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Zacks Small-Cap Research

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Presidio Property Trust (SQFT-NASDAQ)

SQFT: Business combination expected to close in 1Q23; Debt extension enhances financial flexibility to advance strategy

SQFT continues to refresh and upgrade its real estate portfolio & signed 45 leases YTD for nearly 170,000 square feet of space; 50% have been new leases and 50% have been renewals. SQFT reported 3Q22 core FFO of $103.2k, or $0.01 per share, versus ($4.4k), or ($0.0), in 3Q21. To enhance its financial flexibility, SQFT recently extended the maturity on its credit facility.

OUTLOOK

SQFT's sponsored SPAC (special purpose acquisition company), MURF, recently announced that it had entered into a business combination agreement with Conduit Pharmaceuticals. The transaction is expected to close in 1Q23, with the resultant company to operate as Conduit Pharmaceuticals. Conduit has an asset pipeline focused on a range of medical indications and a team with extensive experience in the sector. As the sponsor, SQFT is expected to hold over 4% of the combined company, which provides the company with exposure and upside potential to Conduit's prospects.

Current Price (11/17/22)	$1.16
Valuation	**$6.25**

SUMMARY DATA

52-Week High	**$4.18**
52-Week Low	**$1.09**
One-Year Return (%)	**-68.3**
Beta	**1.10**
Average Daily Volume (sh)	**60,017**
Shares Outstanding (mil)	**12**
Market Capitalization ($mil)	**$14**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**10**
Insider Ownership (%)	**8**
Annual Cash Dividend*	**$0.42**
Dividend Yield (%)	**28.60**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2022 Estimate	**N/A**
P/E using 2023 Estimate	**N/A**

Risk Level	**N/A,**
Type of Stock	**Small-Value**
Industry	**Real Estate**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2019	7 A	7 A	7 A	7 A	29 A
2020	7 A	6 A	6 A	6 A	24 A
2021	6 A	5 A	4 A	4 A	19 A
2022	5 A	4 A	4 A	5 E	18 E

Per Share Earnings / Loss

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2019	-$0.10 A	-$0.14 A	$0.27 A	-$0.10 A	-$0.07 A
2020	-$0.12 A	-$0.22 A	-$0.20 A	-$0.31 A	-$0.85 A
2021	-$0.28 A	$0.08 A	-$0.13 A	-$0.14 A	-$0.46 A
2022	-$0.32 A	-$0.07 A	-$0.11 A	-$0.11 E	-$0.61 E

Quarters might not sum due to rounding & share counts

Disclosures on page 9

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KEY POINTS

MURF Business Combination expected to close in 1Q23

- SQFT's sponsored SPAC (special purpose acquisition company), MURF, recently announced that it had entered into an agreement with Conduit Pharmaceuticals Limited to combine businesses.
- The transaction is expected to close in 1Q23, with the resultant company to operate as Conduit Pharmaceuticals under the ticker CDT and managed by the current Conduit management team. Conduit has an asset pipeline focused on a range of medical indications. Conduit's team has extensive experience in the sector.
- As the sponsor, SQFT holds founder shares and expects to hold over 4% of the combined company.
- The Conduit combined company is expected to have a pro forma enterprise valuation (EV) estimated at about $700 million. Proceeds from an expected PIPE are earmarked to advance Conduit's the clinical development of its assets.
- Separately, the company reported 3Q22 results that reflect the underlying momentum in its core business. Total 3Q22 revenue was $4.24 million, slightly ahead of $4.19 million in 3Q21. Core FFO (funds from operation) was $103.2k, or $0.01 per share, versus ($4.4k), or ($0.0), in 3Q21.
- Year-to-date, SQFT has signed 45 leases for nearly 170,000 square feet of space, of which about 50% have been new leases and 50% have been lease renewals.
- To enhance its financial flexibility to take advantage of opportunities in targeted real estate categories, in 4Q22 SQFT closed on an amendment to its $30 million credit facility, extending the facility through October 12, 2023.

BUSINESS COMBINATION OPPORTUNITY MOVES FORWARD

Murphy Canyon & Conduit propose business combination

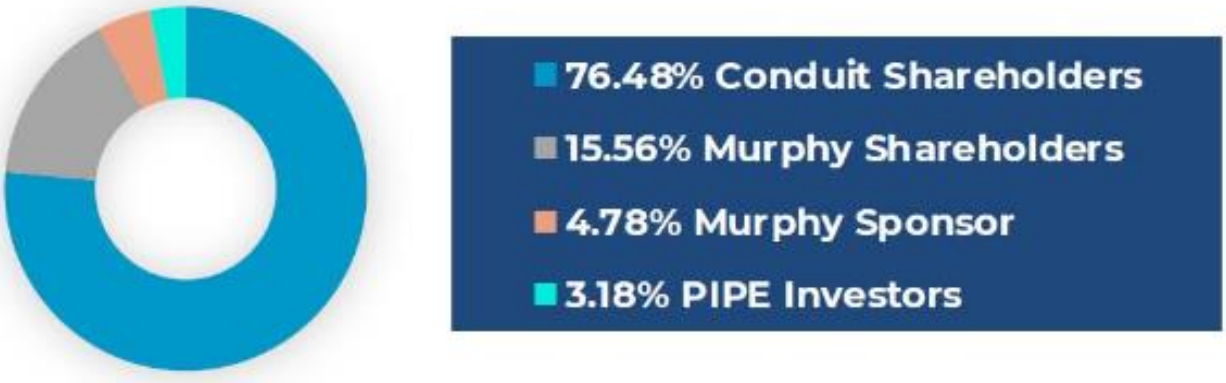
San Diego, California-based Presidio Property Trust (NASDAQ: SQFT), an internally managed real estate investment trust (REIT) that is transitioning its portfolio towards higher growth / high margin assets, is proactively disposing of and acquiring assets opportunistically to maximize portfolio value. To further enhance shareholder value, SQFT has sponsored a special purpose acquisition company (SPAC), Murphy Canyon Acquisition Corp. (MURF), which is a blank check company designed to facilitate a merger or business combination with one or more businesses. MURF's IPO earlier this year raised $132.3 million.

SQFT evaluated a range of companies to potentially merge with MURF and recently announced that MURF and Conduit Pharmaceuticals Limited have entered into an agreement to combine businesses. The combination transaction is expected to provide Conduit with access to the public equity market, which the parties believe will accelerate development of Conduit's autoimmune disease and idiopathic male infertility pipeline. The transaction is expected to close in 1Q23, with the resultant company to operate as Conduit Pharmaceuticals under the ticker CDT and managed by the current Conduit management team. Conduit has an asset pipeline focused on a range of indications. Conduit's CEO, Dr. David Tapolczay, and its proposed board chairman, Dr. Freda Lewis-Hall, have extensive experience in the space. Dr. Freda Lewis-Hall was Pfizer, Inc.'s Chief Medical Officer and prior to that, held senior

management positions with Bristol-Myers Squibb and Eli Lilly, among other companies. CFO Adam Sragovicz is expected to be CFO of Conduit.

As the sponsor of Murphy Canyon Acquisition Corp., SQFT holds founder shares in MURF. If the combination transaction is consummated, SQFT expects to hold over 4% of the combined company. SQFT's shares will be restricted for about six months following the transaction.

Combined Conduit-MURF Company - Pro Forma Ownership



Source: Business Combination Presentation

The Conduit combined company is expected to have a pro forma enterprise valuation (EV) estimated at about $700 million. Proceeds from an expected PIPE transaction, expected to close in conjunction with the business combination transaction, are earmarked to advance the clinical evaluation of Conduit's developmental assets. Conduit and Murphy boards have approved the business combination transactions, which are now subject to shareholder and regulatory approval.

RECENT OPERATING RESULTS

The company recently reported 3Q22 results. Momentum the company has recorded in earlier quarters continued in terms of improved occupancy rates and lease activities. Presidio reported total 3Q22 revenue of $4.24 million, slightly ahead of $4.19 million in 3Q21, despite the absence of rental revenue from properties divested in 2021. SQFT had roughly $126.8 million in net real estate assets at the end of 3Q22, compared to about $125.9 million at the end of 3Q21.

The company signed 13 office, retail, and industrial leases comprised of six new leases and seven renewals with existing tenants. In total, the leases cover almost 52,000 square feet. Year-to-date, SQFT has signed 45 leases for nearly 170,000 square feet of space, of which about 50% have been new leases and 50% have been lease renewals. Notably, the company has renewed 70% of expiring leases (based on rentable area).

SQFT reported a gain on the sale of seven model homes of about $1.3 million, compared to a roughly $0.6 million gain in the prior year quarter. SQFT reported a net loss of about ($1.3) million or ($0.11) per share, compared to a net loss of ($1.4) million or ($0.13) per share. Core FFO (funds from operation) was $103.2k, or $0.01 per share, versus ($4.4k), or ($0.0), in 3Q21.

REAL ESTATE PORTFOLIO UPDATES

Portfolio shifts towards high-growth, higher-margin properties

SQFT is proactively managing its real estate portfolio to maximize portfolio value, disposing and acquiring assets opportunistically as the company continues to transition its real estate portfolio towards properties that have solid rental revenue prospects and margins. As Presidio continues to refresh and upgrade its real estate portfolio, the company is interested in expanding the model home segment of its real estate portfolio, as well as the commercial properties segment. Year-to-date transactions are highlighted below.

Year-to-Date Acquisitions & Dispositions through 3Q

2022:
Dispositions
- World Plaza on March 11, 2022, for about $10.0M – resulted in a loss of roughly $0.3 million
- 25 model homes for about $13.5M – generated a gain of about $4.3M

Acquisitions
- 15 model homes for about $8.1M – paid through cash of roughly $2.5M & mortgage notes of about $5.6M

2021:
Dispositions
- Waterman Plaza on January 28, 2021, for about $3.5M – resulted in a loss of about $0.2M
- Garden Gateway on February 19, 2021, for about $11.2M –a loss of about $1.4M
- Highland Court on May 20, 2021, for about $10.2M –a loss of about $1.6M
- Executive Office Park on May 21, 2021, for about $8.1M – resulted in a gain of about $2.5M
- 39 model homes for about $19M – a gain of about $2.9M

Acquisitions
- Six model homes for roughly $2.9M – paid through cash of about $0.9 million and roughly $2.0M in mortgage loans
- 10,500 square foot building in Houston, Texas that is 100% occupied under a 15-year NNN lease for about $4.9M

Source: Company reports

SQFT ended 3Q22 with about $18.6 million in cash and restricted cash. SQFT's objective is to add new commercial properties to its portfolio to expand this real estate segment. Despite the uncertain economic outlook, the company remains optimistic about the model home space and other opportunities. To enhance its financial flexibility and strengthen the balance sheet, earlier in 4Q22, SQFT closed on an amendment to its $30 million credit facility, extending the facility through October 12, 2023.

VALUATION

Core Business Opportunity

We are optimistic that SQFT can continue to manage its property portfolio to produce attractive returns. As the company continues to transition its portfolio away from retail and into attractive commercial and industrial and model home properties, we estimate resumed steady growth commencing in approximately 2022 – 2023.

We value SQFT on a price-to forward FFO basis. We estimate FFO of $3.5 million in 2022. We think the current share price at this level does not fully reflect the fundamental value of the company's portfolio, particularly as SQFT continues to shift into properties that management believes are more attractive. At $6.25 in the near-term, the shares would trade at a multiple of roughly 16x our forward FFO forecast, which is a multiple that many other REITS command.

As the portfolio reaches the targeted property type composition and the economy stabilizes, we believe SQFT can achieve steady FFO growth in the 20% to 25% range, consistent with historical trends, and we would anticipate further share price appreciation. While a longer than currently anticipated economic downturn represents a potential risk to our valuation, we believe the risk / reward ratio could be attractive for investors who have a higher than average risk tolerance and longer time horizon.

SPAC Opportunity

Given the company's stake in MURF, if SQFT successfully finds a target real estate company to leverage the MURF SPAC, the company stands to benefit through the upside valuation of its holding in MURF. We have not included that in our valuation at the moment. However, as the company continues to hit milestones related to this transaction, we would expect SQFT shares to begin to reflect some of this potential upside. Upcoming milestones that we expect include the expected announcement of a business combination target and the subsequent shareholder proxy vote.

RECENT NEWS

- SQFT reported 3Q22 results on November 11, 2022.
- SQFT announced the proposed Conduit / Murphy Canyon business combination on November 8, 2022.
- Presidio completed an extension of its line of credit on October 14, 2022.
- Presidio announced that DISH Wireless had signed a lease in its San Diego office building on June 15, 2022.
- SQFT reported 1Q22 results on May 16, 2022.
- The company announced the closing of the SPAC offering on February 7, 2022, coincident with the closing of Murphy Canyon Acquisition Corp.'s $132.25 million IPO.
- Murphy Canyon Acquisition Corp. announced the full exercise of the underwriters' over-allotment option on February 4, 2022.
- On January 24, 2022, Presidio issued a special warrant dividend to trade under the symbol SQFTW.

RISKS

Risks to SQFT achieving its objectives, and to our valuation, include the following.

- Another economic downturn.
- A decrease in real estate values could have a negative impact on SQFT's portfolio.
- Competition from other REITs and/or property developers could increase.
- A default by one of SQFT's tenants could have a negative impact on FFO.
- The company's might need to raise additional capital sooner than management anticipates.
- Rising interest rates could impact the company's ability to grow its real estate portfolio.

PROJECTED FINANCIALS

Presidio Property Income Statement & Projections ($)

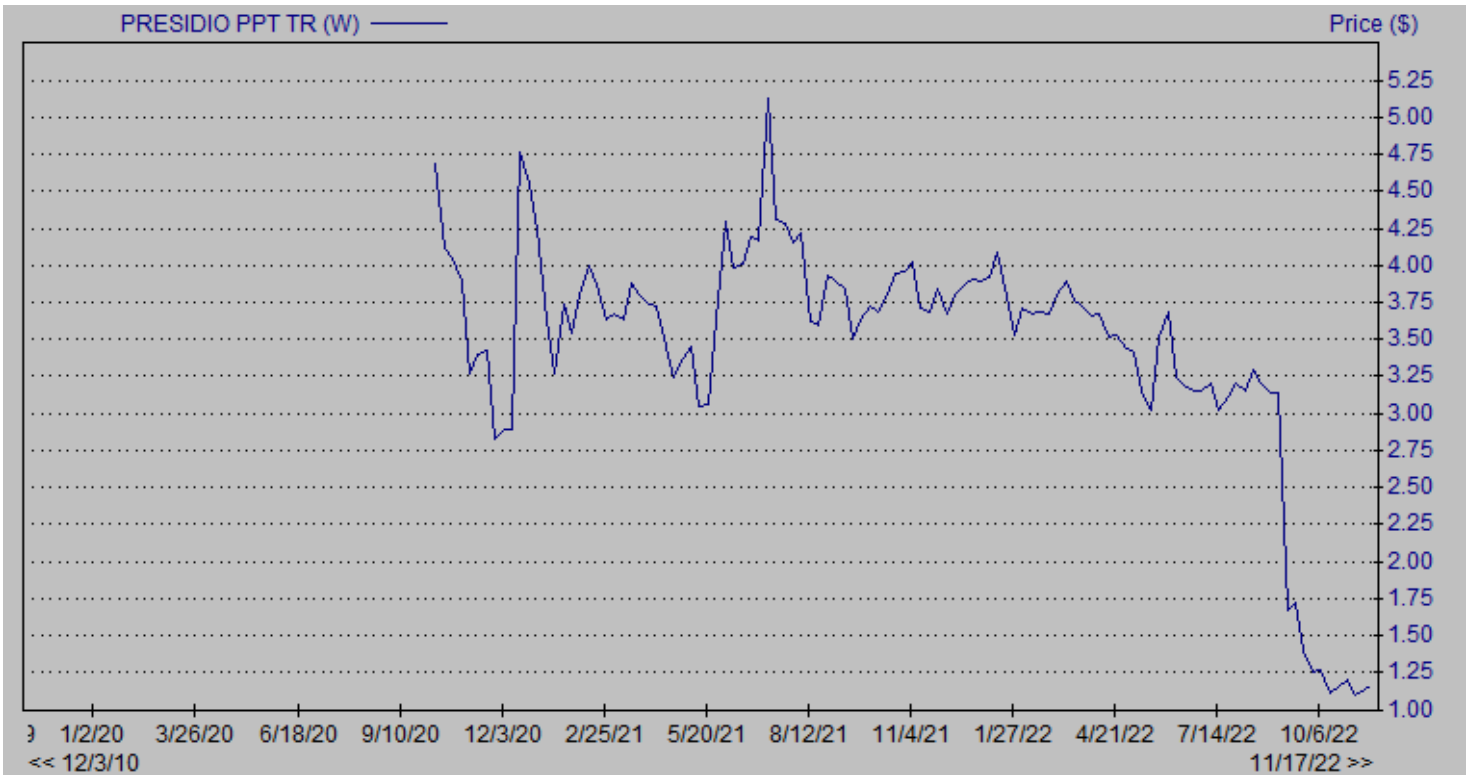
	2019	2020A	1Q21A	2Q21A	3Q21A	4Q21A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E
Revenues:												
Rental income	$27,467,410	$23,444,119	$5,477,223	$4,553,798	$4,185,212	$4,204,024	$18,420,257	$4,452,318	$4,188,076	$4,243,887	$4,526,307	$17,410,588
Fees and other income	1,173,701	907,673	191,531	292,785	190,967	135,569	810,852	120,823	132,784	148,088	198,663	600,358
Total revenue	28,641,111	24,351,792	5,668,754	4,846,583	4,376,179	4,339,593	19,231,109	4,573,141	4,320,860	4,391,975	4,724,970	18,010,946
Rental operating costs	10,410,574	8,818,283	1,838,923	1,485,815	1,414,518	1,443,933	6,183,189	1,583,473	1,348,083	1,434,225	1,607,344	5,973,125
General and administrative	5,268,315	5,751,754	1,537,265	1,344,770	1,479,261	1,864,214	6,225,510	1,583,691	1,214,005	1,509,139	1,567,576	5,874,411
Depreciation and amortization	7,364,688	6,274,321	1,428,934	1,368,209	1,306,874	1,293,481	5,397,498	1,339,225	1,316,193	1,318,164	1,339,124	5,312,706
Impairment of real estate assets	-	1,730,851	300,000	-	-	308,000	608,000	-	-	-	-	-
Total costs and expenses	23,043,577	22,575,209	5,105,122	4,198,794	4,200,653	4,909,628	18,414,197	4,506,389	3,878,281	4,261,528	4,514,044	17,160,242
Operating income	5,597,534	1,776,583	563,632	647,789	175,526	(570,035)	816,912	66,752	442,579	130,447	210,925	850,703
Operating margin	20%	7%	10%	13%	4%	-13%	4%	1%	10%	3%	4%	5%
Interest expense mortgage notes / other	(2,226,101)		(1,305,021)	(1,207,036)	(1,030,883)	(999,772)	(4,542,712)	(1,017,713)	(1,085,860)	(1,382,120)	(947,587)	(4,433,280)
Interest expense	(8,423,545)		(279,373)	-	-	-	(279,373)	-	-	-	-	-
Interest and other income (expense)	141,306	(8,833,703)	(32,785)	(20,657)	(13,886)	63,911	(3,417)	73,605	93,128	590,586	68,533	825,852
Gain /(loss) on sales of real estate	6,319,272	1,245,460	(1,161,328)	2,594,341	627,322	427,193	2,487,528	1,522,785	1,227,484	1,307,258	392,040	4,449,567
Other	(635,532)	(449,738)	10,000	-	(182,607)	182,607	10,000	-	-	-	-	-
Total other income (expense)	(4,824,600)	(8,037,981)	(2,768,507)	1,366,648	(600,054)	(326,061)	(2,327,974)	578,677	234,752	515,724	(487,014)	842,139
Net (loss) income	772,934	(6,261,398)	(2,204,875)	2,014,437	(424,528)	(896,096)	(1,511,062)	645,429	677,331	646,171	(276,089)	1,692,842
Taxes			(50,199)	(238,701)	-	336,520	47,620	(265,239)	(259,285)	(294,996)	-	(819,520)
Net income / (loss)			(2,255,074)	1,775,736	(424,528)	- (559,576)	(1,463,442)	380,190	418,046	351,175	191,931	1,341,342
Less: (Loss) income - noncontrolling intere	(1,383,140)	(1,412,507)	(406,608)	(925,697)	(427,303)	(402,532)	(2,162,140)	(1,208,676)	(709,202)	(1,114,928)	(1,012,750)	(4,045,556)
Attributable to Presidio	(610,206)	(7,673,905)	(2,661,682)	850,039	(851,831)	(962,108)	(3,625,582)	(828,486)	(291,156)	(763,753)	(820,819)	(2,704,214)
Less: Preferred Stock Series D dividends				(95,836)	(539,056)	(539,056)	(1,173,948)	(539,056)	(539,056)	(538,286)	(539,056)	(2,155,454)
Less: Series A Warrant dividends								(2,456,512)				(2,456,512)
Presidio net income (loss)			(2,661,682)	754,203	(1,390,887)	(1,501,164)	(4,799,530)	(3,824,054)	(830,212)	(1,302,039)	(1,359,875)	(7,316,180)
EPS/(LPS)	($0.07)	($0.85)	($0.28)	$0.08	($0.13)	($0.14)	($0.46)	($0.32)	($0.07)	($0.11)	($0.11)	($0.61)
Avg shares out (FD)*	8,862,957	9,023,914	9,508,363	9,508,363	10,833,847	11,513,327	10,340,975	11,773,649	11,799,689	11,780,090	12,365,089	11,929,629

Source: Company reports, Zacks estimates

*Pro forma for reverse stock split.

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