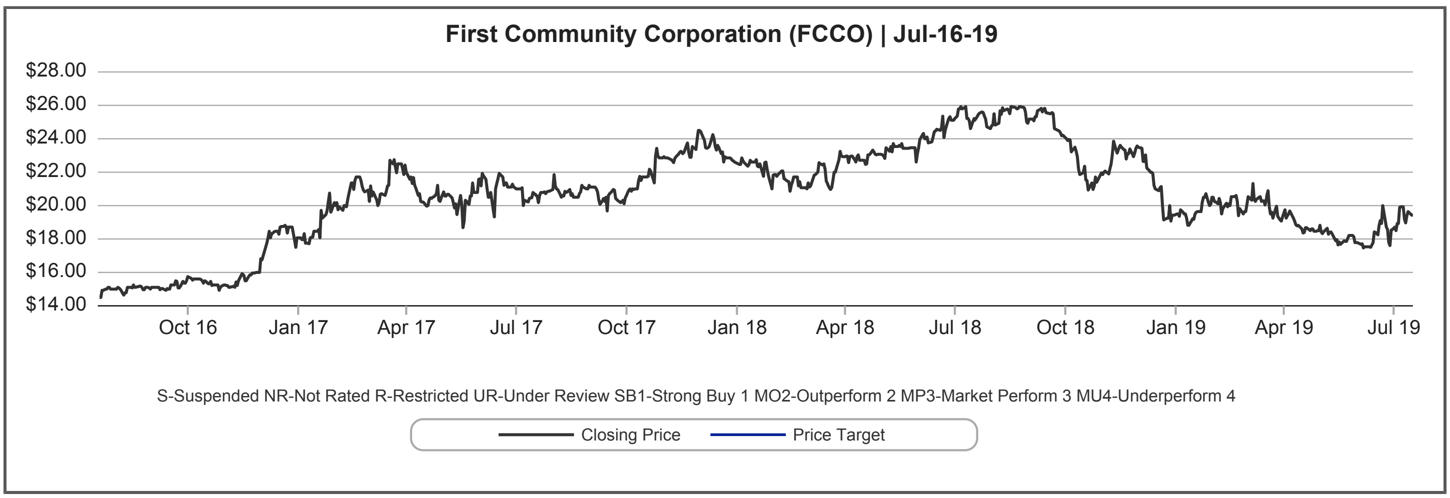


**Valuation Methodology**

**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 Risks**

**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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