

Banks & Thrifts

Price:	\$22.90
Fair Value Estimate:	\$28.25
52-Week Range:	\$20.77 - \$30.98
Market Cap (MM):	\$166
Shr.O/S-Diluted (mm):	7.3
Average Daily Volume:	16,510
Dividend:	\$0.40
Yield:	1.7%
Tang Book Value:	\$22.22
Price/Tangible Book:	1.03x

FYE: Dec	2022A	2023E	2024E
EPS - non-GAAP	\$3.26A	\$3.30E	\$2.70E
Adjusted: Prior EPS - non-GAAP		\$3.28	\$2.82
Adjusted:			

Quarterly EPS - non-GAAP Adjusted:

Q1	\$0.64A	\$1.01A	\$0.66E
Q2	\$0.71A	\$0.79E	\$0.66E
Q3	\$0.97A	\$0.77E	\$0.70E
Q4	\$0.95A	\$0.73E	\$0.68E
Year:	\$3.26A	\$3.30E	\$2.70E



April 18, 2023

MainStreet Bancshares, Inc. (MNSB) - BUY

MNSB in VA/DC: Healthy Tangible Book Value Growth with Conservative NIM Outlook and Ongoing Reserve Build. Expect an Improved P-to-TBV Ratio. Reiterate BUY Rating.

PORTFOLIO MANAGER BRIEF

- We remain conservative on forward EPS expectations with a moderating NIM-Net Interest Margin. EPS projections are \$3.30 in 2023 (+.02) and \$2.70 in 2024 (-\$0.12).
- NIM should retreat more than 30 bps in 2Q23, somewhat beyond management's near-term guide. NIM may decline further as Deposit costs rise up further given wide 330 bps gap between average Fed Funds and company's funding costs. A large advantage on Deposits and Funding vs Fed Funds still exists in MNSB's favor.
- Expenses are rising with organic growth on traditional Banking plus the fintech-enabled Avenu unit which is adding customers and turning a pre-tax profit.
- We expect more core Deposits from Avenu which may enhance NIM more than we model in our late '23 and calendar 2024 earnings.
- MNSB provided excellent disclosures on uninsured deposits (\$500M or 30% of Total Deposits), Liquidity (\$515M or over 100% coverage on uninsured balances), and Office CRE (9% of Total Loans).
- Reserves-to-Loans rose within CECL accounting standard adoption on 1-1-2023. We think provision expense should be stronger and exceed modest net charge-offs such that MNSB's 0.94% Reserve-to-Loans (w/ unfunded commitment allowance) grows towards 1.00% or better. Since net charge-offs should be 0.20% or less, this is 5 years loss coverage.
- Tangible book value (TBV) is rising from \$22 towards \$26 in the next 7 quarters. This supports a higher Price-to-Tangible Book ratio. Our \$28.25 Fair Value has 115% P-to-TBV which has room to improve - see our Page 3 valuation history.
- Reiterate BUY rating on MNSB shares.

Earnings Model

				2022 Quarterly				2023 Quarterly				2024 Quarterly			
	<u>2022</u>	<u>2023E</u>	<u>2024E</u>	<u>1Q22</u>	<u>2Q22</u>	<u>3Q22</u>	<u>4Q22</u>	<u>1Q23</u>	<u>2Q23E</u>	<u>3Q23E</u>	<u>4Q23E</u>	<u>1Q24E</u>	<u>2Q24E</u>	<u>3Q24E</u>	<u>4Q24E</u>
Income Data: (\$Mil.)															
Net Interest Income	\$70.01	\$82.22	\$82.91	\$15.20	\$16.12	\$18.10	\$20.60	\$21.09	\$20.23	\$20.50	\$20.40	\$20.05	\$20.58	\$21.10	\$21.18
Loan Loss Provision	\$2.40	\$2.32	\$3.33	\$0.80	\$0.48	\$0.00	\$1.12	\$0.28	\$0.67	\$0.72	\$0.65	\$0.64	\$0.89	\$0.90	\$0.90
Non-Interest Income	\$5.00	\$4.12	\$4.38	\$1.12	\$1.26	\$1.56	\$1.06	\$1.00	\$1.02	\$1.04	\$1.05	\$1.06	\$1.09	\$1.11	\$1.12
Gain/Loss on Loan Sales	(\$0.17)	\$0.00	\$0.00	\$0.04	\$0.00	(\$0.21)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
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	\$39.06	\$49.58	\$54.90	\$8.96	\$9.49	\$9.89	\$10.71	\$11.70	\$12.23	\$12.62	\$13.02	\$13.39	\$13.63	\$13.84	\$14.04
Pre-Tax Income	\$33.39	\$34.44	\$29.07	\$6.60	\$7.41	\$9.55	\$9.83	\$10.11	\$8.36	\$8.20	\$7.77	\$7.08	\$7.15	\$7.47	\$7.37
Taxes (w/ FTE adj.)	\$6.71	\$7.43	\$6.47	\$1.17	\$1.48	\$1.81	\$2.25	\$1.96	\$1.88	\$1.85	\$1.75	\$1.58	\$1.59	\$1.66	\$1.64
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	\$26.67	\$27.01	\$22.60	\$5.42	\$5.93	\$7.74	\$7.58	\$8.15	\$6.48	\$6.36	\$6.02	\$5.50	\$5.56	\$5.81	\$5.73
Preferred Dividend	\$2.16	\$2.16	\$2.16	\$0.54	\$0.54	\$0.54	\$0.54	\$0.54	\$0.54	\$0.54	\$0.54	\$0.54	\$0.54	\$0.54	\$0.54
Net Income Avail. Common	\$24.52	\$24.85	\$20.44	\$4.88	\$5.39	\$7.20	\$7.04	\$7.61	\$5.94	\$5.82	\$5.48	\$4.96	\$5.02	\$5.27	\$5.19
Avg. Shares O/S	7.5	7.5	7.6	7.6	7.6	7.5	7.4	7.5	7.5	7.5	7.5	7.6	7.6	7.6	7.6
Earnings Per Share (EPS)	\$3.26	\$3.30	\$2.70	\$0.64	\$0.71	\$0.97	\$0.95	\$1.01	\$0.79	\$0.77	\$0.73	\$0.66	\$0.66	\$0.70	\$0.68
Per Share Data:															
Reported Book Value	\$22.98	\$25.51	\$27.67	\$21.12	\$21.41	\$21.92	\$22.98	\$23.62	\$24.28	\$24.92	\$25.51	\$26.03	\$26.56	\$27.12	\$27.67
Tangible Book Value	\$21.75	\$23.71	\$25.88	\$20.61	\$20.75	\$20.94	\$21.75	\$22.22	\$22.48	\$23.12	\$23.71	\$24.24	\$24.77	\$25.33	\$25.88
Dividends	\$0.25	\$0.40	\$0.40	\$0.05	\$0.05	\$0.05	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10
Pre-Tax, Pre-Provision EPS	\$4.75	\$4.88	\$4.28	\$0.97	\$1.04	\$1.28	\$1.47	\$1.38	\$1.20	\$1.18	\$1.12	\$1.02	\$1.06	\$1.10	\$1.09
CORE GAAP EPS	\$3.26	\$3.30	\$2.70	\$0.64	\$0.71	\$0.97	\$0.95	\$1.01	\$0.79	\$0.77	\$0.73	\$0.66	\$0.66	\$0.70	\$0.68
KEY Ratios:															
Net Interest Margin	4.17%	4.40%	4.18%	3.91%	3.93%	4.12%	4.70%	4.68%	4.36%	4.30%	4.24%	4.20%	4.19%	4.18%	4.16%
CORE Return on Avg Assets	1.53%	1.41%	1.12%	1.32%	1.39%	1.70%	1.67%	1.75%	1.36%	1.30%	1.22%	1.13%	1.11%	1.14%	1.11%
Return on Avg Equity	14.99%	13.61%	10.16%	12.03%	13.34%	17.66%	16.86%	17.46%	13.17%	12.55%	11.53%	10.19%	10.09%	10.36%	9.98%
Pre-Tax Pre-Provision ROA	2.05%	1.91%	1.61%	1.78%	1.84%	2.12%	2.43%	2.20%	1.89%	1.84%	1.73%	1.56%	1.61%	1.65%	1.62%
Efficiency Ratio	52.2%	56.3%	62.9%	54.8%	54.6%	50.9%	49.4%	48.4%	57.5%	58.6%	60.7%	63.4%	62.9%	62.3%	63.0%
Overhead Ratio	2.24%	2.58%	2.73%	2.16%	2.22%	2.20%	2.38%	2.48%	2.56%	2.61%	2.67%	2.71%	2.72%	2.73%	2.75%
TCE Ratio	8.4%	8.6%	9.0%	9.0%	8.7%	8.4%	8.4%	8.2%	8.3%	8.4%	8.6%	8.7%	8.8%	8.9%	9.0%
Period-End Balances: (\$Mil.)															
Earning Assets	\$1,815	\$2,031	\$2,150	\$1,711	\$1,697	\$1,749	\$1,815	\$1,946	\$1,981	\$2,013	\$2,031	\$2,060	\$2,097	\$2,131	\$2,150
Total Assets	\$1,926	\$2,127	\$2,226	\$1,762	\$1,793	\$1,860	\$1,926	\$2,055	\$2,085	\$2,112	\$2,127	\$2,151	\$2,182	\$2,210	\$2,226
Net Loans	\$1,580	\$1,696	\$1,801	\$1,413	\$1,417	\$1,448	\$1,580	\$1,617	\$1,650	\$1,679	\$1,696	\$1,722	\$1,754	\$1,784	\$1,801
Total Deposits	\$1,513	\$1,715	\$1,820	\$1,435	\$1,500	\$1,554	\$1,513	\$1,632	\$1,665	\$1,695	\$1,715	\$1,732	\$1,767	\$1,799	\$1,820
Intangibles	\$9	\$11	\$11	\$4	\$5	\$7	\$9	\$11	\$11	\$11	\$11	\$11	\$11	\$11	\$11
Total Common Equity	\$171	\$193	\$210	\$162	\$161	\$163	\$171	\$178	\$183	\$188	\$193	\$197	\$201	\$206	\$210

Source: Janney Research (FIG Group), S&P Capital IQ

We Place 11x P/E on Our Conservative 2024 EPS Outlook with Healthy Tangible Book Value Growth

Janney Research Rating: "BUY"

Fair Value: \$28.25

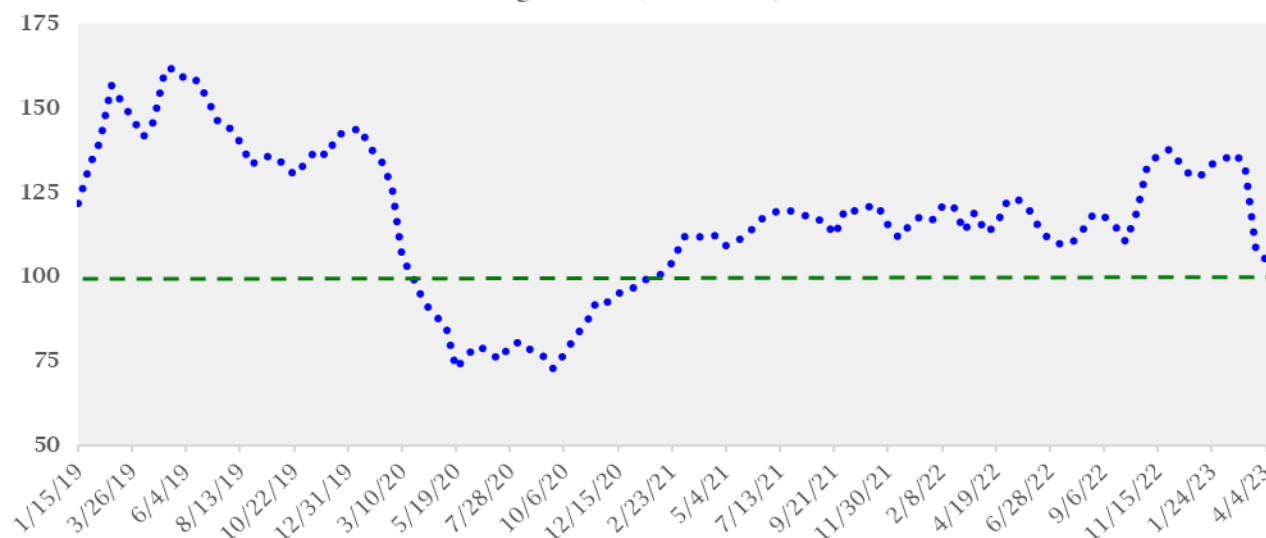
	2023	Multiple	Price
GAAP EPS	\$3.30	8.5x	\$28.00
Dividends	\$0.25	1.0x	\$0.25
Excess TCE	<u>\$1.70</u>	<u>0.00x</u>	<u>\$0.00</u>
		Combined	\$28.25
Tangible Book 12/23	\$23.71	1.19x	\$28.25

Implied Gain/Loss versus Current Price: 23%

<u>Alternative</u>			
2024 EPS	\$2.70	10.9x	\$29.45
Cash Dividends	\$0.40	1.0x	\$0.40
Excess TCE	\$2.94	0.0x	<u>\$0.00</u>
			\$29.85
Discount Rate 10% Pro Rata July-23			0.95
Tangible Book 12/24	\$25.88	1.15x	\$28.25

Source: Janney Research (FIG Group) & Forward Estimates

MNSB: Price-to-Tang. Book (P-to-TBV) Ratio: 2019 to 2023



Source: Janney Research, S&P Capital IQ pricing at 14-day intervals

Deposit Pricing Outlook

	<u>Today</u>	<u>Dec-23</u>	<u>Dec-24</u>
Market Cap.	\$172.3	\$213.4	\$226.7
TCE in \$\$	\$167.2	\$182.1	\$199.6
Total Deposits	\$1,632.3	\$1,715.2	\$1,820.4
Core Deposits	\$902.2	\$948.1	\$1,006.2
Premium - Total	0.3%	1.8%	1.5%
Premium - CORE	0.6%	3.3%	2.7%

Factors our earnings and balance sheet projections through
December 2024

Source: Company 8-K filing 4-17-23

MNSB shares should trade at a stronger Price-to-Tangible Book ratio especially given healthy TBV per share expansion the next 7 quarters from \$22.00 to almost \$25.90 by late 2024. There could be moderate recovery on mark-to-market unrealized Securities too.

We think the P-to-TBV ratio can expand beyond 115% factored in our \$28.25 Fair Value outlook.

Investor CRE office space is well-diversified

Current Balance of Office Portfolio¹

Category (\$ Millions)	Location				Total
	DC	MD	VA	Other	
Mixed Use	\$7	\$3	\$3	-	\$13
Office Building	\$12	\$4	\$50	\$1	\$67
Medical	-	\$20	-	-	\$20
Under Construction	\$31	\$9	\$12	-	\$52
Total	\$50	\$36	\$65	\$1	\$152
Weighted Average LTV	46%	45%	60%	28%	50%

80% of "Under Construction" balances will become owner-occupied upon completion or already have long-term leases in place.

50% of "Office Building" is slotted to be converted to residential.

The portfolio's loan-to-value is strong.

Only one office property (\$1.7 million) is currently rated "watch" due to low occupancy. Remainder of portfolio is "acceptable" or better. All properties are current and performing.



1. As-of 3/31/23, Investor CRE includes call codes 1A1, 1A2, 1D, and 1E2.

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Source: Company 8-K filing 4-17-2023

MNSB has over 9% exposure to Office CRE within its Total Loan portfolio which includes 2% in Residential conversion (from office to residential units in the DC metro area) and a separate 1% in Medical properties.

Overall Loan-to-Value (LTV) is modest at 50% with just 1.1% Criticized as "Watch-rated" at 3-31-2023.

Assumptions for remainder of 2023

- The expense run rate will increase approximately 3-4% per month
- Increasing deposit costs are projected to lower NIM in Q2 by 25 – 30bp¹ but should remain stable thereafter through year-end
- Loan growth will be single-digit for the year
- AvenuTM will start ramping up performance during second half of 2023



¹ projection is from our interest rate simulation model assuming a flat-rate environment for remainder of 2023.

Source: Company 8-K filing 4-17-23

Liquidity is well-managed and strong

Quarterly liquidity monitoring results

Metric	1Q22	2Q22	3Q22	4Q22	1Q23
Liquidity Coverage Ratio (LCR) ¹	125%	185%	211%	97%	118%
High Quality Liquid Assets ²	\$222M	\$242M	\$277M	\$204M	\$290M
Secured line available balance	\$411M	\$410M	\$448M	\$365M ³	\$436M ³
Unsecured line available balance	\$104M	\$104M	\$104M	\$104M	\$129M
Total available funding sources	\$515M	\$515M	\$552M	\$469M	\$565M

1. LCR = High-Quality Liquid Assets / Total net 30-day cash outflow amount. Target is > 100%

2. High Quality Liquid Assets include cash and due from other banks, federal funds sold, unencumbered securities, and cash surrender value of bank-owned life insurance.

3. Net of borrowings outstanding of \$100 million and \$45 million as of 12/31/22 and 3/31/23, respectively.

Highlights

- Active liquidity monitoring consistent with standards established by the Basel Committee on Banking Supervision
- Secondary funding sources alone represent 36% of total deposits and surpass the amount of total uninsured deposits



Source: Company 8-K filing

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.

Janney Montgomery Scott LLC ("Janney") Equity Research Disclosure Legend

Janney Montgomery Scott LLC currently acts as a market maker in the securities of MainStreet Bancshares, Inc..

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

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

Definition of Ratings

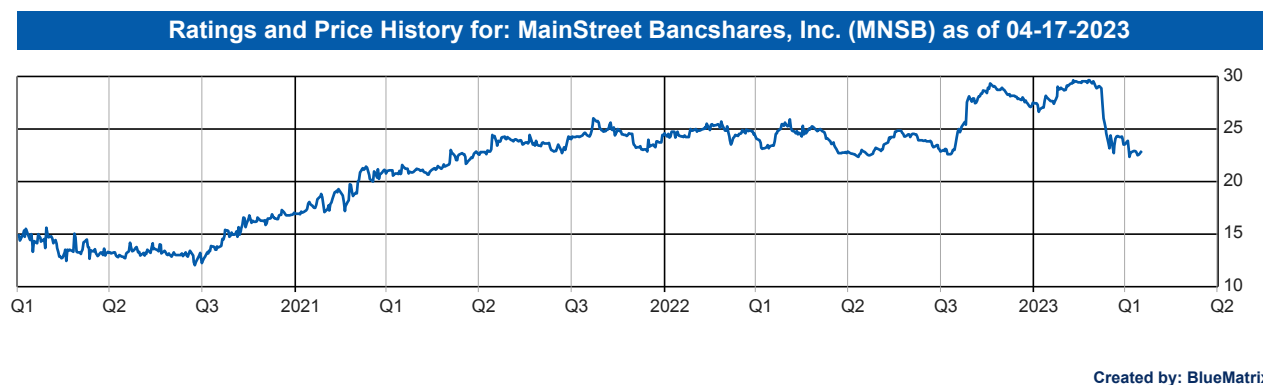
BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

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.

EXTENDED REVIEW: Janney's rating and/or fair value estimate have been temporarily suspended due to applicable regulations and/or Janney management discretion. Previously published research reports, including ratings, fair values, and estimates, should no longer be relied upon when making investment decisions.

Price Charts



Janney Montgomery Scott Ratings Distribution as of 3-31-2023

Rating	IB Serv./Past 12 Mos.*			
	Count	Percent	Count	Percent
BUY [B]	121	52.38	16	13.22
NEUTRAL [N]	110	47.62	6	5.45
SELL [S]	0	0.00	0	0.00
EXTENDED REVIEW [EXTRE]	0	0.00	0	0.00

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

Other Disclosures

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