

Banks & Thrifts

Price:	\$22.99
Fair Value Estimate:	\$28.50
52-Week Range:	\$19.43 - \$30.98
Market Cap (MM):	\$168
Shr.O/S-Diluted (mm):	7.3
Average Daily Volume:	35,160
Dividend:	\$0.40
Yield:	1.7%
Tang Book Value:	\$22.73
Price/Tangible Book:	1.01x

FYE: Dec	2022A	2023E	2024E
EPS - non-GAAP	\$3.26A	\$3.35E	\$2.53E
Adjusted: Prior EPS - non-GAAP		\$3.30	\$2.70
Adjusted:			

Quarterly EPS - non-GAAP Adjusted:

Q1	\$0.64A	\$1.01A	\$0.62E
Q2	\$0.71A	\$0.85A	\$0.62E
Q3	\$0.97A	\$0.77E	\$0.65E
Q4	\$0.95A	\$0.72E	\$0.64E
Year:	\$3.26A	\$3.35E	\$2.53E



August 22, 2023

MainStreet Bancshares, Inc. (MNSB) - BUY

MNSB in VA: Maintain Our Positive Outlook as Deposit Franchise Has Healthy Value With Modest Premium Less All Marks. Expect Sustained ROA Above 1.00%.

PORTFOLIO MANAGER BRIEF

- MNSB remains a solid community bank idea in Northern Virginia and the greater Washington DC metroplex.
- We see the company earning above a 1.00% ROA in 2024 (stronger in 2023 and the current quarter) including ongoing expense spend for its [Avenu fintech initiative](#).
- Our EPS estimate of \$2.53 in 2024 (-\$0.17 from our prior report) reflects modest NIM-Net Interest Margin compression while NIM remains above 4.00%, plus higher expenses for organic Banking expansion in addition to the Avenu unit.
- Loan and Deposit growth are moderating, while still positive. The company is more selective on new lending and sensitive to risk-adjusted returns.
- We like the modest credit issues and expect moderate changes in future periods. Classified Loans are 0.67% of Loans with no special mention Loans. Office CRE is \$89M or 5.4% of Loans - see more details on Page 6. Reserves are 1.04% of Loans with net charge-offs sub-20 basis points expected through late 2024.
- MNSB has a 2.57% cost of funds including Deposits and Borrowings. This could reach 3.00% by late 2023 and still be 250+ basis points advantage over Fed Funds. We feel Deposits are worth a 3-year minimum relationship multiple or 7.3% premium excluding Brokered and Govt/Muni accounts.
- Our Deposit analysis on Page 2 shows fair value marks taken on Securities and Loans at 6-30-23. In future periods, the AOCI marks could drop on natural amortization, and Loan marks may moderate on prior low rate Loans paid off and new Loans originated at higher yields. As such, our Net Deposit Value per share can expand.
- Fair Value is \$28.50 as supported by our Deposit Premium analysis after all fair value marks. This equates to 11.9x EPS in 2024.
- Reiterate our BUY rating on MNSB shares.

Our \$28.50 Fair Value Outlook For MNSB Shares Supported By A Deposit Franchise Pricing Analysis

Janney Research Rating: "BUY"

Fair Value: \$28.50

	2023	Multiple	Price
GAAP EPS	\$3.35	8.4x	\$28.25
Dividends	\$0.25	1.0x	\$0.25
Excess TCE	<u>\$2.99</u>	<u>0.00x</u>	<u>\$0.00</u>
		Combined	\$28.50
Tangible Book 12/23	\$23.56	1.21x	\$28.50

Implied Gain/Loss versus Current Price: 24%

<u>Alternative</u>			
2024 EPS	\$2.53	11.9x	\$29.94
Cash Dividends	\$0.40	1.0x	\$0.40
Excess TCE	\$4.12	0.0x	<u>\$0.00</u>
			\$30.34
Tangible Book 12/24	\$25.55	1.19x	\$28.50

Source: Janney Research (FIG Group) & Forward Estimates

Deposit Pricing Outlook

	Today	Dec-23	Dec-24
Market-Cap.	172.9	213.0	230.1
TCE in \$\$	171.0	180.7	196.8
Residual Premium	1.9	32.3	33.3
TOTAL DEPOSITS	1,593.4	\$1,641.5	\$1,742.2
Brokered	345.2	345.2	345.2
Govt/Municipal	<u>53.8</u>	<u>53.8</u>	<u>53.8</u>
Franchise Deposits	1,194.4	1,242.5	1,343.2
Cost of Funds	2.57%	3.00%	3.00%
Advantage vs Fed Funds	2.42%	2.59%	2.59%
Value @ 3YR Tenure	7.3%	7.8%	7.8%
Franchise Value	86.7	96.4	104.2
Gov/Muni Value (1x)	1.3	1.4	1.4
Gross Deposit Value	88.0	97.7	105.6
less: AOCI	(8.3)	(8.1)	(7.5)
less: HTM marks	(0.1)	(0.1)	0.0
less: 4% Loan mark	(52.4)	(53.9)	(57.2)
Net Deposit Value	27.2	35.7	40.9
per share	\$3.62	\$4.74	\$5.39
Add: TBV per share	\$22.73	\$22.97	\$23.56
Add: AOCI per share	\$1.10	\$1.07	\$0.99
TOTAL FAIR VALUE	\$27.45	\$28.77	\$29.94
Gross Deposit Premium	7.1%	7.5%	7.6%
Net Deposit Premium	2.2%	2.8%	2.9%

Factors our earnings and balance sheet projections
through December 2024

MNSB shares are worth over \$30 by late 2024 which are present valued to \$28.50. This represents our Fair Value estimate.

The stock upside is supported by the Deposit Franchise which we identify as excluding Brokered and Government/Municipal funds.

Then we place a 3YR relationship tenure on "funding advantage" or the difference between MNSB's cost of deposit and borrowings less Fed Funds. This benefit is 2.42% at 6/30 and should be steady or modestly higher by early 2024.

We take all unrealized Securities losses (small positions held) and also a 4% fair value Loan mark. Both Securities (AOCI) and the Loan marks should moderate in future periods via amortization and prior low-rate Loans payoff and/or renew at higher rates.

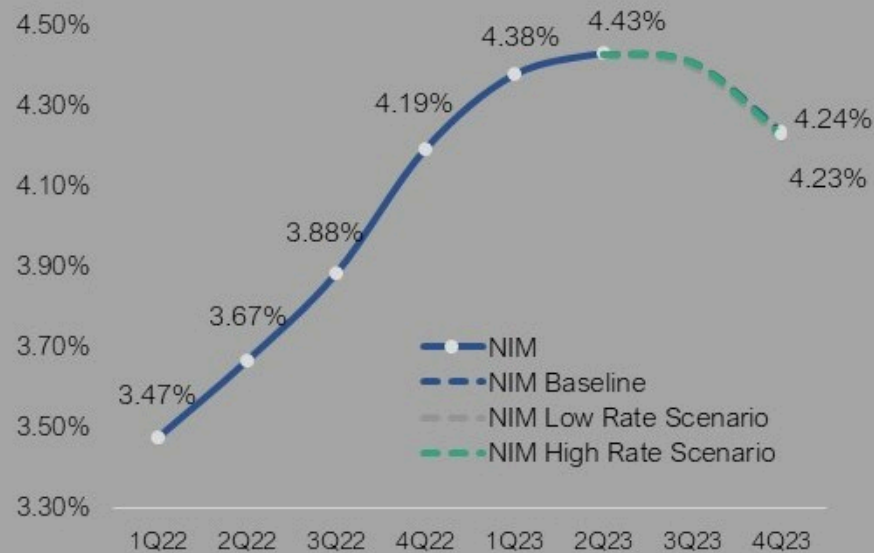
Earnings Model

	2022 Quarterly							2023 Quarterly				2024 Quarterly			
	<u>2022</u>	<u>2023E</u>	<u>2024E</u>	<u>1Q22</u>	<u>2Q22</u>	<u>3Q22</u>	<u>4Q22</u>	<u>1Q23</u>	<u>2Q23</u>	<u>3Q23E</u>	<u>4Q23E</u>	<u>1Q24E</u>	<u>2Q24E</u>	<u>3Q24E</u>	<u>4Q24E</u>
Income Data: (\$Mil.)															
Net Interest Income	\$70.01	\$79.25	\$79.93	\$15.20	\$16.12	\$18.10	\$20.60	\$21.09	\$19.27	\$19.45	\$19.44	\$19.19	\$19.80	\$20.37	\$20.58
Loan Loss Provision	\$2.40	\$2.54	\$3.44	\$0.80	\$0.48	\$0.00	\$1.12	\$0.28	\$0.64	\$0.86	\$0.75	\$0.74	\$0.89	\$0.91	\$0.90
Non-Interest Income	\$5.00	\$3.49	\$3.53	\$1.12	\$1.26	\$1.56	\$1.06	\$1.00	\$0.81	\$0.83	\$0.84	\$0.86	\$0.87	\$0.89	\$0.90
Gain/Loss on Loan Sales	(\$0.17)	\$0.00	\$0.00	\$0.04	\$0.00	(\$0.21)	\$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	\$39.06	\$46.14	\$53.27	\$8.96	\$9.49	\$9.89	\$10.71	\$11.70	\$10.85	\$11.50	\$12.08	\$12.74	\$13.19	\$13.52	\$13.82
Pre-Tax Income	\$33.39	\$34.06	\$26.76	\$6.60	\$7.41	\$9.55	\$9.83	\$10.11	\$8.59	\$7.92	\$7.45	\$6.56	\$6.60	\$6.84	\$6.76
Taxes (w/ FTE adj.)	\$6.71	\$6.68	\$5.48	\$1.17	\$1.48	\$1.81	\$2.25	\$1.96	\$1.65	\$1.58	\$1.49	\$1.35	\$1.35	\$1.40	\$1.39
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	\$26.67	\$27.39	\$21.27	\$5.42	\$5.93	\$7.74	\$7.58	\$8.15	\$6.95	\$6.33	\$5.96	\$5.22	\$5.25	\$5.43	\$5.37
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	\$24.52	\$25.23	\$19.12	\$4.88	\$5.39	\$7.20	\$7.04	\$7.61	\$6.41	\$5.79	\$5.42	\$4.68	\$4.71	\$4.89	\$4.84
Avg. Shares O/S	7.5	7.5	7.6	7.6	7.6	7.5	7.4	7.5	7.5	7.5	7.5	7.6	7.6	7.6	7.6
Earnings Per Share (EPS)	\$3.26	\$3.35	\$2.53	\$0.64	\$0.71	\$0.97	\$0.95	\$1.01	\$0.85	\$0.77	\$0.72	\$0.62	\$0.62	\$0.65	\$0.64
Per Share Data:															
Reported Book Value	\$22.98	\$25.58	\$27.57	\$21.12	\$21.41	\$21.92	\$22.98	\$23.62	\$24.36	\$25.00	\$25.58	\$26.07	\$26.56	\$27.07	\$27.57
Tangible Book Value	\$21.75	\$23.56	\$25.55	\$20.61	\$20.75	\$20.94	\$21.75	\$22.22	\$22.73	\$22.97	\$23.56	\$24.04	\$24.53	\$25.05	\$25.55
Dividends	\$0.25	\$0.40	\$0.40	\$0.05	\$0.05	\$0.05	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10
Pre-Tax, Pre-Provision EPS	\$4.75	\$4.86	\$3.99	\$0.97	\$1.04	\$1.28	\$1.47	\$1.38	\$1.23	\$1.17	\$1.09	\$0.97	\$0.99	\$1.02	\$1.01
CORE GAAP EPS	\$3.26	\$3.35	\$2.53	\$0.64	\$0.71	\$0.97	\$0.95	\$1.01	\$0.85	\$0.77	\$0.72	\$0.62	\$0.62	\$0.65	\$0.64
KEY Ratios:															
Net Interest Margin	4.17%	4.27%	4.07%	3.91%	3.93%	4.12%	4.70%	4.68%	4.19%	4.12%	4.08%	4.06%	4.07%	4.07%	4.08%
CORE Return on Avg Assets	1.53%	1.43%	1.06%	1.32%	1.39%	1.70%	1.67%	1.75%	1.46%	1.30%	1.21%	1.07%	1.05%	1.06%	1.04%
Pre-Tax Pre-Provision ROA	2.05%	1.90%	1.50%	1.78%	1.84%	2.12%	2.43%	2.20%	1.93%	1.81%	1.68%	1.48%	1.50%	1.53%	1.50%
Efficiency Ratio	52.2%	54.6%	63.8%	54.8%	54.6%	50.9%	49.4%	48.4%	54.0%	56.7%	59.6%	63.6%	63.8%	63.6%	64.3%
Overhead Ratio	2.24%	2.40%	2.65%	2.16%	2.22%	2.20%	2.38%	2.48%	2.27%	2.37%	2.48%	2.58%	2.63%	2.67%	2.71%
TCE Ratio	8.4%	9.1%	9.5%	9.0%	8.7%	8.4%	8.4%	8.2%	8.8%	9.0%	9.1%	9.2%	9.3%	9.4%	9.5%
Period-End Balances: (\$Mil.)															
Earning Assets	\$1,815	\$1,880	\$1,991	\$1,711	\$1,697	\$1,749	\$1,815	\$1,946	\$1,834	\$1,864	\$1,880	\$1,907	\$1,942	\$1,973	\$1,991
Total Assets	\$1,926	\$1,989	\$2,082	\$1,762	\$1,793	\$1,860	\$1,926	\$2,055	\$1,949	\$1,975	\$1,989	\$2,012	\$2,041	\$2,067	\$2,082
Net Loans	\$1,580	\$1,684	\$1,788	\$1,413	\$1,417	\$1,448	\$1,580	\$1,617	\$1,637	\$1,667	\$1,684	\$1,709	\$1,741	\$1,771	\$1,788
Total Deposits	\$1,513	\$1,642	\$1,742	\$1,435	\$1,500	\$1,554	\$1,513	\$1,632	\$1,593	\$1,622	\$1,642	\$1,658	\$1,691	\$1,722	\$1,742
Intangibles	\$9	\$12	\$12	\$4	\$5	\$7	\$9	\$11	\$12	\$12	\$12	\$12	\$12	\$12	\$12
Total Common Equity	\$171	\$193	\$209	\$162	\$161	\$163	\$171	\$178	\$183	\$188	\$193	\$197	\$201	\$205	\$209

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

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.



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Source: Company 8-K filing

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.



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Source: Company 8-K filing

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.

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

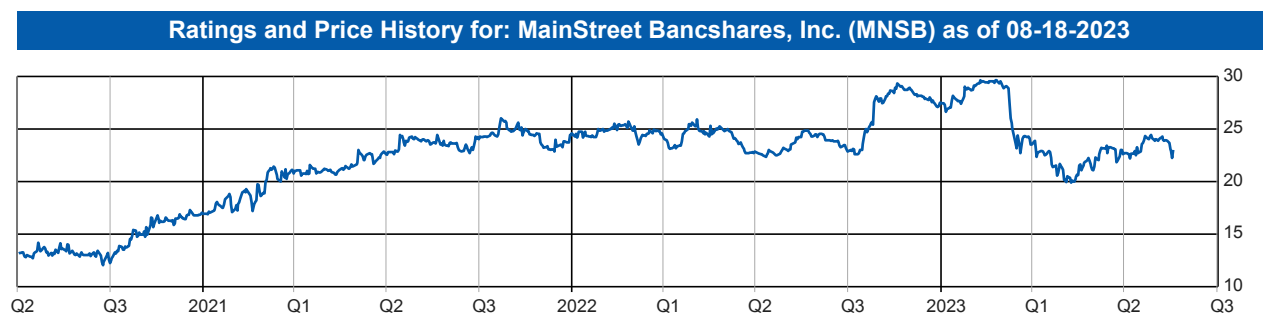
BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

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 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.

Other Disclosures

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