

Mack-Cali Realty Corp. (CLI)

\$14.17 (As of 05/12/20)

Price Target (6-12 Months): **\$15.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/07/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: D

Summary

Mack-Cali's lower-than-expected first-quarter 2020 core funds from operations (FFO) per share reflect the effect of its disposition program. The company has withdrawn the current-year guidance on uncertainties related to the coronavirus pandemic. However, it has collected more than 94% of its total commercial rent from office tenants and 96.7% of its total rent from multifamily tenants for April. It has focused on transforming itself by focusing on waterfront and transit-based office holdings and luxury multi-family portfolio. Emphasis on the comparatively stable multi-family assets augurs well for growth. Yet, a disrupted rent collection environment, high financial leverage and apprehensions related to closing of planned dispositions on expected terms or timelines are concerns. Its shares have underperformed the industry over the past year.

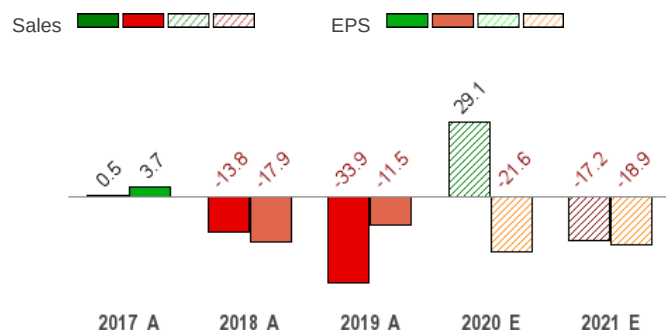
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$24.88 - \$13.40
20 Day Average Volume (sh)	749,225
Market Cap	\$1.3 B
YTD Price Change	-38.7%
Beta	1.20
Dividend / Div Yld	\$0.80 / 5.6%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Top 30% (75 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-10.8%
Last Sales Surprise	-33.9%
EPS F1 Est- 4 week change	-3.5%
Expected Report Date	08/05/2020
Earnings ESP	-7.1%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					375 E
2020	82 A	119 E	119 E	110 E	453 E
2019	134 A	130 A	132 A	87 A	351 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.26 E	\$0.26 E	\$0.26 E	\$0.26 E	\$1.03 E
2020	\$0.33 A	\$0.32 E	\$0.31 E	\$0.30 E	\$1.27 E
2019	\$0.40 A	\$0.40 A	\$0.38 A	\$0.44 A	\$1.62 A

*Quarterly figures may not add up to annual.

P/E TTM	9.1
P/E F1	11.2
PEG F1	4.7
P/S TTM	3.0

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/12/2020. The reports text is as of 05/13/2020.

Overview

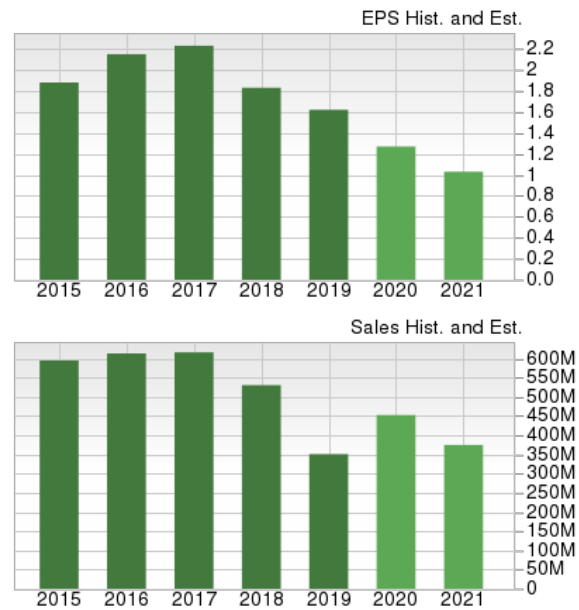
The Jersey City, NJ-based real estate investment trust (REIT) — Mack-Cali Realty Corporation — is engaged in providing management, leasing, development and other tenant-related services for office and multi-family real estate assets. Specifically, the company has dual platform operations of waterfront and transit-based office and luxury multi-family properties.

Operating in the Northeast United States for more than 60 years, Mack-Cali owned or had interests in 71 properties as of Mar 31, 2020. These properties include 41 office properties spanning 10.5 million square feet of space. The properties are leased to around 325 commercial tenants.

The company also has 22 multi-family assets, including 6,850 apartment units, four parking/retail properties, together with three hotels and a land parcel leased to a third party. These properties are located in four states in the Northeast, and the District of Columbia.

Notably, the company operates multi-family residential real estate operations through its subsidiary Roseland Residential Trust.

Note: All EPS numbers presented in this report represent funds from operations ("FFO") per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.



Reasons To Buy:

- ▲ Mack-Cali, with around 325 commercial tenants from diverse industries, enjoys a dominant presence in high barrier-to-entry markets in the United States, especially in the Northeast region. A diversified tenant base helps the company enjoy a steady revenue stream and avoid shortcomings related to any particular sector.
- ▲ Mack-Cali has made concerted efforts in recent years to transform from a sub-urban office REIT to a residential and geographically-focused office REIT. The company completed a three-year strategic initiative started in September 2015, aimed at transforming itself into a more concentrated owner of New Jersey Hudson River waterfront and transit-oriented office properties as well as a regional owner of luxury multi-family residential properties. The company's portfolio-repositioning strategy is focused on capturing the attention of people who prefer to live, work and play in the same area — a trend that drove development in several other cities in the United States. This group also gives much importance to transit options, and hence focusing on such areas remains a strategic choice for the company. Moreover, several Fortune 500 companies have their headquarters in New Jersey, while others have a significant presence in the region. Armed with a skilled workforce and a well-established transit network, the region remains a top choice for the company to expand its business.
- ▲ The company's focus on multi-family assets is a strategic fit. This asset class is comparatively stable and is likely to contribute more towards the company's cash flows in the upcoming period. Although new leasing activity is likely to remain choppy amid the current environment, high renewal activities are likely to support the performance of this asset category in the meantime.
- ▲ Mack-Cali enjoys debt-free ownership for the bulk of its portfolio. As of Mar 31, 2020, the company had 36 unencumbered properties, with a carrying value of \$1.6 billion. This denoted 70.6% of the company's total consolidated property count.

Strong presence in high barrier-to-entry markets, focus on waterfront and transit-oriented office properties and diversification into the apartment sector continue to drive the company's growth.

Reasons To Sell:

- ▼ The coronavirus pandemic and measures to curb its spread are leading to uncertainties and risk to the company. The adverse impact on financial condition of tenants is likely to affect rent collections in the near term. Moreover, demand for office space is likely to remain limited in the upcoming period, affecting leasing volumes. Also, costs associated with construction delays and cost overruns at the company's development and redevelopment projects amid this environment add to its woes.
- ▼ In addition, as part of its long-term strategy, Mack-Cali continues to pursue multi-family residential investments. While this strategy is encouraging from the long-term perspective, it involves significant capital investments. Hence, the move limits the company's growth momentum in the near term. Also, the company has a concentration of assets in the Northeastern market. This raises its risks because any adverse economic and geo-political situations in the region can produce a significant negative impact on its operations and financial condition.
- ▼ The company has a high financial leverage. Particularly, net debt to adjusted EBITDA for the first-quarter 2020 was 11.5x, up from 9.5x for the prior-year quarter. Moreover, amid the challenging macroeconomic and capital market environment in light of the coronavirus pandemic and investors' cautious approach, there are apprehensions regarding the company's ability to complete planned dispositions of assets on expected terms or timelines. Also, rent collections in the near-term are likely to be adversely affected, raising concerns about the company's liquidity position and leverage level. Further, increasing concerns is the fact that the company is presently engaged in a proxy fight with activist investor Bow Street Capital regarding a considerable share of the board.
- ▼ Shares of the company have been down 38.1% compared with the industry's decline of 10.9% over the past year. Also, the trend in estimate revisions for 2020 FFO per share does not indicate a favorable outlook for the company as it has moved 4.5% south over the past week. Therefore, given the above-mentioned concerns and downward estimate revisions, the stock has limited upside potential in the near-term.

A disrupted rent-collection environment, high financial leverage and apprehensions associated with closing of planned dispositions on expected terms or timelines are pressing concerns for Mack-Cali.

Last Earnings Report

Mack-Cali Misses on Q1 FFO, Suspends '20 Guidance

Mack-Cali's first-quarter 2020 core FFO per share of 33 cents missed the Zacks Consensus Estimate of 37 cents. Moreover, the figure compares unfavorably with the year-ago quarter's reported tally of 40 cents.

The year-over-year decrease is mainly due to the company's disposition program. Also, it experienced adverse impact on hotel and parking revenues.

Quarterly revenues of \$82.1 million missed the Zacks Consensus Estimate of \$124.2 million. The revenue figure also came in 9.1% lower than the prior-year quarter's \$90.3 million.

The company has collected more than 94% of its total commercial rent from office tenants and about 96.7% of its total rent from multifamily tenants for the month of April.

Mack-Cali has withdrawn its current-year guidance on uncertainties related to the coronavirus pandemic.

Quarter in Detail

As of Mar 31, 2020, Mack-Cali's consolidated core office properties were 81.1% leased, reflecting an increase from 80.7% as of Dec 31, 2019. Notably, the Class A suburban portfolio was leased 90.1%, while Suburban and Waterfront portfolios were leased 79.6% and 78.5%, respectively, as of the same date.

Same-store cash revenues for the office portfolio climbed 7.1% and the same-store cash NOI was up 13.1%, year over year.

During the reported quarter, Mack-Cali executed 16 lease deals, spanning 173,240 square feet, in the company's core office portfolio. This comprised 23.8% for new leases, and 76.2% for lease renewals and other tenant-retention transactions.

In addition, for the core portfolio, rental rate roll up for core portfolio for first-quarter 2020 transactions was 4.6% on a cash basis.

Further, Roseland's multi-family stabilized operating portfolio was 95.7% leased at the end of the quarter, expanding 70 basis points (bps) from the prior quarter's end. The multi-family property's same-store NOI climbed 9.8% for the March-end quarter.

Portfolio Activity

During the first quarter, Mack-Cali concluded the sale of One Bridge Plaza, an office building spanning 200,000 square foot in Fort Lee, NJ, for \$36.7 million.

The company also sold two developable lands in Middletown, NJ, and Greenbelt, MD, for \$7.6 million and \$9.7 million, respectively.

Balance Sheet Position

The company exited first-quarter 2020 with \$25.3 million in cash, slightly down from \$25.6 million as of Dec 31, 2019.

Mack-Cali's net debt to adjusted EBITDA was 11.5X for the reported quarter compared with the prior-year quarter's 9.5X.

Quarter Ending **03/2020**

Report Date	May 06, 2020
Sales Surprise	-33.92%
EPS Surprise	-10.81%
Quarterly EPS	0.33
Annual EPS (TTM)	1.55

Recent News

Mack-Cali Files Definitive Proxy Materials - May 7, 2020

Mack-Cali has filed definitive proxy materials, including its definitive proxy statement and white proxy card, with the U.S. Securities and Exchange Commission relating to its annual meeting of stockholders, slated for Jun 10, 2020. The company has also mailed letter to shareholders.

The company highlighted its highly qualified slate, which comprises six Incumbent Directors and Five New, Independent Nominees. The company noted about its success in execution of its transformation plan and commitment to initiating a process to maximize shareholder value.

The company also pointed out that Bow Street is looking for control of the board, remove CEO and advance its plan at the expense of all other Mack-Cali shareholders. Also, it has urged shareholders to vote "FOR" all 11 of the company's qualified nominees on the WHITE Proxy Card.

Mack-Cali Collects Majority of April-Rental Receipts – Apr 23, 2020

Mack-Cali announced that it has collected about 90% of office tenant rent and 96% of residential rent through Apr 20. The company issued the update in light of the Executive Order 122 issued on Apr 8 by the Governor of New Jersey.

With regards to its office portfolio, Mack-Cali informed that it has collected about 90% of its April rent as of Apr 20. The remainder of the collections mainly consists of tenants who pay outside the regular collection cycles, additional to base rent and sundry charges. However, the company noted that it is working on to create a payment plan for those tenants that represent about 6% of the total billings. They include the ones who want some kind of rent relief, including some who have paid their rents for the month. As for the residential tenants, the company informed that it has collected about 96% of its projected rent for April. The balance 4% denotes tenants who want a payment plan. The company's residential portfolio has a lease rate of 95%.

The company also apprised of its hotel portfolio with the Residence Inn at Port Imperial presently functioning with an average occupancy of 65% to date for April. The occupancy figure does not include rooms donated to health workers. The company's remaining two hotels, the Envue and the Hyatt, have been shut down for April.

With regards to its construction activities, the company informed that in the Roseland portfolio, five projects are under construction totaling 1,942 units. The Emery at Overlook Ridge in Massachusetts has delivered 140 units out of 326 units, of which 46% are leased and the balance 186 units are expected to be completed in the next six months. The remaining 1,616 units comprise four projects in New Jersey, where construction activity has been mostly reduced. This is in line with the executive order.

Mack-Cali Reaffirms Commitment to Maximizing Stockholder Value - Mar 16, 2020

Mack-Cali has disclosed the comprehensive steps being taken by its board and management team, aimed at maximizing stockholder value. In addition, the company has highlighted what it believes is "false and misleading claims" included in Bow Street's Mar 12 letter to stockholders and considers that Bow Street's true intention is to force a "Fire Sale" of the company's "high-quality" assets at any price.

Moreover, Mack-Cali noted that Bow Street attempted to mislead Mack-Cali stockholders by describing the indication of interest submitted by Rizk Ventures LLC last December as a credible offer from a reputable bidder. However, Mack-Cali found that Rizk Ventures' indication of interest did not comprise critical information necessary for evaluating the proposal.

Mack-Cali to Dispose Entire Sub-urban Office Portfolio - Dec 17, 2019

Mack-Cali announced that as recommended by the Shareholder Value Committee, the company's board of directors has determined to dispose its entire 6.6 million square-foot suburban office portfolio. It plans to complete the sale of this entire portfolio in 2020.

The company intends to redeploy asset sales proceeds to repay outstanding corporate-level, unsecured debt. This effort to reduce leverage will strengthen its balance-sheet position.

Post the sub-urban portfolio sale, Mack-Cali's entire holdings will consist of its waterfront Class-A office portfolio, spanning 5 million square feet of space and the multi-family residential real estate operations through its subsidiary Roseland Residential Trust.

Dividend Update

On Mar 23, Mack-Cali announced quarterly cash dividend of 20 cents per share on its common stock. This was paid on Apr 14, to shareholders of record as of Apr 2, 2020.

Valuation

Mack-Cali's shares have been down 38.1% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 10.9% and 19.5% over the past year, respectively.

The S&P 500 Index has been up 3.1% over the past year.

The stock is currently trading at 11.98X forward 12-month FFO, which compares with the 16.98X for the Zacks sub-industry, 14.78X for the Zacks sector and 20.76X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 17.46X and as low as 7.95X, with a 5-year median of 11.58X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$15 price target reflects 12.68X FFO.

The table below shows summary valuation data for CLI.

Valuation Multiples - CLI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.98	16.98	14.78	20.76
	5-Year High	17.46	18.1	16.18	20.79
	5-Year Low	7.95	14.32	11.58	15.19
	5-Year Median	11.58	16.08	13.94	17.45
P/S F12M	Current	3.03	7.41	5.81	3.24
	5-Year High	4.49	8.14	6.7	3.44
	5-Year Low	2.59	5.91	4.99	2.54
	5-Year Median	3.6	6.88	6.05	3.02
P/B TTM	Current	0.79	2.42	2.08	3.85
	5-Year High	1.54	3.01	2.9	4.55
	5-Year Low	0.76	1.8	1.71	2.84
	5-Year Median	1.13	2.51	2.53	3.65

As of 05/12/2020

Industry Analysis Zacks Industry Rank: Top 30% (75 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Brandywine Realty Trust (BDN)	Neutral	3
Boston Properties Inc (BXP)	Neutral	3
Douglas Emmett Inc (DEI)	Neutral	3
Highwoods Properties Inc (HIW)	Neutral	3
Hudson Pacific Properties Inc (HPP)	Neutral	3
Kilroy Realty Corporation (KRC)	Neutral	3
Piedmont Office Realty Trust Inc (PDM)	Neutral	3
SL Green Realty Corporation (SLG)	Neutral	3

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	CLI	X Industry	S&P 500	BXP	HIW	SLG
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	B	D	C
Market Cap	1.28 B	1.76 B	19.25 B	12.24 B	3.54 B	3.22 B
# of Analysts	5	4	14	10	9	7
Dividend Yield	5.65%	4.90%	2.21%	4.98%	5.63%	8.41%
Value Score	D	-	-	C	C	C
Cash/Price	0.03	0.06	0.06	0.06	0.03	0.16
EV/EBITDA	8.52	12.78	11.70	13.55	12.19	13.04
PEG Ratio	4.51	3.35	2.61	2.23	2.01	2.29
Price/Book (P/B)	0.79	1.06	2.61	1.49	1.52	0.60
Price/Cash Flow (P/CF)	3.56	8.87	10.36	10.14	9.04	6.08
P/E (F1)	10.64	12.90	19.13	10.93	9.55	6.14
Price/Sales (P/S)	2.98	4.03	1.96	4.10	4.68	2.58
Earnings Yield	8.96%	7.69%	5.00%	9.15%	10.47%	16.29%
Debt/Equity	1.76	0.92	0.75	1.47	1.04	1.12
Cash Flow (\$/share)	3.99	2.03	7.01	7.77	3.77	6.92
Growth Score	D	-	-	B	D	D
Hist. EPS Growth (3-5 yrs)	-4.13%	2.38%	10.82%	5.66%	2.72%	-0.46%
Proj. EPS Growth (F1/F0)	-21.60%	-2.09%	-10.31%	2.82%	7.31%	-2.04%
Curr. Cash Flow Growth	77.45%	3.36%	5.83%	-2.18%	-1.95%	3.22%
Hist. Cash Flow Growth (3-5 yrs)	7.42%	12.74%	8.52%	2.31%	4.75%	-0.78%
Current Ratio	0.68	1.78	1.27	5.59	1.48	3.97
Debt/Capital	67.46%	47.87%	44.25%	58.89%	51.60%	50.64%
Net Margin	-40.73%	14.25%	10.59%	30.83%	41.50%	27.34%
Return on Equity	-2.99%	4.14%	16.33%	11.64%	14.27%	5.89%
Sales/Assets	0.08	0.13	0.55	0.14	0.15	0.09
Proj. Sales Growth (F1/F0)	-6.29%	0.00%	-2.53%	1.61%	1.92%	-10.67%
Momentum Score	D	-	-	A	C	A
Daily Price Chg	-6.16%	-5.52%	-2.55%	-6.07%	-5.83%	-7.00%
1 Week Price Chg	3.61%	1.44%	3.23%	-6.48%	0.93%	-1.14%
4 Week Price Chg	-16.65%	-9.82%	-0.84%	-25.46%	-13.43%	-19.94%
12 Week Price Chg	-35.24%	-34.51%	-21.82%	-46.60%	-34.54%	-56.03%
52 Week Price Chg	-38.07%	-29.29%	-10.27%	-40.78%	-22.53%	-50.66%
20 Day Average Volume	749,225	793,730	2,520,117	1,474,100	803,548	1,560,943
(F1) EPS Est 1 week change	-4.65%	0.00%	0.00%	-0.06%	-0.15%	-0.94%
(F1) EPS Est 4 week change	-3.54%	-2.18%	-6.29%	-2.34%	-0.00%	-3.42%
(F1) EPS Est 12 week change	-14.99%	-5.59%	-16.21%	-4.76%	-1.88%	-6.22%
(Q1) EPS Est Mthly Chg	-6.62%	-2.91%	-12.28%	-4.43%	-1.48%	-9.03%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	D
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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