

Mack-Cali Realty Corp. (CLI)

\$18.00 (As of 03/17/20)

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

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 01/17/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: D

Summary

Mack-Cali's fourth-quarter 2019 core funds from operations (FFO) per share surpassed the Zacks Consensus Estimate but compared unfavorably with the year-ago quarter tally. There was a slowdown in leasing activity in its office portfolio. It plans to complete the sale of the entire suburban office portfolio in 2020. Although Mack-Cali is transforming itself by focusing on waterfront and transit-based office holdings and luxury multi-family portfolio, such plans involve significant upfront costs and will likely restrain its profit margin in the short run, while high disposal activity might have a dilutive impact on earnings. Its shares have declined over the past year but narrower than its industry's fall. The trend in estimate revisions for the current-year funds from operations (FFO) per share does not indicate a favorable outlook.

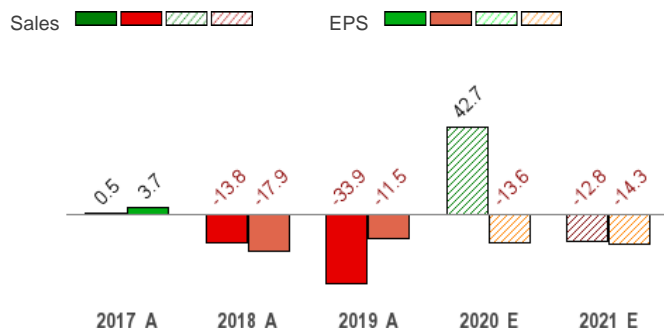
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$24.88 - \$15.82
20 Day Average Volume (sh)	1,469,178
Market Cap	\$1.6 B
YTD Price Change	-22.2%
Beta	1.22
Dividend / Div Yld	\$0.80 / 4.4%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 42% (148 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.3%
Last Sales Surprise	-37.5%
EPS F1 Est- 4 week change	-15.0%
Expected Report Date	05/06/2020
Earnings ESP	0.0%
P/E TTM	11.1
P/E F1	12.9
PEG F1	5.5
P/S TTM	3.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					437 E
2020					501 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	\$1.20 E
2020	\$0.40 E	\$0.34 E	\$0.31 E	\$0.28 E	\$1.40 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/17/2020. The reports text is as of 03/18/2020.

Overview

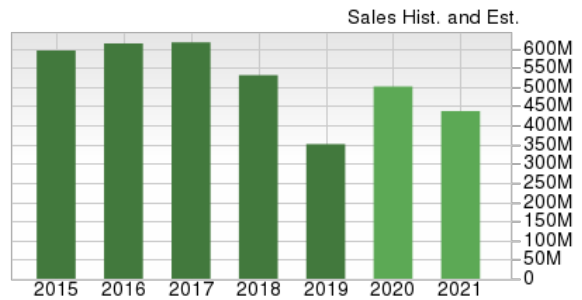
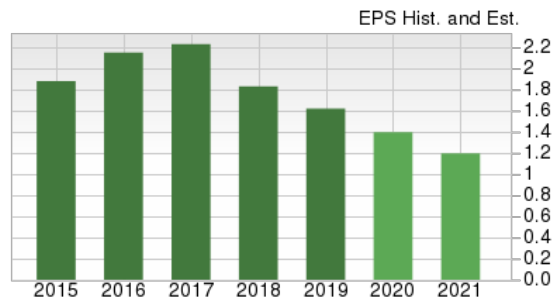
The Jersey City, NJ-based real estate investment trust (REIT) — Mack-Cali Realty Corporation — is engaged in providing management, leasing, development and other tenant-related services for office and multi-family real estate assets. Specifically, the company has dual platform operations of waterfront 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 Dec 31, 2019. These properties include 42 office properties spanning roughly 10.7 million square feet of space. The properties are leased to around 400 commercial tenants.

The company also has 21 multi-family rental assets, including 6,524 residential units, four parking/retail properties, together with three hotels, a land parcel leased to a third party, and developable land. These properties are located in four states, primarily 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 Sell:

- ▼ As part of portfolio-streamlining efforts, Mack-Cali has been aggressively disposing its assets in recent years. This has enabled the company to exit non-core markets and shed non-core assets. It sold part of its flex portfolio in 2018 for \$70.3 million, and in first-quarter 2019, for \$487.5 million. Furthermore, the company has largely completed its disposition program that entails exodus from non-core suburban markets. Moreover, in December, 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. While the measures are a strategic fit for the long run, the dilutive impact on earnings from such huge asset sales cannot be bypassed in the near term.
- ▼ Moreover, as part of its long-term strategy, Mack-Cali continues to pursue multi-family residential investments. Particularly, the company expects its multi-family business to grow more than 60%, going forward. While this strategy is encouraging from the long-term perspective, it involves significant upfront operating expenses and hence, 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.
- ▼ Although interest rate levels are low, at present, any hike in future is likely to be a challenge for the company. Essentially, rising rates imply higher borrowing cost for the company, which would affect its ability to purchase or develop real estate and lower dividend payouts as well. Moreover, the dividend payout itself might become less attractive than the yields on fixed income and money market accounts.
- ▼ Shares of the company have been down 16.3% compared with the industry's decline of 22.5% over the past year. The trend in estimate revisions for 2020 FFO per share does not indicate a favorable outlook for the company as it has moved 3.4% south over the past week. Therefore, given the above-mentioned concerns and negative estimate revisions, the stock is unlikely to perform well in the upcoming period.

Dilutive impact on near-term earnings from asset sales, significant upfront operating expenses tied to multi-family residential projects and concentration of assets in the Northeast are concerns.

Risks

- Mack-Cali, with around 400 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.
 - It has also been making robust strides in its strategic plan. The company continues to redeploy non-core asset sale proceeds in the acquisition of office and multi-family properties as well as debt reduction. In 2019, the company completed the acquisition of three rental properties for \$736.9 million. Moreover, efforts to use flex sale proceeds to repay debts will strengthen the company's balance-sheet position. Additionally, Mack-Cali intends to upgrade its current amenities and improve its properties with major capital-investment programs. With its strategic efforts, the company plans to improve quality of cash flow and achieve better margins in both office and multi-family apartment portfolios. Such efforts augur well for the company's long-term growth.
 - Mack-Cali enjoys debt-free ownership for the bulk of its portfolio. As of Dec 31, 2019, the company had 38 unencumbered properties, with a carrying value of \$1.7 billion. This denoted 71.7% of the company's total consolidated property count.
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Last Earnings Report

Mack-Cali's Q4 FFO Beats, Revenues Miss Estimates

Mack-Cali's fourth-quarter 2019 core FFO per share of 44 cents surpassed the Zacks Consensus Estimate of 41 cents. However, the figure compares unfavorably with the year-ago quarter's reported tally of 45 cents.

The company's same-store cash NOI for the office portfolio increased year over year. However, there was a slowdown in leasing activity in its office portfolio.

Quarterly revenues of \$86.7 million missed the Zacks Consensus Estimate of \$138.7 million, as well as came in lower than the prior-year quarter's \$90.3 million.

For full-year 2019, Mack-Cali reported core FFO per share of \$1.62, displaying a decline of 11.5% from the prior year's \$1.83. Revenues for the year came in at \$350.9 million, down 4% year on year.

Quarter in Detail

As of Dec 31, 2019, Mack-Cali's consolidated core office properties were 80.7% leased, reflecting a decline from 83.2% as of Dec 31, 2018. Notably, Class A suburban portfolio was leased 89.7%, while Suburban and Waterfront portfolios were leased 79% and 77.8%, respectively, as of the same date.

Same-store cash revenues for the office portfolio inched up 0.9%, and the same-store cash NOI was up 3.5% year over year.

During the reported quarter, Mack-Cali executed 21 lease deals, spanning 169,333 square feet, in the company's consolidated in-service commercial portfolio. This comprised 30.5% for new leases, and 69.5% for lease renewals and other tenant-retention transactions.

In addition, for the core portfolio, rental rate roll up for fourth-quarter 2019 transactions was 6.5% on a cash basis. For new transactions, rental rate roll up was 5.8% on a cash basis, while for renewals and other tenant retention deals, it was 6.7% on a cash basis.

Moreover, Roseland's multifamily stabilized operating portfolio was 95% leased at the end of the quarter, shrinking 170 basis points (bps) from the prior quarter's end. Same-store NOI climbed 5.4% year over year.

Portfolio Activity

During the fourth quarter, Mack-Cali concluded the sale of its 1386-unit residential community in Malden and Revere, MA for \$411.5 million. Further, the company sold an 180,000-square-foot fully-leased office building — 3600 Route 66 — in Neptune, NJ for \$26.05 million. The company also sold a 317,000-square-foot office building — 5 Wood Hollow Road — in Parsippany, NJ for \$29.3 million.

Balance Sheet Position

Mack-Cali's net debt to adjusted EBITDA was 9.7X for the fourth quarter compared with 9.3X in the prior-year quarter.

Finally, the company exited fourth-quarter 2019 with \$25.6 million in cash, down from \$29.6 million as of Dec 31, 2018.

Guidance

Mack-Cali expects 2020 core FFO per share of \$1.24-\$1.36. The company projects office occupancy (year-end % leased) of 79-81% and dispositions of \$1.0-\$1.2 billion for the ongoing year.

Quarter Ending **12/2019**

Report Date	Feb 26, 2020
Sales Surprise	-37.50%
EPS Surprise	7.32%
Quarterly EPS	0.44
Annual EPS (TTM)	1.62

Recent News

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 Dec 17, Mack-Cali announced quarterly cash dividend of 20 cents per share on its common stock. This dividend was paid on Jan 10, 2020 to shareholders of record as of Jan 3, 2020.

Valuation

Mack-Cali's shares have been down 16.3% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 22.5% and 28.3% over the past year, respectively.

The S&P 500 Index has been up 16.5% over the past year.

The stock is currently trading at 14.35X forward 12-month FFO, which compares with the 13.82X for the Zacks sub-industry, 10.15X for the Zacks sector and 13.87X for the S&P 500 Index.

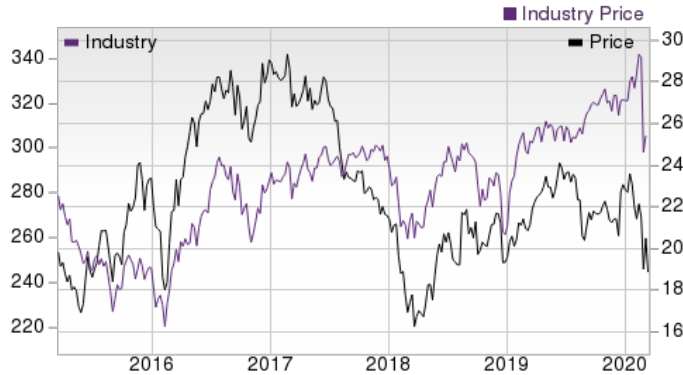
Over the past five years, the stock has traded as high as 17.46X and as low as 7.95X, with a 5-year median of 11.52X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$15 price target reflects 11.96X FFO.

The table below shows summary valuation data for CLI.

Valuation Multiples - CLI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.35	13.82	10.15	13.87
	5-Year High	17.46	18.7	16.21	19.34
	5-Year Low	7.95	13.82	10.15	13.87
	5-Year Median	11.52	16.08	13.97	17.42
P/S F12M	Current	3.34	6.17	5.99	2.55
	5-Year High	4.49	8.14	6.64	3.43
	5-Year Low	2.59	5.91	5.39	2.54
	5-Year Median	3.6	6.87	6.04	3
P/B TTM	Current	0.96	2.07	1.91	3.21
	5-Year High	1.54	2.92	2.89	4.55
	5-Year Low	0.81	1.94	1.83	2.85
	5-Year Median	1.13	2.52	2.52	3.63

As of 03/17/2020

Industry Analysis Zacks Industry Rank: Bottom 42% (148 out of 253)



Top Peers

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

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	CLI Underperform	X Industry	S&P 500	BXP Neutral	HIW Neutral	SLG Neutral
VGM Score	F	-	-	D	D	F
Market Cap	1.63 B	1.66 B	17.72 B	16.42 B	3.77 B	4.58 B
# of Analysts	5	4	13	9	9	8
Dividend Yield	4.44%	6.04%	2.51%	3.70%	5.29%	6.03%
Value Score	F	-	-	D	D	D
Cash/Price	0.02	0.03	0.06	0.04	0.00	0.05
EV/EBITDA	9.10	12.62	10.97	15.90	13.16	14.71
PEG Ratio	5.12	2.67	1.54	2.44	2.20	2.08
Price/Book (P/B)	0.96	1.06	2.39	2.09	1.76	0.82
Price/Cash Flow (P/CF)	4.52	9.17	9.36	13.62	9.62	8.48
P/E (F1)	12.09	10.38	13.98	14.01	10.01	8.07
Price/Sales (P/S)	3.37	3.76	1.87	5.55	5.12	3.69
Earnings Yield	7.78%	9.64%	7.13%	7.14%	9.99%	12.38%
Debt/Equity	1.65	0.88	0.70	1.51	1.19	0.97
Cash Flow (\$/share)	3.99	2.01	7.01	7.77	3.77	6.92
Growth Score	F	-	-	B	C	F
Hist. EPS Growth (3-5 yrs)	-2.64%	2.75%	10.85%	5.43%	2.80%	-0.14%
Proj. EPS Growth (F1/F0)	-13.83%	2.62%	5.38%	7.79%	8.94%	3.89%
Curr. Cash Flow Growth	77.45%	3.51%	6.15%	-2.18%	-1.95%	3.22%
Hist. Cash Flow Growth (3-5 yrs)	7.42%	12.80%	8.55%	2.31%	4.75%	-0.78%
Current Ratio	0.66	1.28	1.24	4.15	0.96	1.62
Debt/Capital	66.09%	46.73%	42.57%	59.58%	55.18%	47.20%
Net Margin	22.52%	13.67%	11.57%	17.62%	18.52%	21.83%
Return on Equity	12.39%	4.47%	16.74%	6.64%	6.31%	4.56%
Sales/Assets	0.09	0.13	0.54	0.14	0.15	0.09
Proj. Sales Growth (F1/F0)	3.70%	3.69%	3.33%	3.69%	4.94%	0.08%
Momentum Score	D	-	-	D	F	B
Daily Price Chg	9.89%	4.70%	5.62%	9.19%	13.68%	11.59%
1 Week Price Chg	-7.96%	-18.21%	-11.01%	-11.71%	-15.28%	-18.19%
4 Week Price Chg	-17.73%	-36.77%	-28.54%	-28.25%	-30.30%	-38.69%
12 Week Price Chg	-21.43%	-31.37%	-25.74%	-22.14%	-24.48%	-35.95%
52 Week Price Chg	-18.96%	-28.90%	-18.88%	-19.96%	-19.70%	-34.11%
20 Day Average Volume	1,469,178	965,042	3,651,283	1,251,490	955,251	1,232,510
(F1) EPS Est 1 week change	-0.78%	0.00%	0.00%	-0.16%	-0.24%	-0.17%
(F1) EPS Est 4 week change	-14.99%	-0.41%	-0.58%	-0.42%	-0.37%	0.49%
(F1) EPS Est 12 week change	-20.43%	-0.81%	-1.18%	0.10%	1.00%	2.84%
(Q1) EPS Est Mthly Chg	9.72%	0.00%	-0.77%	-0.08%	0.36%	0.87%

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	F
Growth Score	F
Momentum Score	D
VGM Score	F

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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