

Banks & Thrifts

Price:	\$17.80
Fair Value Estimate:	\$21.75
52-Week Range:	\$11.75 - \$23.06
Market Cap (MM):	\$132
Shr.O/S-Diluted (mm):	7.4
Average Daily Volume:	28,788
Dividend:	\$0.00
Yield:	0.0%
Tang Book Value:	\$18.86
Tang Comn Equity Ratio:	8.5%
Price/Tangible Book:	0.94x

FYE: Dec	2020A	2021E	2022E
EPS - non-GAAP	\$1.89A	\$1.85E	\$1.91E
Adjusted: Prior EPS - non-GAAP	\$1.50	\$1.51	NC

Quarterly EPS - non-GAAP Adjusted:

Q1	\$0.42A	\$0.48E	\$0.45E
Q2	\$(0.08)A	\$0.47E	\$0.47E
Q3	\$0.63A	\$0.46E	\$0.49E
Q4	\$0.92A	\$0.44E	\$0.50E

January 22, 2021

MainStreet Bancshares, Inc. (MNSB) - BUY

4Q20 Beats Via Provision Reversal, Deferrals Zero. TBV Grows 7%. Raising EPS Outlook, Fair Value.

PORTFOLIO MANAGER BRIEF

- 4Q20 EPS: Reported \$0.92 / Core \$0.92 / Janney \$0.53.
- The 4Q beat was largely driven by a \$3M Provision reversal from an improving economic outlook. Pre-Tax Pre-Provision Earnings of \$6.8M, down -4% L-Q and up 46% year-over-year, missing our 4Q estimate of \$7.3M due to 7% higher Expenses since 9/30.
- Tangible Book Value (TBV) per share growth was strong at 7.1% linked-quarter, while the TCE Ratio decreased -44 bps to 8.5%. CET-1 regulatory capital ratio is 11.00%. Share buybacks reduced share count 10%.
- NII-Net Interest Income increased 10.0% to \$13.1M as the NIM-Net Interest Margin grew 11bps to 3.33%. Average Loans grew 1.5%, while Average Deposits expanded 5.6%. Fee Income fell -33.5% to \$1.9M vs. our \$2.0M estimate.
- Reserves declined -10% at 12/31 vs 9/30 and stood at 1.16% of Loans in 4Q versus 1.28% in 3Q. All Loan modifications are now in repayment status.
- MNSB's PPP Loans are 22% forgiven, \$135.2M PPP remains.
- We are raising our Fair Value to \$21.75 from \$18.00 as MNSB shares should trade again with a tangible book premium (P-to-TBV ratio at 105%+).

ANALYST NOTES

We are increasing our EPS estimates after MNSB's strong 4Q20 earnings and excellent credit quality trends. Reserve reversals from net recoveries of prior charge-offs (via problem loan payoffs at 12-31-20) signal limited provision expense needed in future periods. We feel a 1.00% ROA-Return on Assets is a minimum expectation and can be repeated even if NIM-Net Interest Margin remains low and new Loan growth is modest. PPP Loan payoffs should be high in the near-term with some new PPP balances under Round 2 of the SBA/US Treasury relief initiative. We factor a higher tax rate beginning 4Q-2021 and we introduce a Calendar 2022 estimate via this report (see Page 3). Investors should recognize the healthy growth in tangible book (TBV) which supports a higher stock price. MNSB trades at 94% of Tangible Book Value. Reiterate BUY rating and \$21.75 Fair Value.



MNSB 4Q Results vs. Estimates

4Q-2020 Results: Actual vs. Estimated

<u>Actual</u>	<u>Operating</u>	<u>Street (BB)</u>	<u>Janney</u>	<u>Comments</u>	<u>Actual</u>	<u>Street-BB</u>	<u>Janney Est</u>
\$0.92	\$0.92	\$0.53	\$0.53		\$6.8	na	\$7.3

Core Pre-Tax Pre-Provision

AVG. SHARES (M)			NIM (Margin)			NII (Spread -\$M)*			LOANS (\$M)		
<u>Actual</u>	<u>Street-BB</u>	<u>Janney Est</u>	<u>Actual</u>	<u>Street-BB</u>	<u>Janney Est</u>	<u>Actual</u>	<u>Street-BB</u>	<u>Janney Est</u>	<u>Actual</u>	<u>Street-BB</u>	<u>Janney Est</u>
7.7	8.3	8.1	3.33	na	3.47	\$13.1	na	\$13.2	\$1,230	na	na
PRE-TAX (\$M)			PROVISION (\$M)			EXPENSES (\$M)			NON-INTEREST INCOME (\$M)		
<u>Actual</u>	<u>Street-BB</u>	<u>Janney Est</u>	<u>Actual</u>	<u>Street-BB</u>	<u>Janney Est</u>	<u>Actual</u>	<u>Street-BB</u>	<u>Janney Est</u>	<u>Actual</u>	<u>Street-BB</u>	<u>Janney Est</u>
\$9.8	\$6.6	\$6.6	(\$3.0)	na	\$0.7	\$8.2	na	\$7.8	\$1.9	na	\$2.0

Source: Janney Research (FIG Group), Bloomberg L.P., Company 8-K

New ALLL Disclosure

Fourth Quarter Changes to the Allowance for Loan and Lease Losses	
	(000's)
Beginning Balance September 30, 2020	\$14,345
+ Current Year Recovery (1)	1,498
- Release of Specific Reserve for Repaid Loan	329
- Release of Pandemic Provision for indirect loans (2)	500
- Release of Provision for Loans reclassified as Held for Sale (3)	825
+ Provision for Quarter Growth	186
- Release of Loss Recovery	1,498
Ending Balance December 31, 2020	\$12,877

Source: Company Press Release

Earnings Model

higher IRS tax rates 4Q21

	2020 Quarterly							2021 Quarterly				2022 Quarterly			
	2020	2021E	2022E	1Q20	2Q20	3Q20	4Q20	1Q21E	2Q21E	3Q21E	4Q21E	1Q22E	2Q22E	3Q22E	4Q22E
Income Data: (\$ in Millions)															
Net Interest Income	\$45.98	\$48.09	\$49.53	\$10.30	\$10.73	\$11.89	\$13.07	\$12.41	\$11.77	\$11.89	\$12.02	\$11.97	\$12.27	\$12.55	\$12.74
Loan Loss Provision	\$3.61	\$1.16	\$1.35	\$0.35	\$5.58	\$0.64	(\$2.95)	\$0.43	\$0.28	\$0.20	\$0.25	\$0.24	\$0.25	\$0.40	\$0.46
Non-Interest Income	\$7.13	\$8.02	\$9.23	\$1.41	\$0.99	\$2.83	\$1.90	\$1.90	\$1.98	\$2.04	\$2.10	\$2.16	\$2.27	\$2.36	\$2.43
Gain/Loss on Loan Sales	\$0.36	\$0.60	\$1.25	\$0.00	\$0.33	\$0.03	\$0.00	\$0.00	\$0.30	\$0.15	\$0.15	\$0.35	\$0.30	\$0.30	\$0.30
Gain/Loss on Securities	\$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
One-Time Items	\$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
Non-Interest Expense	\$30.30	\$34.79	\$36.94	\$7.14	\$7.36	\$7.64	\$8.16	\$8.48	\$8.57	\$8.83	\$8.91	\$9.11	\$9.20	\$9.28	\$9.35
Pre-Tax Income	\$19.56	\$20.75	\$21.71	\$4.22	(\$0.89)	\$6.47	\$9.76	\$5.39	\$5.20	\$5.05	\$5.11	\$5.13	\$5.39	\$5.53	\$5.66
Taxes (w/ FTE adj.)	\$3.84	\$4.67	\$5.54	\$0.75	(\$0.26)	\$1.30	\$2.05	\$1.16	\$1.12	\$1.09	\$1.30	\$1.31	\$1.37	\$1.41	\$1.44
Extraordinary Items	\$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
Net Income	\$15.72	\$16.08	\$16.18	\$3.47	(\$0.63)	\$5.17	\$7.71	\$4.23	\$4.08	\$3.97	\$3.81	\$3.83	\$4.02	\$4.12	\$4.22
Preferred Dividend	\$0.64	\$2.54	\$2.54	\$0.00	\$0.00	\$0.00	\$0.64	\$0.64	\$0.64	\$0.64	\$0.64	\$0.64	\$0.64	\$0.64	\$0.64
Net Income Avail. To Common	\$15.08	\$13.54	\$13.64	\$3.47	(\$0.63)	\$5.17	\$7.08	\$3.60	\$3.44	\$3.33	\$3.17	\$3.19	\$3.38	\$3.48	\$3.58
Avg. Shares O/S	8.1	7.3	7.1	8.3	8.3	8.3	7.7	7.5	7.4	7.3	7.2	7.1	7.1	7.1	7.1
Earnings Per Share (EPS)	\$1.89	\$1.85	\$1.91	\$0.42	(\$0.08)	\$0.63	\$0.92	\$0.48	\$0.47	\$0.46	\$0.44	\$0.45	\$0.47	\$0.49	\$0.50
Per Share Data:															
Reported Book Value	\$18.86	\$20.87	\$22.71	\$16.98	\$16.96	\$17.61	\$18.86	\$19.41	\$19.93	\$20.41	\$20.87	\$21.30	\$21.76	\$22.23	\$22.71
Tangible Book Value	\$18.86	\$20.87	\$22.71	\$16.98	\$16.96	\$17.63	\$18.86	\$19.41	\$19.93	\$20.41	\$20.87	\$21.30	\$21.76	\$22.23	\$22.71
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
Pre-Tax, Pre-Provision EPS	\$2.85	\$3.00	\$3.24	\$0.55	\$0.57	\$0.86	\$0.88	\$0.78	\$0.75	\$0.73	\$0.75	\$0.76	\$0.79	\$0.83	\$0.86
CORE GAAP EPS	\$1.89	\$1.85	\$1.91	\$0.42	(\$0.08)	\$0.63	\$0.92	\$0.48	\$0.47	\$0.46	\$0.44	\$0.45	\$0.47	\$0.49	\$0.50
KEY Ratios:															
Net Interest Margin	3.21%	3.22%	3.25%	3.25%	3.04%	3.22%	3.33%	3.31%	3.18%	3.19%	3.20%	3.23%	3.25%	3.25%	3.26%
CORE Return on Avg Assets	0.94%	1.02%	1.01%	1.06%	-0.17%	1.33%	1.71%	1.07%	1.04%	1.01%	0.96%	0.98%	1.01%	1.02%	1.03%
Return on Avg Equity	10.66%	9.53%	9.01%	9.89%	-1.81%	14.20%	20.21%	10.24%	9.75%	9.35%	8.80%	8.72%	9.04%	9.10%	9.15%
Pre-Tax Pre-Provision ROA	1.55%	1.39%	1.44%	1.38%	1.26%	1.85%	1.66%	1.46%	1.40%	1.34%	1.36%	1.36%	1.41%	1.48%	1.51%
Efficiency Ratio	56.7%	61.4%	61.6%	61.0%	61.1%	51.8%	54.5%	59.3%	61.0%	62.7%	62.5%	62.9%	62.0%	61.0%	60.4%
Overhead Ratio	2.02%	2.21%	2.30%	2.15%	1.99%	1.98%	1.99%	2.12%	2.19%	2.26%	2.27%	2.30%	2.31%	2.31%	2.30%
TCE Ratio	8.5%	9.2%	9.7%	10.6%	9.2%	8.9%	8.5%	8.8%	9.0%	9.1%	9.2%	9.3%	9.5%	9.6%	9.7%
CET-1 Regulatory Capital	10.4%	10.9%	11.3%	16.9%	16.5%	10.4%	10.4%	10.6%	10.7%	10.8%	10.9%	11.0%	11.1%	11.2%	11.3%
Period-End Balances: (\$ in Millions)															
Earning Assets	\$1,595	\$1,515	\$1,574	\$1,256	\$1,450	\$1,542	\$1,595	\$1,545	\$1,507	\$1,504	\$1,515	\$1,528	\$1,539	\$1,557	\$1,574
Total Assets	\$1,643	\$1,577	\$1,626	\$1,330	\$1,529	\$1,630	\$1,643	\$1,602	\$1,571	\$1,568	\$1,577	\$1,588	\$1,597	\$1,612	\$1,626
Net Loans	\$1,230	\$1,153	\$1,199	\$1,060	\$1,259	\$1,280	\$1,230	\$1,187	\$1,146	\$1,143	\$1,153	\$1,164	\$1,170	\$1,185	\$1,199
Total Deposits	\$1,438	\$1,347	\$1,402	\$1,143	\$1,342	\$1,417	\$1,438	\$1,388	\$1,340	\$1,337	\$1,347	\$1,361	\$1,368	\$1,385	\$1,402
Intangibles	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Common Equity	\$140	\$145	\$158	\$140	\$140	\$146	\$140	\$141	\$142	\$143	\$145	\$148	\$151	\$155	\$158

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

Raising Our Fair Value To \$21.75 (From \$18.00) As Stock Should Command Tangible Book Premium In 2021

Janney Research Rating: "BUY"

Fair Value: \$21.75

	2021	Multiple	Price
GAAP EPS	\$1.85	11.7x	\$21.75
Dividends	\$0.00	1.0x	\$0.00
Excess TCE	<u>\$2.68</u>	<u>0.00x</u>	<u>\$0.00</u>
		Combined	\$21.75
Tangible Book 12/21	\$20.87	1.04x	\$21.75

Implied Gain/Loss versus Current Price: 22%

<u>Calendar 2022</u>			
2022 EPS	\$1.91	12.0x	\$23.04
Cash Dividends	\$0.00	1.0x	\$0.00
Excess TCE	\$4.05	0.0x	<u>\$0.00</u>
			\$23.04
Discount Rate 10% Pro Rata Aug 2022			0.94
Tangible Book 12/22	\$22.71	1.01x	\$21.75

Source: Janney Research (FIG Group) & Forward Estimates

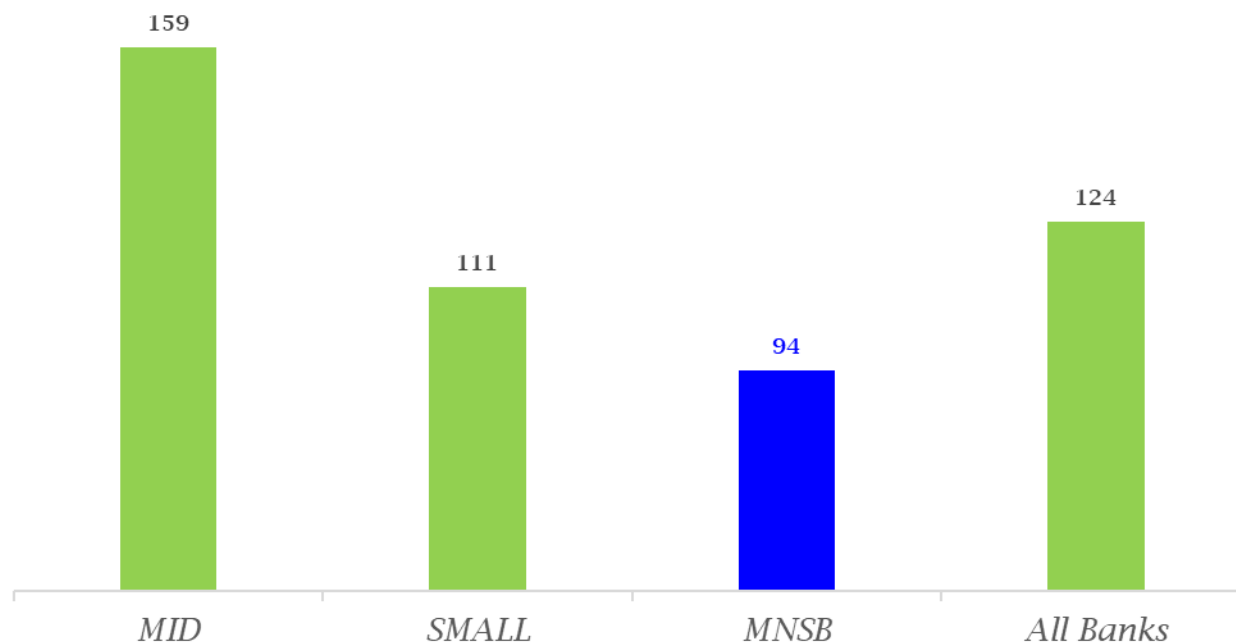
Deposit Pricing Outlook

	<u>Today</u>	<u>Dec-21</u>	<u>Dec-22</u>
Market Cap.	\$132.5	\$150.8	\$160.7
TCE in \$\$	\$140.4	\$144.7	\$158.4
Total Deposits	\$1,438.2	\$1,347.4	\$1,402.1
Core Deposits	\$941.5	\$882.0	\$917.8
Premium - Total	-0.5%	0.5%	0.2%
Premium - CORE	-0.8%	0.7%	0.3%

Factors our earnings and balance sheet projections through
December 2022

Price-to-Tangible Book Ratios

Median by Market Cap. vs [MNSB-MainStreet Bank \(VA\)](#)



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

Weekly Price Trends



Source: Janney Research (FIG Group), www.stockcharts.com

IMPORTANT DISCLOSURES

Research Analyst Certification

I, Christopher Marinac and Feddie 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.

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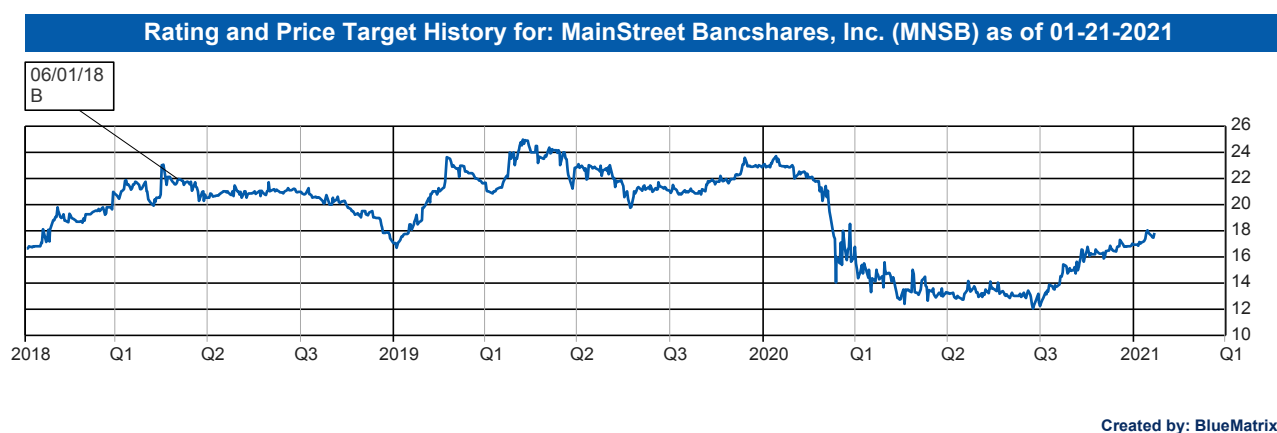
Definition of Ratings

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 12/31/2020

Rating	Count	Percent	IB Serv./Past 12 Mos.*	
			Count	Percent
BUY [B]	115	46.18	27	23.48
NEUTRAL [N]	134	53.82	16	11.94

SELL [S]	0	0.00	0	0.00
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*Percentages of each rating category where Janney has performed Investment Banking services over the past 12 months.

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