

Banks & Thrifts

Price:	\$20.99
Fair Value Estimate:	\$27.00
52-Week Range:	\$16.62 - \$25.50
Market Cap (MM):	\$172
Shr.O/S-Diluted (mm):	8.2
Average Daily Volume:	9,833
Dividend:	\$0.00
Yield:	0.0%
Tang Book Value:	\$16.13
Tang Comn Equity Ratio:	10.9%
Price/Tangible Book:	1.35x

FYE: Dec	2018A	2019E	2020E
----------	-------	-------	-------

Quarterly EPS - GAAP:

Q1	\$0.29A	\$0.39A	\$0.43E
Q2	\$0.26A	\$0.42A	\$0.44E
Q3	\$0.35A	\$0.45A	\$0.46E
Q4	\$0.45A	\$0.44E	\$0.50E
Year:	\$1.34A	\$1.70E	\$1.83E

October 18, 2019

MainStreet Bancshares, Inc. (MNSB) - BUY

Raising 2020 Outlook After Superb 3Q19 EPS. ROA Exceeds 1.10% With 10%+ TBV Growth.

PORTFOLIO MANAGER BRIEF

EPS Outlook: \$1.70 in 2019 (+\$0.08), \$0.44 in 4Q19 (+\$0.03), and \$1.83 (+\$0.04) in 2020. Our Fair Value on MNSB shares remains \$27.00, 148% of tangible book value projected in late 2020.

3Q19 EPS beat our estimate by a few pennies with slower Loan growth, stable yields, costs, and margin. Less growth required less provision to build reserves. Charge-offs remain low along with small NPAs (sub-0.30% of Loans) and Classified assets are below 5% of capital and reserves (industry norms are more than double this level).

Deposit growth was far greater than Loans with continued focus on Core funds and DDAs. DDAs are now 20.5% of Total. Loans-to-Deposits dropped to 93% from 97% in the past quarter (6 quarters ago this ratio was 102%).

ROA should exceed 1.1% in 2020 including moderate Reserve-build and provision expense within modest charge-offs. Tangible book value (TBV) is projected to rise 10% in 2020 after an 11% expansion in 2019.

ANALYST NOTES

The MNSB story continues to exhibit strong fundamentals with a solid ROA-Return on Assets and double-digit tangible book value growth. Core Deposits are rising and we favor the company's focus on generating funds from payment-related clients as well as local businesses in Northern Virginia and the Washington D.C. metro area.

NIM-Net Interest Margin only fell 2 basis points in 3Q19 as MNSB has focused on maintaining Loan pricing discipline and has seen Deposit costs begin to retreat. A focus on business customers willing to pay for a relationship (and less transaction-oriented) plus allowing Construction balances and other CRE to pay-off, maintains a lower risk profile.

Company joined NASDAQ and the Russell 2000 index earlier this year. Two community bank mergers in the greater DC/Suburban MD/Northern VA area signal greater scarcity value which boosts MNSB's longer-term value for patient investors. Our rating on the stock remains "BUY" with a \$27.00 Fair Value or 148% of our 2020 TBV estimate.



Weekly Stock Price Activity Since 2017



Background & Risks

MNSB is an \$1.2 Billion Asset Community Bank with 7 branch locations in Fairfax and Arlington counties in Northern Virginia plus D.C in 4Q19.

Founded in 2004, the company enjoyed methodical expansion during the Financial Crisis and has accelerated its growth pace while boosting profits on both an absolute earnings per share and ROA/ROTCE basis. Economic activity in the Washington, DC MSA remains robust, especially across the Potomac River in Virginia within the Dulles Airport corridor where small businesses and wealthy consumers are plentiful, many of which desire the services provided by community Banks.

Capital has been leveraged in the past 15 quarters as the Loan portfolio has more than doubled while tangible book value per share is 35% higher. The core ROA-Return on Assets exceeds 100 basis points with a rising Pre-Pre ROA. MNSB enjoys a diverse Loan mix of Commercial Loans, Real Estate, and Consumer which is more balanced than many other Community Bank peers. The company has also leveraged its expense base to a lower level than other institutions.

Earnings Forecast By Quarter, 2019 to 2020: *1.10%+ ROA With 10% Annual Tangible Book Expansion*

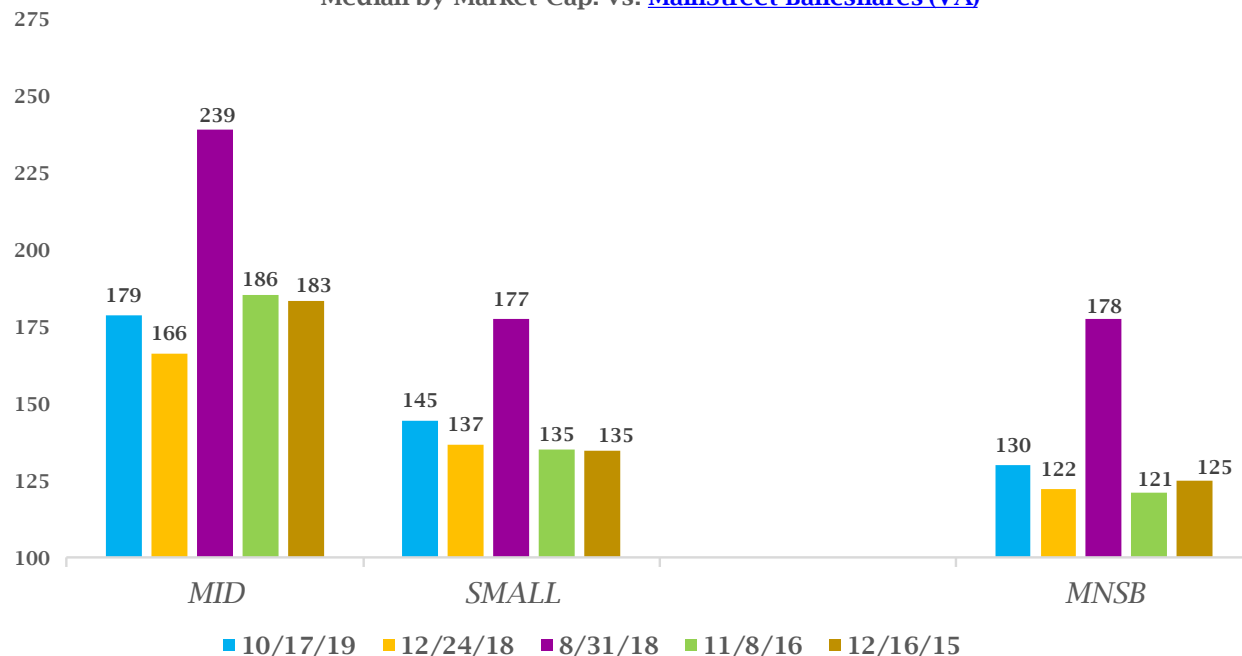
	Actual 3Q-2018	Actual 4Q-2018	FIG Est. FY 2018	Actual 1Q-2019	Actual 2Q-2019	Actual 3Q-2019	FIG Est. 4Q-2019	FIG Est. FY 2019	FIG Est. 1Q-2020	FIG Est. 2Q-2020	FIG Est. 3Q-2020	FIG Est. 4Q-2020	FIG Est. FY 2020
Earning Assets - PE	1,029,441	1,082,464	1,082,464	1,123,850	1,158,673	1,206,865	1,236,865	1,236,865	1,266,865	1,311,865	1,358,865	1,390,865	1,390,865
Avg. Earning Assets	994,731	1,040,466	912,782	1,069,895	1,124,924	1,193,539	1,212,865	1,150,306	1,248,865	1,284,865	1,330,665	1,365,265	1,307,415
NIM-Net Interest Margin	3.20%	3.43%	3.43%	3.50%	3.50%	3.48%	3.44%	3.48%	3.40%	3.38%	3.36%	3.37%	3.38%
NII-Net Interest Income	7,964.0	8,922.0	31,169.0	9,348.0	9,885.0	9,996.0	10,516.4	39,745.4	10,469.9	10,827.4	11,269.5	11,596.9	44,163.7
Loan Loss Provision	600.0	496.0	3,126.0	325.0	750.0	185.0	375.0	1,635.0	375.0	562.5	587.5	400.0	1,925.0
Fee Income	686.0	1,462.0	3,239.0	926.0	1,341.0	1,436.0	1,250.0	4,953.0	1,300.0	1,350.0	1,400.0	1,450.0	5,500.0
Gains & One-Time Revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-Interest Expense	5,160.0	5,373.0	19,979.0	6,008.0	6,177.0	6,489.0	6,500.0	25,174.0	6,595.0	6,690.0	6,850.0	6,975.0	27,110.0
One-Time Charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRE-TAX INCOME	2,890.0	4,515.0	11,303.0	3,941.0	4,299.0	4,758.0	4,891.4	17,889.4	4,799.9	4,924.9	5,232.0	5,671.9	20,628.7
Taxes	539.0	846.0	2,094.0	694.0	868.0	1,049.0	1,271.8	3,882.8	1,248.0	1,280.5	1,360.3	1,474.7	5,363.5
Net Income	2,351.0	3,669.0	9,209.0	3,247.0	3,431.0	3,709.0	3,619.6	14,006.6	3,552.0	3,644.4	3,871.6	4,197.2	15,265.2
Shares O/S (avg.)	6,788.9	8,178.9	6,644.4	8,242.9	8,250.2	8,251.7	8,266.7	8,266.7	8,316.7	8,331.7	8,346.7	8,361.7	8,361.7
EPS	\$0.35	\$0.45	<u>\$1.38</u>	\$0.39	\$0.42	\$0.45	\$0.44	<u>\$1.70</u>	\$0.43	\$0.44	\$0.46	\$0.50	<u>\$1.83</u>
Tangible Book Per Share	\$14.61	\$14.83	\$14.83	\$15.15	\$15.64	\$16.13	\$16.51	\$16.51	\$16.89	\$17.31	\$17.76	\$18.24	\$18.24
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
ROA	0.90%	1.35%	0.97%	1.19%	1.18%	1.23%	1.15%	1.19%	1.13%	1.11%	1.13%	1.19%	1.14%
TCE	11.3%	11.0%	11.0%	10.9%	10.9%	10.8%	10.8%	10.8%	10.8%	10.8%	10.7%	10.7%	10.7%
Total Assets - PE	1,056,981	1,078,071	1,078,071	1,146,081	1,184,764	1,234,276	1,264,276	1,264,276	1,294,276	1,339,276	1,386,276	1,418,276	1,418,276
Avg. Assets	1,032,354	1,078,071	948,456	1,106,683	1,165,836	1,193,539	1,249,276	1,178,834	1,279,276	1,316,776	1,362,776	1,402,276	1,340,276
Total Deposits	889,892	920,137	920,137	966,827	1,011,131	1,064,564	1,094,564	1,094,564	1,124,564	1,169,564	1,216,564	1,248,564	1,248,564
Tangible Common EQ	119,535	121,251	121,251	124,983	129,036	133,217	136,837	136,837	140,389	144,033	147,905	152,102	152,102
Intangibles	0	0	0	0	0	0	0	0	0	0	0	0	0
Shares O/S (PE)	8,180	8,178	8,178	8,250	8,250	8,252	8,262	8,262	8,287	8,297	8,307	8,317	8,317
Fees-to-Revenues	7.9%	14.1%	9.4%	9.0%	11.9%	12.6%	10.6%	11.1%	11.0%	11.1%	11.1%	11.1%	11.1%
Expenses-to-Revenues	59.7%	51.7%	58.1%	58.5%	55.0%	56.8%	55.2%	56.3%	56.0%	54.9%	54.1%	53.5%	54.6%
Expenses-to-Avg. Assets	1.98%	1.98%	2.11%	2.15%	2.13%	2.18%	2.09%	2.14%	2.07%	2.04%	2.02%	2.00%	2.02%
TCE Ratio	11.31%	11.25%	11.25%	10.91%	10.89%	10.79%	10.82%	10.82%	10.85%	10.75%	10.67%	10.72%	10.72%
L-Q Growth: Earning Assets	121,603	53,023	301,854	41,386	34,823	48,192	30,000	154,401	30,000	45,000	47,000	32,000	154,000
		FIG input	38.7%	JMS input	JMS input	JMS input	JMS input	14.3%	JMS input	JMS input	JMS input	JMS input	12.5%
% Change In TBV/Per Share			23.7%					11.3%					10.5%

Source: Janney Research (FIG Group), data via S&P Global MI

Valuation Comparisons: *MNSB vs Public Bank Stock Alternatives Nationwide*

Price-to-Tangible Book Ratios

Median by Market Cap. vs. [MainStreet Bancshares \(VA\)](#)



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

Janney Rating: "BUY"

Fair Value: \$27.00

	2018	Multiple	Price
GAAP EPS	\$1.70	15.9x	\$27.00
Dividends	\$0.00	1.0x	\$0.00
Excess TCE	<u>\$0.00</u>	<u>na</u>	<u>\$0.00</u>
		Combined	\$27.00
Tangible Book 12/19	\$16.51	1.63x	\$27.00

Implied Gain/Loss versus Current Price: 28.6%

<u>Calendar 2020</u>			
2020 EPS	\$1.83	14.8x	\$27.00
Cash Dividends	\$0.00	1.0x	\$0.00
Excess TCE	\$0.00	0.0x	<u>\$0.00</u>
			\$27.00
Tangible Book 12/20	\$18.24	1.48x	\$27.00

Source: Janney Research (FIG Group) & Forward Estimates

Deposit Pricing Outlook

	<u>Today</u>	<u>Dec-19</u>	<u>Dec-20</u>
Market Cap.	\$173.2	\$223.0	\$224.5
TCE in \$\$	\$133.1	\$136.4	\$151.7
Total Deposits	\$1,064.6	\$1,094.6	\$1,248.6
Core Deposits	\$534.3	\$602.0	\$686.7
Premium - Total	3.8%	7.9%	5.8%
Premium - CORE	7.5%	14.4%	10.6%

Details On MNSB's Relative Valuations vs. Community Bank Peers In VA-MD-DC

Company Name		Rating	Market Cap. (\$M)	Total Assets (\$000) MRQ	DDA % MRQ	Cost of Deposits MRQ	TCE Ratio MRQ	Core Deposit Premium Today	Price-to- T.Book 10/17/19	P/E 2020 EPS Consensus	ROA Forecast in 2020 Consensus	Loans-to- Deposits Ratio
Peer Analysis:												
MNSB	MainStreet Bcsbs	Buy	\$170	\$1,234,276	20	1.84	10.8	8.5%	130	11.7x	1.14	94%
AUB	Atlantic Union Bks	Not Rated	\$3,028	\$17,441,035	24	0.96	9.2	14.8%	198	12.8x	1.27	94%
BAYK	Bay Bks of VA	Buy	\$109	\$1,094,260	13	1.42	10.2	(0.4%)	98	11.7x	0.76	105%
ESXB	Cnty Bnk Trst Corp	Neutral	\$183	\$1,431,131	15	1.21	10.3	6.2%	124	12.7x	1.00	87%
FBSS	Fauquier Bkshs Inc	Not Rated	\$73	\$717,528	20	0.64	8.9	1.7%	114	na	NA	90%
FDVA	Freedom Bnk of Va	Not Rated	\$70	\$489,906	21	1.62	12.5	4.2%	113	33.6x	NA	98%
FVCB	FVCBankcorp Inc	Buy	\$245	\$1,484,600	21	1.36	11.0	9.4%	151	15.4x	1.02	97%
FXNC	First Natl Corp	Not Rated	\$93	\$778,384	27	0.61	9.3	3.6%	128	na	NA	83%
HBMD	Howard Bncp Inc	Not Rated	\$310	\$2,295,634	25	0.95	10.3	7.4%	136	17.2x	0.78	99%
JMSB	John Marshall Bncp	Not Rated	\$202	\$1,513,223	20	1.49	10.4	11.1%	141	na	NA	99%
OLBK	Old Line Bcsbs Inc	Neutral	\$503	\$3,075,613	26	1.04	9.5	14.9%	179	12.2x	1.13	102%
OPOF	Old Point Finl	Not Rated	\$128	\$1,029,404	29	0.58	10.3	3.6%	121	na	NA	90%
REVB	Revere Bk	Neutral	\$418	\$2,626,721	18	1.47	9.9	11.1%	161	12.0x	1.21	108%
SASR	Sandy Spring Bncp	Not Rated	\$1,213	\$8,437,538	32	1.02	9.7	8.8%	154	9.8x	1.42	102%
SHBI	Shore Bcsbs Inc	Not Rated	\$201	\$1,488,562	28	0.71	11.7	3.1%	117	11.9x	1.06	99%
SONA	Southern National	Buy	\$371	\$2,724,303	16	1.45	9.7	9.2%	147	11.1x	1.09	101%
TOWN	TowneBank	Not Rated	\$1,987	\$11,942,480	32	0.99	9.5	13.6%	184	14.9x	1.12	88%
UBSI	United Bkshs Inc	Not Rated	\$3,904	\$19,882,539	30	1.01	9.9	17.8%	214	15.7x	1.22	95%
Source: Janney Research (FIG Group), S&P Global MI				Median	23	1.03	10.0	8.1%	139	12.4x	1.09	98.2%

Note that REVB-Revere Bank and OLBK-Old Line Bancshares have announced merger (sale) transactions at premium valuations during recent months.

This enhances the scarcity value for the MNSB franchise, in our view.

Recent Regulatory Data On CRE Concentration At MNSB & Peer Banks In The VA-MD-DC Region

Institution Name	Parent Ticker	Total Assets (\$000)	ADC % of RBC	Multi-Family % of RBC	Owner-Occ. CRE % of RBC	Other CRE % of RBC	ADC + M/F + Other CRE % of RBC
		2019Q2	2019Q2	2019Q2	2019Q2	2019Q2	2019Q2
MainStreet Bank	MNSB	1,184,133	136%	7%	97%	187%	330%
Capital Bank, NA	CBNK	1,197,799	146%	70%	124%	127%	343%
Virginia Commonwealth Bank	BAYK	1,089,450	93%	25%	70%	127%	244%
Essex Bank	ESXB	1,430,988	88%	37%	105%	145%	270%
First Bank	FXNC	777,951	56%	34%	119%	135%	225%
FVCbank	FVCB	1,481,617	119%	38%	92%	235%	391%
Freedom Bank of Virginia	FDVA	489,907	27%	4%	151%	159%	190%
John Marshall Bank	JMSB	1,493,828	130%	36%	131%	247%	414%
Old Line Bank	OLBK	3,074,377	61%	17%	131%	295%	373%
Sonabank	SONA	2,727,264	52%	27%	134%	183%	261%
TowneBank	TOWN	11,942,504	80%	19%	93%	142%	241%
Village Bank	VBFC	534,049	64%	26%	185%	204%	294%
Medians			<u>84%</u>	<u>26%</u>	<u>122%</u>	<u>171%</u>	<u>282%</u>

Source: FIG Partners Research, S&P Global MI data, FDIC call report filings

MNSB ratio of CRE-to-Risk Based Capital to be stable or slightly lower when new 9-30-19 FDIC disclosures are filed. Construction has strong internal stratification of property types and is falling as certain Loans are repaid. Less Construction focus is expected in future quarters.

Coupled with Liquidity metrics, CRE Concentration remains important to both bank regulators and investors alike. See peer data for 6-30-19 in the table above (new filings should be available in November '19).

IMPORTANT DISCLOSURES

Research Analyst Certification

I, Christopher Marinac, 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 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.

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

Janney Montgomery Scott LLC and/or its affiliate, FIG intends to seek or expects to receive compensation for investment banking services from MainStreet Bancshares, Inc. in the next three months.

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 and/or its affiliate, FIG received compensation for investment banking services from MainStreet Bancshares, Inc. in the past 12 months.

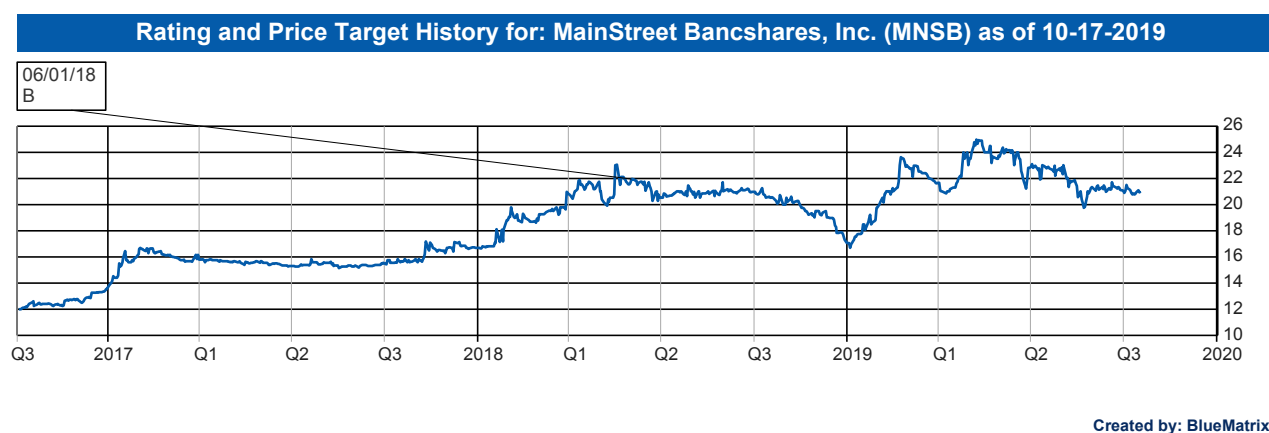
Definition of Ratings

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 09/30/2019

Rating	Count	Percent	IB Serv./Past 12 Mos.*	
			Count	Percent
BUY [B]	171	52.78	37	21.64
NEUTRAL [N]	151	46.60	20	13.25

SELL [S]

2

0.62

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.

This report is for your information only and is not an offer to sell or a solicitation of an offer to buy the securities or instruments named or described in this report. Interested parties are advised to contact the entity with which they deal or the entity that provided this report to them, should they desire further information. The information in this report has been obtained or derived from sources believed by Janney Montgomery Scott LLC, to be reliable. Janney Montgomery Scott LLC, however, does not represent that this information is accurate or complete. Any opinions or estimates contained in this report represent the judgment of Janney Montgomery Scott LLC at this time and are subject to change without notice.

Investment opinions are based on each stock's 6-12 month return potential. Our ratings are not based on formal price targets, however, our analysts will discuss fair value and/or target price ranges in research reports. Decisions to buy or sell a stock should be based on the investor's investment objectives and risk tolerance and should not rely solely on the rating. Investors should read carefully the entire research report, which provides a more complete discussion of the analyst's views. Supporting information related to the recommendation, if any, made in the research report is available upon request.