

## Banks & Thrifts

Price:	\$22.82
Fair Value Estimate:	\$27.00
52-Week Range:	\$18.40 - \$25.50
Market Cap (MM):	\$189
Shr.O/S-Diluted (mm):	8.3
Average Daily Volume:	12,020
Dividend:	\$0.00
Yield:	0.0%
Tang Book Value:	\$16.16
Tang Comn Equity Ratio:	10.7%
Price/Tangible Book:	1.38x

FYE: Dec	2018A	2019A	2020E
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### Quarterly EPS - GAAP:

Q1	\$0.29A	\$0.39A	\$0.44E
Q2	\$0.26A	\$0.42A	\$0.45E
Q3	\$0.35A	\$0.45A	\$0.47E
Q4	\$0.45A	\$0.43A	\$0.49E
Year:	\$1.34A	\$1.69A	\$1.85E

January 23, 2020

## MainStreet Bancshares, Inc. (MNSB) - BUY

### 2020 ROA Should Approach 1.15% ROA, Modestly Higher EPS Outlook Includes 10% TBV Growth.

#### PORTFOLIO MANAGER BRIEF

- EPS Outlook: \$0.44 in 1Q20 (unchanged), and \$1.85 (+\$0.02) in 2020.
- Our Fair Value on MNSB shares is \$27.00, 148% of tangible book value projected in late 2020.
- 4Q19 EPS was one penny below our estimate and was still a solid quarter albeit slower Loan growth and moderately higher expenses. NIM-Net Interest Margin was steady and Deposit costs are retreating
- Deposit growth includes a continued focus on Core funds and DDAs. DDAs are now 20.5% of Total. Loans-to-Deposits dropped to 93% from 97% in the past quarter (6 quarters ago this ratio was 102%).
- ROA should exceed 1.15% in 2020 with continued Reserve-build within provision expense and steady capital ratio on retained earnings. Tangible book value (TBV) is projected to rise 10% in 2020 after an 11% expansion in 2019.
- Two community bank mergers in the greater DC/Suburban MD/Northern VA area signal greater scarcity value which boosts MNSB's longer-term value for patient investors. Company is now on NASDAQ and the Russell 2000 index.

#### ANALYST NOTES

The MNSB story continues to exhibit strong fundamentals with a solid ROA-Return on Assets and double-digit tangible book value growth. Core Deposits are rising and we favor the company's focus on generating funds from payment-related clients, as well as local businesses in Northern Virginia and the Washington D.C. metro area.

NIM-Net Interest Margin was stable in 4Q19 as MNSB has seen Deposit costs retreat with lower Fed Funds rates in the marketplace, while maintaining Loan pricing discipline. A focus on business customers willing to pay for a relationship (and less transaction-oriented) plus allowing Construction balances and other CRE to pay-off, maintains a lower risk profile. Charge-offs remain low along with small NPAs (sub-0.30% of Loans) and Classified assets are below 5% of capital and reserves.

Our rating on the stock remains "BUY" with a \$27.00 Fair Value or 148% of our 2020 tangible book estimate. See further analysis is available in this report.



## Weekly Stock Price Activity Since 2017



### Background & Risks

MNSB is an \$1.28 Billion Asset Community Bank with 7 branch locations in Fairfax and Arlington counties in Northern Virginia plus D.C in 2020.

Founded in 2004, the company enjoyed methodical expansion during the Financial Crisis and has accelerated its growth pace while boosting profits on both an absolute earnings per share and ROA/ROTCE basis. Economic activity in the Washington, DC MSA remains robust, especially across the Potomac River in Virginia within the Dulles Airport corridor where small businesses and wealthy consumers are plentiful, many of which desire the services provided by community Banks.

Capital has been leveraged in the past 15 quarters as the Loan portfolio has more than doubled while tangible book value per share is 35% higher. The core ROA-Return on Assets exceeds 100 basis points with a rising Pre-Pre ROA. MNSB enjoys a diverse Loan mix of Commercial Loans, Real Estate, and Consumer which is more balanced than many other Community Bank peers. The company has also leveraged its expense base to a lower level than other institutions.

## MNSB-Main Street Bancshares (VA)

### Janney Research (FIG Group) - EPS Model

	Actual FY 2018	Actual 1Q-2019	Actual 2Q-2019	Actual 3Q-2019	Actual 4Q-2019	Actual FY 2019	JMS Est. 1Q-2020	JMS Est. 2Q-2020	JMS Est. 3Q-2020	JMS Est. 4Q-2020	JMS Est. FY 2020
Earning Assets - PE	1,082,464	1,123,850	1,158,673	1,206,865	1,248,113	1,248,113	1,270,113	1,302,113	1,337,113	1,363,113	1,363,113
Avg. Earning Assets	912,782	1,069,895	1,124,924	1,193,539	1,169,520	1,139,470	1,256,913	1,282,913	1,316,113	1,342,313	1,299,563
NIM-Net Interest Margin	3.43%	3.50%	3.50%	3.48%	3.49%	3.49%	3.40%	3.38%	3.36%	3.37%	3.38%
NII-Net Interest Income	31,169.0	9,348.0	9,885.0	9,996.0	10,207.0	39,436.0	10,537.4	10,810.9	11,146.2	11,401.9	43,896.5
Loan Loss Provision	3,126.0	325.0	750.0	185.0	358.0	1,618.0	275.0	400.0	437.5	325.0	1,437.5
Fee Income	3,239.0	926.0	1,341.0	1,436.0	1,158.0	4,861.0	1,300.0	1,350.0	1,400.0	1,450.0	5,500.0
Gains & One-Time Revenue	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	19,978.0	6,008.0	6,177.0	6,489.0	6,703.0	25,377.0	6,595.0	6,690.0	6,850.0	6,975.0	27,110.0
One-Time Charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>PRE-TAX INCOME</b>	<b>11,304.0</b>	<b>3,941.0</b>	<b>4,299.0</b>	<b>4,758.0</b>	<b>4,304.0</b>	<b>17,302.0</b>	<b>4,967.4</b>	<b>5,070.9</b>	<b>5,258.7</b>	<b>5,551.9</b>	<b>20,849.0</b>
Taxes	2,094.0	694.0	868.0	1,049.0	742.0	3,353.0	1,291.5	1,318.4	1,367.3	1,443.5	5,420.7
<b>Net Income</b>	<b>9,210.0</b>	<b>3,247.0</b>	<b>3,431.0</b>	<b>3,709.0</b>	<b>3,562.0</b>	<b>13,949.0</b>	<b>3,675.9</b>	<b>3,752.5</b>	<b>3,891.4</b>	<b>4,108.4</b>	<b>15,428.2</b>
Shares O/S (avg.)	6,644.4	8,242.9	8,250.2	8,251.7	8,260.3	8,260.3	8,310.3	8,325.3	8,340.3	8,355.3	8,355.3
<b>EPS</b>	<b><u>\$1.38</u></b>	<b><u>\$0.39</u></b>	<b><u>\$0.42</u></b>	<b><u>\$0.45</u></b>	<b><u>\$0.43</u></b>	<b><u>\$1.69</u></b>	<b><u>\$0.44</u></b>	<b><u>\$0.45</u></b>	<b><u>\$0.47</u></b>	<b><u>\$0.49</u></b>	<b><u>\$1.85</u></b>
Tangible Book Per Share	\$14.83	\$15.15	\$15.64	\$16.13	\$16.59	\$16.59	\$16.93	\$17.37	\$17.81	\$18.29	\$18.29
Dividends	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
ROA	0.97%	1.19%	1.18%	1.23%	1.15%	1.19%	1.16%	1.14%	1.14%	1.18%	1.16%
TCE	11.0%	10.9%	10.9%	10.8%	10.7%	10.7%	10.8%	10.8%	10.9%	10.9%	10.9%
Total Assets - PE	1,078,071	1,146,081	1,184,764	1,234,276	1,277,989	1,277,989	1,299,989	1,331,989	1,366,989	1,392,989	1,392,989
Avg. Assets	948,456	1,106,683	1,165,836	1,193,539	1,224,771	1,172,707	1,288,989	1,315,989	1,349,489	1,379,989	1,333,614
Total Deposits	920,137	966,827	1,011,131	1,064,564	1,059,293	1,059,293	1,081,293	1,113,293	1,148,293	1,174,293	1,174,293
Tangible Common EQ	121,251	124,983	129,036	133,217	137,034	137,034	140,710	144,462	148,354	152,462	152,462
Intangibles	0	0	0	0	0	0	0	0	0	0	0
Shares O/S (PE)	8,178	8,250	8,250	8,252	8,260	8,260	8,285	8,295	8,305	8,315	8,315
Fees-to-Revenues	9.4%	9.0%	11.9%	12.6%	10.2%	11.0%	11.0%	11.1%	11.2%	11.3%	11.1%
Expenses-to-Revenues	58.1%	58.5%	55.0%	56.8%	59.0%	57.3%	55.7%	55.0%	54.6%	54.3%	54.9%
Expenses-to-Avg. Assets	2.11%	2.15%	2.13%	2.18%	2.20%	2.16%	2.05%	2.04%	2.04%	2.03%	2.03%
TCE Ratio	11.25%	10.91%	10.89%	10.79%	10.72%	10.72%	10.82%	10.85%	10.85%	10.94%	10.94%
L-Q Growth: Earning Assets	301,854	41,386	34,823	48,192	41,248	165,649	22,000	32,000	35,000	26,000	115,000
	38.7%					15.3%	JMS input	JMS input	JMS input	JMS input	9.2%
% Change In TBV/Per Share	23.7%					11.9%					10.2%

Source: Janney Research (FIG Group), data via S&P Global MI

## Our Fair Value Outlook Plus Comparing ROA For MNSB vs Community Banks

**Janney Rating: "BUY"**

**Fair Value: \$27.00**

	2020	Multiple	Price
GAAP EPS	\$1.85	14.6x	\$27.00
Dividends	\$0.00	1.0x	\$0.00
Excess TCE	<u>\$0.00</u>	<u>na</u>	<u>\$0.00</u>
		<b>Combined</b>	<b>\$27.00</b>
Tangible Book 12/20	<b>\$18.29</b>	<b>1.48x</b>	<b>\$27.00</b>

**Implied Gain/Loss versus Current Price: 18.3%**

Source: Janney Research (FIG Group) & Forward Estimates

### Deposit Pricing Outlook

	Today	Dec-19	Dec-20
Market Cap.	\$188.3	\$223.1	\$224.5
TCE in \$\$	\$133.1	\$137.0	\$152.0
Total Deposits	\$1,064.6	\$1,059.3	\$1,174.3
Core Deposits	\$534.3	\$582.6	\$645.9
Premium - Total	5.2%	8.1%	6.2%
<b>Premium - CORE</b>	<b>10.3%</b>	<b>14.8%</b>	<b>11.2%</b>

Factors a modest unrealized securities mark-to-market each quarter through December 2020

### ROA & ROTCE At Public Banks

Median 2020 Street Consensus vs. [MNSB-Main Street Bancshares](#)



## MNSB's Relative Valuation vs. Public Community Bank Peers In VA-MD-DC

Company Name		Rating	Market Cap. (\$M)	Yield (%)	Total Assets (\$000) MRQ	DDA % MRQ	Cost of Deposits MRQ	TCE Ratio MRQ	Core Deposit Premium Today	Price-to- T.Book 1/22/20	P/E 2020 EPS Consensus	ROA Forecast in 2020 Consensus	Loans-to- Deposits Ratio
<b>Peer Analysis:</b>													
MNSB	MainStreet BcsHs	Buy	\$185	na	\$1,277,989	24	1.68	10.7	9.9%	138	12.5x	1.14	97%
AUB	Atlantic Union Bks	Not Rated	\$2,840	2.82	\$17,562,990	22	0.93	9.1	12.6%	188	13.1x	1.20	95%
BAYK	Bay Bks of VA	Buy	\$116	0.00	\$1,112,219	14	1.41	10.3	0.7%	103	12.5x	0.76	104%
CBNK	Capital Bncp Inc	Not Rated	\$191	na	\$1,311,406	26	1.35	9.7	7.9%	149	11.3x	1.23	103%
DBCP	Delmar Bncp	Not Rated	\$144	1.23	\$792,843	31	0.95	8.3	7.1%	123	na	NA	96%
ESXB	Cnty Bnk Trst Corp	Neutral	\$210	1.70	\$1,422,681	16	1.24	10.7	10.2%	137	14.1x	0.99	91%
FBSS	Fauquier Bkshs Inc	Not Rated	\$81	2.34	\$722,171	21	NA	9.3	2.6%	120	na	NA	88%
FDVA	Freedom Bnk of Va	Not Rated	\$76	na	\$507,387	20	1.63	12.5	6.4%	120	24.3x	0.58	101%
FVCB	FVCBankcorp Inc	Buy	\$233	na	\$1,565,196	22	1.42	10.7	7.2%	140	15.6x	0.95	94%
FXNC	First Natl Corp	Not Rated	\$103	1.74	\$777,193	28	0.63	9.7	4.9%	137	na	NA	83%
HBMD	Howard Bncp Inc	Not Rated	\$345	na	\$2,293,475	27	0.97	10.5	10.1%	148	17.9x	0.81	104%
JMSB	John Marshall Bncp	Not Rated	\$214	na	\$1,513,223	20	1.49	10.4	13.0%	148	na	NA	99%
OPOF	Old Point Finl	Not Rated	\$148	1.69	\$1,050,595	29	0.60	10.2	6.5%	138	na	NA	86%
REVB	Revere Bk	Neutral	\$456	na	\$2,835,191	19	1.49	9.5	11.5%	169	12.9x	1.23	101%
SASR	Sandy Spring Bncp	Not Rated	\$1,289	3.32	\$8,437,538	32	1.02	9.7	10.1%	164	10.7x	1.40	102%
SHBI	Shore BcsHs Inc	Not Rated	\$207	2.94	\$1,561,679	27	0.71	11.3	3.3%	120	13.1x	0.98	93%
SONA	Southern National	Buy	\$375	2.32	\$2,698,915	16	1.48	10.1	8.6%	144	10.7x	NA	98%
TOWN	TowneBank	Not Rated	\$2,000	2.59	\$12,021,291	32	1.02	9.7	13.0%	180	15.0x	1.09	87%
UBSI	United Bkshs Inc	Not Rated	\$3,776	3.76	\$19,751,461	32	1.03	10.9	16.7%	205	14.7x	1.27	97%
WSBC	WesBanco Inc	Not Rated	\$2,469	3.42	\$12,593,887	29	0.51	10.2	13.3%	166	12.0x	1.29	90%
Source: Janney Research (FIG Group), S&P Global MI					<b>Median</b>	<b>26</b>	<b>1.02</b>	<b>10.2</b>	<b>8.6%</b>	<b>144</b>	<b>13.1x</b>	<b>1.09</b>	<b>96.0%</b>

*Note that REVB-Revere Bank announced a merger transaction at a premium valuations.*

*Scarcity value for the MNSB franchise is rising in 2020, in our opinion.*

## IMPORTANT DISCLOSURES

### Research Analyst Certification

I, Christopher Marinac and Freddie Strickland, the Primarily Responsible Analyst for this research report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views I expressed in this research report.

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Data sources for the report are Bloomberg Financial L.P., SNL Financial LC, Stockcharts.com, Thomson Financial and regulatory filings.

The research analyst is compensated based on, in part, Janney Montgomery Scott's and/or its affiliate, FIG's profitability, which includes its investment banking revenues.

MainStreet Bancshares, Inc. currently is, or during the past 12 months was, a Janney Montgomery Scott LLC and/or its affiliate, FIG client. Janney Montgomery Scott LLC, and/or its affiliate, FIG provided investment banking related services.

Janney Montgomery Scott LLC and/or its affiliate, FIG intends to seek or expects to receive compensation for investment banking services from MainStreet Bancshares, Inc. in the next three months.

Janney Montgomery Scott LLC and/or its affiliate, FIG, currently acts as a market-maker in the securities of MainStreet Bancshares, Inc.

Janney Montgomery Scott LLC and/or its affiliate, FIG received compensation for investment banking services from MainStreet Bancshares, Inc. in the past 12 months.

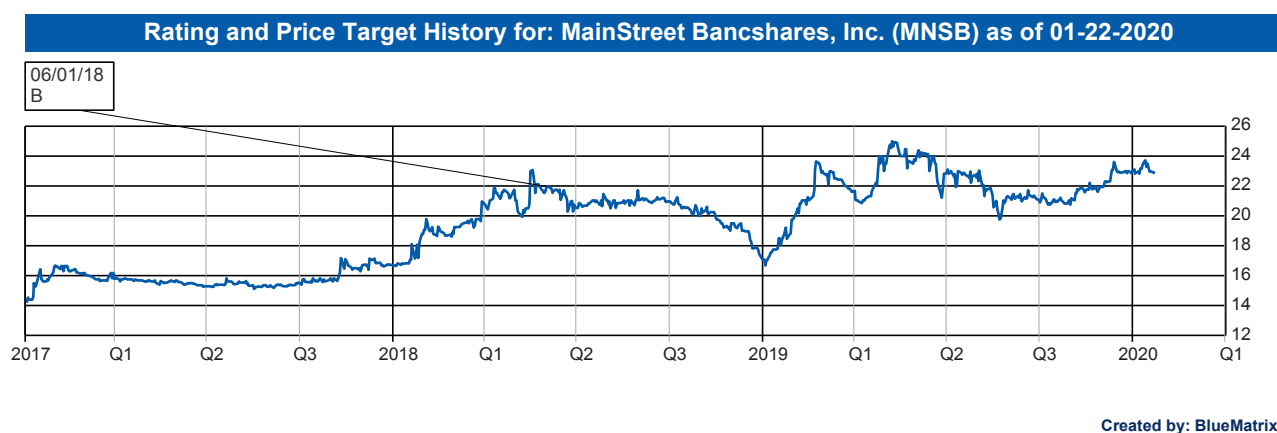
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**BUY:** Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

**NEUTRAL:** Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

**SELL:** Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

### Price Charts



### Janney Montgomery Scott Ratings Distribution as of 12/31/2019

Rating	Count	Percent	IB Serv./Past 12 Mos.*	
			Count	Percent
<b>BUY [B]</b>	167	51.38	35	20.96
<b>NEUTRAL [N]</b>	157	48.31	23	14.65

**SELL [S]**

1

0.31

0

0.00

\*Percentages of each rating category where Janney has performed Investment Banking services over the past 12 months.

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