

North State Bancorp (Not Publicly Traded)

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August 23, 2019

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|-----------------------------------|---------|------------------------|---------------|---------|--------------------------|---------------|-------|
| Price: * | \$16.00 | EPS ** | 2017A: | \$1.60 | P/E | 2017A: | 10.0x |
| 52 Wk. Range: | N/A | (FY: DEC) | 2018A: | \$1.65 | | 2018A: | 9.7x |
| Distributions (Estimated): | \$1.21 | | 2019E: | \$ 1.78 | | 2019E: | 9.0x |
| Shares: | 5.9 mm | Book Value: *** | | \$8.09 | Price/Book Value: | | 1.98x |

* Stock is not actively traded. Last known trade. ** Earnings per share are diluted. *** Tangible book value is \$8.19 per share.

www.equityresearch.com

Background

North State Bancorp (the “Company”) is a single bank holding company headquartered in Raleigh, North Carolina with approximately \$924 million in assets as of June 30, 2019. Its bank subsidiary is North State Bank, a commercial bank that began operations on June 1, 2000. North State Bancorp serves Wake and New Hanover Counties through seven full-service offices. The Company focuses on serving the total banking needs of small businesses and individuals, professional firms, professionals, property management companies, churches and non-profits who highly value a mutually beneficial banking relationship. Market areas include Raleigh, Garner, greater Wake County and New Hanover County. Product deposit services include demand deposits, money market accounts, consumer and business time deposits and sweep accounts. Loan products include business products, such as commercial lines of credit, loans for equipment and owner occupied commercial mortgages and other commercial real estate loans and personal lines of credit, such as home equity loans and first and second mortgages. North State Bancorp also offers online mobile banking, digital banking, cash management, payroll and merchant services, in addition to courier services for businesses, same day banking (i.e., transactions are processed on the same day they occur), lockbox and remote deposit capture capabilities. Additional service enhancements include a Mortgage Division, staffed by experienced mortgage professionals; CommunityPLUS, a division serving property management firms throughout North Carolina and other states with companies who have a close working relationship with the Bank, and an SBA and USDA Lending division, which allows the Bank to fund loans for owner-operated businesses, on a nationwide basis. (North State has been granted “preferred lender” status from the SBA, which allows it to have greater flexibility and often expedited processing times when considering a borrower’s risk profile.) Finally, in 2018, the Company created a lease financing group. The Company is an S-Corporation for tax purposes.

Second Quarter Results Were in Line with Projections

North State Bancorp reported excellent quarterly results in the three months ended June 30, 2019.

Although earnings were essentially unchanged from the year-ago figures, we had expected a somewhat flat quarter, reflecting a slowdown in the mortgage banking and SBA areas. What was actually more impressive was the fact that the underlying trend in net interest income was as strong as it was and that overall expenses declined. In fact, the strong double-digit growth in net interest income, combined with a drop in noninterest expense, completely offset the decline in noninterest income. This trend (for net interest income growth to be growing more rapidly and consistently than noninterest income) has actually been occurring for several

quarters. As a result, net interest income continues to increase as a percentage of total revenues, which can be seen in the adjacent chart. We would also note that balance sheet growth was commendable in the quarter, and that asset quality remained excellent. The Company’s profitability metrics, such as ROAE and ROAA, likewise remained exceptional.

ASSETS: \$924 MM

HQ: RALEIGH, NC

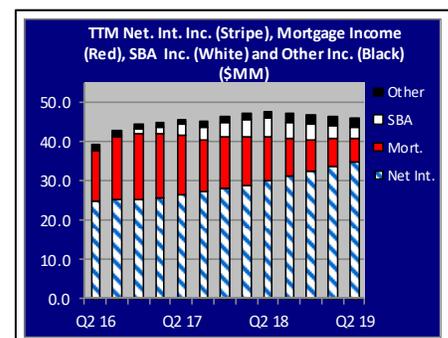
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2ND QUARTER HIGHLIGHTS:

EPS: \$0.48 vs. \$0.49

NET INCOME INCREASED 13% FROM THE YEAR-AGO LEVEL AND OFFSET A SLOWDOWN IN THE MORTGAGE AND SBA AREAS

NET INTEREST INCOME BENEFITTED FROM GROWTH IN VOLUME AND HIGHER MARGINS



NONINTEREST INCOME DECREASED FROM THE YEAR-AGO QUARTER, THOUGH IT GREW 36% ON A LINKED QUARTER BASIS

NONINTEREST EXPENSE DECREASED 2% FROM THE YEAR-AGO QUARTER

NORTH STATE'S ROAE WAS THE BEST OF ITS NC PEER GROUP

ITS NPAs/ASSETS RATIO ALSO WAS SUPERIOR TO THE PEER GROUP

FIRST HALF HIGHLIGHTS:

EPS: \$0.90 vs. \$0.87

NET INTEREST INCOME WAS UP 15%, WHILE NONINTEREST EXPENSE DECREASED 5%

NPAs REMAIN QUITE LOW

NPAs/ASSETS: 0.15%

RESERVES/LOANS: 0.61%

EPS:
2017A: \$ 1.60
2018A: \$ 1.65
2019E: \$ 1.78

In terms of specific results, net income was \$2,893,000, or \$0.48 per diluted share, in the second quarter of 2019, compared to \$2,881,000, or \$0.49 per diluted share, in the year-ago quarter. As was stated earlier, a main driver behind the earnings growth was net interest income, which increased 13% to \$9,030,000 in 2019's second quarter from \$7,969,000 in the year-ago quarter. The growth was due to higher average earning assets and higher margins (the net interest margin was 3.93% for the second quarter of 2019 compared to 3.87% in the year-ago quarter). Reflecting the declines in mortgage and SBA fees, noninterest income decreased 31% to \$3,173,000 in 2019's second quarter from \$4,603,000 in the year-ago quarter, though encouragingly, it did increase 36% on a linked quarter basis. [Although mortgage and SBA fees were down, there were solid gains in Merchant and other loan fees (up 16%) and service charges on deposit accounts (up 31%)]. Another aspect of the quarter that positively impacted earnings was cost containment, as noninterest expense decreased 2% to \$9,160,000 in the second quarter of 2019 from \$9,381,000 in the year-ago quarter. Earnings also benefitted from a decline in the provision for loan losses to \$150,000 from \$310,000 over this period. As can be seen from the adjacent chart, the Company's profitability and asset quality ratios were much better than those of its peers, which consisted of 15 North Carolina banks with assets between \$250 million and \$5 billion). Not surprisingly, North State's ROAE of 23.64% was the highest of any bank in its peer group.

| PERFORMANCE AND ASSET QUALITY RATIOS VS. NC PEERS, MRQTR. (%) | | |
|--|-------------|----------------------|
| | North State | Peer Group Median |
| ROAA * | 1.36% | 1.06% |
| ROAE * | 23.64% | 11.41% |
| NPAs/Assets | 0.15% | 0.38% |

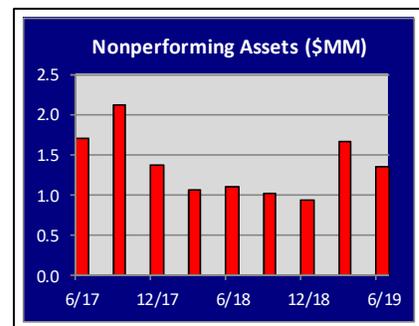
* Pretax ROAA and ROAE for peers.

Earnings for the First Half of 2019 Increased 6%

Results for the first half of 2019 were likewise solid, with strong growth in net interest income largely offsetting lower noninterest income. Net income for the first six months of 2019 was \$5,321,000, or \$0.90 per diluted share, up from \$5,016,000, or \$0.87 per diluted share, in the year-ago period. Net interest income was up 15%, noninterest income declined 37%, and noninterest expense decreased 5% over this period. Balance sheet growth was generally in the mid- to upper-single digits. In terms of specifics, from June 30, 2018 to June 30, 2019, both deposits and total assets increased 5%, while net loans were up 8%. As of June 30, 2019, shareholders' equity was \$48.1 million, or 5.20% of total assets, versus \$43.8 million, 4.98% of assets, at June 30, 2018. All of the Bank's capital ratios exceed well capitalized minimums.

Asset Quality Remains Quite Good

North State Bancorp had nonperforming assets of \$1.3 million, or 0.15% of total assets, at June 30, 2019, versus \$1.7 million, or 0.18% of assets at March 31, 2019, and \$1.1 million, or 0.13% of assets, at June 30, 2018. We would also point out that charge-offs have remained quite low and were actually net recoveries in the most recent quarter. The allowance for loan losses was \$4.6 million, or 0.61% of total loans, at June 30, 2019, up from \$4.4 million, or 0.63% of total loans, at the year-ago date.



Projections Maintained

Based on the second quarter of 2019 results, we are maintaining our projections of \$10.5 million, or \$1.78 per diluted share. Given that North State still derives a significant portion of its revenues from the mortgage and SBA operations (although they have been a declining percentage), actual results may vary significantly from these figures.

ADDITIONAL INFORMATION UPON REQUEST

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