

FVCB—FVCBankcorp, Inc.

Maintaining “Outperform” Rating and Target Price; Growth Outlook Strong

- **3Q16 EPS of \$0.19 Was Two Cents Below our Estimate as NIM Negatively Impacted by Sub Debt Raise**
- **Adjusting 2016 EPS Estimate to \$0.83 (-\$0.03) and 2017 EPS Estimate to \$1.01 (-\$0.01) Reflecting Lowered NIM Expectations**
- **Growth Profile Intact with EOP Loan Growth of 16% Annualized and Record Pipeline Entering 4Q16**

We are reiterating our “Outperform” rating on the shares of FVCBankcorp, Inc. (FVCB) following 3Q16 EPS of \$0.19 (\$0.02 below our estimate). The EPS miss was driven by a combination of a lower NIM than modeled as well as slightly higher Loan Loss Provisions (due to growth rather than Asset Quality deterioration). That being said, this was another solid quarter of growth for the bank with Annualized Loan growth of 16% In Line with recent norms and management noting the pipeline entering the final quarter the strongest it has ever been (10% above last year’s). We are modeling 18.5% Loan Growth during 2017—a growth rate that we believe supports a premium valuation.

Though the competitive environment is as challenging as ever per management commentary (seeing longer fixed rate terms being offered on CRE deals and more non-recourse) it continues to see material growth opportunities from its core CRE and C&I products. In-market acquisitions of competitors such as Cardinal Financial (CFNL; Not-Rated) also afford opportunities to win not only Loan and Deposit relationships but also add to Lending staff.

With the company anticipating the continuation of very solid Loan growth, Deposit funding needs remain front and center as management budgets for 2017 and beyond. To date they have seen very little pricing pressure as it relates to Deposits within the Northern Virginia business community. Average Deposits rose 4.1% during the quarter as the company did see new customer inflows related to both new accounts as well as existing customers experiencing above normal flows related to certain transactions (\$8 Million of flows). Management notes it can be more competitive on pricing for certain credits but for the most part is holding the line on pricing and trying to get core Deposit relationships with new loan growth. A newer Deposit product that is attractive to certain segments such as not-for-profits has found success at relatively attractive funding costs between 25-35 bps.

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

FVCB: \$16.97

“Outperform” // Price Target: \$20.00

Summary Statistics

Exchange	OTCQX
Market Cap (\$M)	\$138
Avg. Share Volume	341
Annual Dividend	\$0.00
Annual Yield	na
Tangible Book/Share	\$9.68
Price/Tangible Book	175%
Price/2016 EPS	20.5x
Price/2017 EPS	16.9x
Total Assets (\$M)	\$837
TCE/TA	9.5%
ROTCE (2016E)	8.6%
ROA (2016E)	0.89%

EPS Estimates

	2014	2015	2016	2017
Q1	0.10	0.17	0.21	0.21
Q2	0.12	0.19	0.21	0.24
Q3	0.13	0.18	0.19	0.27
Q4	0.15	0.12	0.22	0.29
FY	0.51	0.66	0.83	1.01

Industry Type	Savings/Thrift/Mutual
Headquarters	Fairfax, VA
Offices	5
Date Established	2015
CEO	David W. Pijor
CFO	Patricia Ann Ferrick

Adjusted for 5-for-4 stock split, June 2016

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

**FVCB (Fairfax, VA--\$139 Mil. Mkt. Cap, \$837 Mil. Assets, \$17.02, 0% Yld)**

	2Q-2016	Δ	3Q-2016
EPS	\$0.21	-	\$0.19
Operating/Core EPS	\$0.21	-	\$0.19
FIG Estimate	\$0.21	-	\$0.21
Street Estimate	\$0.21	-	\$0.21
Net Interest Income (FTE)	6.6	4.1%	6.9
Loan Loss Provision	0.1	485.0%	0.6
Core Non-Interest Income (ex. sec.)	0.3	1.0%	0.3
Core Non-Interest Expense	4.1	(1.3%)	4.1
Net Charge-Offs	0.0	NA	1.0
NCOs % of Avg Loans (bps)	0	62bps	62
NCOs % of Provision (bps)	0.0	176bps	176
Tangible Book Per Share*	\$9.49	3.0%	\$9.77
Net Interest Margin (FTE)	3.57%	(10)bps	3.47%
Total Loans (\$Mil.)	664.1	3.6%	687.7
TCE Ratio (TCE/TA)*	9.76%	(26)bps	9.50%
NPAs % of Loans + OREO	2.29%	(59)bps	1.69%

*As Reported by the company // [Core EPS add back non-recurring items at 35% tax rate](#)

NPAs include TDRs. Source FIG Partners Research and SNL

Linked-Quarter Trends For FVCB:

Spread income growth was negatively impacted by the issuance of \$25 million of 6% Subordinated Notes that were used to bolster Regulatory Capital levels but cost the NIM 11 bps. This would imply about one bps of NIM expansion sequentially excluding the Sub Debt impact but still place the pro forma NIM about 5 bps below our modeling expectations.

Excess liquidity was present this quarter as well given the proceeds and strong Deposit growth. We calculate Non-Loan Average Assets (Investments and other liquid Assets) rose to \$121 Million from \$88 Million last quarter. Deployment of this excess liquidity should alleviate some NIM pressure though pricing in the market in the high 3%/low 4% range does suggest some additional NIM pressure could lie ahead and we have lowered our NIM outlook modestly.

The company targets less than 10% wholesale funding sources and we note that Demand Deposit growth has been very strong and now accounts for 23% of the Total Deposit base.

Net Charge-offs spiked due to three credits that had been reserved for and NPAs are now down to minimal levels and we believe remaining TDRs are likely to be resolved fully by the beginning of 2017. Our model reflects increased Loan Loss Provisions in 2017 but primarily due to anticipated Loan growth of 18.5%.



FIG Research Rating: "Outperform"

Price Target: \$20.00

	2016	Multiple	Price
Core EPS	\$0.83	22.6x	\$18.72
Dividends	\$0.00	1.0x	\$0.00
Excess TCE	<u>\$1.33</u>	<u>1.0x</u>	<u>\$1.28</u>
	Combined		\$20.00

Tangible Book 12/16 **\$9.91** **2.02x** **\$20.00**

Implied Gain/Loss versus Current Price: 17.9%

2017 Outlook

Core EPS	\$1.01	21.0x	\$21.16
Cash Dividends	\$0.00	1.0x	\$0.00
Excess TCE	\$0.83	1.0x	<u>\$0.80</u>
			\$21.96

Discount Rate 10% 0.91

Tangible Book 12/17 **\$10.93** **2.01x** **\$20.00**

Deposit Premium Forecast:

	<u>Current</u>	<u>Dec-16</u>	<u>Dec-17</u>
Tangible Equity	79.6	80.7	89.3
Total Deposits	729.2	757.7	890.6
CORE Deposits	515.5	535.6	629.5
Market Value	138.2	162.9	179.3
Premium - Total	8.0%	10.8%	10.1%
Premium - CORE	11.4%	15.3%	14.3%

Source: FIG Partners Research & Forward Estimates

Background

FVCB is a \$837 Million Asset institution serving three(3) key counties in Northern Virginia (Fairfax, Prince William, & Arlington) with five(5) branches at \$101 Million average Deposits per location. Started in late 2007 with \$23 Million in initial capital, the company weathered the 2008-09 recession with tangible book value expanding 60% since year-end 2009. Continued economic growth from a deep local market of small and mid-sized businesses has permitted Loan and Deposit customers to flourish, which could lead to increasing profits and tangible book gains.

Our earnings projections carry uncertainty along with other general risks that must be considered by investors. We highlighted these key Risks below:

1. FVCB depends on new Loan growth to expand earnings and leverage its capital base and cost structure. If Loan growth does not occur or if it slows significantly, earnings could be negatively affected.
2. Community Bank stocks can temporarily be correlated with broader financial markets such that external weakness may hinder the stock's valuation.
3. Changes in management, which are unforeseen, could place pressure on the stock's valuation due to uncertainty.
4. Weakening of local fundamentals in the Washington D.C MSA market areas could reduce total revenues and net income. Banks tend to be a mirror of the communities they serve. Thus, FVCB is subject to cyclical economic changes within its income statement and balance sheet.

FVCB remains very well positioned in Northern Virginia with solid Core Deposits and a lower cost operating model than many Community Bank peers. The stock trades at 176% of tangible book value and a 11.4% premium to Core Deposits. While a few peers are cheaper than FVCB, we feel this strong franchise remains intact and envision another 18% of upside to the shares as our Target Price implies a forward P/TBV that suggests material upside to the current valuation. We believe recent M&A activity in the footprint bolsters scarcity and thus, franchise value of the bank.



Peer Valuation Analysis: FVCB vs. Community Banks In MD-DC-VA

Ticker	Company Name	Market Cap. (\$M)	Current Dividend Yield (%)	Total Assets (\$000)	CDs % of Total	TCE Ratio	Core Deposit Premium	Price-to-T.Book	P/E 2016 EPS	ROA Forecast in 2016	ROTC E Estimated in 2016
				MRQ	MRQ	MRQ	Today	10/24/2016	Consensus	Consensus	Consensus
Peer Analysis											
FVCB	FVCBankcorp Inc	\$138	NA	\$837,014	29	9.5	11.4%	174	20.5x	0.89	8.6%
ANCX	Access Natl Corp	\$255	2.50	\$1,362,838	24	8.9	16.3%	218	14.6x	1.35	15.0%
CFNL	Cardinal Financial	\$853	1.85	\$4,219,648	37	9.9	21.6%	205	16.9x	1.25	12.6%
EGBN	Eagle Bancorp	\$1,669	0.00	\$6,762,132	14	10.6	20.2%	236	17.7x	1.50	14.0%
ESXB	Cmty Bnk Trst Corp	\$119	0.00	\$1,189,522	54	9.3	1.8%	107	12.6x	0.79	8.6%
EVBS	Eastern VA Bnkshs	\$106	0.99	\$1,314,896	24	7.3	1.6%	113	17.2x	0.66	6.3%
FDVA	Freedom Bnk of Va	\$56	NA	\$494,027	58	10.3	3.1%	111	22.9x	0.55	9.5%
JMSB	John Marshall Bk	\$172	NA	\$975,565	49	11.6	15.0%	152	na	NA	na
MBRG	Middleburg Finl	\$216	1.71	\$1,314,336	25	9.5	11.5%	173	22.5x	0.72	7.8%
MNSB	MainStreet Bcshs	\$56	NA	\$535,909	48	8.5	4.5%	123	na	NA	na
OLBK	Old Line Beshs Inc	\$216	1.21	\$1,650,105	36	8.5	9.3%	156	17.7x	0.79	8.9%
SONA	Southern National	\$162	2.43	\$1,135,436	66	10.1	15.3%	142	15.0x	1.06	18.8%
TOWN	TowneBank	\$1,565	2.07	\$7,940,741	28	9.8	18.3%	208	17.7x	0.97	11.4%
WFBI	WashingtonFirst	\$300	0.98	\$1,916,938	31	9.4	11.5%	168	18.1x	0.94	9.5%
				Median	36	9.5	11.5%	156	17.7x	0.94	9.5%

Source: FIG Partners Research, SNL Financial LC

FVCB trades at an 11.4% Core Deposit Premium while many other peers in Northern Virginian and metro-D.C. trade at a much higher premium. Examples are ANCX, EGBN, SONA and TOWN. A few Banks trade at a discount and may also represent opportunities for patient investors. We believe the strong growth prospects will continue to allow for a premium multiple based on EPS and our Price Target implies a forward P/E of 21.0x our revised 2017 EPS estimate of \$1.01 and 2.01x projected Tangible Book Value of \$10.93 as of December 2017. Though these are admittedly “rich” valuation multiples, the company’s growth profile is embedded within a geographic region that supports above-average growth and will drive EPS growth of close to 23% on average during 2016 and 2017.

Earnings Model

	Calendar Year				2015 Calendar Qtrs				2016 Calendar Qtrs				2017 Calendar Qtrs			
	2014A	2015A	2016E	2017E	1Q15A	2Q15A	3Q15A	4Q15A	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E
Income Data: (\$ in Millions)																
Net Interest Income	\$19.2	\$22.9	\$27.1	\$31.4	\$5.4	\$5.7	\$5.8	\$6.0	\$6.6	\$6.6	\$6.9	\$7.0	\$7.2	\$7.6	\$8.1	\$8.5
Loan Loss Provision	\$0.9	\$1.1	\$1.3	\$1.8	\$0.1	\$0.1	\$0.1	\$0.8	\$0.2	\$0.1	\$0.6	\$0.4	\$0.4	\$0.5	\$0.5	\$0.5
Non-Interest Income	\$1.0	\$1.2	\$1.2	\$1.3	\$0.4	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3
Gain/Loss on Loan Sales	\$0.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Gain/Loss on Securities	\$0.1	(\$0.1)	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	(\$0.1)	\$0.0	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
One-Time Items	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Non-Interest Expense	\$13.3	\$14.7	\$16.3	\$17.7	\$3.6	\$3.6	\$3.7	\$3.7	\$4.0	\$4.1	\$4.1	\$4.1	\$4.3	\$4.4	\$4.5	\$4.6
Pre-Tax Income	\$6.3	\$8.3	\$10.7	\$13.1	\$2.1	\$2.2	\$2.3	\$1.6	\$2.7	\$2.7	\$2.5	\$2.8	\$2.8	\$3.1	\$3.5	\$3.7
Taxes (w/ FTEadj.)	\$2.2	\$2.9	\$3.7	\$4.5	\$0.7	\$0.8	\$0.8	\$0.6	\$0.9	\$0.9	\$0.9	\$1.0	\$1.0	\$1.1	\$1.2	\$1.3
Extraordinary Items	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Income	\$4.1	\$5.4	\$7.0	\$8.6	\$1.4	\$1.5	\$1.5	\$1.0	\$1.8	\$1.8	\$1.6	\$1.8	\$1.8	\$2.0	\$2.3	\$2.4
Preferred Dividend	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$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	\$4.1	\$5.4	\$7.0	\$8.6	\$1.4	\$1.5	\$1.5	\$1.0	\$1.8	\$1.8	\$1.6	\$1.8	\$1.8	\$2.0	\$2.3	\$2.4
Avg. Shares O/S	8.2	8.2	8.5	8.5	8.4	7.7	8.5	8.2	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5
Earnings Per Share (EPS)	\$0.51	\$0.66	\$0.83	\$1.01	\$0.17	\$0.19	\$0.18	\$0.12	\$0.21	\$0.21	\$0.19	\$0.22	\$0.21	\$0.24	\$0.27	\$0.29
Per Share Data:																
Reported Book Value	\$8.24	\$8.97	\$9.93	\$10.95	\$8.45	\$8.59	\$8.86	\$8.97	\$9.29	\$9.51	\$9.70	\$9.93	\$10.15	\$10.39	\$10.66	\$10.95
Tangible Book Value	\$8.22	\$8.95	\$9.91	\$10.93	\$8.43	\$8.58	\$8.84	\$8.95	\$9.28	\$9.49	\$9.68	\$9.91	\$10.13	\$10.37	\$10.65	\$10.93
Dividends	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pre-Tax, Pre-Provision EPS	\$0.88	\$1.14	\$1.41	\$1.75	\$0.26	\$0.30	\$0.27	\$0.30	\$0.34	\$0.33	\$0.36	\$0.38	\$0.38	\$0.42	\$0.46	\$0.50
CORE GAAP EPS	\$0.50	\$0.67	\$0.83	\$1.01	\$0.17	\$0.19	\$0.18	\$0.13	\$0.21	\$0.21	\$0.19	\$0.22	\$0.21	\$0.24	\$0.27	\$0.29
KEY Ratios:																
Net Interest Margin	3.61%	3.70%	3.55%	3.47%	3.76%	3.77%	3.63%	3.63%	3.74%	3.57%	3.47%	3.42%	3.43%	3.45%	3.48%	3.51%
Return on Avg Assets	0.76%	0.86%	0.89%	0.91%	0.94%	0.95%	0.92%	0.61%	0.96%	0.94%	0.81%	0.87%	0.82%	0.89%	0.95%	0.98%
Return on Avg Equity	6.45%	7.72%	9.09%	10.11%	8.38%	8.53%	8.36%	5.69%	9.52%	9.33%	8.33%	9.22%	8.87%	9.76%	10.62%	11.08%
Pre-Tax Pre-Provision ROA	1.32%	1.47%	1.53%	1.59%	1.47%	1.51%	1.43%	1.46%	1.58%	1.48%	1.53%	1.52%	1.46%	1.56%	1.64%	1.70%
Efficiency Ratio	65.2%	60.9%	57.7%	54.2%	62.1%	60.5%	61.4%	59.5%	57.5%	59.9%	56.8%	56.3%	57.2%	54.9%	53.2%	51.9%
Overhead Ratio	2.44%	2.30%	2.07%	1.89%	2.45%	2.33%	2.27%	2.19%	2.18%	2.17%	2.00%	1.95%	1.98%	1.90%	1.85%	1.82%
TCE/TA	11.0%	9.9%	9.2%	8.7%	11.3%	10.5%	10.5%	9.9%	10.2%	9.8%	9.5%	9.2%	9.1%	8.9%	8.7%	8.7%
Period-End Balances: (\$ in Millions)																
Earning Assets	\$587	\$651	\$856	\$1,012	\$604	\$622	\$652	\$651	\$721	\$769	\$820	\$856	\$892	\$933	\$975	\$1,012
Total Assets	\$605	\$737	\$874	\$1,032	\$605	\$664	\$682	\$737	\$741	\$797	\$837	\$874	\$911	\$952	\$994	\$1,032
Net Loans	\$504	\$624	\$714	\$846	\$525	\$560	\$562	\$624	\$639	\$664	\$688	\$714	\$745	\$779	\$813	\$846
Total Deposits	\$504	\$627	\$758	\$891	\$532	\$588	\$596	\$627	\$661	\$675	\$729	\$758	\$790	\$821	\$858	\$891
Intangibles	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Common Equity	\$67	\$73	\$81	\$89	\$69	\$70	\$72	\$73	\$76	\$78	\$80	\$81	\$83	\$85	\$87	\$89



FIG Partners LLC Distribution of Ratings

	Buy / Outperform	Hold / Market- Perform	Sell / Underperform
% Rated	36.8%	62.4%	0.8%
IB Client % in Category	30.4%	15.4%	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 Virginia Community Bank (FVCB)



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.



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- 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.
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- FIG intends to seek investment banking compensation from the subject in the next three months.
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