



## Monmouth REIT (NYSE: MNR)

March 13, 2020

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# Agenda

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## MREIC

**1** Company Overview

**2** Industry Outlook

**3** Investment Thesis

**4** Valuation

**5** Catalysts and Risks

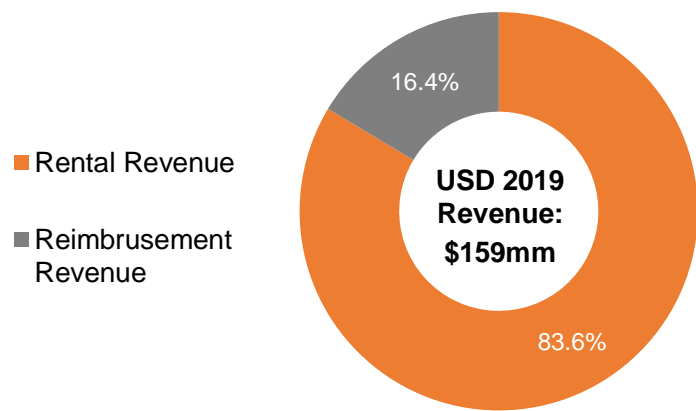
**6** Recommendation

# Monmouth REIT (NYSE: MNR)

## Business Description

- Monmouth Real Estate Investment Corporation (“MNR”) invests in single-tenant industrial buildings net leased to 80% investment-grade tenants on 10-15 year contracts
  - MNR focuses on properties near major intermodal ports which can facilitate ‘last mile’ delivery services
- Founded in 1968, MNR is one of the oldest public REITs in the U.S. with 114 properties and 22.3mm sq. ft. of GLA<sup>1</sup>
- FedEx Corporation (NYSE: FDX) is MNR’s largest tenant
  - MNR has decreased exposure to FedEx from 50% of GLA in 2017 to 47% in 2019, with other new tenants such as Amazon

## 2019 Segmented Revenue



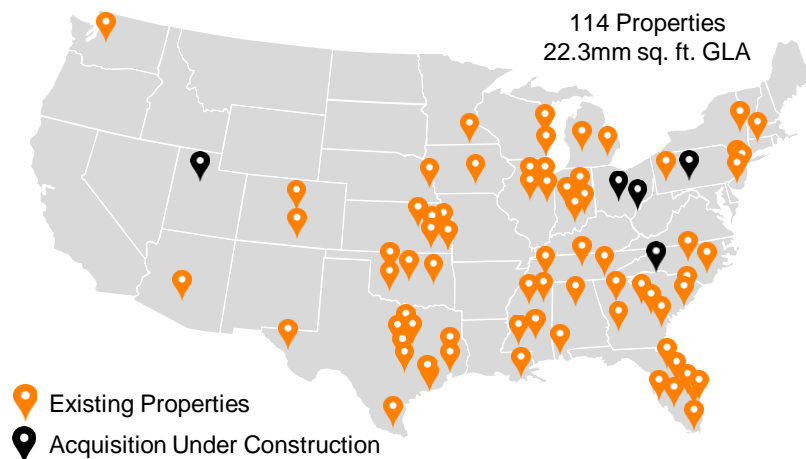
## Management Team



Name	Eugene Landy	Michael Landy	Kevin Miller	Richard Molke
Position	Chairman & Founder	President & CEO	CFO	VP Asset Management
Years Exp.	52	31	27	22

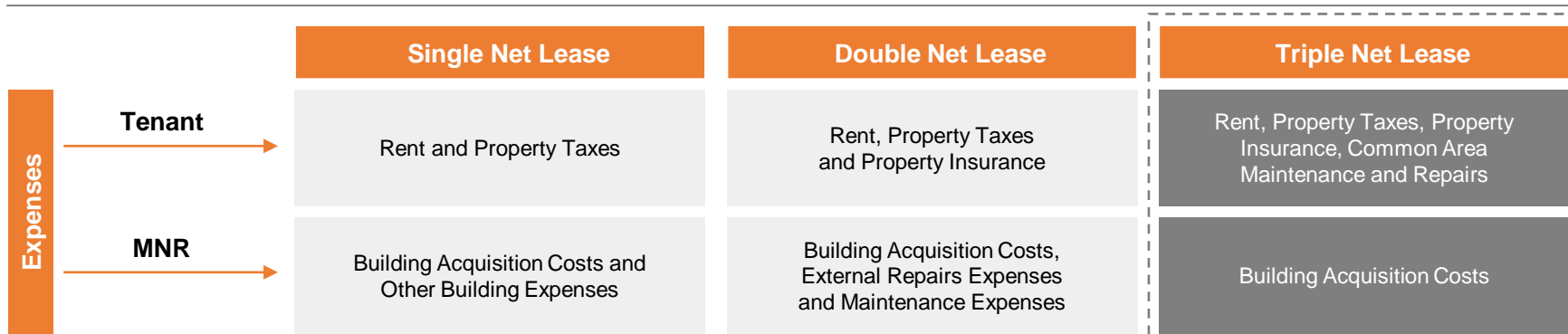
Background	Eugene Landy	Michael Landy	Kevin Miller	Richard Molke
	Founder and Chairman of UHM Properties	Previously COO at Monmouth and Executive VP at UHM Properties	Previously VP Asset Controller at Forest City Ratner Cos	Previously VP at Remsco Associates Inc

## Geographic Property Distribution



# Simple Business Model

## Triple Net Lease Structure



Monmouth passes all operating expenses to tenants, insulating MNR from expense inflation and reducing volatility of cash flow generation

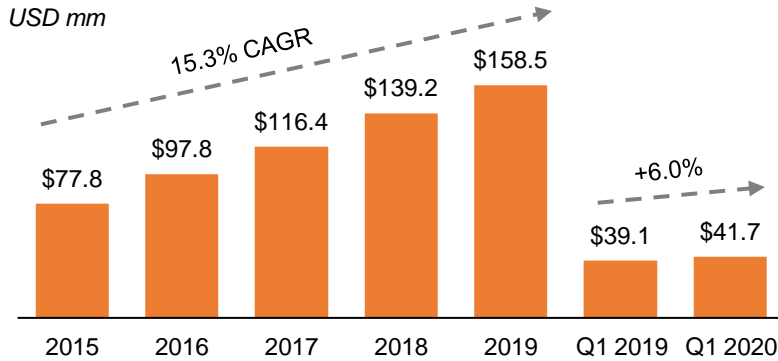
## Unique Property Acquisition Strategy Limits Exposure to Property Development Risk



Monmouth acquires properties upon completion, avoiding design and developmental hurdles and mitigating downside risk for the firm

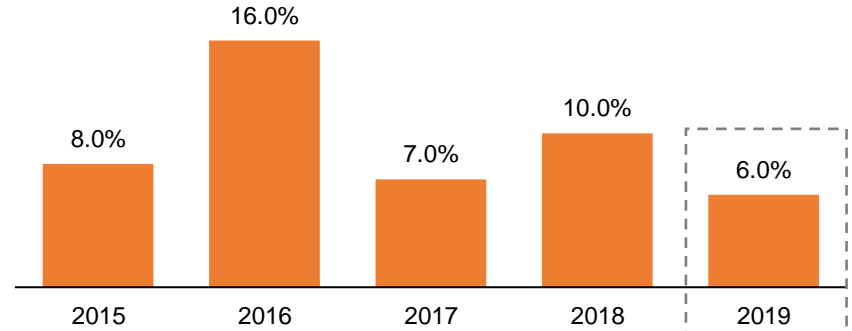
# Operating Metrics

## Revenue Growth



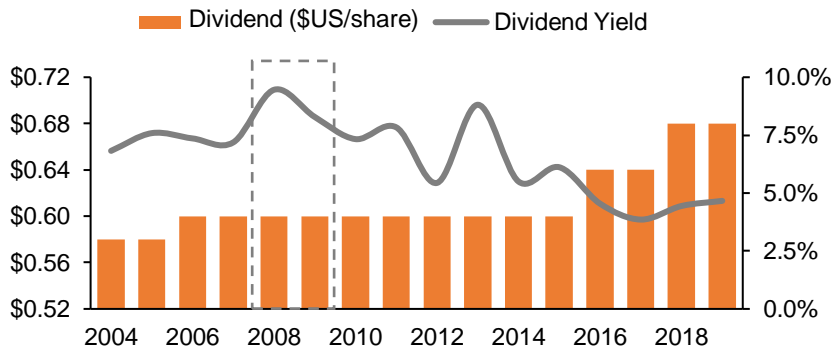
Revenue growth is expected to accelerate through 2022 due to the acquisition of many large properties currently under construction

## Same-Building Rent



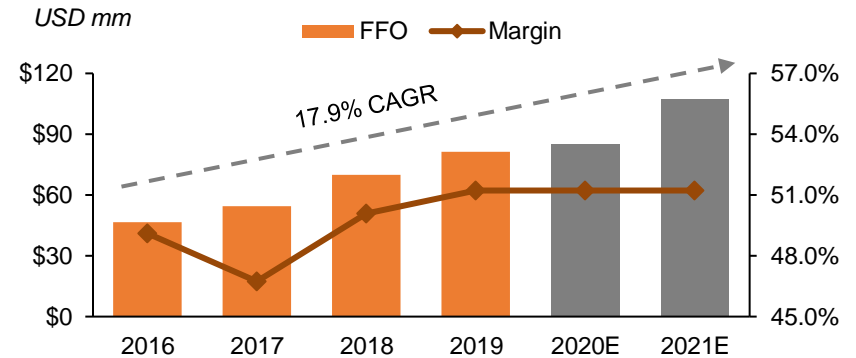
MNR's slowing same-building sales growth is in-line with a general softening in rent increases in the industrial space in the LTM

## Cash Dividends Distributed



MNR has maintained or increased its dividend for 28 years and was one of the few REITs that maintained a dividend during the financial crisis

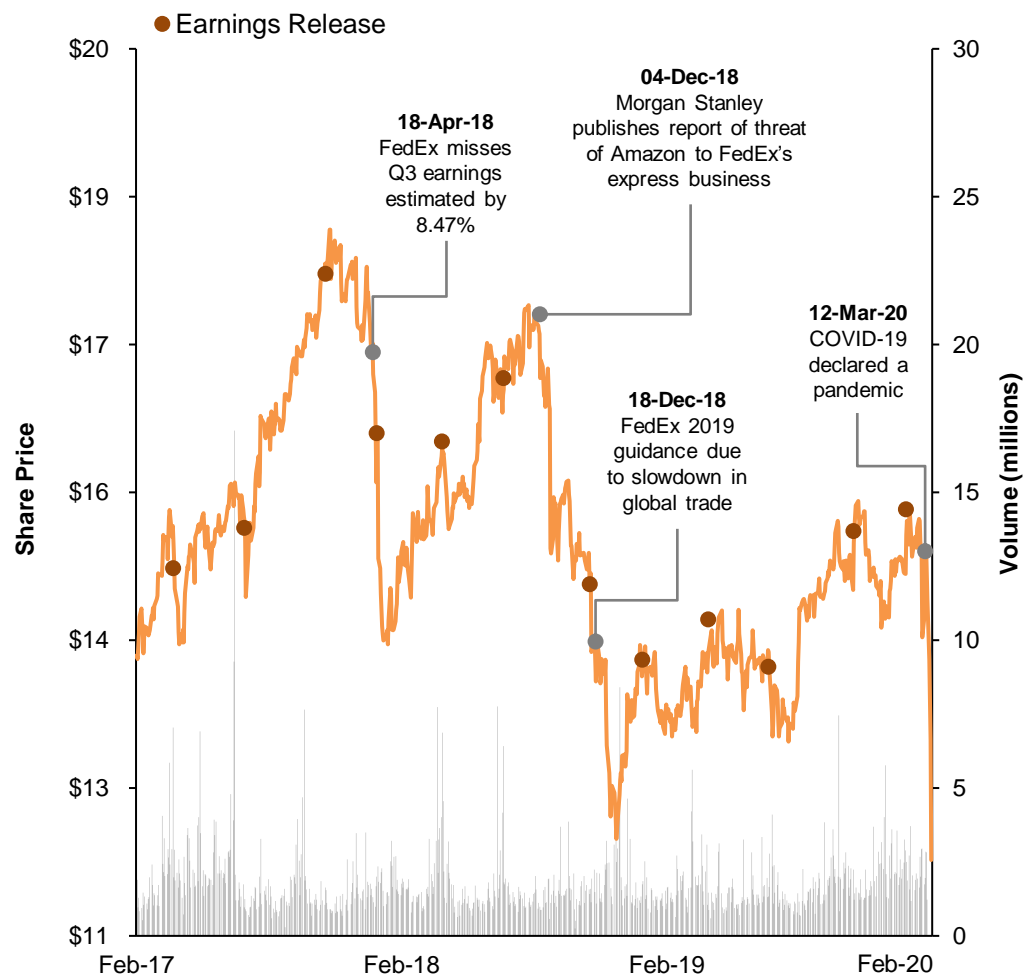
## Funds from Operations (FFO)



FFO margin expansion has led to FFO growth exceeding revenue growth for four consecutive years

# PV Chart and Capitalization Table

## Price-Volume Analysis



## Market Data

### Capitalization

Share Price (13-Mar-2020)	(US\$)	\$11.77
Basic Shares Outstanding	(mm)	97.8
Diluted Securities	(mm)	0.2
<b>Market Capitalization</b>	<b>(US\$ mm)</b>	<b>1,154</b>
(-) Cash & Equivalents	(US\$ mm)	(198)
(+) Short-Term Debt	(US\$ mm)	22
(+) Long-Term Debt	(US\$ mm)	864
(+) Preferred Equity	(US\$ mm)	392
(+) Minority Interest	(US\$ mm)	-
<b>Enterprise Value</b>	<b>(US\$ mm)</b>	<b>1,841</b>

### Trading Multiples

P / 2019A FFO	-	16.6x
P / 2020E FFO	-	15.8x
P / 2021E FFO	-	15.6x
P / 2019A AFFO	-	17.7x
P / 2020E AFFO	-	17.1x
P / 2021E AFFO	-	16.0x

### Market Data

52-Week High	(US\$)	\$15.53
% of 52-Week High	(%)	75.8%
52-Week Low	(US\$)	\$10.33
Beta (5-Yr)	-	0.67

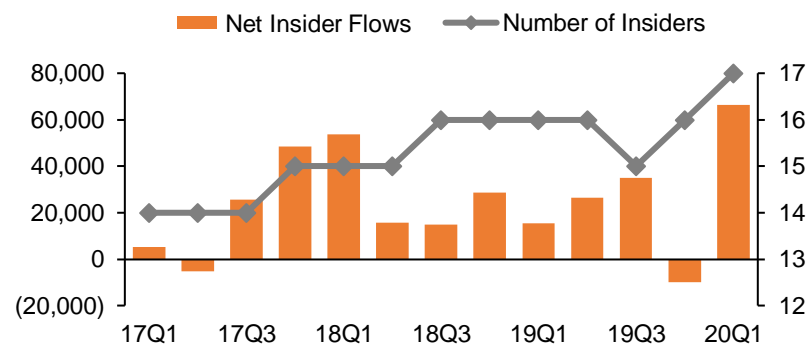
Sources: Capital IQ, Press releases, Company filings, Bloomberg

# Shareholder Overview

## Shareholder Summary

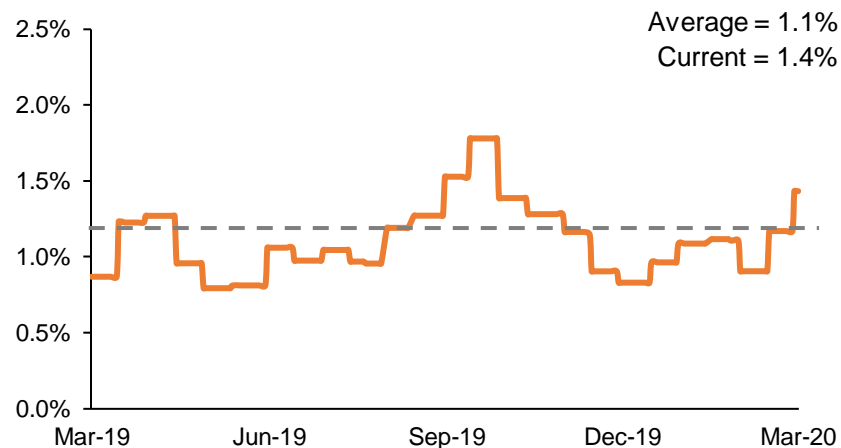
	# of Shares Held	% of Shares Outstanding
<b>Insiders</b>		
Landy, Eugene W. (Founder & Chairman)	1.5	1.5%
Landy, Michael P. (CEO)	0.7	0.7%
Landy, Samuel A. (Non-Executive)	0.4	0.4%
Cronheim, Daniel (Independent Director)	0.2	0.2%
Other Insiders	0.4	0.4%
<b>Total Insiders</b>	<b>3.1</b>	<b>3.1%</b>
<b>Institutions</b>		
The Vanguard Group, Inc.	9.7	9.9%
BlackRock, Inc. (NYSE:BLK)	8.8	9.0%
Wasatch Advisors Inc.	8.7	8.8%
Renaissance Technologies Corp.	3.2	3.2%
State Street Global Advisors, Inc.	2.9	3.0%
UMH Properties, Inc. (NYSE:UMH)	2.6	2.6%
Northern Trust Global Investments	1.9	2.0%
FMR LLC	1.9	1.9%
Dimensional Fund Advisors L.P.	1.3	1.4%
Kennedy Capital Management, Inc.	1.2	1.3%
Emerald Advisers, LLC	1.2	1.3%
Geode Capital Management, LLC	1.2	1.3%
Other Institutions	25.6	26.2%
<b>Total Institutions</b>	<b>70.2</b>	<b>71.8%</b>
Retail & Other Investors	24.5	25.0%
Public Float	94.7	96.9%
<b>Total Basic Shares Outstanding</b>	<b>97.8</b>	<b>100.0%</b>

## Changes in Insider Ownership



Over the LTM, insider trades have become more frequent, with CEO M. Landy purchasing over 30,000 shares (~\$462,000)

## Short Interest



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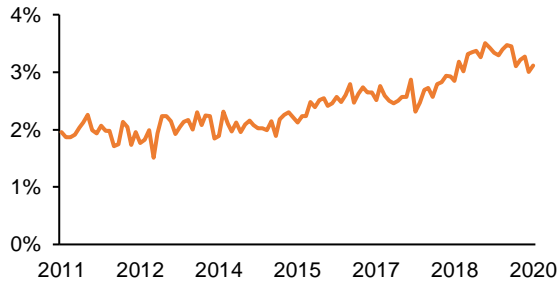
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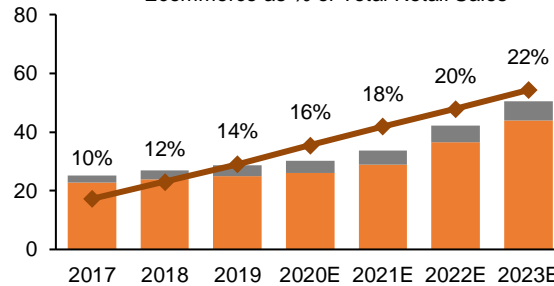
# Industrial Properties Remain in High Demand

## Strong Macro Fundamentals Continuing to Drive Industrial Outperformance

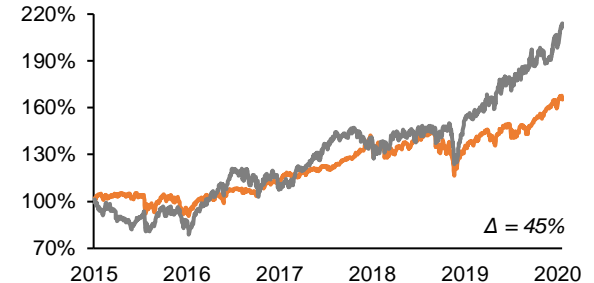
U.S. Nominal YoY Wage Growth



E-commerce Sales (trillions)  
Total Retail Sales (trillions)  
Ecommerce as % of Total Retail Sales



S&P 500 S&P Industrial REITs Sub-Index

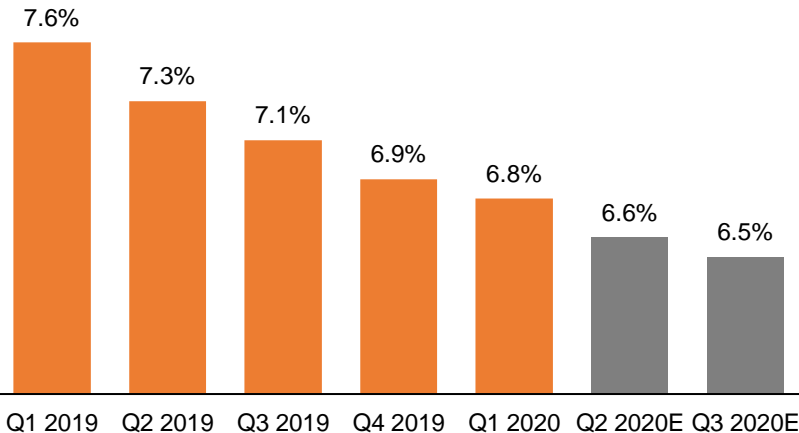


Recent upticks in nominal YoY wage growth have supported strong consumer spending & confidence

As retail sales worldwide rise, an increasingly large proportion are made via e-commerce platforms

Subsequent increases in demand for warehouses has led industrial REITs to beat the wider market

## Industrial Vacancies Expected to Further Decline



## Myriad Factors Ensuring Demand Outstrips Supply

- Trade War
  - Construction material costs tend to rise in a tariff environment, leading to declines in new property developments and new supply
- Land, Labor Prices on the Rise
  - Land in 'gateway' markets is more expensive than ever before, coupled with a strong domestic labor market
- Nature of E-commerce Sales
  - Studies suggest online sales require at least 2.25 times more distribution space than traditional B&M sales
  - Average return rates on e-commerce sales exceed 20%, compared to rates of 8-10% on traditional sales

# Competitive Dynamics

## Sector-Specific Competitive Advantages






### 1 Long-Standing Relationships

- **Merchant Builder Relationships:** Under the MNR model, strong ties to merchant builders help alleviate competitive pressures when searching for new investment opportunities
- **Tenant Relationships:** Especially desirable tenants first look to property owners they have previously worked with

### 2 Superior Asset Quality

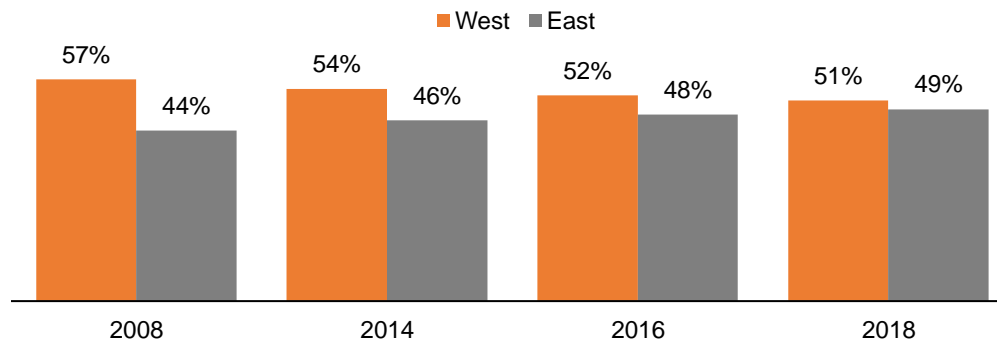
- **Location:** Proximity to coastal cities and gateway markets drives higher rents and lower vacancy rates
- **Property Versatility:** Prospective tenants gravitate towards modern, newer sites according to building age with ample expansion capability according to land-to-building ratios

## Major Logistics and Distribution RE Players

Competitor	Market Cap.	Div. Yield	Yrs. Operating
 PROLOGIS <sup>1</sup>	73.3bn	2.34%	37
 Duke REALTY	14.3bn	2.42%	48
 FIRST INDUSTRIAL REALTY-TRUST	5.8bn	2.20%	26
 EASTGROUP PROPERTIES	5.5bn	2.11%	51
 MREIC	1.5bn	4.42%	52

## Location, Location, Location: East Coast Property Ownership a Major Advantage

- Completion of the ‘Third Set of Locks’ expansion project along the Panama Canal has rejuvenated shipment traffic along the East Coast
- With >70% of the U.S. also living East of the Mississippi River, demand for industrial warehouses and distribution centers has remained strong
- Higher barriers to entry along coasts tend to limit supply, create rent spikes and keep vacancies low
  - Ideal industrial REITs identified this growth earlier than the competition and purchased East Coast properties ahead of time
  - Monmouth REIT is a prime example, with most of its properties along the East Coast



East Coast ports now receive almost an equal share of twenty-foot equivalent units (TEUs) arriving in the U.S., driving demand for warehouses nearby

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## MREIC

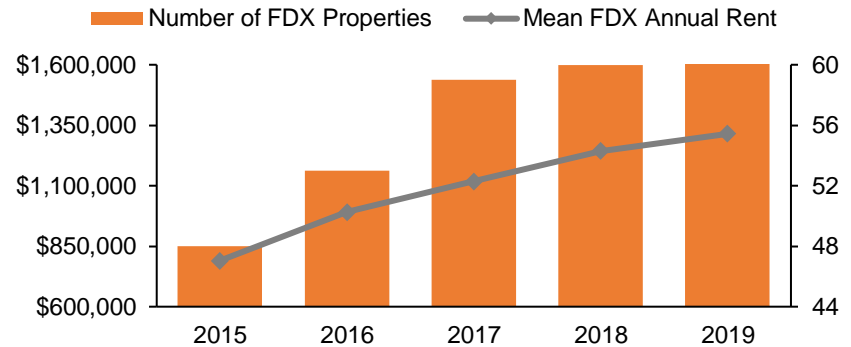
- 1 Company Overview
- 2 Industry Outlook
- 3 Investment Thesis**
- 4 Valuation
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# Overreaction to FedEx Outlook

## Investor Reaction to Deterioration in FedEx Outlook

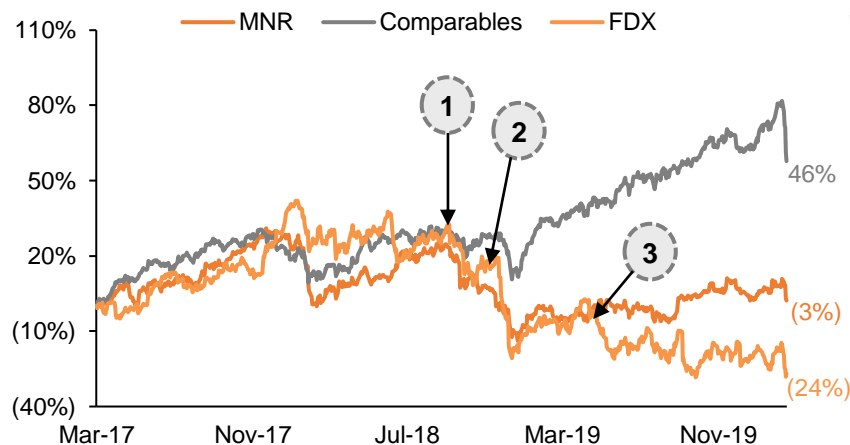
- Monmouth started leasing to FedEx (NYSE: FDX) in 1994
  - MNR now leases 10% of FedEx's ground network and generates 47% of total rent revenues from the company
- Due to this high rent concentration, Monmouth's share price has a strong correlation (+0.88)<sup>1</sup> to that of FedEx's
- FedEx's shares have fallen 40% since Nov. 2018 highs, dragging MNR's shares down 21% over the past 15 months
- Investors are placing too much focus on FedEx's international outlook and have overestimated its negative impact on MNR

## FedEx Lease Expansion



FedEx continues to re-lease and enter new leases with Monmouth – all leases are long-term (10+ years) with built-in annual price escalators

## The Decline of FedEx: Poor International and Express Results



### 1 Morgan Stanley 'Amazon Air' Report

- Morgan Stanley report outlines the threat of Amazon Air, highlighting a 200-300 bps. reduction in FedEx air sales. While a legitimate threat, MNR derives only 7% of revenue from the FedEx's Express segment.

### 2 FedEx Cuts 2019 Guidance

- FedEx cuts forecast, with CEO stating "while the U.S. economy remains solid, international business weakened during the quarter". MNR only has exposure to FedEx U.S. operations.

### 3 FedEx Misses Q1 Earnings Estimates by 8.47%

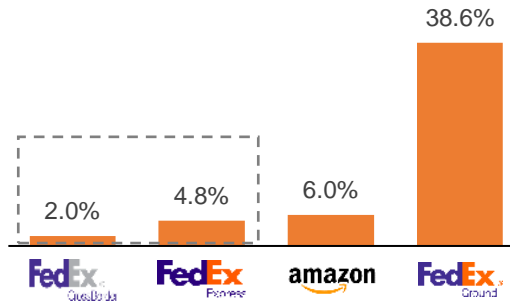
- FedEx earning miss due to slowed global trade and changes in service mix at FedEx Express, negatively impacting the segments financial results. Again, MNR derives only 7% of revenue from Express operations and has no FedEx international exposure

# Overreaction to FedEx Outlook – Cont.

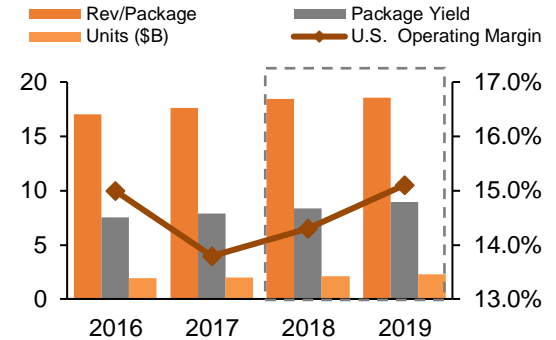
## Irrational Response to FedEx International Slowdown

- FedEx's 40% share price decline was driven by "slowing international macroeconomic conditions" as seen in a YoY decline in FedEx's International Express revenues
- The market has overestimated the impact of international headwinds on MNR's operations**, as the REIT generates only 4.7% of rent from FedEx Express
- FDX ground has seen revenue and margins rise over the past 3 years as the U.S. economy remains strong

% of MNR Annual Rent Revenues



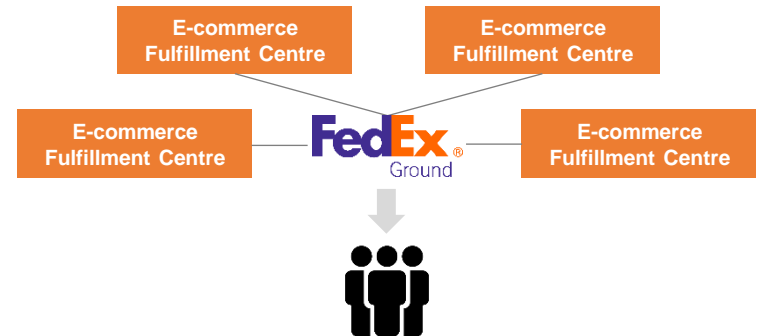
FDX Express is responsible for most of FDX's decline, yet MNR has minimal exposure to it



FedEx Ground remains a "bright spot" in the face of international headwinds

## The Value of FedEx as a Tenant: Logistical Clusters

- MNR trades at a discount due to its tenant concentration, however, FedEx properties are a major value driver for MNR's properties
  - E-commerce and 'same-day delivery' has resulted in FedEx locations becoming critical to retailers' business strategies
  - Retail warehouses are drawn to FedEx locations as these logistical centers can facilitate 'last mile' delivery
  - Walmart recently constructed two e-commerce fulfillment centers – one on each side of MNR's FedEx facility – illustrating the strong demand for MNR's locations
- MNR holds properties that are mission critical to tenants, improving lease renewal rates and property values**



MNR purchases new built-to-suit properties near already owned FedEx facilities as tenants are attracted to FedEx locations because of their ability to facilitate 'last-mile' delivery services

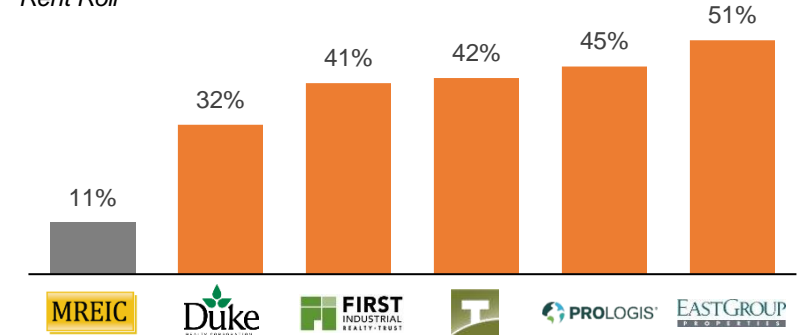
# Strong Fundamentals Limit Downside, Maximize Upside

## Unique Strategy Driving Outperformance

- Monmouth's differentiated approach focusing on high-quality tenants and strategic property acquisitions has culminated into an ideal portfolio for investors
- Approximately 77% of all properties are located in the 'Golden Triangle', a logistics hotspot containing the U.S. southeast, southwest and Great Lakes that transports ~47% of U.S. GDP daily
  - Located near urban centers, these properties are always in high demand as cities densify
- MNR leads all REITs with more than 80% of all tenants having a BBB credit rating or higher, reducing the likelihood of tenants becoming insolvent and incapable of paying rent

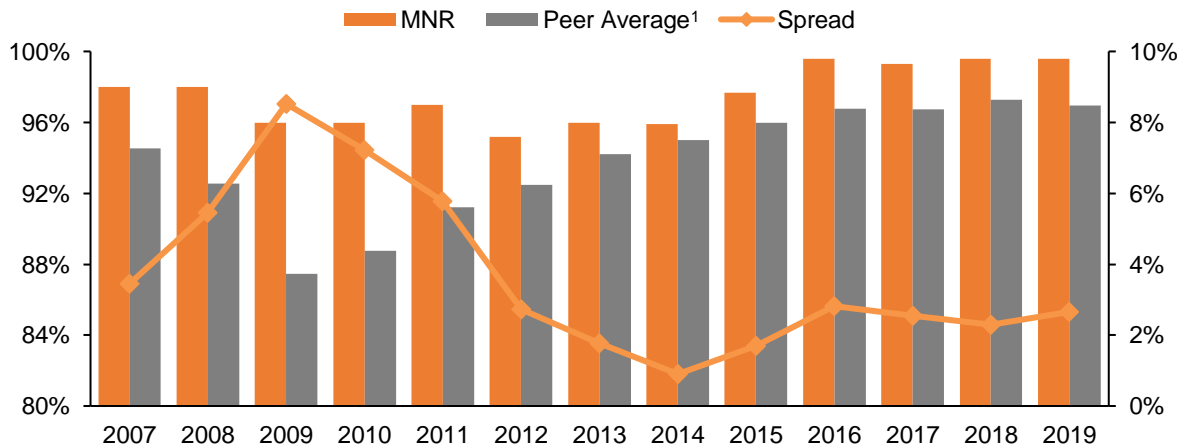
## Timely Near-Term Rent Roll

Rent Roll <sup>2</sup>



MNR will not need to source many new tenants in the short term, an ideal scenario given anticipated economic turmoil ahead

## Stable Occupancy Rates Throughout Macroeconomic Cycles



## Commentary

- MNR's occupancy rate tends to fall less than peers' during economic downturns and rise slightly more than peers' during economic booms
  - During the financial crisis, when the DJIA fell by 42% between Jan. 1, 2008 and Mar. 31, 2009, MNR fell by only 19%
- MNR's outstanding leases do not mature for another 7.5 years on average, providing additional protection against macro cyclicity

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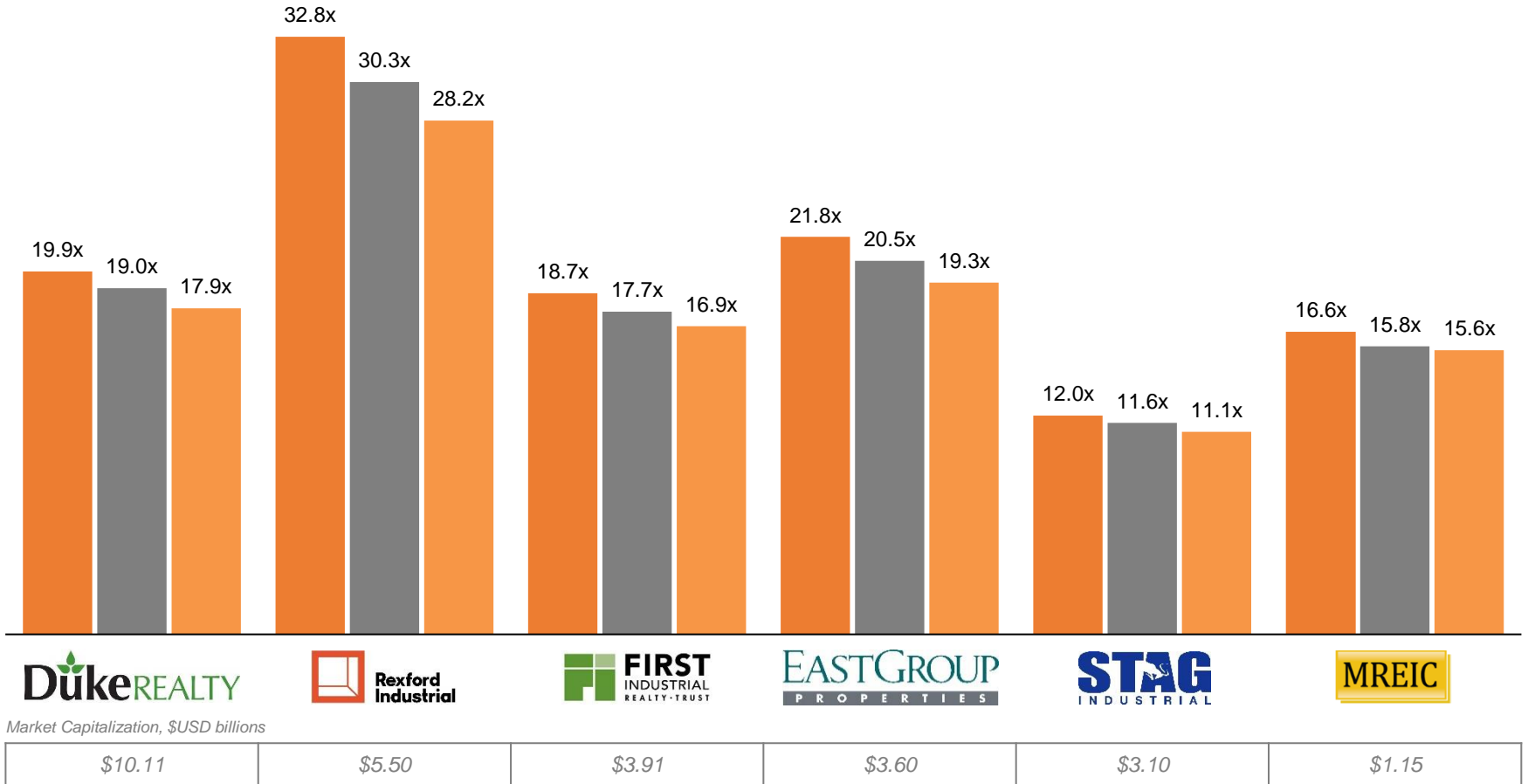
**6** Recommendation

# Comparable Analysis

## Price / FFO for Comparable Universe

Industrial REITs 2020E Median: 17.4x

2018A 2019A 2020E



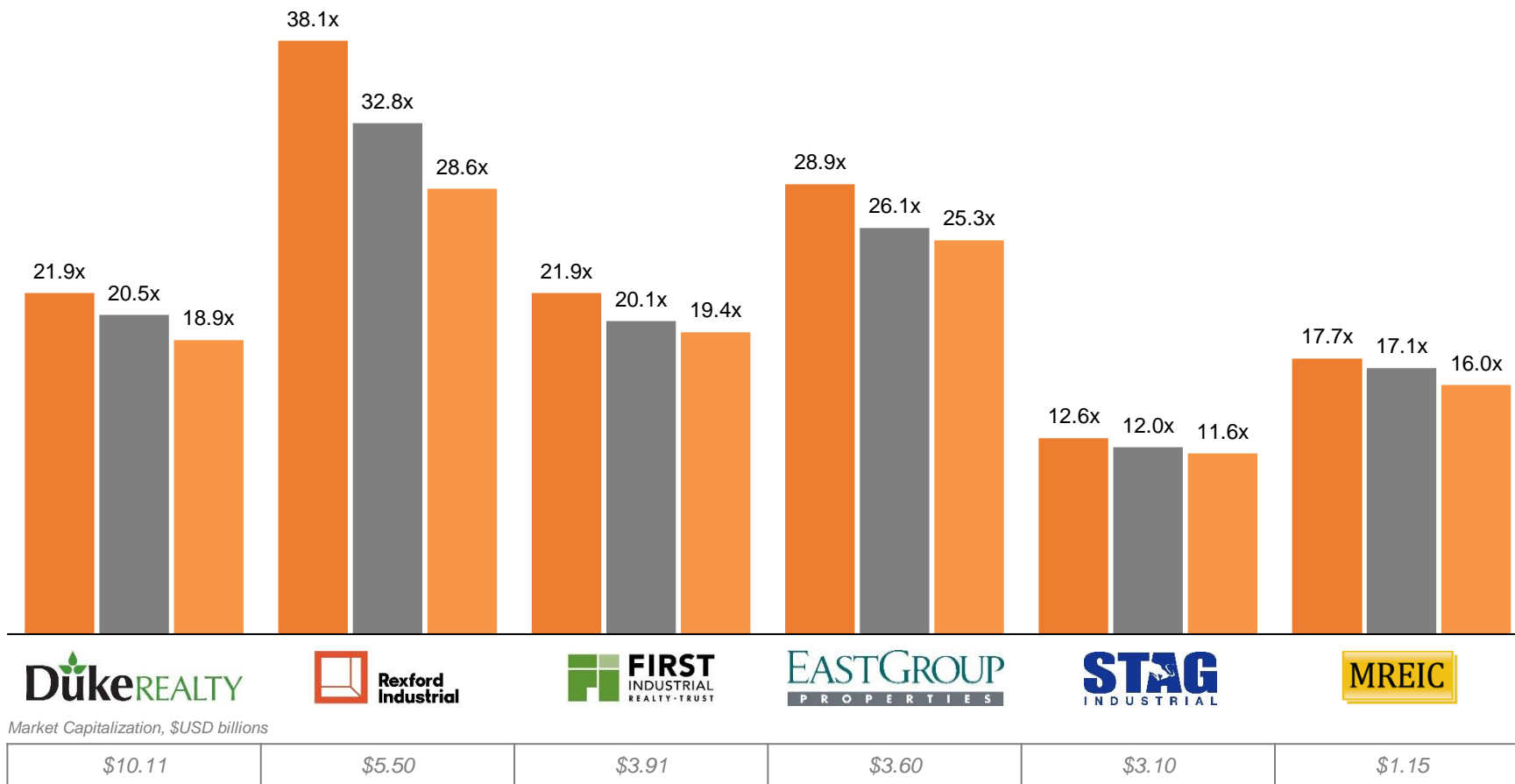


# Comparable Analysis

## Price / AFFO for Comparable Universe

Industrial REITs 2020E Median: 19.2x

2018A 2019A 2020E



## VALUATION

# Net Asset Value Analysis

### Valuation Summary

(All values in USD thousands, except per share figures)

FTM NOI	142,362
Blended Cap Rate	6.25%
<b>Gross Property Value</b>	<b>2,277,795</b>

Cash and Cash Equivalents	198,224
Tenant and Other Receivables	19,263
Prepaid Expenses	11,965
Intangible Assets	16,611
Other Assets	14,965
<b>Total Assets</b>	<b>2,538,823</b>

Accounts Payable	4,022
Notes Payable	864,048
Other Liabilities	21,548
<b>Total Liabilities</b>	<b>889,618</b>
<b>Net Asset Value</b>	<b>1,649,205</b>

Basic Shares Outstanding	97,819
Diluted Shares Outstanding	248
<b>Net Asset Value per share</b>	<b>16.82</b>
<b>Implied Share Price</b>	<b>16.82</b>
Current Share Price	11.77
<b>Premium to Current Share Price</b>	<b>42.88%</b>

### Valuation Takeaways

- The NAV yields an implied share price of \$16.82 (+42.88%)
- Property-specific capitalization rates are not disclosed by management
  - 6.25% cap rate was based on the rate used to calculate NOI generation for a \$225m unsecured credit facility which MNR entered on Nov. 15, 2019
  - Figure was also sensitized against street estimates

### Sensitivity Analysis

#### Implied Share Price Sensitivity

		% Change in FMT NOI				
		(10.00%)	(5.00%)	0.00%	5.00%	10.00%
Cap Rate	6.75%	\$12.98	\$14.04	\$15.11	\$16.18	\$17.24
	6.50%	\$13.72	\$14.82	\$15.93	\$17.04	\$18.15
	6.25%	\$14.51	\$15.67	\$16.82	\$17.97	\$19.12
	6.00%	\$15.38	\$16.58	\$17.78	\$18.98	\$20.18
	5.75%	\$16.32	\$17.57	\$18.82	\$20.07	\$21.32

#### Implied Return Sensitivity

		% Change in FMT NOI				
		(10.00%)	(5.00%)	0.00%	5.00%	10.00%
Cap Rate	6.75%	10.27%	19.33%	28.39%	37.45%	46.50%
	6.50%	16.54%	25.95%	35.35%	44.76%	54.17%
	6.25%	23.31%	33.10%	42.88%	52.66%	62.45%
	6.00%	30.65%	40.84%	51.03%	61.23%	71.42%
	5.75%	38.63%	49.26%	59.90%	70.53%	81.17%

# Net Asset Value Analysis

## FTM Revenue Forecast

				Forecast
	2017A	2018A	2019A	FTM
<b>Rental Revenue</b>				
Total Rental Revenue	97,660	115,864	132,524	144,451
% Growth		18.64%	14.38%	9.00%
<b>Reimbursement Revenue</b>				
Total Revenue	18,725	23,298	25,998	27,818
% Growth		24.42%	11.59%	7.00%
<b>% Contributions of Revenue Types</b>				
Rental Revenue	83.91%	83.26%	83.60%	83.85%
Reimbursement Revenue	16.09%	16.74%	16.40%	16.15%
<b>Consolidated Figures</b>				
Total Revenue	116,385	139,162	158,522	172,269
% Growth		19.57%	13.91%	8.67%

## FTM NOI Forecast

				Forecast
	2017A	2018A	2019A	FTM
Rental Revenue	97,660	115,864	132,524	144,451
% Growth		18.64%	14.38%	9.00%
Reimbursement Revenue	18,725	23,298	25,998	27,818
% Growth		24.42%	11.59%	7.00%
<b>Total Rental and Reimbursement Revenue</b>	<b>116,385</b>	<b>139,162</b>	<b>158,522</b>	<b>172,269</b>
% Growth		19.57%	13.91%	8.67%
Real Estate Taxes	(15,267)	(18,596)	(20,711)	(22,708)
% of Revenue	13.12%	13.36%	13.07%	13.18%
Operating Expenses	(4,887)	(5,794)	(6,616)	(7,199)
% of Revenue	4.20%	4.16%	4.17%	4.18%
<b>Net Operating Income</b>	<b>96,231</b>	<b>114,772</b>	<b>131,195</b>	<b>142,362</b>
% Growth		19.27%	14.31%	8.51%
% of Revenue	82.68%	82.47%	82.76%	82.64%

## Commentary

- Revenue is forecasted by segmenting rental revenue and reimbursement revenue generated
- Segment growth rate estimates are guided by street projections

## Commentary

- Real estate taxes and operating expenses are projected based on historical trends
- Resulting NOI estimate was sensitized against street projections and historical trends

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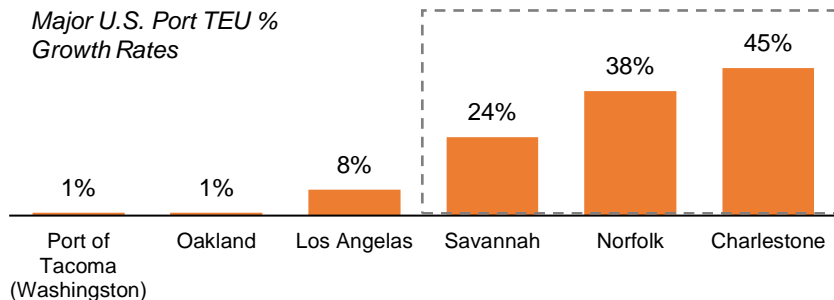
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# Short-Term Tailwinds With Limited Downside

## Catalysts

- **Continued Growth of E-commerce** – As e-commerce gains control over more of the retail market, demand for MNR’s strategically located properties will undoubtedly rise
- **Tenant Diversification** – MNR’s management has been working to gradually reduce the REIT’s dependency on FedEx
  - Amazon alone is projected to account for an all-time high 7% of total revenues in FY 2020
  - As FedEx-specific risks are diversified away, it is expected that the market will become more comfortable affording MNR a higher trading multiple.
- **Panama Canal Expansion** – MNR has positioned properties to benefit from supply chain shifts due to the Panama Canal expansion completed in late 2016
  - Over 10% of traffic between East Asia and the US could shift from West to East Coast ports by 2022, where MNR’s properties are concentrated

Major U.S. Port TEU % Growth Rates



## Risks

- **Reliance on FedEx Corporation** – MNR leases approximately 47% of its GLA to FedEx, making the company uniquely vulnerable to changes in FedEx’s ability to meet rent payments

*Mitigant: MNR is almost exclusively exposed to FedEx’s hyper stable ‘FedEx Ground’ segment and management has been making strides to diversify its revenue streams with new tenants*

- **Earnings Dependency on REIT Investment Portfolio** – Monmouth opportunistically invests ~10% of its undepreciated<sup>1</sup> assets in the securities of other REITs, increasing volatility in reported earnings since the implementation of ASU 2016-01<sup>2</sup>

*Mitigant: MNR’s management has announced a plan to gradually reduce the size of its REIT securities portfolio to no more than 5% of undepreciated<sup>1</sup> assets*

- **Impending Economic Downturns** – Monmouth is particularly vulnerable to downturns in the industrial distribution sector, which appear increasingly likely to happen given the proliferation of COVID-19

*Mitigant: MNR’s tenants have primarily investment-grade credit ratings and are best positioned to survive declines in macroeconomic activity while remaining able to cover their rent expenses*

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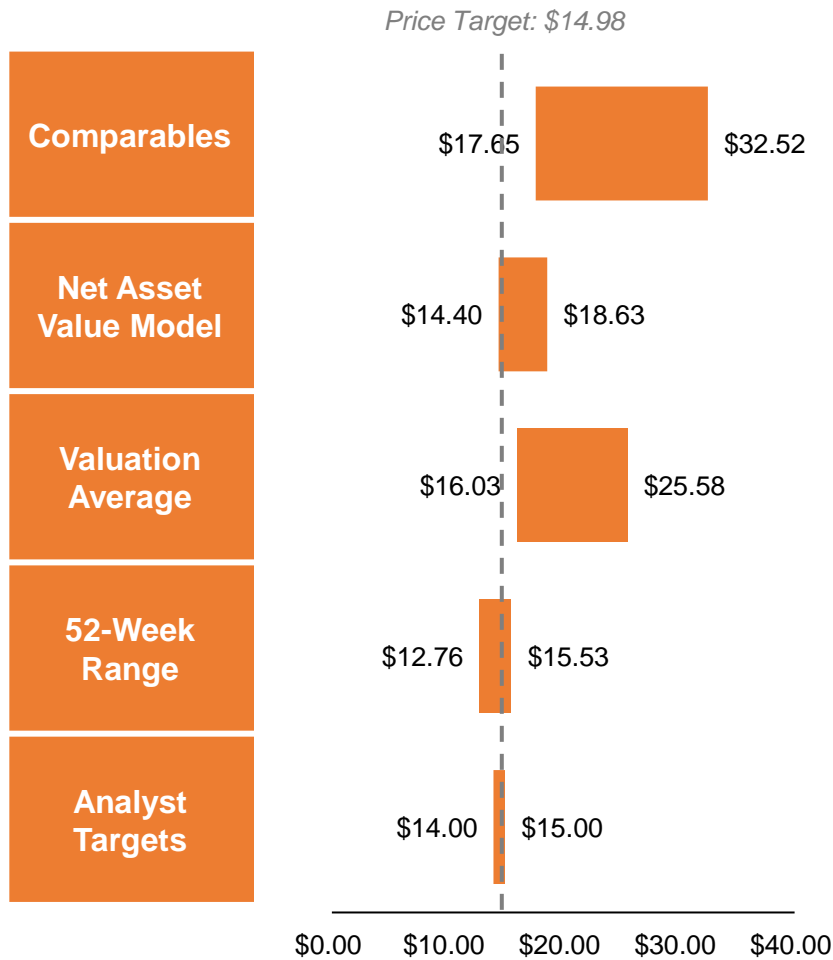
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**6** Recommendation

RECOMMENDATION

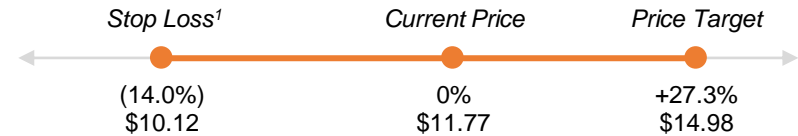
# Initiate 'Long' Equity Position (+27.3% Implied Upside)

## Indicative Valuation Range



## Price Target Methodology

Valuation Summary		
Analysis	Price	Weight
NAV	\$16.82	50%
Comparables	\$13.13	50%
Street Consensus	\$14.66	0%
<b>Average</b>	<b>\$14.98</b>	<b>100%</b>



## Selected Broker Summary

