

Banks & Thrifts

Price:	\$16.00
Fair Value Estimate:	\$20.50
52-Week Range:	\$15.21 - \$25.97
Market Cap (MM):	\$118
Shr.O/S-Diluted (mm):	7.4
Average Daily Volume:	22,090
Dividend:	\$0.40
Yield:	2.5%
Tang Book Value:	\$23.66
Price/Tangible Book:	0.68x

FYE: Dec	2023A	2024E	2025E
EPS - non-GAAP	\$3.25A	\$1.40E	\$1.42E
Adjusted: Prior EPS - non-GAAP		\$2.10	\$2.20
Adjusted:			

Quarterly EPS - non-GAAP Adjusted:

Q1	\$1.01A	\$0.36A	\$0.31E
Q2	\$0.85A	\$0.32E	\$0.34E
Q3	\$0.77A	\$0.36E	\$0.37E
Q4	\$0.61A	\$0.36E	\$0.40E
Year:	\$3.25A	\$1.40E	\$1.42E

MainStreet Bancshares, Inc. is a community bank in Northern Virginia and the Washington, D.C. MSA serving local commercial business and individual customers with deposit, credit, and cash management products. The company has a specialty Banking-as-a-Service (BaaS) technology initiative to attract new business deposits and customers.



April 23, 2024

MainStreet Bancshares, Inc. (MNSB) - BUY

MSNB: Updating Our TBV Forecast for NIM Bottom, Expenses, and Less Growth. Avenu Initiative Set to Deliver DDAs and Fees in 2H24. TBV Rises 8% Annual Pace at Low ROA.

PORTFOLIO MANAGER BRIEF

- After MNSB's 1Q24 earnings miss (read Janney's original analysis on the quarter), we are adjusting our forward tangible book (TBV) and EPS outlooks for a more conservative expectation over the next 7 quarters.
- Our new estimates have stable PPNR per share in 2Q24 with modestly lower quarterly EPS due to a positive provision expense (vs. small recovery in 1Q24). Loan and balance sheet growth are limited and we anticipate Deposits outpace Loans, especially as incremental DDAs rise from the Avenu fintech initiative (see Page 4).
- NIM-Net Interest Margin was especially weak in the recent quarter due to higher funding costs (see our cycle-to-date Beta details on Page 5) plus impact of a single \$9M nonaccrual loan. Lost accrued interest could be recovered by 3Q24 and get NIM at least 5 basis points higher (likely more). MNSB's 57% variable rate Loan repricing should benefit future quarters.
- Hence, we feel NIM bottoms in the current quarter and strengthens the rest of 2024 and also in 2025.
- We factor higher Expenses for Avenu with stronger fees on this new business unit impacting 3Q and 4Q. MNSB has a \$2M fee goal or \$500k incremental per quarter, a large improvement if/when executed.
- DDA Deposits fell in the past quarter and we are hopeful that new customers at Avenu and the unit's \$225M DDA goal by year-end 2024 could stop the DDA declines. This is another reason we see NIM bottoming in the near-term.
- MNSB shares trade at 68% of tangible book (TBV) at 3-31-24. We expect the Price-to-Tangible Book to improve to 80%+ and for TBV per share to expand at an 8% annual rate.
- Our Deposit valuation approach on Page 3 uses a reduced deposit multiple on the company's funding costs about 157bps less than Fed Funds. As Deposits grow and pricing improves on a relative basis, this deposit premium can rise.
- We expect MNSB shares to trade back to a premium to both TBV and Deposits at a future quarter when ROA returns near 1.00% and NIM is stronger.
- Investors should not overlook the low 2.1% Criticized Loans.

Earnings Model

				2023 Quarterly				2024 Quarterly				2025 Quarterly			
	2023	2024E	2025E	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24E	3Q24E	4Q24E	1Q25E	2Q25E	3Q25E	4Q25E
Income Data: (\$Mil.)															
Net Interest Income	\$75.95	\$63.34	\$66.61	\$21.09	\$19.27	\$18.58	\$17.01	\$15.37	\$15.52	\$16.13	\$16.31	\$16.09	\$16.48	\$16.85	\$17.19
Loan Loss Provision	\$1.64	\$0.84	\$2.05	\$0.28	\$0.64	\$0.26	\$0.47	(\$0.20)	\$0.21	\$0.35	\$0.48	\$0.48	\$0.48	\$0.56	\$0.54
Non-Interest Income	\$3.64	\$3.79	\$4.33	\$1.00	\$0.81	\$0.96	\$0.86	\$0.89	\$0.94	\$0.97	\$0.99	\$1.02	\$1.06	\$1.10	\$1.14
Gain/Loss on Loan Sales	\$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
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	\$45.12	\$50.61	\$53.82	\$11.70	\$10.85	\$11.43	\$11.14	\$12.32	\$12.61	\$12.76	\$12.91	\$13.21	\$13.40	\$13.53	\$13.67
Pre-Tax Income	\$32.82	\$15.68	\$15.07	\$10.11	\$8.59	\$7.86	\$6.27	\$4.14	\$3.63	\$3.99	\$3.92	\$3.42	\$3.67	\$3.86	\$4.13
Taxes (w/ FTE adj.)	\$6.24	\$3.05	\$2.89	\$1.96	\$1.65	\$1.52	\$1.12	\$0.83	\$0.70	\$0.77	\$0.75	\$0.66	\$0.70	\$0.74	\$0.79
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	\$26.58	\$12.63	\$12.18	\$8.15	\$6.95	\$6.34	\$5.15	\$3.31	\$2.94	\$3.23	\$3.17	\$2.76	\$2.96	\$3.12	\$3.33
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	\$24.43	\$10.48	\$10.02	\$7.61	\$6.41	\$5.80	\$4.61	\$2.77	\$2.40	\$2.69	\$2.63	\$2.22	\$2.42	\$2.58	\$2.79
Avg. Shares O/S	7.5	7.5	7.1	7.5	7.5	7.5	7.5	7.6	7.6	7.5	7.3	7.3	7.1	7.0	6.9
Earnings Per Share (EPS)	\$3.25	\$1.40	\$1.42	\$1.01	\$0.85	\$0.77	\$0.61	\$0.36	\$0.32	\$0.36	\$0.36	\$0.31	\$0.34	\$0.37	\$0.40
Per Share Data:															
Reported Book Value	\$25.81	\$26.89	\$28.24	\$23.62	\$24.36	\$24.78	\$25.81	\$25.72	\$26.04	\$26.46	\$26.89	\$27.00	\$27.38	\$27.79	\$28.24
Tangible Book Value	\$23.86	\$24.73	\$25.95	\$22.22	\$22.73	\$23.00	\$23.86	\$23.66	\$23.95	\$24.34	\$24.73	\$24.82	\$25.16	\$25.54	\$25.95
Dividends	\$0.40	\$0.40	\$0.40	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10
Pre-Tax, Pre-Provision EPS	\$4.58	\$2.21	\$2.42	\$1.38	\$1.23	\$1.08	\$0.89	\$0.52	\$0.51	\$0.58	\$0.60	\$0.54	\$0.58	\$0.63	\$0.67
CORE GAAP EPS	\$3.25	\$1.40	\$1.42	\$1.01	\$0.85	\$0.77	\$0.61	\$0.36	\$0.32	\$0.36	\$0.36	\$0.31	\$0.34	\$0.37	\$0.40
KEY Ratios:															
Net Interest Margin	4.16%	3.27%	3.35%	4.68%	4.19%	4.28%	3.49%	3.24%	3.23%	3.30%	3.31%	3.32%	3.34%	3.35%	3.40%
CORE Return on Avg Assets	1.38%	0.63%	0.60%	1.75%	1.46%	1.30%	1.02%	0.66%	0.57%	0.62%	0.61%	0.54%	0.58%	0.61%	0.66%
Pre-Tax Pre-Provision ROA	1.78%	0.82%	0.85%	2.20%	1.93%	1.68%	1.35%	0.77%	0.75%	0.84%	0.85%	0.76%	0.81%	0.87%	0.93%
Efficiency Ratio	55.4%	75.4%	75.9%	48.4%	54.0%	58.5%	62.3%	75.8%	76.7%	74.6%	74.6%	77.2%	76.4%	75.4%	74.6%
Overhead Ratio	2.34%	2.53%	2.67%	2.48%	2.27%	2.37%	2.23%	2.42%	2.46%	2.48%	2.49%	2.57%	2.62%	2.67%	2.71%
TCE Ratio	8.9%	8.6%	8.3%	8.2%	8.8%	8.6%	8.9%	8.8%	8.7%	8.7%	8.6%	8.5%	8.4%	8.4%	8.3%
Period-End Balances: (\$Mil.)															
Earning Assets	\$1,921	\$1,991	\$2,046	\$1,946	\$1,834	\$1,898	\$1,921	\$1,952	\$1,965	\$1,978	\$1,991	\$2,004	\$2,018	\$2,034	\$2,046
Total Assets	\$2,035	\$2,103	\$2,149	\$2,055	\$1,949	\$2,021	\$2,035	\$2,070	\$2,081	\$2,092	\$2,103	\$2,114	\$2,126	\$2,140	\$2,149
Net Loans	\$1,705	\$1,764	\$1,813	\$1,617	\$1,637	\$1,681	\$1,705	\$1,727	\$1,739	\$1,751	\$1,764	\$1,776	\$1,788	\$1,803	\$1,813
Total Deposits	\$1,686	\$1,807	\$1,908	\$1,632	\$1,593	\$1,683	\$1,686	\$1,733	\$1,757	\$1,782	\$1,807	\$1,832	\$1,857	\$1,887	\$1,908
Intangibles	\$15	\$16	\$16	\$11	\$12	\$13	\$15	\$16	\$16	\$16	\$16	\$16	\$16	\$16	\$16
Total Common Equity	\$194	\$195	\$193	\$178	\$183	\$186	\$194	\$196	\$196	\$195	\$195	\$194	\$194	\$194	\$193

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

Our Fair Value Outlook is \$20.50 on MNSB Shares. A Discount TBV Pricing With Upside On Deposit Valuation.

Janney Research Rating: "BUY"

Fair Value: \$20.50

	2024	Multiple	Price
GAAP EPS	\$1.40	14.4x	\$20.10
Dividends	\$0.40	1.0x	\$0.40
Excess TCE	<u>\$1.68</u>	<u>0.00x</u>	<u>\$0.00</u>
		Combined	\$20.50
Tangible Book 12/24	\$24.73	0.83x	\$20.50

Implied Gain/Loss versus Current Price: 28%

Alternative			
2025 EPS	\$1.42	14.7x	\$20.86
Cash Dividends	\$0.40	1.0x	\$0.40
Excess TCE	\$1.04	0.0x	<u>\$0.00</u>
			\$21.26
Tangible Book 12/25	\$25.95	0.82x	\$20.50

Source: Janney Research (FIG Group) & Forward Estimates

We expect MNSB shares to trade at a discount to reported tangible book (TBV) as long as ROA and PPNR ROA remain sub-par below 1.00%.

The possible improvement in earnings and Deposits with execution on the Avenu fintech initiative hold promise by year-end 2024 with more revenue and pre-tax contributions in 2025.

The deposit franchise analysis here uses a reduced 2x multiple on the modest funding cost advantage below the Fed Funds rate. There is little Loan fair value mark due to high variable-rate structure in the portfolio plus modest negative AOCI marks.

Deposit Pricing Outlook

	Today	Dec-24	Dec-25
Market-Cap.	121.8	145.7	145.7
TCE in \$\$	180.2	179.2	177.8
Residual Premium	(58.3)	(33.5)	(32.2)
TOTAL DEPOSITS	1,686.1	\$1,806.5	\$1,907.9
Brokered	375.0	350.0	320.0
Govt/Municipal	<u>45.0</u>	<u>40.0</u>	<u>36.0</u>
Franchise Deposits	1,266.1	1,416.5	1,551.9
Cost of Funds	3.76%	3.70%	3.55%
Advantage vs Fed Funds	1.57%	1.30%	1.20%
Value @ 2YR Tenure	3.1%	2.6%	2.4%
Franchise Value	39.8	36.8	37.2
Gov/Muni Value (1x)	0.7	0.5	0.4
Gross Deposit Value	40.5	37.3	37.7
less: AOCI	(8.0)	(7.3)	(6.8)
less: HTM marks	(0.1)	(0.1)	0.0
less: 1.0% Loan mark	(13.8)	(14.1)	(14.5)
Net Deposit Value	18.6	15.9	16.4
per share	\$2.44	\$2.19	\$2.40
Add: TBV per share	\$23.66	\$24.73	\$25.95
Add: AOCI per share	\$1.04	\$1.01	\$0.99
TOTAL FAIR VALUE	\$27.15	\$27.93	\$29.34
Gross Deposit Premium	3.1%	2.6%	2.4%
Net Deposit Premium	1.4%	1.1%	1.0%

Factors our earnings and balance sheet projections through December 2025

Avenu Fintech Initiative Is 10 Quarters Old ... Late 2024 Is the Expected Breakout on New DDA Deposits

A graphic with a dark blue background. On the left, a woman in a blue shirt and yellow pants walks while holding a smartphone. Above her, several gold coins with dollar signs are floating. To her right, a man in a blue shirt and green pants stands, holding a gold coin. The text 'Banking Delivered' is written in large, bold, yellow letters. Below it, in smaller white text, is 'Put our bank in your app™'. Further down, in even smaller white text, is a paragraph: 'Avenu offers the only embedded banking solution that connects you and your applications directly and seamlessly to a banking core, our banking core. We are not a sponsor bank without our own technology, and we are not a middleware software company without our own bank. We are Avenu, a leading financial technology company backed by an established community business bank in the heart of Washington, DC.' At the bottom right, there is a green button with the text 'Know Your Bank' in white.

Banking Delivered

Put our bank in your app™

Avenu offers the only embedded banking solution that connects you and your applications directly and seamlessly to a banking core, our banking core. We are not a sponsor bank without our own technology, and we are not a middleware software company without our own bank. We are Avenu, a leading financial technology company backed by an established community business bank in the heart of Washington, DC.

Know Your Bank

Source: Janney Research (FIG Group), Avenu's [digital collateral](#) for prospective customers

Put our bank in your app™

With our solution, you will be able to create any type of deposit account for your customers. For transactional accounts, you'll have access through our payment gateway to digital, paper or plastic processing through ACH, ATM's, debit & credit rails, domestic and international wires, and real time processing. Since Avenu is a development company and a bank, we understand the common issues that occur when your app or services are developed and managed indirectly. Whether you are offering banking services within an app or just want to add some key banking services to your offerings, having a direct connection to a bank's technology, and the people who manage it, is the fastest and most secure way to go.

No middleware anywhere

Current solutions often have one thing in common: middleware and the middleware platform provider. The middleware connects you to a random bank's core, and the provider of that middleware manages multiple bank relationships, switching you and your customers from bank to bank as needed. This middleware is created and managed by someone other than the bank. This adds additional fees on top of an already complex and costly solution. Avenu does not assign or rely upon middleware BaS providers to gauge or control safety & soundness or compliance duties & responsibilities, which ensures our direct and lasting partnership.

Via 10-K filing, MNSB formally launched its Avenu fintech banking initiative in October 2021. The past 10 quarters show this unit's evolution inside the company which is beginning to take shape with multiple customers and early stage DDA Deposits.

By late October 2024 (i.e., 3Q earnings release and investor call for MNSB), there should be real progress on new DDAs and additional customers using MainStreet Bank/Avenu as their bank-of-record for payment transactions through their own company website.

Regulatory scrutiny on Banks who are NOT managing 3rd party vendors is very active and MNSB's Avenu game plan corrects the flaws at other banks.

Fintech companies need bank partners and they must interact properly on the "regulatory rails" of the Fed, FDIC, OCC, and state examiners.

MNSB's execution on Avenu is soon and the judgment by investors on the progress on Avenu's 10+ quarters of investment dollars should be seen in the next 6 to 9 months.

MNSB Has More Variable Rate Loans Than Investors May Realize ... We Think A NIM Bottom Is Possible Soon

SNLTable 04-23-24							LOAN PRICING	
Co. Name	Ticker	Stock Price	Market Cap. (\$M)	Dividend Yield (%)	ROA: 2024 est.	P/E 2024	FIXED LOANS % (10-K)	VARIABLE LOANS % (10-K)

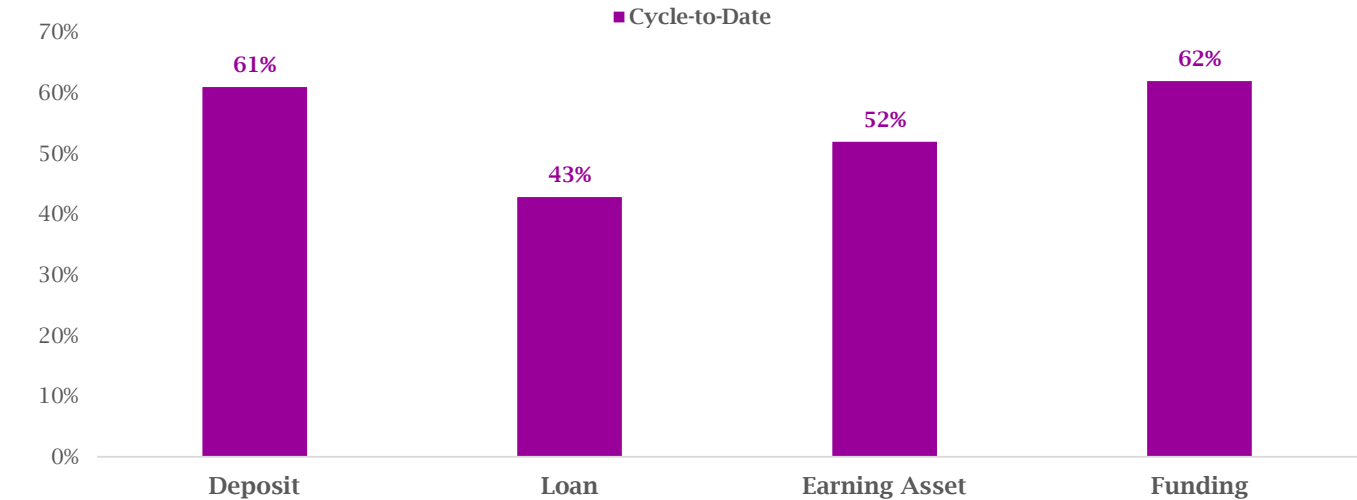
Peer Table

MainStreet Bcsbs	MNSB	\$16.11	\$115	2.56	0.76	11.5x	43%	57%
Atlantic Union Bkshs	AUB	\$32.53	\$2,534	3.81	1.16	10.2x	50%	50%
Customers Bancorp	CUBI	\$50.24	\$1,550	na	1.09	7.2x	95%	5%
Eagle Bancorp	EGBN	\$22.40	\$658	8.26	0.60	9.4x	38%	62%
Fulton Financial	FULT	\$15.37	\$2,465	4.47	0.90	10.0x	32%	68%
Sandy Spring Bancorp	SASR	\$22.06	\$938	6.53	0.66	10.7x	60%	40%
TowneBank	TOWN	\$27.86	\$2,023	3.65	0.93	13.2x	79%	21%
United Bankshares	UBSI	\$34.78	\$4,638	4.30	1.20	13.2x	62%	38%
WesBanco	WSBC	\$29.04	\$1,695	5.04	0.77	12.7x	29%	71%
WSFS Financial	WSFS	\$44.71	\$2,638	1.37	1.21	10.8x	51%	49%

Source: Janney Research (FIG Group), SEC 10-K filings at 12-31-23 and S&P Capital IQ data

MNSB can still experience positive Loan repricing in near-term quarters. Also, a single credit with nonaccrual interest had a large impact on NIM in 1Q24. Within the next 2 quarters, this should reverse and benefit NIM by at least 5bps (likely more). As a result, NIM bottoms in 2Q24.

Cycle-to-Date Betas



Source: Janney Research, S&P Capital IQ, Company Filings

IMPORTANT DISCLOSURES

Valuation and Risks

MNSB

Our fair value estimate is derived by applying a multiple on both forward EPS and tangible book value (TBV) estimates in the next year. Janney coordinates fair value with the underlying deposit valuation via the relationship between funding costs, the fed funds rate, and tenure of customer relationships.

Bank stock prices are dependent on confidence in quarterly and annual tangible book value (TBV) growth coupled with consistent progress on core deposit relationships. Credit quality impacts TBV success in addition to managing interest rate risk, expenses, and a balanced revenue stream.

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 expects to receive or intends to seek 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

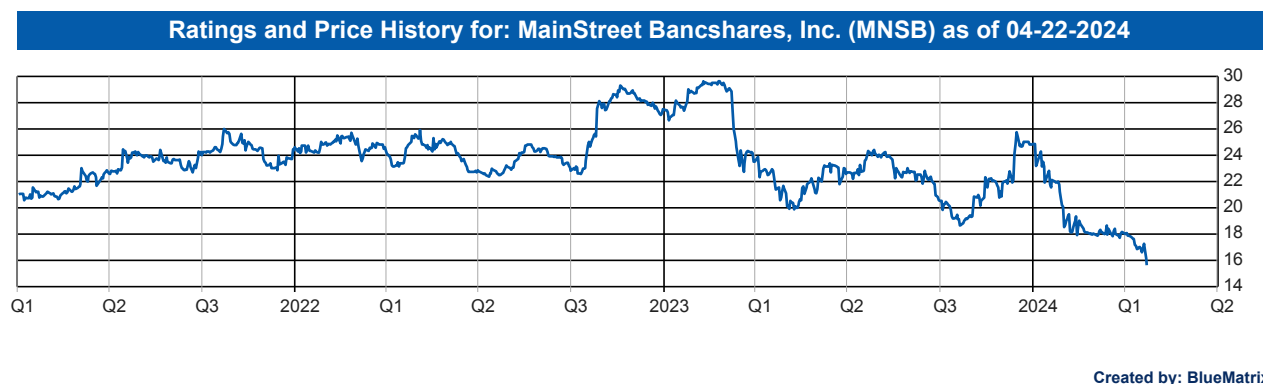
BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

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 3-31-2024

IB Serv./Past 12 Mos.*

Rating	Count	Percent	Count	Percent
BUY [B]	143	55.86	22	15.38
NEUTRAL [N]	112	43.75	12	10.71
SELL [S]	1	0.39	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

Janney Montgomery Scott LLC, is a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the New York Stock Exchange, the Financial Industry Regulatory Authority and the Securities Investor Protection Corp.

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