

Banks & Thrifts

Price:	\$24.50
Fair Value Estimate:	\$31.00
52-Week Range:	\$20.77 - \$26.85
Market Cap (MM):	\$176
Shr.O/S-Diluted (mm):	7.2
Average Daily Volume:	12,750
Dividend:	\$0.20
Yield:	0.8%
Tang Book Value:	\$20.75
Tang Comn Equity Ratio:	8.7%
Price/Tangible Book:	1.18x

FYE: Dec	2021A	2022E	2023E
EPS - non-GAAP	\$2.65A	\$2.80E	\$2.95E
Adjusted: Prior EPS - non-GAAP		\$2.55	\$2.83

Quarterly EPS - non-GAAP Adjusted:

Q1	\$0.65A	\$0.64A	\$0.71E
Q2	\$0.87A	\$0.71A	\$0.74E
Q3	\$0.56A	\$0.72E	\$0.75E
Q4	\$0.56A	\$0.74E	\$0.75E
Year:	\$2.65A	\$2.80E	\$2.95E



August 25, 2022

MainStreet Bancshares, Inc. (MNSB) - BUY

MNSB In VA: Reiterate BUY Rating On Growing Community Bank In DC Metro With FinTech Expansion. Low Valuation On TBV & Forward P/E.

PORTFOLIO MANAGER BRIEF

- MNSB shares trade at just 118% Price-to-Tangible Book ratio for a community Bank stock earning a 1.35% ROA-Return on Assets and a PPNR ROA (earnings pre-taxes and provision expense) above 1.85%.
- We like the company's profile as a lender in Northern Virginia and the Metropolitan DC MSA, which has strong commercial activity and has historically been "recession resistant", which leads to Deposit and Loan expansion opportunities.
- NIM-Net Interest Margin should expand towards 4.05% from the low 390s currently as Deposit costs trail new Loan yields. We think Deposit Betas reach 30% (or slightly more) as Fed Funds rates surpass 3.00% this year.
- DDA ratio is expected to climb and enhance the Deposit franchise value both on core Banking operations and new FinTech products through the [Avenu](#) division.
- A compliance-driven focus on Avenu is unique among other "tech forward Banks" who service the vast BaaS (Banking-as-a-Service) marketplace. The DDA ratio should improve by at least 5 points from the current 36% ratio over the next two years.
- As interest rates rise, DDA growth could become more scarce among community Banks, which positions MNSB as a relative outperformer. This supports a stronger stock price and valuation. Learn more on [Janney's DDA industry analysis from August '22](#).
- Expense operating leverage should still be evident in future periods. It is possible that expense growth is slightly less than we forecast in our '23 EPS (or Fee income is stronger to drop the Efficiency Ratio further).
- Reiterate our BUY rating with \$31.00 Fair Value and see our valuation analysis and Price-to-Book ratio history on Pages 2 and 3 of this report.

Our Fair Value Is \$31.00 Via Modest P-to-TBV, 10.5x P/E On '23 EPS

Janney Research Rating: "BUY"

Fair Value: \$31.00

	2023	Multiple	Price
GAAP EPS	\$2.95	10.5x	\$30.80
Dividends	\$0.20	1.0x	\$0.20
Excess TCE	<u>\$4.13</u>	<u>0.00x</u>	<u>\$0.00</u>
		Combined	\$31.00

Tangible Book 12/23	\$24.30	1.28x	\$31.00
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Implied Gain/Loss versus Current Price: 27%

Alternative			
2023 PPNR	\$4.46	7.6x	\$33.99
Cash Dividends	\$0.20	1.0x	\$0.20
Excess TCE	\$4.13	0.0x	<u>\$0.00</u>
			\$34.19
Discount Rate 10% Pro Rata July-23			0.91
Tangible Book 12/23	\$24.30	1.41x	\$31.00

Source: Janney Research (FIG Group) & Forward Estimates

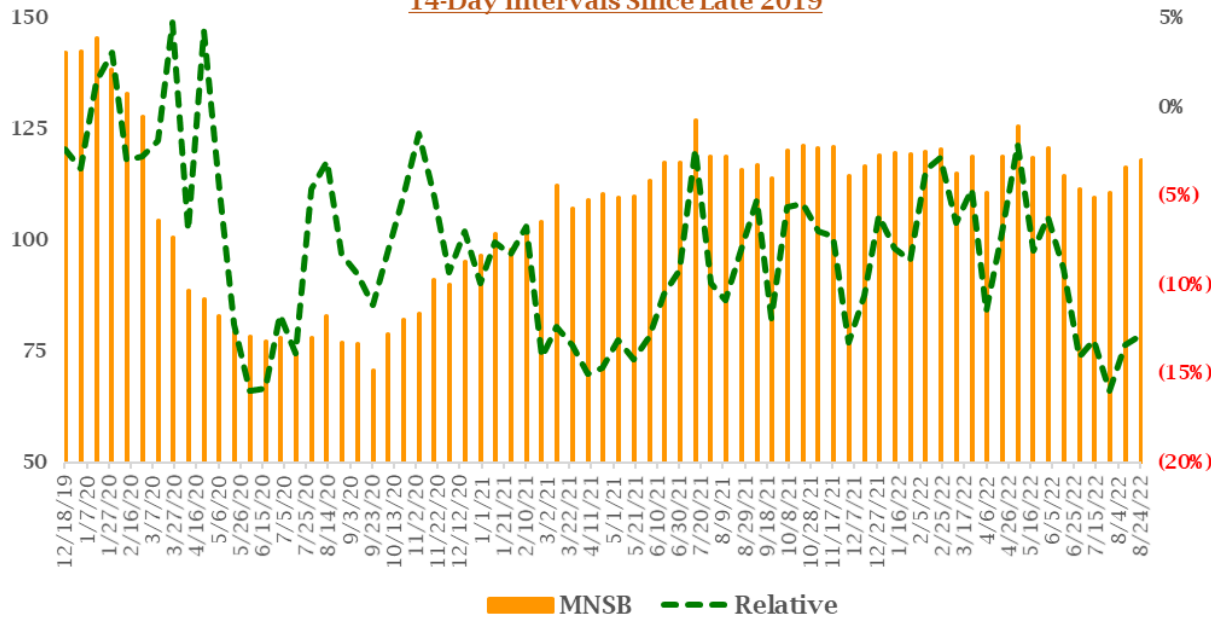
Deposit Pricing Outlook

	Today	Dec-22	Dec-23
Market Cap.	\$184.4	\$234.0	\$259.4
TCE in \$\$	\$156.2	\$166.5	\$187.4
Total Deposits	\$1,500.1	\$1,563.0	\$1,658.8
Core Deposits	\$924.2	\$962.9	\$1,022.0
Premium - Total	1.9%	4.3%	4.3%
Premium - CORE	3.1%	7.0%	7.0%

Factors our earnings and balance sheet projections through December 2023

MNSB: Relative Price-to-TBV Ratio vs. Community Bank Peers:

14-Day Intervals Since Late 2019



Key Points To Remember:

- Loan growth should remain strong the next two quarters as northern Virginia/Metro DC footprint has above average commercial activity
- Deposit pricing should lag new Loan yields which enables NIM-Net Interest Margin to expand
- Avenu fintech subsidiary continues to build-out customers and products which lead to 2023/2024 Deposit and revenue gains. We feel this build intermediate-term franchise value for MNSB.

MNSB Expanded TBV In 2022: Unrealized Securities Losses Did Not Deter A Positive TCE/TBV Trend

Linked-Quarter		YR/YR			
2Q22 g-%: TBV/Share	2Q22 g-%: TBV/Share ex-AOCI	2Q22 g-%: TBV/Share	2Q22 g-%: TBV/Share ex-AOCI	2Q22 CHG%: Shares O/S	2Q22 CHG%: Shares O/S
2Q22 Q/Q	2Q22 Q/Q	2Q22 Y/Y	2Q22 Y/Y	2Q22 Q/Q	2Q22 Y/Y
MNSB	0.7%	2.6%	2.8%	7.5%	(1.6%) (0.3%)

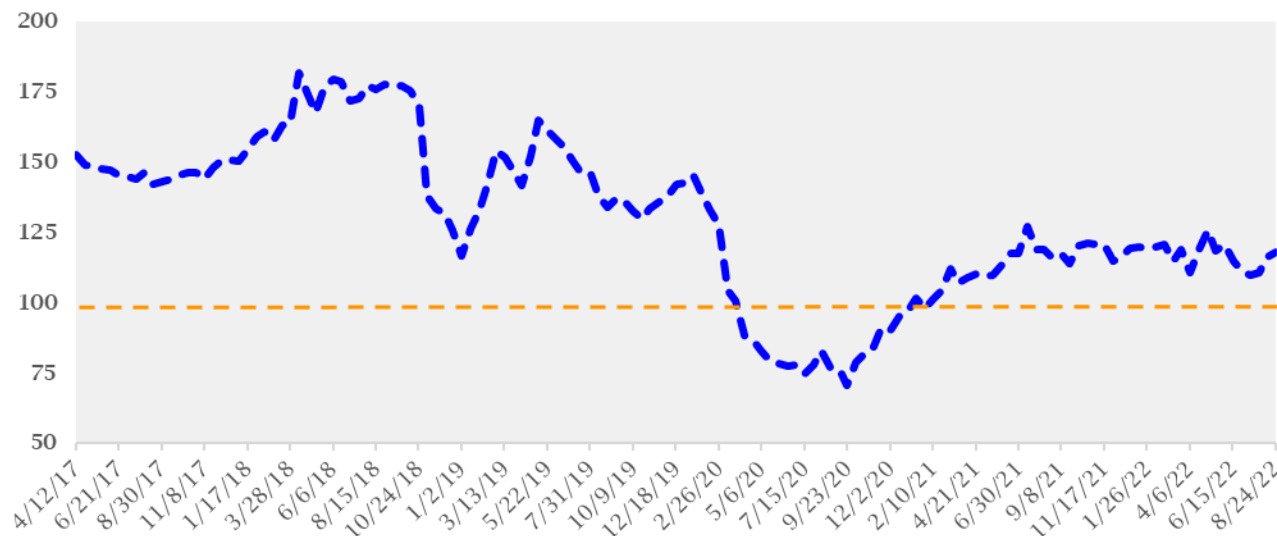
#1: TBV is +2.8% YR/YR with AOCI, +7.5% excluding AOCI, share count modestly lower

#2: YTD 2022, MNSB's TBV saw minor AOCI impact, share buybacks used some TCE \$

Focus On YTD Change 6/30 vs 12/31				YTD 6/30 vs 12/31		YR/YR 6/30 vs 6/30		
2Q22 CHG: TCE (\$)	2Q22 CHG: TCE ex-AOCI (\$)	2Q22 CHG: TBV/Share	2Q22 CHG: TBV/Share ex-AOCI	2Q22 g-%: TBV/Share	2Q22 g-%: TBV/Share ex-AOCI	2Q22 g-%: TBV/Share	2Q22 g-%: TBV/Share ex-AOCI	
2Q22 YTD	2Q22 YTD	2Q22 YTD	2Q22 YTD	2Q22 YTD	2Q22 YTD	2Q22 Y/Y	2Q22 Y/Y	
MNSB	(2,847)	3,911	(\$0.19)	\$0.71	(0.9%)	3.4%	2.8%	7.5%

Source: Janney Research (FIG Group), S&P Capital IQ — Read [Janney's Industry Analysis On AOCI marks anticipated in 2Q-2022](#)

MNSB: Price-to-Tang. Book (TBV) Ratio History: 2017 to 2022



We think it is important to track the MNSB's real change in tangible common equity (TCE) and tangible book value (TBV) per share.

AOCI Securities marks are unrealized and largely not expected to be permanent due to little or no credit risk in these Securities positions. MNSB has expanded its equity via retained earnings in the past year.

The stock is low on the P-to-TBV ratio.

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

MNSB Shares Compare Favorably With Peers And Alternative Bank Stock Investments On P/E & P-to-TBV

Company Name		Market Cap. (\$M)	Div. Yield (%)	Total Assets (\$000)	TCE Ratio	CET-1 Ratio	Core Deposit Prem.	Price-to-TBV	P/E 2022 EPS	P/E 2023 EPS	ROA Forecast (2023)	ROTCE Estimated (2023)	Securities % of EA
				MRQ	MRQ	MRQ	Today	8/24/22	Consensus	Consensus	Consensus	Consensus	
Peer Analysis:													
MNSB	MainStreet Bcsbs	\$184	0.82	\$1,793,379	8.7	na	3.1%	118	9.1x	7.7x	1.38	13.2%	10%
AUB	Atlantic Union Bks	\$2,510	3.57	\$19,661,799	6.8	10.0	8.6%	197	11.6x	9.8x	1.27	18.0%	21%
BRBS	Blue Ridge Bkshs I	\$281	3.28	\$2,799,643	8.2	na	2.7%	123	na	na	na	na	15%
CARE	Carter Bkshs	\$415	0.00	\$4,123,280	8.1	12.7	3.2%	124	9.3x	7.9x	1.20	13.8%	23%
CBNK	Capital Bncp Inc	\$359	0.94	\$2,154,846	9.6	15.6	8.8%	173	8.8x	8.0x	2.02	18.1%	11%
COSO	CoastalSouth Bcsbs	\$154	na	\$1,713,183	6.1	na	3.9%	148	na	na	na	na	na
CSTR	CapStar Finl Hldgs	\$456	1.92	\$3,096,537	10.2	12.9	6.4%	147	10.8x	10.1x	1.38	13.1%	16%
EBGN	Eagle Bancorp	\$1,561	3.70	\$10,941,655	10.6	14.6	4.8%	136	10.2x	9.6x	1.34	13.3%	28%
FCCO	First Cmnty Corp	\$138	2.86	\$1,684,824	6.1	na	2.7%	135	10.2x	9.1x	0.89	13.3%	36%
FDVA	Freedom Finl Hldgs	\$106	na	\$895,522	8.4	na	5.6%	141	na	na	na	na	22%
FRST	Primis Financial C	\$327	3.02	\$3,236,578	9.3	11.6	1.6%	113	13.4x	10.8x	0.91	9.9%	9%
FSRL	Frst Reliance Ban	\$75	na	\$946,853	na	na	1.6%	119	14.4x	9.8x	0.77	11.0%	19%
FUNC	First United Corp	\$123	3.26	\$1,752,455	6.9	12.4	0.1%	101	na	na	na	na	23%
FVCB	FVCBankcorp Inc	\$271	na	\$2,305,905	8.3	na	4.8%	143	11.2x	11.3x	1.24	11.1%	14%
FXNC	First Natl Corp	\$108	3.26	\$1,414,690	6.9	na	0.9%	111	na	na	na	na	25%
JMSB	John Marshall Bncp	\$372	na	\$2,316,374	9.0	14.0	12.1%	179	na	na	na	na	20%
OPOF	Old Point Finl	\$120	2.20	\$1,314,884	7.6	na	2.0%	120	na	na	na	na	19%
SABK	South Atlantic	\$109	na	\$1,403,645	6.0	na	2.2%	131	9.7x	8.4x	0.89	13.8%	25%
SASR	Sandy Spring Bncp	\$1,783	3.40	\$13,303,009	8.4	11.6	7.3%	163	10.2x	9.7x	1.31	15.2%	12%
SHBI	Shore Bcsbs Inc	\$386	2.47	\$3,442,550	8.4	12.2	4.0%	137	12.0x	10.5x	1.07	11.8%	17%
SMBK	SmartFinancial Inc	\$443	1.07	\$4,788,113	6.7	10.0	3.4%	140	10.1x	8.7x	1.04	14.1%	18%
TOWN	TowneBank	\$2,128	3.15	\$16,864,039	8.3	11.8	6.2%	157	11.1x	10.3x	1.28	13.9%	16%
UBSI	United Bkshs Inc	\$5,161	3.75	\$28,777,896	9.6	12.7	12.4%	200	13.6x	13.4x	1.31	13.9%	19%
VBFC	Village Bk & Tr Fi	\$73	1.13	\$752,597	8.0	na	2.1%	122	na	na	na	na	18%
WSBC	WesBanco Inc	\$2,060	3.94	\$16,799,624	7.5	11.3	7.0%	174	11.7x	11.0x	1.08	14.7%	28%
Median		3.08			8.2	12.3	4.0%	138	11.0x	9.8x	1.22	13.8%	19.2%

Source: Janney Research, S&P Cap IQ data (via SEC filings)

Earnings Model

				2021 Quarterly				2022 Quarterly				2023 Quarterly			
	<u>2021</u>	<u>2022E</u>	<u>2023E</u>	<u>1Q21</u>	<u>2Q21</u>	<u>3Q21</u>	<u>4Q21</u>	<u>1Q22</u>	<u>2Q22</u>	<u>3Q22E</u>	<u>4Q22E</u>	<u>1Q23E</u>	<u>2Q23E</u>	<u>3Q23E</u>	<u>4Q23E</u>
Income Data: (\$ Mil.)															
Net Interest Income	\$53.54	\$65.70	\$72.22	\$13.48	\$12.99	\$13.20	\$13.87	\$15.20	\$16.12	\$16.96	\$17.42	\$17.24	\$17.89	\$18.46	\$18.64
Loan Loss Provision	(\$1.18)	\$2.53	\$2.47	\$0.32	(\$2.08)	\$0.29	\$0.30	\$0.80	\$0.48	\$0.70	\$0.56	\$0.47	\$0.65	\$0.70	\$0.66
Non-Interest Income	\$5.62	\$4.92	\$5.44	\$1.10	\$1.43	\$1.89	\$1.21	\$1.12	\$1.26	\$1.26	\$1.28	\$1.30	\$1.34	\$1.38	\$1.41
Gain/Loss on Loan Sales	\$0.49	\$0.04	\$0.60	\$0.34	\$0.13	(\$0.40)	\$0.41	\$0.04	\$0.00	\$0.00	\$0.00	\$0.15	\$0.15	\$0.15	\$0.15
Gain/Loss on Securities	\$0.01	\$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	\$32.86	\$38.60	\$44.25	\$7.81	\$7.87	\$8.46	\$8.72	\$8.96	\$9.49	\$9.87	\$10.27	\$10.63	\$10.84	\$11.22	\$11.56
Pre-Tax Income	\$27.96	\$29.53	\$31.54	\$6.79	\$8.75	\$5.94	\$6.47	\$6.60	\$7.41	\$7.65	\$7.88	\$7.60	\$7.89	\$8.07	\$7.98
Taxes (w/ FTE adj.)	\$5.78	\$6.07	\$6.94	\$1.34	\$1.63	\$1.16	\$1.66	\$1.17	\$1.48	\$1.68	\$1.73	\$1.67	\$1.74	\$1.77	\$1.76
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	\$22.17	\$23.46	\$24.60	\$5.45	\$7.13	\$4.78	\$4.81	\$5.42	\$5.93	\$5.96	\$6.14	\$5.93	\$6.16	\$6.29	\$6.23
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	\$20.02	\$21.31	\$22.45	\$4.91	\$6.59	\$4.24	\$4.28	\$4.88	\$5.39	\$5.43	\$5.61	\$5.39	\$5.62	\$5.75	\$5.69
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	7.6
Earnings Per Share (EPS)	\$2.65	\$2.80	\$2.95	\$0.65	\$0.87	\$0.56	\$0.56	\$0.64	\$0.71	\$0.72	\$0.74	\$0.71	\$0.74	\$0.75	\$0.75
Per Share Data:															
Reported Book Value	\$21.27	\$22.72	\$25.35	\$19.26	\$20.18	\$20.64	\$21.27	\$21.12	\$21.41	\$22.05	\$22.72	\$23.35	\$24.01	\$24.69	\$25.35
Tangible Book Value	\$20.94	\$21.66	\$24.30	\$19.26	\$20.18	\$20.49	\$20.94	\$20.61	\$20.75	\$21.04	\$21.66	\$22.29	\$22.95	\$23.63	\$24.30
Dividends	\$0.00	\$0.20	\$0.20	\$0.00	\$0.00	\$0.00	\$0.00	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05
Pre-Tax, Pre-Provision EPS	\$3.54	\$4.22	\$4.46	\$0.94	\$0.88	\$0.82	\$0.89	\$0.97	\$1.04	\$1.10	\$1.11	\$1.06	\$1.12	\$1.15	\$1.13
CORE GAAP EPS	\$2.65	\$2.80	\$2.95	\$0.65	\$0.87	\$0.56	\$0.56	\$0.64	\$0.71	\$0.72	\$0.74	\$0.71	\$0.74	\$0.75	\$0.75
KEY Ratios:															
Net Interest Margin	3.30%	3.97%	4.04%	3.41%	3.18%	3.29%	3.33%	3.91%	3.93%	4.00%	4.05%	4.03%	4.05%	4.05%	4.04%
CORE Return on Avg Assets	1.32%	1.37%	1.35%	1.32%	1.67%	1.13%	1.14%	1.32%	1.39%	1.36%	1.38%	1.35%	1.36%	1.35%	1.32%
Return on Avg Equity	13.20%	12.98%	12.35%	13.69%	17.76%	10.93%	10.72%	12.03%	13.34%	13.26%	13.28%	12.39%	12.55%	12.48%	12.00%
Pre-Tax Pre-Provision ROA	1.59%	1.87%	1.86%	1.70%	1.56%	1.48%	1.62%	1.78%	1.84%	1.92%	1.92%	1.81%	1.88%	1.90%	1.85%
Efficiency Ratio	55.1%	54.6%	56.5%	52.3%	54.1%	57.6%	56.3%	54.8%	54.6%	54.2%	54.9%	56.9%	55.9%	56.1%	57.2%
Overhead Ratio	1.95%	2.25%	2.42%	1.87%	1.84%	2.01%	2.08%	2.16%	2.22%	2.27%	2.33%	2.38%	2.39%	2.43%	2.48%
TCE Ratio	9.7%	9.0%	9.6%	8.3%	8.9%	9.4%	9.7%	9.0%	8.7%	8.9%	9.0%	9.2%	9.3%	9.4%	9.6%
Period-End Balances: (\$ Mil.)															
Earning Assets	\$1,610	\$1,761	\$1,891	\$1,706	\$1,665	\$1,620	\$1,610	\$1,711	\$1,697	\$1,735	\$1,761	\$1,789	\$1,830	\$1,868	\$1,891
Total Assets	\$1,647	\$1,847	\$1,956	\$1,743	\$1,708	\$1,657	\$1,647	\$1,762	\$1,793	\$1,826	\$1,847	\$1,871	\$1,905	\$1,937	\$1,956
Net Loans	\$1,342	\$1,476	\$1,598	\$1,299	\$1,256	\$1,246	\$1,342	\$1,413	\$1,417	\$1,452	\$1,476	\$1,503	\$1,540	\$1,576	\$1,598
Total Deposits	\$1,412	\$1,563	\$1,659	\$1,538	\$1,465	\$1,414	\$1,412	\$1,435	\$1,500	\$1,538	\$1,563	\$1,579	\$1,610	\$1,639	\$1,659
Intangibles	\$2	\$5	\$5	\$0	\$0	\$1	\$2	\$4	\$5	\$5	\$5	\$5	\$5	\$5	\$5
Total Common Equity	\$162	\$171	\$192	\$145	\$152	\$157	\$162	\$162	\$161	\$166	\$171	\$176	\$182	\$187	\$192

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

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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MainStreet Bancshares, Inc. currently is, or during the past 12 months was, a Janney Montgomery Scott LLC client. Janney Montgomery Scott LLC, provided investment banking related services.

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Data sources for the report are Bloomberg Financial L.P., SNL Financial LC, Stockcharts.com, Thomson Financial and regulatory filings.

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Janney Montgomery Scott LLC and/or its affiliate, FIG, currently acts as a market-maker in the securities of MainStreet Bancshares, Inc.

Janney Montgomery Scott LLC managed or co-managed a public offering of securities for MainStreet Bancshares, Inc. in the past 12 months.

Janney Montgomery Scott LLC received compensation for investment banking services from MainStreet Bancshares, Inc. in the past 12 months.

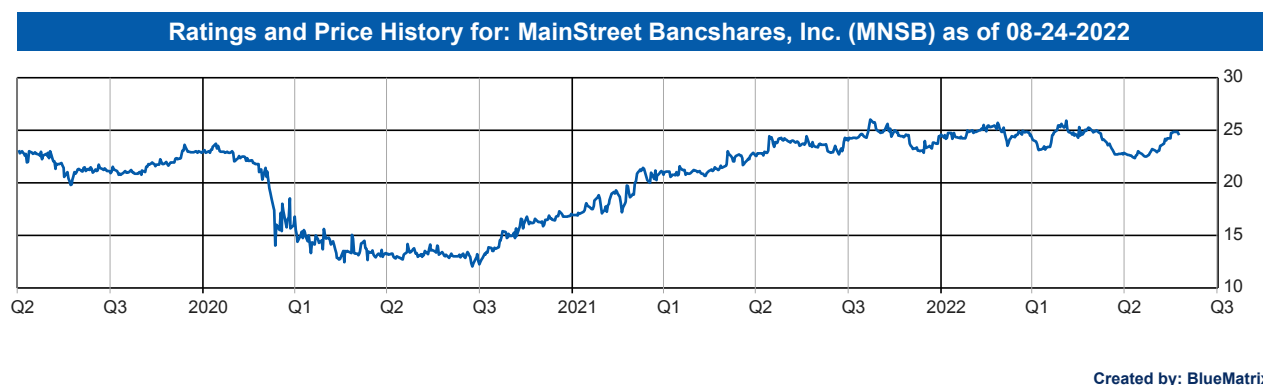
Definition of Ratings

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 06/30/2022

IB Serv./Past 12 Mos.*

Rating	Count	Percent	Count	Percent
BUY [B]	119	50.85	30	25.21
NEUTRAL [N]	78	33.33	8	10.26
SELL [S]	0	0.00	0	0.00
EXTENDED REVIEW [EXTRE]	37	15.81	6	16.22

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

Other Disclosures

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