



Formerly Covered by
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Banks & Thrifts

Price:	\$14.39
Fair Value Estimate:	\$20.50
52-Week Range:	\$13.59 - \$25.50
Market Cap (MM):	\$119
Shr.O/S-Diluted (mm):	8.3
Average Daily Volume:	13,297
Dividend:	\$0.00
Yield:	0.0%
Tang Book Value:	\$16.98
Tang Comn Equity Ratio:	10.6%
Price/Tangible Book:	0.91x

FYE: Dec	2018A	2019A	2020E
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Quarterly EPS - GAAP:

Q1	\$0.29A	\$0.39A	\$0.42E
Q2	\$0.26A	\$0.42A	\$0.42E
Q3	\$0.35A	\$0.45A	\$0.43E
Q4	\$0.45A	\$0.43A	\$0.44E
Year:	\$1.34A	\$1.69A	\$1.72E

April 14, 2020

MainStreet Bancshares, Inc. (MNSB) - BUY

TBV Expected To Grow 9% to 10% Under Heavy Reserve Building For New Economic Times

PORTFOLIO MANAGER BRIEF

- MNSB reported 1Q20 EPS of \$0.42 which was \$0.02 below our estimate prior to the COVID-19 economic crisis. Tangible book was \$0.05 above our expectation.
- We have revised our EPS outlook to address Reserve building for new credit risks and a possible recession from the COVID-19 shutdown. Estimates are \$0.42 in 2Q20 (-\$0.03), and \$1.72 (-\$0.13) in 2020. A new projection of \$1.85 is established for 2021.
- Our stressed loss scenario pegs possible provisions of \$19.5M at MNSB, although the company has over \$26M in pre-tax pre-provision PPNR over the next quarters, including participation in the US Treasury and SBA Payroll Protection Program (PPP).
- We factor about \$10M in provision expense over the next 8 quarters, and MNSB has ample capital to fund additional Reserves if needed. Our stressed loss scenario leads to a CET-1 regulatory capital ratio slightly higher and stressed tangible book per share is near \$17.50 or \$0.50 above 3-31-20 TBV.
- Reiterate our BUY rating with \$20.50 Fair Value on MNSB shares or 114% of tangible book value projected at year-end 2020.

ANALYST NOTES

Within 1Q-2020 EPS, we note solid Deposit growth and better Core Deposits (see our Page 6 details). DDA zero-cost checking accounts are 23% of Total. Loans-to-Deposits dropped to 94% from 97% in the past quarter.



NIM-Net Interest Margin fell on lower Loan yields that outpaced a drop in funding costs. We expect \$150M in PPP Loans from the US Treasury/SBA initiative could impact NIM in 2Q-2020 although related non-interest income should support a healthy Reserve build and address the stressed loss scenario we outline on Page 2. MNSB is still expected to earn a 1.00% ROA net of high provision expense in both 2020 and 2021 while generating 9% to 10% growth in tangible book per share (in each year). We think investors should support this performance with a minimum Price-to-Tangible Book ratio near 115% using our year-end TBV forecast in December 2020. Despite the COVID-19 economic crisis, the MNSB story continues to exhibit a superb franchise with real scarcity and opportunity.

Stressed Loss Scenario For COVID-19 Credit Risk And General Economic Recession On MNSB's Loan Portfolio

	Balance	Loss Estimate	% Loss	Total Default %	Combined Loss %
C&I: Commercial & Industrial	120,900	7,556	6.3%	14%	45%
C&I: Unused Commitments	25,154	629	2.5%	8%	30%
ADC: Construction	272,620	4,021	1.5%	8%	20%
CRE: Owner-Occupied	134,116	2,307	1.7%	9%	20%
CRE: Other, Non Own.Occ.	287,754	7,220	2.5%	12%	21%
Multifamily	6,512	98	1.5%	8%	20%
HELOC	21,637	662	3.1%	13%	24%
Residential MTG 1st Lien	118,578	1,939	1.6%	10%	17%
Residential MTG 2nd Lien	3,320	89	2.7%	14%	20%
Credit Cards	0	0	na	19%	na
Other Revolving	887	106	11.9%	19%	62%
Other Consumer	281	31	11.2%	19%	58%
Auto	74,740	4,727	6.3%	18%	36%
TOTALS	1,066,499	29,385	2.8%	11%	26%

We created a "stressed loss scenario" for possible provision expense and pro forma capital ratios due to the COVID-19 medical crisis. This impacts all Banks like MNSB. These 3 scenarios were factored:

- *Highly Probable To Repay*
- *Probable Repayment*
- *Likely Defaults*

We estimate Default and Loss rates for each Loan type which leads to 2.8% write-offs and \$19.5M in possible provisions.

If MNSB records all Reserve build with PPNR (pre-tax, pre-provision net revenue), its CET-1 capital ratio (most important to Bank regulators) rises to 13.2% from 12.7%. Stressed losses leads to tangible book value near \$17.50 or \$0.50 ahead of 3-31-20.

Loan Loss Reserves	9,898	3/31 Reserve
CECL @ 3/31	0	
Possible Provisions	19,487	

MNSB Capital Ratio Post Stressed Losses

PPNR Next 4 Qtrs	26,951
Risk-Weighted Assets (RWA)	1,169,697
Common EQ-Tier 1 (CET-1)	148,308
Dividends Next 4 Qtrs	0
Possible Provisions	19,487
New Assets In 2020 (RWA)	25,154
PF CET-1 Dec. 2020	155,772
PF Risk-Wtd. Assets (RWA)	1,175,364

Janney estimates 2Q20 to 1Q21

Stressed Loss Scenario

12.68% 12/31/2019 CET-1 Ratio

PF TCE	PF TBV
\$145,967	\$17.49

Adds C&I Unused Commitments @ 50% draw

13.25% PF Spring 2021 CET-1 Ratio

Notes: CECL is not required in the current year; RWA reduced by Possible Provisions

Source: Janney Research estimates, S&P MI, Bloomberg LP, FDIC Call/Fed Y-9 filings at 12-31-19

MNSB-Main Street Bancshares (VA)

Janney Research (FIG Group) - EPS Model

	PPP Loans											
	Actual 4Q-2019	Actual FY 2019	Actual 1Q-2020	JMS Est. 2Q-2020	JMS Est. 3Q-2020	JMS Est. 4Q-2020	JMS Est. FY 2020	JMS Est. 1Q-2021	JMS Est. 2Q-2021	JMS Est. 3Q-2021	JMS Est. 4Q-2021	JMS Est. FY 2021
Earning Assets - PE	1,248,113	1,248,113	1,293,083	1,443,083	1,453,083	1,479,083	1,479,083	1,511,083	1,543,083	1,578,083	1,604,083	1,604,083
Avg. Earning Assets	1,169,520	1,139,470	1,268,891	1,353,083	1,447,083	1,458,283	1,381,835	1,491,883	1,523,883	1,557,083	1,583,283	1,539,033
NIM-Net Interest Margin	3.49%	3.49%	3.25%	3.15%	3.22%	3.24%	3.22%	3.25%	3.25%	3.26%	3.26%	3.26%
NII-Net Interest Income	10,207.0	39,436.0	10,300.0	10,626.3	11,744.8	11,909.2	44,580.3	11,955.5	12,347.6	12,794.5	13,009.8	50,107.5
Loan Loss Provision	358.0	1,618.0	350.0	5,000.0	950.0	900.0	7,200.0	640.0	640.0	700.0	520.0	2,500.0
Fee Income	1,158.0	4,861.0	1,414.0	6,425.0	1,475.0	1,525.0	10,839.0	1,465.0	1,545.0	1,600.0	1,620.0	6,230.0
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
Non-Interest Expense	6,703.0	25,377.0	7,143.0	7,300.0	7,425.0	7,550.0	29,418.0	7,900.0	8,125.0	8,350.0	8,575.0	32,950.0
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
PRE-TAX INCOME	4,304.0	17,302.0	4,221.0	4,751.3	4,844.8	4,984.2	18,801.3	4,880.5	5,127.6	5,344.5	5,534.8	20,887.5
Taxes	742.0	3,353.0	751.0	1,235.3	1,259.6	1,295.9	4,541.9	1,268.9	1,333.2	1,389.6	1,439.1	5,430.7
Net Income	3,562.0	13,949.0	3,470.0	3,516.0	3,585.1	3,688.3	14,259.4	3,611.6	3,794.4	3,955.0	4,095.8	15,456.7
Shares O/S (avg.)	8,260.3	8,260.3	8,287.3	8,302.3	8,317.3	8,332.3	8,332.3	8,347.3	8,362.3	8,377.3	8,392.3	8,392.3
EPS	\$0.43	\$1.69	\$0.42	\$0.42	\$0.43	\$0.44	\$1.72	\$0.43	\$0.45	\$0.47	\$0.49	\$1.85
Tangible Book Per Share	\$16.59	\$16.59	\$16.98	\$17.34	\$17.75	\$18.17	\$18.17	\$18.59	\$19.02	\$19.47	\$19.94	\$19.94
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
ROA	1.15%	1.19%	1.05%	1.00%	0.96%	0.97%	1.00%	0.96%	1.00%	1.01%	1.02%	1.00%
TCE	10.7%	10.7%	10.6%	9.7%	9.9%	10.0%	10.0%	10.2%	10.3%	10.3%	10.4%	10.4%
Total Assets - PE	1,277,989	1,277,989	1,329,742	1,479,742	1,489,742	1,515,742	1,515,742	1,511,083	1,543,083	1,578,083	1,604,083	1,604,083
Avg. Assets	1,224,771	1,172,707	1,328,253	1,404,742	1,484,742	1,502,742	1,430,120	1,513,413	1,527,083	1,560,583	1,591,083	1,548,040
Total Deposits	1,059,293	1,059,293	1,143,211	1,293,211	1,303,211	1,329,211	1,329,211	1,511,083	1,543,083	1,578,083	1,604,083	1,604,083
Tangible Common EQ	137,034	137,034	140,295	143,811	147,396	151,084	151,084	154,696	158,490	162,445	166,541	166,541
Intangibles	0	0	0	0	0	0	0	0	0	0	0	0
Shares O/S (PE)	8,260	8,260	8,260	8,270	8,280	8,290	8,290	8,300	8,310	8,320	8,330	8,330
Fees-to-Revenues	10.2%	11.0%	12.1%	37.7%	11.2%	11.4%	19.6%	10.9%	11.1%	11.1%	11.1%	11.1%
Expenses-to-Revenues	59.0%	57.3%	61.0%	42.8%	56.2%	56.2%	53.1%	58.9%	58.5%	58.0%	58.6%	58.5%
Expenses-to-Avg. Assets	2.20%	2.16%	2.16%	2.08%	2.01%	2.02%	2.06%	2.09%	2.13%	2.15%	2.16%	2.13%
TCE Ratio	10.72%	10.72%	10.55%	9.72%	9.89%	9.97%	9.97%	10.24%	10.27%	10.29%	10.38%	10.38%
L-Q Growth: Earning Assets	41,248	165,649	44,970	150,000	10,000	26,000	230,970	32,000	32,000	35,000	26,000	125,000
		15.3%	JMS input	JMS input	JMS input	JMS input	18.5%	JMS input	JMS input	JMS input	JMS input	8.5%
% Change In TBV/Per Share		11.9%					9.6%					9.7%

Expect Modest Tangible Book (TBV) Premium - Our Fair Value Outlook Is \$20.50, Healthy Upside From Current Price

Janney Rating: "BUY"

Fair Value: \$20.50

	2020	Multiple	Price
GAAP EPS	\$1.72	11.9x	\$20.50
Dividends	\$0.00	1.0x	\$0.00
Excess TCE	<u>\$0.00</u>	<u>na</u>	<u>\$0.00</u>
		Combined	\$20.50
Tangible Book 12/20	\$18.17	1.14x	\$20.50

Implied Gain/Loss versus Current Price: 41.7%

Calendar 2021			
2021 EPS	\$1.85	11.1x	\$20.50
Cash Dividends	\$0.00	1.0x	\$0.00
Excess TCE	\$0.00	0.0x	<u>\$0.00</u>
			\$20.50
Tangible Book 12/21	\$19.94	1.03x	\$20.50

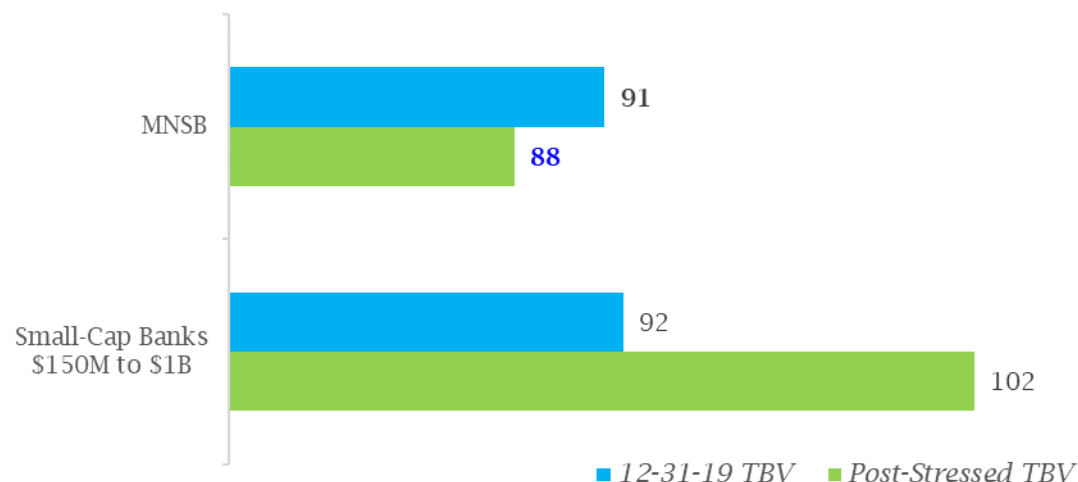
Source: Janney Research (FIG Group) & Forward Estimates

Deposit Pricing Outlook

	<u>Today</u>	<u>Dec-20</u>	<u>Dec-21</u>
Market Cap.	\$119.3	\$169.9	\$170.7
TCE in \$\$	\$133.1	\$150.7	\$166.1
Total Deposits	\$1,064.6	\$1,329.2	\$1,604.1
Core Deposits	\$534.3	\$731.1	\$882.2
Premium - Total	-1.3%	1.4%	0.3%
Premium - CORE	-2.6%	2.6%	0.5%

Factors loan loss reserve build for credit risks - next 8 quarters

MNSB Is 88% Price-to-TBV Ratio After Taking Stressed Credit Losses For COVID-19



Source: Janney Research (FIG Group) and credit cycle loss estimates

MNSB vs. Public Community Bank Peers In VA-MD-DC

Company Name		Rating	Market Cap. (\$M)	Yield (%)	Total Assets (\$000) MRQ	DDA % MRQ	Cost of Deposits MRQ	TCE Ratio MRQ	Core Deposit Premium Today	Price-to- T.Book 4/14/20	P/E 2020 EPS Consensus	ROA Forecast in 2020 Consensus	Loans-to- Deposits Ratio
Peer Analysis:													
MNSB	MainStreet Bcsbs	Buy	\$126	na	\$1,329,742	21	1.63	10.6	(2.2%)	91	8.3x	1.16	94%
AUB	Atlantic Union Bks	Not Rated	\$1,735	4.55	\$17,562,990	22	0.93	9.1	2.3%	116	10.1x	1.05	95%
BAYK	Bay Bks of VA	Buy	\$74	0.00	\$1,131,923	15	1.36	10.2	(7.9%)	64	7.9x	NA	102%
CBNK	Capital Bncp Inc	Not Rated	\$160	na	\$1,428,495	24	1.33	9.3	3.0%	121	10.0x	1.22	96%
DBCP	Delmar Bncp	Not Rated	\$102	1.74	\$1,252,670	26	0.98	9.5	(2.8%)	87	na	NA	99%
ESXB	Cmty Bnk Trst Corp	Neutral	\$113	3.95	\$1,430,840	15	1.19	10.9	(7.4%)	73	9.2x	1.00	94%
FBSS	Fauquier Bkshs Inc	Not Rated	\$54	3.51	\$722,171	20	0.56	9.3	(2.4%)	80	na	NA	88%
FDVA	FreedomBnk of Va	Not Rated	\$42	na	\$500,393	20	1.55	12.8	(11.5%)	65	16.0x	0.50	99%
FUNC	First United Corp	Not Rated	\$102	3.62	\$1,442,027	26	0.70	8.0	(1.4%)	89	na	NA	92%
FVCB	FVCBankcorp Inc	Buy	\$154	na	\$1,537,295	24	1.41	11.1	(1.2%)	93	12.1x	0.88	99%
FXNC	First Natl Corp	Not Rated	\$81	2.65	\$800,048	27	0.60	9.6	0.9%	107	na	NA	81%
HBMD	Howard Bncp Inc	Not Rated	\$190	na	\$2,374,619	27	0.90	10.4	(4.0%)	81	13.2x	0.74	102%
JMSB	John Marshall Bncp	Not Rated	\$144	na	\$1,581,883	21	1.44	10.2	(1.3%)	95	na	NA	101%
OPOF	Old Point Finl	Not Rated	\$82	3.03	\$1,054,488	30	0.61	10.2	(3.8%)	76	na	NA	84%
SASR	Sandy Spring Bncp	Not Rated	\$1,104	5.18	\$8,629,002	29	0.91	9.4	0.8%	104	8.0x	1.31	104%
SHBI	Shore Bcsbs Inc	Not Rated	\$123	4.88	\$1,559,235	27	0.69	11.2	(4.7%)	71	14.5x	0.93	93%
SONA	Southern National	Buy	\$235	4.14	\$2,722,170	16	1.39	10.3	(2.6%)	87	6.9x	1.26	103%
TOWN	TowneBank	Not Rated	\$1,409	3.71	\$11,947,663	32	0.93	10.0	4.0%	124	13.6x	1.00	91%
UBSI	United Bkshs Inc	Not Rated	\$2,553	5.57	\$19,662,324	33	0.90	10.9	6.1%	138	12.5x	1.15	99%
Source: Janney Research (FIG Group), S&P Global MI					Median	25	0.93	10.2	(1.9%)	88	11.1x	1.00	97%

Even with the COVID-19 crisis, scarcity value remains a constant for the MNSB franchise.

Investors should keep their eye on a rising franchise value and opportunity in the future.

Fundamental Trends We Observed In 1Q-2020 EPS

MNSB (Fairfax, VA--\$117 Mil. Mkt. Cap, \$1.3 Bil. Assets, \$14.39, 0% Yld)

	4Q-2019	Δ	1Q-2020
EPS	\$0.43	-	\$0.42
Operating/Core EPS*	\$0.43	-	\$0.42
Janney Estimate	\$0.44	-	\$0.44
Net Interest Income	10.2	0.9%	10.3
Loan Loss Provision	0.4	(2.2%)	0.4
Core Non-Interest Income (ex. sec.)	1.2	22.1%	1.4
Core Non-Interest Expense	6.7	6.6%	7.1
Net Charge-Offs	0.1	nm	0.0
NCOs % of Avg Loans (bps)	6	(4)bps	1
Tangible Book Per Share	\$16.59	2.4%	\$16.98
Net Interest Margin	3.49%	(24)bps	3.25%
Gross Loans (\$Mil.)	1,040.0	3.1%	1,072.1
TCE Ratio (TCE/TA)	10.73%	(18)bps	10.55%
NPAs-to-Loans (incl. TDRs)	0.12%	0bps	0.12%

*Core EPS are fully-taxed and exclude various one-time items including securities gains.

Source: Janney Research, Company Disclosure

	4Q-2019	1Q-2020	
Total Deposits	1071.6	1143.2	6.7%
DDAs-to-Total	22.1%	23.2%	
Int. Bearing Dep Costs (PR)	218	203	(15)
Total Deposit Costs (calc)	169.9	155.8	(14)
DEPOSIT BETA		34%	
LOAN BETA		46%	
EARNING ASSET BETA		89%	

Weekly Stock Price Activity Since 2017



Background & Risks

MNSB is an \$1.33 Billion Asset Community Bank with 7 branch locations in Fairfax and Arlington counties in Northern Virginia plus D.C in 2020.

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 17 quarters as the Loan portfolio has more than doubled while tangible book value per share is 40% higher. The core ROA-Return on Assets is near 1.0% 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.

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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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.

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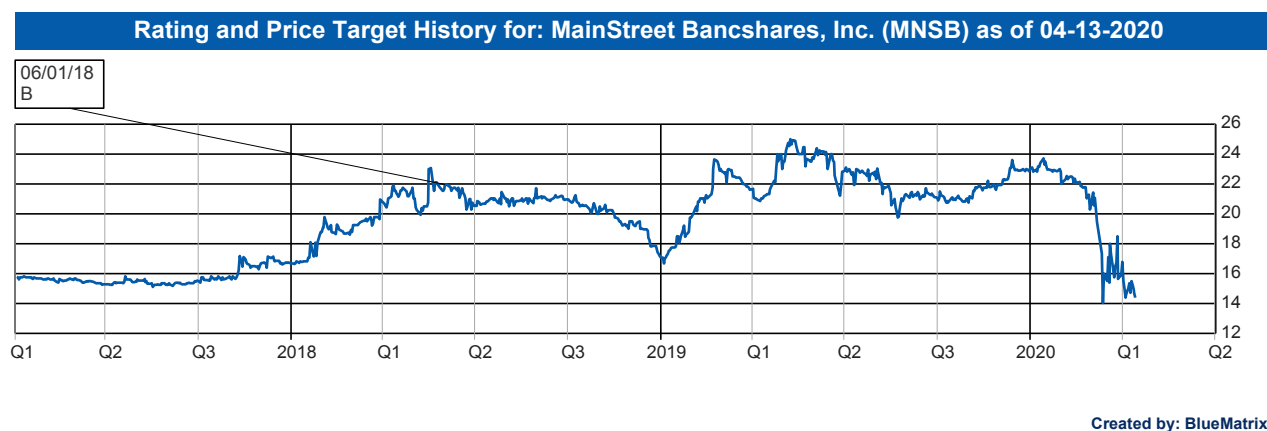
Definition of Ratings

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 03/31/2020

Rating	Count	Percent	IB Serv./Past 12 Mos.*	
			Count	Percent
BUY [B]	169	51.84	35	20.71
NEUTRAL [N]	156	47.85	22	14.10

SELL [S]

1

0.31

0

0.00

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

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