April 24, 2024

Zacks Small-Cap Research (NOTE)

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Tejon Ranch (TRC-NYSE)

Annual Meeting Next Month; Stockholder Issues Letter to Others

Shareholder letter regarding next month's annual meeting

Tejon Ranch Company (NYSE:TRC) is scheduled to hold its annual shareholder meeting next month on May 14, 2024. In advance of the meeting, a large shareholder, Nitor Capital Management, has issued a letter to Tejon Ranch stockholders announcing its intention to withhold support for four directors at the upcoming 2024 Annual Meeting. According to the letter, Nitor Capital plans to withhold support for:

- Compensation Committee Chair Steven A. Betts
- Chairman of the Board Norman J. Metcalfe
- Real Estate Committee Chair Geoffrey L. Stack, and
- Nominating Committee Chair Michael H. Winer

The investment management firm also intends to vote against approval of executive officer compensation on May 14, 2024. Nitor Capital has indicated that it holds 1.75% of TRC shares.

Reflecting the underperformance of TRC shares, Nitor Capital highlights its view that the current management team and the board have not created lasting shareholder value. The letter notes that Mr. Metcalfe and Mr. Stack have each served on the board since 1998, during which time the shares have essentially round tripped from the $16-$20 range to $45-$50 range and back again. Nominating Committee Chair Michael H. Winer and Steven Betts have served on the board since 2001 and 2014, respectively.

Moreover, the investment management firm believes the company's existing management compensation structure should be overhauled, as it "Has Enriched Management While Stockholders Suffer," according to the investment management firm. Nitor Capital would like to see a compensation structure implemented that provides "incentives for management that align with a company's strategic goals and promote long-term value creation." The firm notes that what it terms "misaligned incentives" have led to outsized and unearned (according to Nitor Capital) compensation for top executives, while the company has not created sustainable improving value for shareholders. For example, Nitor Capital points to CEO Gregory Bielli having received more than $30 million in total compensation over the years and notes that the "current compensation scheme clearly is not working for stockholders."

Just as we applauded the appointment of a new CFO last year who has substantial REIT and real estate experience, as well as public company experience, we believe TRC has an opportunity now to strengthen its management team and improve its interaction with public shareholders. The company can use the upcoming retirement of the CEO, in our view, to make important positive changes, particularly if a sufficient number of shareholders align with Nitor Capital in withholding support for the above-named directors, many of whom have been named to the search committee seeking a replacement for the CEO.

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TRC has until year-end 2024 to find a new CEO. On March 20, 2024, Gregory Bielli announced his intention to retire on December 31, 2024. He has been President and CEO of Tejon Ranch since 2013. He is expected to serve as a senior advisor to the company through 2025 to help enact a smooth transition.

TRC will use search firm Korn Ferry to work with the above-noted search committee appointed by the board to launch a national search for the CEO's successor. However, according to the company's March 20, 2024 announcement, currently the ad hoc search committee includes several of the board members from whom Nitor Capital plans to withhold support: Norm Metcalfe, Michael Winer, and Steve Betts, as well as outgoing CEO Gregory Bielli.

We concur that with the upcoming retirement of Mr. Bielli at year-end, Tejon Ranch could use this opportunity to bring in new talent that can steer the company on a path that creates sustainable value for shareholders. We viewed it positively when on May 5, 2023, Tejon Ranch appointed Brett Brown as its new CFO. Prior to joining TRC, Mr. Brown most recently was EVP, CFO and Treasurer at publicly traded Alexander & Baldwin in Hawaii. He has extensive real estate finance experience, with more than 30 years in public and private real estate companies, including REITS. As the former CFO at publicly-traded Alexander & Baldwin in Hawaii before joining TRC, he interacted regularly with shareholders and potential investors and we believe such interaction would also be a positive for TRC under a new CEO.

We believe the company added value to its management team when TRC hired Bret Brown last year and now has an opportunity to add a new CEO who also brings expertise and value to the executive leadership team.

We also believe an important goal for TRC now is to maintain greater exposure to the upside potential its development activities present by obtaining funding without a partner when it is appropriate. In 4Q23, under new CFO Brett Brown, TRC closed on a new $160 million unsecured revolving credit facility with AgWest Farm Credit. According to TRC, the new credit facility can be used to finance future construction projects, farming and ranching operations, and for general corporate purposes. We believe the new facility enhances TRC's financial flexibility to fund future growth with or without JV partners in order to maintain greater exposure to the upside and profits of its development projects.

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