May 16, 2023

Zacks Small-Cap Research

Sponsored – Impartial - Comprehensive

M. Marin
312-265-9211
mmarin@zacks.com

scr.zacks.com
10 S. Riverside Plaza, Chicago, IL 60606

Tejon Ranch (TRC-NYSE)

TRC: Company Augments Management Team to Help Facilitate Growth Strategy

TRC has augmented its management team as it continues to advance its growth strategy. The company recently named former company executive Nathan Keith as SVP of Real Estate to advance its Centennial project & facilitate development plans. TRC also named a new CFO who has extensive real estate finance experience. Construction on a new 446,000 sq ft industrial building has commenced; it was fully pre-leased even before construction began.

OUTLOOK

TRC has often worked with the courts, county and with environmental groups to address various issues and we would expect the company to continue to do so. Nathan Keith was key in helping guide the Centennial project through the earlier entitlement process, according to management, & is expected to facilitate current discussions to move forward on the project. Management believes that its plans fulfill important needs, including addressing the need for more housing in California, job creation and responsible development coordinated with conservationist goals.

Current Price (5/15/23)	$17.04
Valuation	**$25.76**

SUMMARY DATA

52-Week High	**$20.65**
52-Week Low	**$14.31**
One-Year Return (%)	**-3.0**
Beta	**0.70**
Average Daily Volume (sh)	**40,271**
Shares Outstanding (mil)	**27**
Market Capitalization ($mil)	**$455**
Short Interest Ratio (days)	**5.2**
Institutional Ownership (%)	**61**
Insider Ownership (%)	**22**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**34.8**
P/S using 2022 Estimate	**28.9**
P/S using 2023 Estimate	**N/A**

Risk Level	**Low,**
Type of Stock	**Small-Value**
Industry	**Real Estate Ops**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2020	**$10.3A**	**$4.8A**	**$13.5A**	**$9.2A**	**$37.8A**
2021	**$11.1A**	**$16.6A**	**$15.0A**	**$13.0A**	**$55.6A**
2022	**$21.0A**	**$9.3A**	**$31.5A**	**$17.5A**	**$79.2A**
2023	**$12.3A**	**$9.5E**	**$17.6E**	**$14.3E**	**$53.6E**

EPS / Loss Per share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2020	**-$0.03A**	**-$0.01A**	**$0.02A**	**-$0.00A**	**-$0.03A**
2021	**-$0.04A**	**$0.11A**	**$0.01A**	**$0.13A**	**$0.20A**
2022	**$0.16A**	**-$0.03A**	**$0.38A**	**$0.07A**	**$0.59A**
2023	**$0.07A**	**-$0.02E**	**-$0.03E**	**-$0.01E**	**$0.01E**

Quarters might not add to annual reflecting rounding

Disclosures on page 9.

© Copyright 2023, Zacks Investment Research. All Rights Reserved.

EXPANDED MANAGEMENT TEAM

New VP of Real Estate & New CFO have extensive real estate experience

Tejon Ranch Company's (NYSE:TRC) has augmented its management team as it continues to advance its growth strategy. The company recently named former company executive Nathan Keith as Senior Vice President of Real Estate to advance its Centennial project (see below) and facilitate TRC's development plans. TRC also named a new CFO, as the company's former CFO focuses on his other responsibilities within the firm, including his role as Chief Operating Officer (COO).

The company noted that construction on a new 446,000 square foot industrial building has commenced. TRC, along with JV partner Majestic Realty, had secured the lease of the full facility while the site was still in pre-construction stages. The industrial building is planned to be a 446,000-square-foot industrial Class A, single load industrial building featuring a 36-foot clear height, seven-inch floor slab and an ESFR sprinkler system.

The JV pre-leased the space to Sunrise Brands, as noted, during pre-construction phase and TRC believes that securing the lease that early in the process underscores the attractive location of the TRCC (Tejon Ranch Commerce Center) and the dearth of industrial / warehouse space located proximate to nearby cities. Leasing the building before construction has started also reflects the strength of market demand and the strategic location and building amenities at the TRCC, including access to a solid labor pool, according to management. Sunrise Brands is expected to take occupancy early in 2024.

Sunrise Brands will occupy the entire building. Sunrise Brands is a California-based producer, distributor and retailer of branded (such as *Rebecca Minkoff*) and private-label apparel. Sunrise will temporarily occupy space in another building the JV owns until the new building is completed.

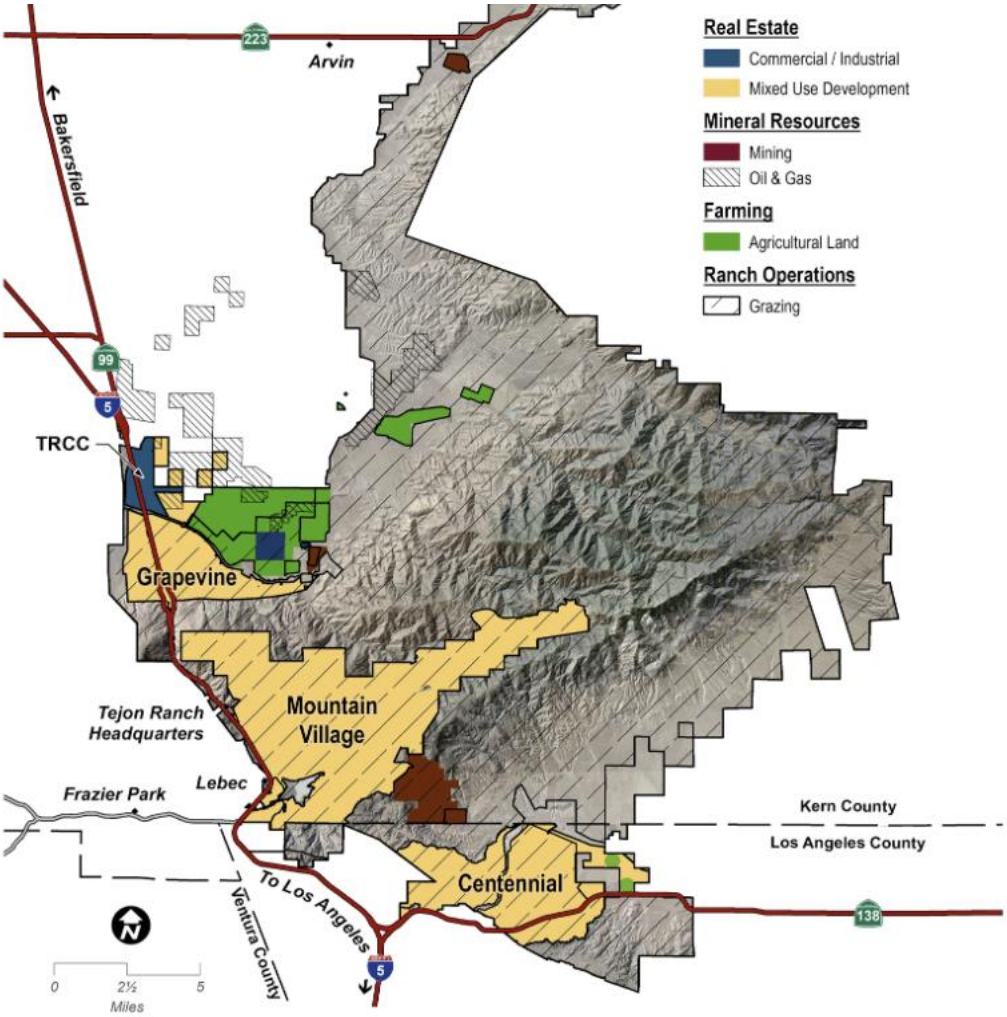
The JV also recently leased a 629,274-square foot distribution center at the TRCC adjacent to the Sunrise Brands site to a major retailer. According to TRC, over the last 18 months, the JV has negotiated transactions at four TRCC building sites encompassing more than 2.5 million square feet of industrial space currently under construction or planned for construction beginning in 2023.

The company also is making progress on the development of a multi-family residential complex, adjacent to the Outlets at Tejon. For example, a multi-family residential complex under development (see below) is expected to provide housing for people living nearby the TRCC, including many employed at the TRCC. TRCC comprises 6.4 million square feet of GLA (gross leasable area), and is 100% leased. In total,). TRCC commercial portfolio, wholly owned and through joint venture partnerships, comprises 620,907 square feet of GLA and is 90% leased. Construction of a 446,400 square foot industrial building has commenced, with completion expected in early 2024; a lease for this building was secured in advance of construction. Design and engineering for Phase 1 of The company's planned multi-family residential development at TRCC is underway. Phase 1 includes 228 of the planned 495 residential units.

TRCC Convenient to Nearby Cities

Management believes that its proximity to nearby cities makes the TRCC an attractive location for the construction of industrial infrastructure and housing. The TRCC is located approximately 60 miles north of Los Angeles and 25 miles south of Bakersfield, California. Reflecting proximity to these major cities and to nearby highways – Interstate 5, for instance – it takes about 75 minutes to travel from the TRCC to Los Angeles' Union Station. It is roughly an hour by car from Santa Clarita.

Master Land Use Plan



Source: Company 10K

Most of the ranch is bordered by Highway 138 on the south, Interstate 5 and Highway 99 on the west, and Highway 223 on the north. I5 is the major (and in places the only) conduit from the Los Angeles basin north and onto the Central Valley. Given the location and proximity to nearby cities, the company believes it is well-positioned to be an important distribution point for commercial traffic for both south bound and north bound traffic.

Recent sales / leasing activity underscore TRCC advantages

Existing space at TRCC continues to be fully leased and fully occupied, as the company continues to expand its portfolio of industrial properties. According to TRC, TRCC has nearly 12 million square feet of additional entitled space remaining that is available for lease, build-to-suit or sale. In 3Q22 TRC benefited from the sale of a 58-acre land parcel at the TRCC to a large multinational corporation for $22.0 million. This land sale represents the company's second largest industrial land sale to a third-party to-date in terms of size. Remaining available sites can accommodate buildings ranging from 20,000 to 2+ million square feet.

Advancing Development Plans …

TRC has master planned mixed-use residential communities in various stages of development and other real estate projects in its pipeline. The company intends to continue to pursue commercial/industrial development, multi-family development, leasing, sales, and investment within TRCC and its joint ventures and to continue to invest in its residential projects, including Mountain Village at Tejon Ranch, Centennial at Tejon Ranch and Grapevine at Tejon Ranch (see below). When its master planned developments are completed, Tejon Ranch will have more than 35k housing units available, 35+ million square feet of commercial / industrial space and 750 lodging units. TRC also is laying the foundation for expected growth with strategic relationships with development partners and customers.



Mountain Village



Centennial



Grapevine

Source: http://ir.tejonranch.com

Centennial

TRC is analyzing the various paths to move forward on Centennial after a Los Angeles Superior Court judge recently flagged needed correction of certain environmental issues. Over the past several years, TRC has often worked in conjunction with the courts, county and with environmental groups to address various issues and we would expect the company to continue to do so to resolve these issues. Specifically, the company has noted that it will discuss with LA County the various options available to address the court's ruling.

As noted, TRC also recently re-hired Nathan Keith as SVP of Real Estate. According to management, he was key in helping guide the Centennial project through the earlier entitlement process. Thus, he knows many of the parties who potentially will be involved in the discussions and understands the development plans for the Centennial project. He initially joined the company in 2007 and eventually attained the position of Vice President of Real Estate. In 2021, he left the company to join Williams Homes, a Santa Clarita, California-based real estate development and homebuilding company.

Management believes that its development plans fulfill important needs, including addressing the need for more housing in California, job creation and responsible development that is coordinated with conservationist goals. Moreover, the anticipated continued development of the California High-Speed Rail is also expected to facilitate commuting from TRC's land assets to nearby cities. The California High-Speed Rail Authority has nearly 120 miles under construction, with more construction extensions anticipated. The Authority plans "a state-wide rail modernization" program that will help traverse one of the country's largest states, mitigating automobile congestion and pollution. The Authority recently completed five high-speed rail structures throughout Madera, Fresno, and Kern counties.

Liquidity & access to capital

At the end of 1Q23, TRC had cash & securities of about $75.7 million and $40.6 million available under its revolving credit line. The company had refinanced the term loan and revolver in 2022, extending maturities and increasing its revolving credit facility ($45 million compared to $35 million under the prior revolver).

The company also intends to leverage funding from partners and debt financing and/or the sale of rights, among other financial resources. Moreover, TRC's agribusiness and commerce business units are operational and generate recurring revenue. As noted, TRC recently named a new CFO, Brett A. Brown. The company's current CFO also has responsibilities as Chief Operating Officer. Mr. Brown most recently was EVP, CFO and Treasurer at Alexander & Baldwin in Hawaii.

VALUATION

TRC shares have come under pressure recently as LA County has flagged certain issues to discuss and resolve. Nevertheless, Tejon Ranch remains committed to resolving outstanding issues and moving forward on development plans. At this point, the company remains in the early stages of its real estate development strategy. Thus, we believe the use of certain traditional valuation methods such as P/E, P/FCF or other methods do not reflect the value of the land once development plans are further along. We continue to value TRC shares on a price-to-acre basis.

TRC owns 270,000 acres. At the current price of TRC shares, this equates to a valuation of about $1,400 per acre. This is down from a valuation range of about $2,200 to $3,800 for TRC in recent years and significantly below nearby relative land values. We believe the Sunrise Brands lease and other recent developments are positives that likely increase the intrinsic value of TRC's land holdings over time.

Our $25.76 per share valuation implies a valuation of just over $2,400 per acre, which represents a substantial discount to the valuations implied by other real estate valuations noted above. Even based on *only* the land that has been approved for development and/or is currently producing revenue from agribusiness and other operations (which we think understates TRC's potential), the $25/share expected near-term valuation implies a value of less than $8,400 per acre, a steep discount to the above-noted average $10,000 based on USDA data and only a fraction of the value accorded residential property within the state. With the shortage of housing in the state, we do not believe the current share price accurately reflects the potential value of the real estate once development plans are more advanced.

For instance, according to the Federal Housing Finance Agency, the average land value per acre for *residential* land in the state of California exceeds $400,000. Given that TRC's asset is largely undeveloped except for TRCC and that the Federal Housing Finance Agency's metric includes expensive urban cities such as San Francisco and Los Angeles that drive the state average up, we would not expect TRC to command a similar valuation at this point. Nevertheless, we believe it points to just how under-valued TRC is, as reflected in the current share price. Measured on a price-to-acre basis, TRC even falls below California *farm* values, which command average valuations of about $10,000 per acre, according to the USDA.

We also expect the value of land to increase significantly, and of TRC shares, as TRC continues to advance its development plans. We also expect multiple expansion on TRC shares as the company hits certain milestones in its development objectives.

RECENT RESULTS

TRC's 1Q23 revenue was $14.6 million, compared with $23.2 million in 1Q22. The decline partially reflected lower commercial/industrial real estate development segment revenue ($2.7 million versus $7.3 million in 1Q22), as TRC did not record land sales in 1Q23. By comparison, in 1Q22 TRC sold a 12.3-acre parcel of land in the TRCC for $4.7 million. Farming revenues of $1.2 million grew 81% year-over-year on higher almond sales and water usage reimbursements. This was partially offset by lower Mineral resources segment revenue ($6.9 million versus $12.0 million), primarily due to lower water sales. Water sales can be lumpy from year to year, depending on rainfall, snowpack runoff in Northern California and

California State Water Project (SWP) allocations. Land sales can also be extremely lumpy and mask underlying real estate development trends. For instance, In 3Q22 TRC benefited from the sale of a 58-acre land parcel at the TRCC to a large multinational corporation for $22.0 million. This land sale likely make 2023 comps difficult, we believe.

The company anticipates demand for water will be lower than in prior years when SWP allocations were lower. Moreover, pricing for many of the crops grown on the TRC, including nut and grape crops, are highly correlated to the overall size of global production and global demand. The company has noted that high production levels and higher-than-normal inventory levels from the 2021 crop primarily reflecting supply chain issues have constrained crop prices, which could remain low until industry inventory levels are depleted over the medium-term. We have revised our model based on 1Q23 actuals and company comments. Adjusted EBITDA was $6.4 million, compared with $11.3 million. TRC reported net income attributable to stockholders of $1.8 million, or $0.07 per share, compared to $4.3 million, or $0.16 per share in 1Q22.

RISKS

Risks to TRC achieving its objective`s, and to our valuation, include the following.

- The company faces the risk that discussions to move Centennial forward take longer than expected and / or are not successful.
- There is the risk of further economic disruption and potentially recession, we believe.
- The real estate development industry is highly capital intensive. TRC might not find funding sources at the rates it expects or as soon as it expects.
- TRC is subject to the need to obtain regulatory approvals and permits.
- The value of the land could fluctuate depending on several factors, including the regional economy and other competing development plans by other developers.
- The I-5 is a critical part of the TRC infrastructure and traffic / roadway congestion could impact the value of the company's land.
- TRC could be vulnerable to other litigation risk that could impede growth.
- Water rights are often an issue in California and can impact land values. TRC has complex water agreements and both buys and sells water.
- The company's agribusiness operation is cyclical and affected by commodity cycles.

PROJECTED INCOME STATEMENT

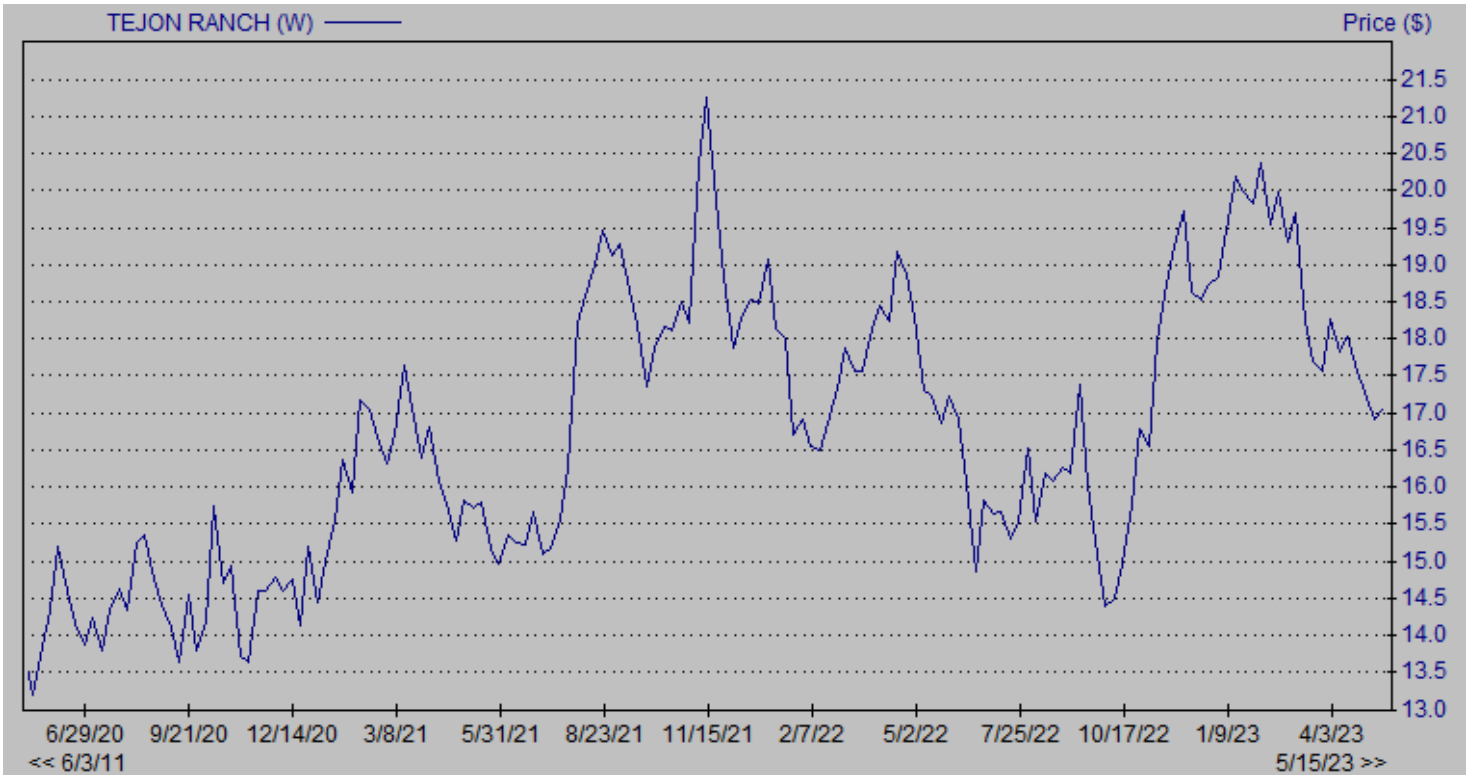
Tejon Ranch Income Statement & Projections ($000)

	2019	2020A	2021A	1Q22A	2Q22A	3Q22A	4Q22A	2022A	1Q23A	2Q23E	3Q23E	4Q23E	2023E
Real estate - commercial/industrial	$16,792	$9,536	$19,476	$7,349	$2,462	$22,352	$8,352	$40,515	$2,676	$2,548	$5,270	$4,917	$15,412
Mineral resources	9,791	10,736	20,987	11,968	4,131	3,139	2,357	21,595	6,912	4,234	5,040	3,217	19,404
Farming	19,331	13,866	11,039	655	1,921	4,776	5,649	13,001	1,185	1,969	6,205	4,895	14,254
Ranch operations	3,609	3,692	4,111	1,048	755	1,208	1,095	4,106	1,492	774	1,052	1,238	4,556
Total revenues	**49,523**	**37,830**	**55,613**	**21,020**	**9,269**	**31,475**	**17,453**	**79,217**	**12,265**	**9,525**	**17,566**	**14,269**	**53,625**
Real estate - commercial/industrial	12,961	7,122	11,953	2,736	1,822	6,845	4,953	16,356	1,695	1,840	6,913	5,003	15,451
Real estate - resort/residential	2,247	1,612	1,723	423	423	372	411	1,629	388	427	376	415	1,606
Mineral resources	5,818	6,414	13,559	7,157	2,445	1,745	1,622	12,969	4,066	2,469	1,762	1,638	9,936
Farming	15,251	15,103	14,116	1,762	3,462	8,752	5,835	19,811	2,013	3,497	8,840	5,893	20,242
Ranch operations	5,316	4,896	4,679	1,315	1,250	1,143	1,316	5,024	1,330	1,263	1,154	1,329	5,076
Corporate expenses	9,361	9,430	9,843	2,415	2,185	1,630	3,469	9,699	2,287	2,207	1,646	3,504	9,644
Total expenses	50,954	44,577	55,873	15,808	11,587	20,487	17,606	65,488	11,779	11,703	20,692	17,782	61,956
Operating income / (loss)	(1,431)	(6,747)	(260)	5,212	(2,318)	10,988	(153)	13,729	486	(2,178)	(3,125)	(3,514)	(8,331)
Investment income	1,239	884	57	17	79	204	334	634	456	80	206	337	1,079
Gain (loss) real estate sales		1,331	-	-	-		-	-		-	-	-	-
Other (loss) income	(1,824)	110	164	918	(91)	211	50	1,088	334	(92)	213	51	506
Total other income	(585)	2,325	221	935	(12)	415	384	1,722	790	(12)	419	388	1,585
Operating income/(loss)	(2,016)	(4,422)	(39)	6,147	(2,330)	11,403	231	15,451	1,276	(2,190)	(2,706)	(3,126)	(6,746)
Equity pickup	16,575	4,504	9,202	1,213	1,663	1,991	2,885	7,752	1,517	1,680	2,011	2,914	8,121
Pretax income	14,559	82	9,163	7,360	(667)	13,394	3,116	23,203	2,793	(510)	(695)	(212)	1,376
Taxes	3,980	829	3,821	3,046	(5)	3,221	1,131	7,393	1,013	51	35	21	1,120
Net income (loss)	10,579	(747)	5,342	4,314	(662)	10,173	1,985	15,810	1,780	(561)	(730)	(233)	256
Minority interest	(1)	(7)	(6)	7	5	(11)	1	2	6	5	(11)	1	1
Net income	10,580	(740)	5,348	4,307	(667)	10,184	1,984	15,808	1,774	(566)	(719)	(234)	255
Loss/share - EPS (FD)	$0.40	($0.03)	$0.20	$0.16	($0.03)	$0.38	$0.07	$0.59	$0.07	($0.02)	($0.03)	($0.01)	$0.01
Average shares out (Mns)	26.1	26.3	26.4	26.5	26.5	26.5	27.1	26.7	26.6	26.8	26.8	27.4	26.9

Source: Company reports, Zacks estimates

© Copyright 2023, Zacks Investment Research. All Rights Reserved.

HISTORICAL STOCK PRICE



© Copyright 2023, Zacks Investment Research. All Rights Reserved.

DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, M. Marin, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESTMENT BANKING AND FEES FOR SERVICES

Zacks SCR does not provide investment banking services nor has it received compensation for investment banking services from the issuers of the securities covered in this report or article.
Zacks SCR has received compensation from the issuer directly, from an investment manager, or from an investor relations consulting firm engaged by the issuer for providing non-investment banking services to this issuer and expects to receive additional compensation for such non-investment banking services provided to this issuer. The non-investment banking services provided to the issuer includes the preparation of this report, investor relations services, investment software, financial database analysis, organization of non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per-client basis and are subject to the number and types of services contracted. Fees typically range between ten thousand and fifty thousand dollars per annum. Details of fees paid by this issuer are available upon request.

POLICY DISCLOSURES

This report provides an objective valuation of the issuer today and expected valuations of the issuer at various future dates based on applying standard investment valuation methodologies to the revenue and EPS forecasts made by the SCR Analyst of the issuer's business.
SCR Analysts are restricted from holding or trading securities in the issuers that they cover. ZIR and Zacks SCR do not make a market in any security followed by SCR nor do they act as dealers in these securities. Each Zacks SCR Analyst has full discretion over the valuation of the issuer included in this report based on his or her own due diligence. SCR Analysts are paid based on the number of companies they cover. SCR Analyst compensation is not, was not, nor will be, directly or indirectly, related to the specific valuations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports and articles are based on data obtained from sources that it believes to be reliable, but are not guaranteed to be accurate nor do they purport to be complete. Because of individual financial or investment objectives and/or financial circumstances, this report or article should not be construed as advice designed to meet the particular investment needs of any investor. Investing involves risk. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports or articles or tweets are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

CANADIAN COVERAGE

This research report is a product of Zacks SCR and prepared by a research analyst who is employed by or is a consultant to Zacks SCR. The research analyst preparing the research report is resident outside of Canada, and is not an associated person of any Canadian registered adviser and/or dealer. Therefore, the analyst is not subject to supervision by a Canadian registered adviser and/or dealer, and is not required to satisfy the regulatory licensing requirements of any Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and is not required to otherwise comply with Canadian rules or regulations.