

Banks & Thrifts

Price:	\$24.84
Fair Value Estimate:	\$30.00
52-Week Range:	\$14.05 - \$24.95
Market Cap (MM):	\$183
Shr.O/S-Diluted (mm):	7.4
Average Daily Volume:	9,090
Dividend:	\$0.00
Yield:	0.0%
Tang Book Value:	\$20.49
Tang Comn Equity Ratio:	9.4%
Price/Tangible Book:	1.21x

FYE: Dec	2021E	2022E	2023E
EPS - non-GAAP	\$2.65E	\$2.42E	\$2.62E
Adjusted: Prior EPS - non-GAAP	\$2.24	\$2.05	NC

Quarterly EPS - non-GAAP Adjusted:

Q1	\$0.65A	\$0.56E	\$0.62E
Q2	\$0.87A	\$0.61E	\$0.65E
Q3	\$0.56A	\$0.63E	\$0.68E
Q4	\$0.56E	\$0.63E	\$0.68E
Year:	\$2.65E	\$2.42E	\$2.62E



October 20, 2021

MainStreet Bancshares, Inc. (MNSB) - BUY

MNSB In VA: Steady EPS & PPNR Per Share Lead To TBV Growth. New FinTech Initiative Supports Higher Revenue & Franchise Value.

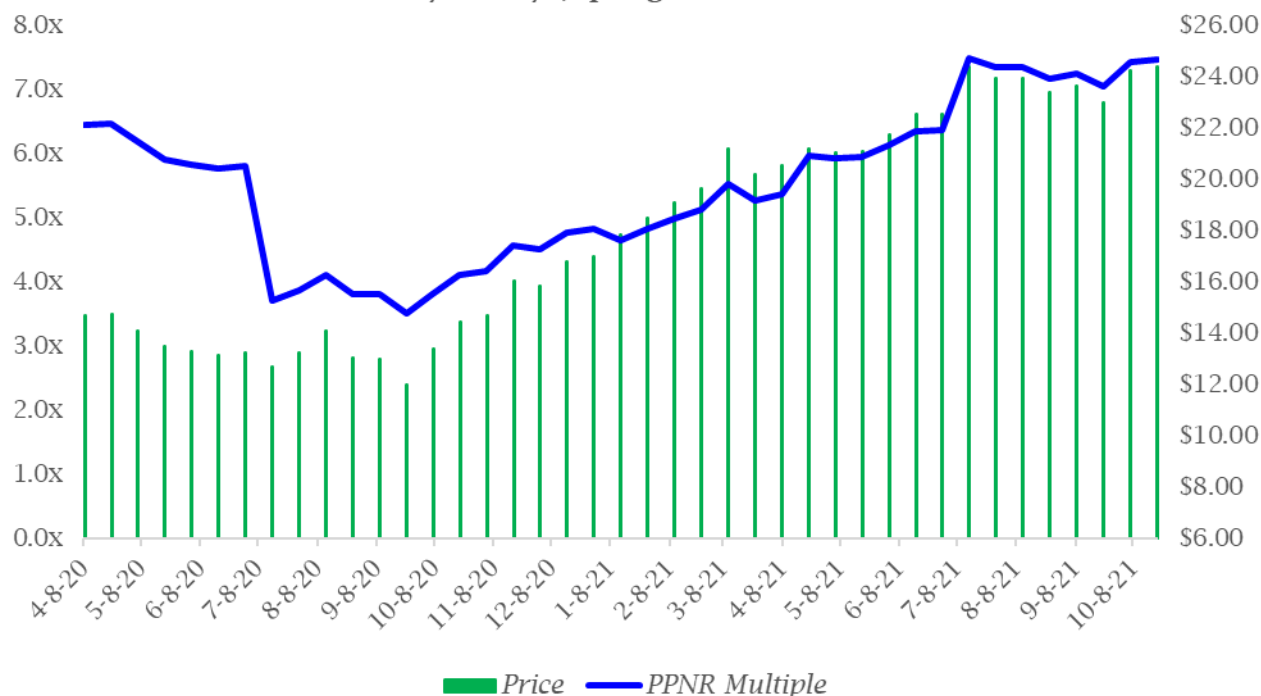
PORTFOLIO MANAGER BRIEF

- We project MNSB earns \$2.42 in 2022 EPS and then \$3.79 in PPNR per share (excluding taxes and credit costs). The EPS estimate is \$0.37 higher than our previous model due to stronger Cash and liquidity as PPP Loans payoff.
- 2023 outlook is introduced at \$2.62 in EPS and \$4.06 in PPNR. Our projections factor modest Loan growth beyond the replacement of PPP run-off over the next few quarters, a stable NIM-Net Interest Margin, and slightly higher fee income.
- MNSB is launching new FinTech initiatives this quarter to provide Banking as a Service(BaaS) products. [Learn more from the company's new Avenu FinTech division](#). Costs related to these plans are included in the higher overhead costs within our earnings model (see Page 5).
- This report provides more background and our earnings do not factor new Deposits from Avenu.
- ROA-Return on Assets are forecast to be stable with the recent quarter between 1.10% to 1.15%, modestly rising in 2023 near 1.20%.
- Growth on tangible book (TBV) per share exceeds 10% per annum from 3Q21 to late 2023 and the capital accumulation supports further balance sheet growth beyond our modeling. A positive provision expense is also included each quarter to cover any charge-offs and build Reserves.
- We feel MNSB's Price-to-Tangible Book valuation should improve from 121% currently to 140%, supported by higher EPS and PPNR per share and a slightly stronger PPNR multiple.
- Reiterate our BUY rating. MNSB trades below peers as we illustrate on Page 5.

Calibrating Our Future Estimates For EPS, PPNR, & Tangible Book Per Share. This Supports A \$30.00 Stock.

MNSB's PPNR Multiple & Stock Price History

Every 14-Days, Spring 2020 to Fall 2021



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

Investors should focus on stable PPNR (pre-tax, pre-provision net revenues) per share the next few quarters while the company builds out a FinTech called "Avenu" launching in 4Q-2021 (see details on Page 3).

EPS and tangible book value growth should both remain steady, which supports further stock price appreciation. We feel \$30.00 is appropriate for MNSB which is supported by a moderate 8.6x PPNR multiple on our 2022 projections (see Page 5).

The company is still being discovered by investors as a growing community bank with a unique business model supported by solid returns.

Janney Research Rating: "BUY"

Fair Value: \$30.00

	2022	Multiple	Price
GAAP EPS	\$2.42	12.4x	\$30.00
Dividends	\$0.00	1.0x	\$0.00
Excess TCE	<u>\$4.69</u>	<u>0.00x</u>	<u>\$0.00</u>
		Combined	\$30.00
Tangible Book 12/21	\$23.32	1.29x	\$30.00

Implied Gain/Loss versus Current Price: 23%

Alternative			
2022 PPNR	\$3.79	8.6x	\$32.54
Cash Dividends	\$0.00	1.0x	\$0.00
Excess TCE	\$4.69	0.0x	\$0.00
			\$32.54
Discount Rate 10%	Pro Rata Aug 2022		0.92
Tangible Book 12/22	\$23.32	1.40x	\$30.00

Source: Janney Research (FIG Group) & Forward Estimates

Deposit Pricing Outlook

	<u>Today</u>	<u>Dec-22</u>	<u>Dec-23</u>
Market Cap.	\$185.7	\$229.3	\$250.0
TCE in \$\$	\$155.6	\$178.3	\$198.3
Total Deposits	\$1,414.4	\$1,526.4	\$1,616.0
Core Deposits	\$929.1	\$1,002.7	\$1,061.6
Premium - Total	2.1%	3.3%	3.2%
Premium - CORE	3.2%	5.1%	4.9%

Factors our earnings and balance sheet projections through
December 2023

Introducing Avenu — A “BaaS” Initiative With A Commercial Focus For Banking as a Service



When Money Moves, People Get What They Need to Thrive.

MainStreet Bank has decades of experience in providing customized banking solutions, compliance oversight, and ongoing support for many businesses in the payments industry.

Partner with Avenu and get established banking expertise, a modern compliance infrastructure and a innovative team of FinTech experts to help grow your business on a solid and compliant foundation.

Choosing a bank or other financial partner for your money services business is risky. Traditional banks often lack the infrastructure to address new compliance challenges while continuing to embrace out of date legacy banking technologies that stifle innovation and growth. Banking alternatives are also risky due to their lack of financial industry experience, weak compliance infrastructure and lack of business maturity.

Source: Janney Research (FIG Group), [Main Street Bank website \(fintech landing page\)](#)

MNSB has worked with payment firms the past 3 years. These are FinTech companies who ride-the-rails of the U.S. Banking system and must be monitored under regulatory rules for 3rd party vendors.

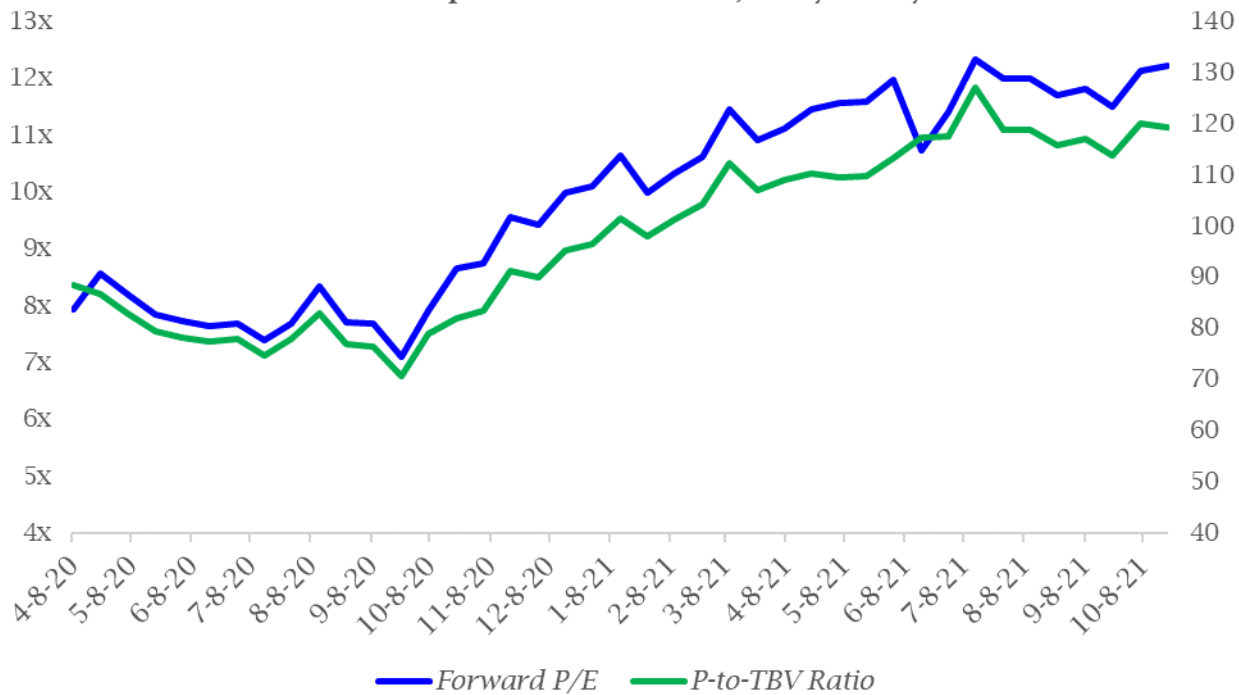
The company is creating new services to target FinTech companies who need a Bank partner for their business (i.e., new core Deposits for MNSB). A key start is compliance training for these firms, plus engaging on payment systems and other high-value areas. *These all count towards MNSB's Banking-as-a-Service (BaaS) focus.*

MNSB's FinTech Product Focus Under New “Avenu” Unit



Comparing Forward P/E & P-to-TBV Ratios

MNSB: April 2020 to Oct 2021, every 14-days



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

MNSB shares have recovered from the pandemic lows in both Spring and Fall 2020. Price-to-Tangible Book (P-to-TBV) still has further upside from today's 120% level—we think 135% to 145% ratio is possible.

See more valuation comparisons in this report.

Ranking MNSB vs Peers & Investor Alternatives Among Public Bank Stocks Across Multiple Sizes

Company Name		Rating	Market Cap. (\$M)	Yield (%)	Total Assets (\$000)	Cost of Deposits	TCE Ratio	Core Deposit Premium	Price-to-T.Book	P/E 2022 EPS	ROA Forecast in 2022	ROTCE Est. in 2022	Securities % of Earn. Assets	Cash % of Earn. Assets
					MRQ	MRQ	MRQ	Today	10/20/21	Consensus	Consensus	Consensus		
Peer Analysis:														
MNSB	MainStreet Bcsbs	Buy	\$179	0.00	\$1,657,199	0.57	9.4	3.1%	119	11.6x	0.99	9.4%	12%	8%
AUB	Atlantic Union Bks	Not Rated	\$2,867	3.00	\$19,989,356	0.18	8.4	8.9%	181	13.7x	1.08	12.4%	19%	5%
BRBS	Blue Ridge Bkshrs	Not Rated	\$351	2.57	\$2,764,730	0.29	8.4	7.2%	150	na	0.00	na	11%	12%
CARE	Carter Bkshs	Buy	\$391	0.00	\$4,120,513	0.63	9.7	(0.3%)	98	11.4x	0.83	8.0%	21%	5%
CBNK	Capital Bncp Inc	Not Rated	\$338	0.82	\$2,151,850	0.35	8.2	9.8%	190	11.4x	1.48	14.2%	8%	15%
COSO	CoastalSouth Bcsbs	Not Rated	\$146	0.00	\$1,261,987	0.32	8.3	3.4%	130	na	0.00	na	14%	17%
EGBN	Eagle Bancorp	Neutral	\$1,837	2.78	\$10,960,718	0.29	11.1	7.7%	153	12.8x	1.28	11.1%	16%	15%
ESXB	Cmty Bnk Trst Corp	Neutral	\$184	2.44	\$1,754,213	0.37	10.2	5.9%	144	14.8x	1.02	9.2%	20%	7%
FCCO	First Cmnty Corp	Neutral	\$148	2.45	\$1,514,973	0.14	8.2	2.2%	121	11.1x	0.86	10.1%	33%	5%
FDVA	Freedom Bnk of Va	Not Rated	\$92	0.00	\$837,070	0.38	9.4	3.0%	116	23.2x	0.00	na	17%	6%
FRST	Primis Financial C	Buy	\$365	2.69	\$3,395,151	0.50	9.1	2.7%	122	14.1x	0.77	8.2%	7%	20%
FSRL	Frst Reliance Ban	Buy	\$86	0.00	\$832,241	0.15	0.0	3.1%	126	11.4x	0.79	10.1%	8%	21%
FUNC	First United Corp	Not Rated	\$121	3.27	\$1,763,806	0.27	6.8	0.1%	102	7.3x	0.94	13.1%	19%	12%
FVCB	FVCBankcorp Inc	Buy	\$287	0.00	\$1,975,251	0.45	9.8	6.7%	149	14.7x	1.01	9.3%	11%	11%
FXNC	First Natl Corp	Not Rated	\$143	2.09	\$1,024,593	0.14	8.7	3.6%	126	na	0.00	na	24%	13%
HBMD	Howard Bncp Inc	Not Rated	\$404	0.00	\$2,599,541	0.08	10.4	8.4%	150	18.2x	0.84	7.6%	16%	3%
JMSB	John Marshall Bncp	Not Rated	\$231	0.00	\$2,065,895	0.39	9.5	4.4%	128	na	0.00	na	15%	8%
OPOF	Old Point Finl	Not Rated	\$109	2.51	\$1,274,811	0.26	9.3	(1.0%)	92	na	0.00	na	18%	13%
SABK	South Atlantic	Neutral	\$112	0.00	\$1,164,515	0.00	10.9	1.6%	116	14.9x	0.68	7.3%	0%	11%
SASR	Sandy Spring Bncp	Not Rated	\$2,258	2.68	\$12,925,577	0.14	9.3	11.9%	195	12.8x	1.40	13.8%	12%	5%
SHBI	Shore Bcsbs Inc	Not Rated	\$210	2.68	\$2,120,260	0.23	8.6	1.9%	117	13.9x	0.80	8.1%	15%	12%
SMBK	SmartFinancial Inc	Buy	\$447	0.91	\$4,384,031	0.25	7.5	3.9%	139	11.7x	0.95	11.4%	8%	27%
TOWN	TowneBank	Not Rated	\$2,265	4.44	\$15,803,835	0.23	8.9	8.4%	169	14.6x	1.04	10.6%	10%	22%
UBSI	United Bkshs Inc	Not Rated	\$4,734	3.82	\$27,190,926	0.21	10.1	11.4%	185	14.6x	1.19	12.0%	14%	15%
VBFC	Village B&T Corp	Not Rated	\$76	0.00	\$717,932	0.27	8.2	3.1%	129	na	0.00	na	7%	11%
WSBC	WesBanco Inc	Not Rated	\$2,413	3.58	\$16,966,867	0.12	9.4	7.9%	163	14.6x	0.99	10.7%	26%	6%
Source: Janney Research (FIG Group), S&P Capital IQ data					Median	0.27	9.2	3.8%	130	13.7x	0.84	10.1%	14.4%	11.6%

Earnings Model

higher IRS tax rates 4Q21

	2021 Quarterly							2022 Quarterly				2023 Quarterly			
	2021E	2022E	2023E	1Q21	2Q21	3Q21	4Q21E	1Q22E	2Q22E	3Q22E	4Q22E	1Q23E	2Q23E	3Q23E	4Q23E
Income Data: (\$ Mil.)															
Net Interest Income	\$53.02	\$56.31	\$60.00	\$13.48	\$12.99	\$13.20	\$13.35	\$13.34	\$13.98	\$14.41	\$14.59	\$14.33	\$14.88	\$15.30	\$15.49
Loan Loss Provision	(\$1.15)	\$1.89	\$2.00	\$0.32	(\$2.08)	\$0.29	\$0.32	\$0.26	\$0.40	\$0.54	\$0.69	\$0.28	\$0.42	\$0.57	\$0.73
Non-Interest Income	\$6.35	\$8.39	\$9.28	\$1.10	\$1.43	\$1.89	\$1.94	\$2.00	\$2.07	\$2.14	\$2.18	\$2.23	\$2.29	\$2.36	\$2.40
Gain/Loss on Loan Sales	\$0.07	\$0.80	\$0.60	\$0.34	\$0.13	(\$0.40)	\$0.00	\$0.20	\$0.20	\$0.20	\$0.20	\$0.15	\$0.15	\$0.15	\$0.15
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	\$32.90	\$36.74	\$38.87	\$7.81	\$7.87	\$8.46	\$8.76	\$8.98	\$9.14	\$9.27	\$9.36	\$9.57	\$9.68	\$9.77	\$9.85
Pre-Tax Income	\$27.70	\$26.88	\$29.01	\$6.79	\$8.75	\$5.94	\$6.22	\$6.30	\$6.71	\$6.94	\$6.92	\$6.86	\$7.22	\$7.47	\$7.46
Taxes (w/ FTE adj.)	\$5.55	\$6.32	\$6.82	\$1.34	\$1.63	\$1.16	\$1.43	\$1.48	\$1.58	\$1.63	\$1.63	\$1.61	\$1.70	\$1.75	\$1.75
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	\$22.15	\$20.56	\$22.19	\$5.45	\$7.13	\$4.78	\$4.79	\$4.82	\$5.14	\$5.31	\$5.30	\$5.25	\$5.52	\$5.71	\$5.71
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. To Common	\$19.99	\$18.41	\$20.04	\$4.91	\$6.59	\$4.24	\$4.25	\$4.28	\$4.60	\$4.77	\$4.76	\$4.71	\$4.98	\$5.17	\$5.17
Avg. Shares O/S	7.6	7.6	7.6	7.5	7.5	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.7
Earnings Per Share (EPS)	\$2.65	\$2.42	\$2.62	\$0.65	\$0.87	\$0.56	\$0.56	\$0.56	\$0.61	\$0.63	\$0.63	\$0.62	\$0.65	\$0.68	\$0.68
Per Share Data:															
Reported Book Value	\$21.18	\$23.47	\$25.96	\$19.26	\$20.18	\$20.64	\$21.18	\$21.71	\$22.28	\$22.88	\$23.47	\$24.06	\$24.68	\$25.32	\$25.96
Tangible Book Value	\$21.02	\$23.32	\$25.81	\$19.26	\$20.18	\$20.49	\$21.02	\$21.56	\$22.13	\$22.73	\$23.32	\$23.91	\$24.52	\$25.17	\$25.81
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	\$3.51	\$3.79	\$4.06	\$0.94	\$0.88	\$0.82	\$0.86	\$0.87	\$0.94	\$0.98	\$1.00	\$0.94	\$1.00	\$1.05	\$1.07
CORE GAAP EPS	\$2.65	\$2.42	\$2.62	\$0.65	\$0.87	\$0.56	\$0.56	\$0.56	\$0.61	\$0.63	\$0.63	\$0.62	\$0.65	\$0.68	\$0.68
KEY Ratios:															
Net Interest Margin	3.29%	3.31%	3.31%	3.41%	3.18%	3.29%	3.29%	3.30%	3.30%	3.31%	3.32%	3.30%	3.30%	3.31%	3.32%
CORE Return on Avg Assets	1.31%	1.16%	1.19%	1.32%	1.67%	1.13%	1.12%	1.14%	1.16%	1.17%	1.16%	1.17%	1.19%	1.20%	1.19%
Return on Avg Equity	13.19%	10.83%	10.59%	13.69%	17.76%	10.93%	10.70%	10.50%	10.97%	11.07%	10.75%	10.36%	10.68%	10.80%	10.51%
Pre-Tax Pre-Provision ROA	1.57%	1.62%	1.66%	1.70%	1.56%	1.48%	1.54%	1.53%	1.61%	1.67%	1.68%	1.57%	1.64%	1.71%	1.72%
Efficiency Ratio	55.3%	56.1%	55.6%	52.3%	54.1%	57.6%	57.3%	57.8%	56.2%	55.3%	55.2%	57.3%	55.9%	54.8%	54.6%
Overhead Ratio	1.95%	2.07%	2.08%	1.87%	1.84%	2.01%	2.06%	2.09%	2.07%	2.07%	2.07%	2.10%	2.08%	2.08%	2.08%
TCE Ratio	9.6%	10.0%	10.6%	8.3%	8.9%	9.4%	9.6%	9.7%	9.7%	9.8%	10.0%	10.2%	10.3%	10.4%	10.6%
CET-1 Regulatory Capital	15.9%	16.2%	16.8%	16.2%	15.6%	15.7%	15.9%	16.0%	15.9%	16.0%	16.2%	16.4%	16.4%	16.6%	16.8%
Period-End Balances: (\$ Mil.)															
Earning Assets	\$1,635	\$1,772	\$1,882	\$1,706	\$1,665	\$1,620	\$1,635	\$1,664	\$1,722	\$1,753	\$1,772	\$1,788	\$1,833	\$1,861	\$1,882
Total Assets	\$1,669	\$1,781	\$1,869	\$1,743	\$1,708	\$1,657	\$1,669	\$1,693	\$1,741	\$1,766	\$1,781	\$1,794	\$1,830	\$1,852	\$1,869
Net Loans	\$1,259	\$1,358	\$1,438	\$1,299	\$1,256	\$1,246	\$1,259	\$1,284	\$1,316	\$1,342	\$1,358	\$1,372	\$1,397	\$1,421	\$1,438
Total Deposits	\$1,414	\$1,526	\$1,616	\$1,538	\$1,465	\$1,414	\$1,414	\$1,443	\$1,479	\$1,508	\$1,526	\$1,542	\$1,569	\$1,596	\$1,616
Intangibles	\$1	\$1	\$1	\$0	\$0	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1
Total Common Equity	\$161	\$179	\$199	\$145	\$152	\$157	\$161	\$165	\$170	\$175	\$179	\$184	\$189	\$194	\$199

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

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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Janney or its affiliate FIG may act as principal for its own account or as agent for both buyer and seller in connection with the purchase or sale of any security discussed herein.

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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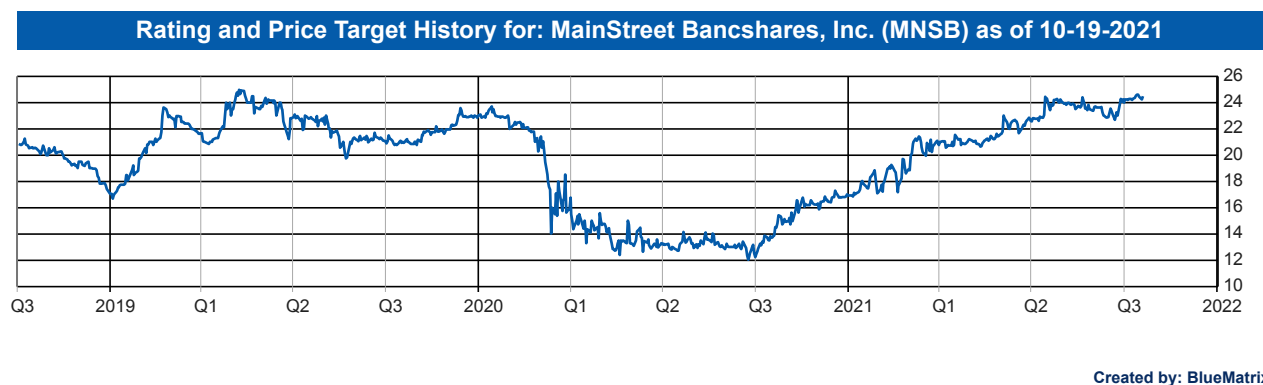
Definition of Ratings

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 09/30/2021

Rating	Count	Percent	IB Serv./Past 12 Mos.*	
			Count	Percent
BUY [B]	122	49.00	34	27.87
NEUTRAL [N]	97	38.96	7	7.22
SELL [S]	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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