

Banks & Thrifts

Price:	\$23.63
Fair Value Estimate:	\$28.25
52-Week Range:	\$19.43 - \$30.98
Market Cap (MM):	\$172
Shr.O/S-Diluted (mm):	7.3
Average Daily Volume:	34,500
Dividend:	\$0.40
Yield:	1.7%
Tang Book Value:	\$22.73
Price/Tangible Book:	1.04x

July 24, 2023

MainStreet Bancshares, Inc. (MNSB) - BUY

MNSB Beats Our Estimates on Lower-than-Expected Expenses. Core ROA 1.34%, TBV Rises 2.3%. Deposit and Funding Costs Reset with High Beta.

PORTFOLIO MANAGER BRIEF

- 2Q23 EPS: Reported \$0.85 / Core \$0.85 / Street \$0.86 / Janney \$0.79.
- MNSB beat our EPS estimate by \$0.06 per share or 7.6% on better Expenses (+ \$0.14 /sh), though it was partially offset by lower Spread (-\$0.10 /sh) and lower Fee Income (-\$0.02 /sh).
- Core ROA was 1.34% in 2Q and Pre-Pre Earnings were \$9.2M, -11.2% L-Q and +17.0% YR/YR, beating our \$9.0M 2Q estimate. PPNR ROA was 1.94%.
- NII-Net Interest Income -8.6% to \$19.3M as the NIM-Net Interest Margin compressed -50 bps to 4.19%.
- Deposit costs +105 bps to 2.58% (222% Deposit Beta), Total Funding costs +79 bps 2.69% (167% Funding Beta), while average Loan yield +24 bps to 7.02% (51% Loan Beta) and Earning Asset yield +33 bps to 6.70% (70% EA Beta).
- Average Loans grew 3% to \$1.6B and Average Deposits expanded 3% to \$1.6B. Non-Interest-Bearing DDAs were 26% of Avg Deposits -4% LQ, and -8% YR/YR. At period-end, Loans grew 1% to \$1.7B while Deposits declined -2% to \$1.6B.
- Fee Income declined -19.2% to \$0.8M, missing our \$1.0M estimate. Expenses were lower than expected and declined -7.3% L-Q. Lower expenses were important to the EPS beat.
- Tangible Book Value (TBV) per share rose 2.3% L-Q while the TCE Ratio +65 bps to 8.83%. CET-1 regulatory capital was 15.83%.
- Reserves (w/ UFC balances) grew 4% in dollar terms at 6/30 vs 3/31 at 1.04% of Loans in 2Q versus 1.02% in 1Q. Net Charge-Offs and Classified Loans are 0.67% of Loans with no special mention Loans. Office CRE is \$89M.



ANALYST NOTES

MNSB trades at 104% of Tangible Book Value. Reiterate BUY rating and \$28.25 Fair Value. MNSB holds an investor call this afternoon at 2:00PM Eastern. We will provide updated estimates after speaking with Management.

MNSB 2Q Results vs. Estimates

2Q-2023 Results: Actual vs. Estimated

<u>Actual</u>	<u>Operating</u>	<u>Street (BB)</u>	<u>Janney</u>	<u>Comments</u>
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\$0.85	\$0.85	\$0.86	\$0.79	
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Core Pre-Tax Pre-Provision

<u>Actual</u>	<u>Street-BB</u>	<u>Janney Est</u>
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\$9.2	\$9.6	\$9.0
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Linked-Quarter Betas

<u>Deposit</u>	<u>Loan</u>	<u>Earning Asset</u>
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210%	51%	70%
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AVG. SHARES (M)

<u>Actual</u>	<u>Street-BB</u>	<u>Janney Est</u>
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7.5	7.5	7.5
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NIM (Margin)

<u>Actual</u>	<u>Street-BB</u>	<u>Janney Est</u>
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4.19	4.36	4.36
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NII (Spread -\$M)*

<u>Actual</u>	<u>Street-BB</u>	<u>Janney Est</u>
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\$19.3	\$20.8	\$20.2
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LOANS (\$M)

<u>Actual</u>	<u>Street-BB</u>	<u>Janney Est</u>
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\$1,637	\$1,649	\$1,650
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PRE-TAX (\$M)

<u>Actual</u>	<u>Street-BB</u>	<u>Janney Est</u>
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\$8.6	\$8.9	\$8.4
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PROVISION (\$M)

<u>Actual</u>	<u>Street-BB</u>	<u>Janney Est</u>
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\$0.6	\$0.7	\$0.7
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EXPENSES (\$M)

<u>Actual</u>	<u>Street-BB</u>	<u>Janney Est</u>
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\$10.9	\$11.8	\$12.2
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NON-INTEREST INCOME (\$M)

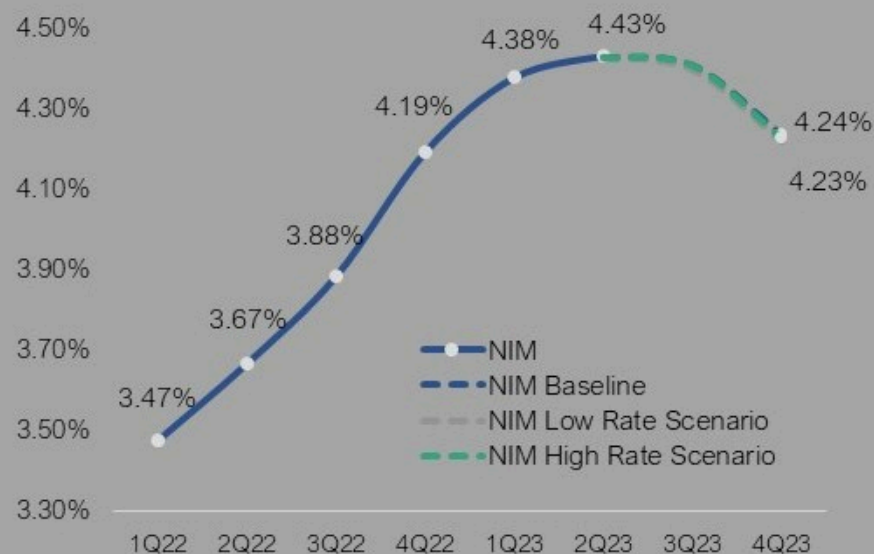
<u>Actual</u>	<u>Street-BB</u>	<u>Janney Est</u>
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\$0.8	\$1.1	\$1.0
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Source: Janney Research (FIG Group), S&P Capital IQ Pro, Bloomberg L.P., Company Filings

Net interest margin forecast is good

NIM trailing twelve months with projections¹



Highlights

Baseline model reflects 25bp rate rise in July then flat rates for remainder of 2023 with a 4.24% NIM.

High-rate scenario reflects three rates increases between July and October totaling an additional 75bps.

Low-rate scenario has a 25bp rate cut in December.

Both the high- and low-rate scenarios result in a similar 4.23% NIM.

1. High and low forecast uses S&P Global rates projections for 3Q23 and 4Q23 in the Bank's simulation model



Assumptions for second half of 2023

Projections:

- Monthly expense rate between 2.5 - 3.0% for remainder of the year (this includes \$120k per month for software amortization).
- One rate hike of 25bp for the remainder of the year.

General Statements:

- Preservation of capital is a priority. Intend to pay dividends on preferred and common shares as performance and market conditions allow.
- We are not engaging in crypto.
- LIBOR to SOFR conversion is complete.
- We are always amenable to talking about M&A as opportunities arise.

Nominal exposure to office space

Current Balance of Office Portfolio as of June 30, 2023

Category (\$ Millions)	Location				
	DC	MD	VA	Other	Total
Mixed use	\$0.6	\$2.8	\$3.1	-	\$6.5
Office space	-	\$1.9	\$11	-	\$12.9
Office conversion to res	-	-	\$21.6	-	\$21.6
Medical	-	\$22.5	\$15.6	\$0.5	\$38.6
Under construction	\$9.4	-	-	-	\$9.4
Total	\$10	\$27.2	\$51.3	\$0.5	\$89
Weighted avg LTV	34%	37%	55%	21%	43%

100% of Under Construction category balances will become owner-occupied upon completion or already have long-term leases in place.

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

The "Office conversion to res" category represents an office building that was purchased to be converted to an apartment building once the remaining few leases mature.



AvenuTM is open for traffic

Opportunities in the BaaS space continue to grow

Projected¹ range of opportunities

	2023	2024
New DDA balances	\$5M - \$25M	\$50M - \$125M
New fees	< \$100k	\$400k - \$1.25M

- ✓ Live with first client (currently hardening and scaling)
- ✓ 4 clients have signed the agreement to go forward
- ✓ 4 clients have the agreement and are making progress
- ✓ 6 clients have expressed "warm" interest to go forward

¹ The success of our BaaS/SaaS solution is heavily dependent upon the success of our clients. We are focused on identifying clients that have a high probability of success, but just as with any market activity, there is no guarantee that every client will be a "winner". As such, we make no assurances of our projections at this stage.



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.

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

Definition of Ratings

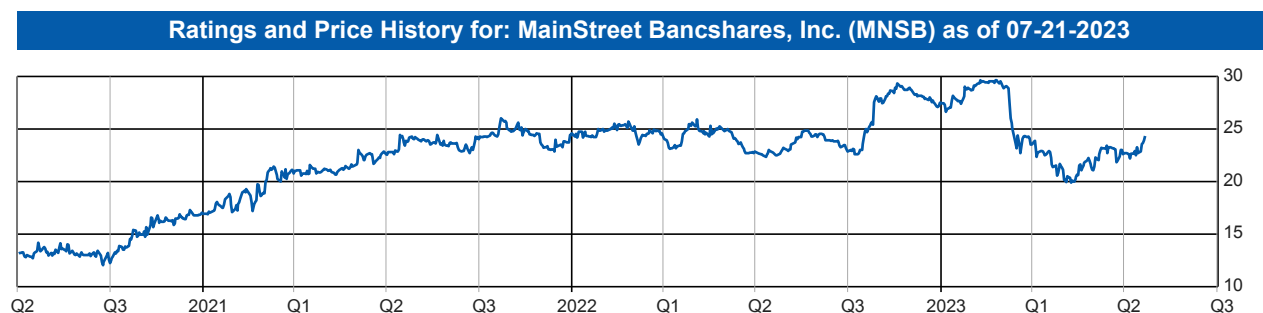
BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

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 6-30-2023

Rating	Count	Percent	IB Serv./Past 12 Mos. *	
			Count	Percent
BUY [B]	127	53.81	19	14.96
NEUTRAL [N]	109	46.19	9	8.26
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.

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