

## Banks & Thrifts

Price:	\$22.11
Fair Value Estimate:	\$28.50
52-Week Range:	\$18.47 - \$29.94
Market Cap (MM):	\$161
Shr.O/S-Diluted (mm):	7.3
Average Daily Volume:	15,530
Dividend:	\$0.40
Yield:	1.8%
Tang Book Value:	\$23.86
Price/Tangible Book:	0.93x

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.



January 22, 2024

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

**MNSB Reports 4Q23 EPS Below Expectations on Lower Spread Income. TBV ex-AOCI Grows 2% Q/Q and 9% YR/YR. Low Credit Losses with High Capacity for Credit Issues.**

### PORTFOLIO MANAGER BRIEF

- 4Q23 EPS: Reported \$0.61 / Core \$0.61 / Street \$0.68 / Janney \$0.72.
- MNSB missed our EPS estimate by -\$0.11 per share or -15.3% on lower Spread (-\$0.25/sh), lower Fee Income (-\$0.01/sh), lower Provision (+\$0.03/sh) and better Expenses (+\$0.09/sh).
- Core ROA was 0.91% and PPNR ROA was 1.34% in 4Q. Pre-Pre Earnings were \$6.7M, -17.0% LQ and -38.5% YR/YR, missing our \$8.3M estimate.
- NII-Net Interest Income -8.5% to \$17.0M as the NIM-Margin -48 bps to 3.49%. Deposit costs +57 bps to 3.52%. Loan yield +2 bps to 7.11% and Earning Asset yield +2 bps to 6.78%. Cycle-to-date Betas: Deposit 57%, Funding 59%, Loan 44%, EA 52%.
- Average Loans +3% to \$1.7B and Average Deposits +4% to \$1.7B. DDAs were 22% of Avg Deposits, -2% LQ and DDAs missing YR/YR. Period-end Loans +2% to \$1.7B while Deposits were flat at \$1.7B for a 102% Loans-to-Deposits ratio in 4Q23 vs. 101% in 3Q23.
- Non-Interest Income -10.6% to \$0.9M, or 5% of revenue. Expenses -2.6% to \$11.1M and Efficiency was 62% in 4Q23 vs 58% in 3Q23 and 49% in 4Q22.
- Tangible Book Value per share (TBV) +3.7% LQ to \$23.86 (reported basis). TBV ex-AOCI +1.7% LQ to \$24.85 (and 9% YR/YR) as AFS marks improved -31% to -\$0.99/sh. The TCE Ratio +162 bps to 10.24%. CET-1 regulatory capital was 16.22%.
- Reserves (w/ UFC balances) +2% in dollar terms LQ to 1.02% of Loans in 4Q23 vs 0.92% in 3Q23. Net Charge-Offs -5 bps to 0.03% of Avg Loans, while Criticized Assets rose to 2.3% of Loans at 12/31 from 1.6% at 9/30.
- MNSB discloses additional details on credit quality and liquidity. A "worst case" credit loss forecast is \$32M compared with \$17M Reserves and \$27M PPNR annually (or \$80M PPNR over 36-month period), plus \$311M in Total Capital. Liquidity Coverage (LCR) is 133% (stronger than most large banks in 115% to 120% range).

### ANALYST NOTES

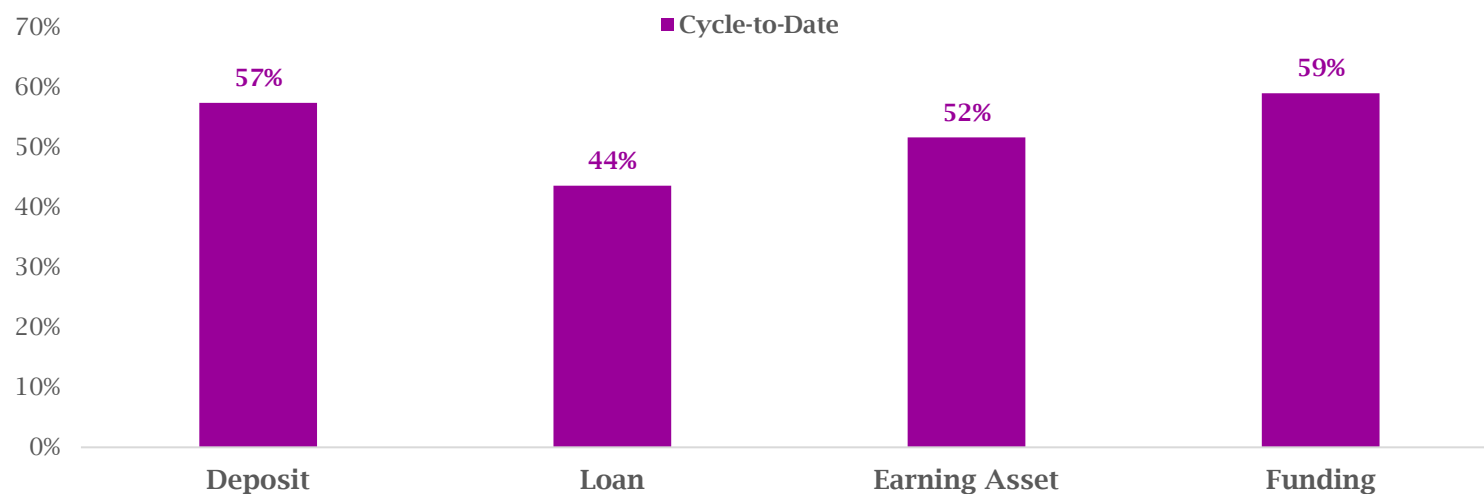
MNSB trades at 93% of TBV and 89% ex-AOCI. Reiterate BUY rating and \$28.50 Fair Value. We will update our estimates after speaking with management.

## MNSB 4Q Results vs. Estimates

4Q-2023 Results: Actual vs. Estimated						Core Pre-Tax Pre-Provision			TBVPS-Tangible Book Value		
Actual	Operating	Street (BB)	Janney	Comments		Actual	Street-BB	Janney Est	Actual	Street-BB	Janney Est
\$0.61	\$0.61	\$0.68	\$0.72			\$6.7	\$7.3	\$8.3	\$23.86	\$23.99	\$23.21
LOANS (\$M)			NIM (Margin)			NII (Spread -\$M)*			PROVISION (\$M)		
Actual	Street-BB	Janney Est	Actual	Street-BB	Janney Est	Actual	Street-BB	Janney Est	Actual	Street-BB	Janney Est
\$1,705	\$1,731	\$1,698	3.49	4.08	4.08	\$17.0	\$18.7	\$19.4	\$0.5	\$0.7	\$0.8
NON-INTEREST INCOME (\$M)			EXPENSES (\$M)			PRE-TAX (\$M)			AVG. SHARES (M)		
Actual	Street-BB	Janney Est	Actual	Street-BB	Janney Est	Actual	Street-BB	Janney Est	Actual	Street-BB	Janney Est
\$0.9	\$1.0	\$1.0	\$11.1	\$11.8	\$12.0	\$6.3	\$6.6	\$7.6	7.5	7.5	7.5

Source: Janney Research (FIG Group), S&P Capital IQ Pro, Bloomberg L.P., Company Filings

## Cycle-to-Date Betas



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

# Projections for 2024

- Estimated run rate will increase 1.2% per month, which covers:
  - software amortization
  - non-interest expenses (including all salaries)
- Avenu generated low-cost deposits will reach \$225 million in 2024
- Avenu fee income will exceed \$2 million in 2024

Source: 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

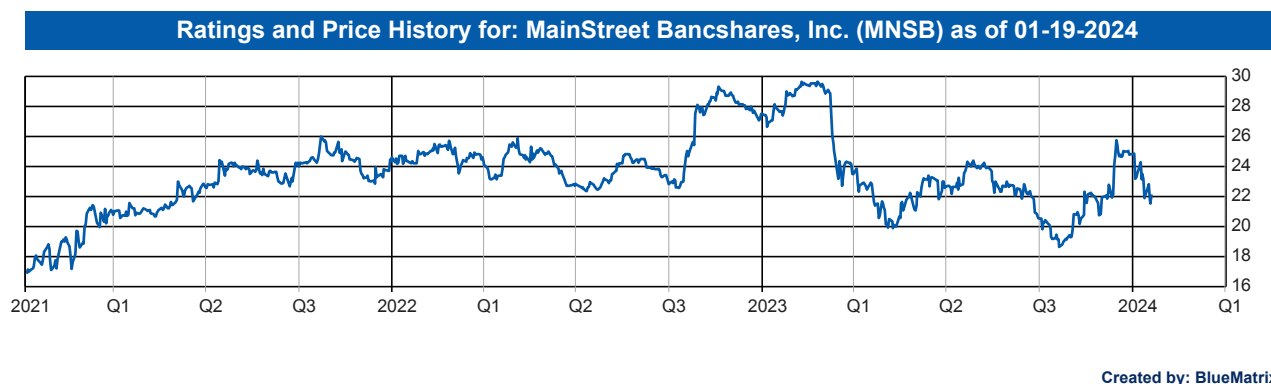
**BUY:** Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

**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 12-31-2023

IB Serv./Past 12 Mos.\*

Rating	Count	Percent	Count	Percent
BUY [B]	143	56.52	19	13.29
NEUTRAL [N]	110	43.48	10	9.09
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

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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