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Zacks Small-Cap Research

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Tejon Ranch (TRC-NYSE)

TRC: Believe Shareholder Vote has Positive Implications for Company Direction, New CEO Search

TRC held its annual shareholder meeting on 5/14. We believe the way the vote played out illustrates interesting changes in the views of a growing percentage of shareholders. For example, 32% - or roughly a third – of votes were withheld for reappointing Steven Betts, chairman of TRC's Compensation Committee, up from 6% in 2023. Votes for other nominees followed a similar pattern, as did vote for the company's pay structure.

OUTLOOK

We believe results of the 2024 shareholder vote indicate rising investor sentiment that change is needed within the company's top management & compensation structure, which we also believe has important implications for the search for a new CEO to replace the company's outgoing CEO who announced his intention to retire on 12/31/24. In our view, TRC now has an opportunity to strengthen its management team and improve its interaction with public shareholders, just as we believe it did with the 2023 appointment of new CFO Brett Brown.

Current Price (5/16/24)	$17.84
Valuation	**$26**

SUMMARY DATA

52-Week High	**$18.41**
52-Week Low	**$14.80**
One-Year Return (%)	**3**
Beta	**0.60**
Average Daily Volume (sh)	**64,066**
Shares Outstanding (mil)	**27**
Market Capitalization ($mil)	**$482**
Short Interest Ratio (days)	**4.8**
Institutional Ownership (%)	**61**
Insider Ownership (%)	**23**
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	**N/A**
P/S using 2024 Estimate	**N/A**
P/S using 2025 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)
2022	**$21.0A**	**$9.3A**	**$31.5A**	**$12.0E**	**$73.8E**
2023	**$12.3A**	**$6.1A**	**$10.2A**	**$16.2A**	**$44.7A**
2024	**$7.4A**	**$7.5E**	**$11.1E**	**$13.9E**	**$39.9E**
2025					**$46.0E**

EPS / Loss Per share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2022	**$0.16A**	**-$0.03A**	**$0.38A**	**$0.01E**	**$0.54E**
2023	**$0.07A**	**$0.01A**	**-$0.01A**	**$0.06A**	**$0.12A**
2024	**-$0.03A**	**-$0.03E**	**$0.03E**	**$0.08E**	**$0.04E**
2025					**$0.11E**

Quarters might not add to annual reflecting rounding

Disclosures on page 9.

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RECENT ANNUAL MEETING: TAKEAWAYS FROM SHAREHOLDER VOTE

Prospects for more active shareholder engagement …

Tejon Ranch Company (NYSE:TRC) held its annual meeting of shareholders on May 14, 2024. The company put the following proposals up for a vote by shareholders:

- Election of eight Directors
- Approval of named executive officer compensation
- Ratification of the appointment of Deloitte & Touche LLP as accountants for 2024

While TRC shareholders elected all directors proposed by the company, we believe the way the vote played out illustrates interesting changes in the view of a growing percentage of the shareholder body. As we indicated in a recent report, in advance of the meeting, one large shareholder, Nitor Capital Management (Nitor indicated that it holds 1.75% of TRC shares), had issued a letter to Tejon Ranch stockholders announcing its intention to withhold support for four directors at the 2024 Annual Meeting.

According to the letter, Nitor Capital had planned to withhold support for:

- Compensation Committee Chairman Steven A. Betts
- Chairman of the Board Norman J. Metcalfe
- Real Estate Committee Chair Geoffrey L. Stack
- Nominating Committee Chair Michael H. Winer
- and to vote against approval of executive officer compensation

The 2023 and 2024 vote results for each director nominated by Tejon Ranch are presented below.

	Results 2024 Shareholder Vote			Results 2023 Shareholder Vote		
Nominees Highlighted by Nitor	For	Withhold	% Withheld*	For	Abstain	% Abstaining*
Steven A. Betts	14,723,050	6,964,134	32%	18,399,738	1,227,638	6%
Norman J. Metcalfe	15,510,139	6,177,045	28%	18,058,659	1,568,717	8%
Geoffrey L. Stack	15,388,498	6,298,686	29%	18,461,571	1,165,805	6%
Michael H. Winer	14,478,582	7,208,602	33%	14,089,327	5,538,049	28%
Other Nominees						
Gregory S. Bielli	18,050,230	3,636,954	17%	18,408,352	1,219,024	6%
Anthony L. Leggio	18,787,812	2,899,372	13%	18,593,895	1,033,481	5%
Rhea Frawn Morgan	18,880,531	2,806,653	13%	18,591,542	1,035,834	5%
Daniel R. Tisch	17,981,081	3,706,103	17%	18,317,010	1,310,366	7%

Source: Company reports

* % calculated based on votes withheld or abstaining / (vote for + votes withheld or abstaining)

The percentage of votes withheld for the nominees that Nitor highlighted increased dramatically compared to the percentage of votes that abstained in 2023. For example, in 2023, some 6% of votes abstained from endorsing Steven Betts, the chairman of TRC's Compensation Committee. By comparison, at the 2024 annual shareholder meeting, 32% - or roughly a third – of votes were withheld for his reappointment as a director. Similarly, shareholders representing 8% of votes abstained from endorsing Norman Metcalfe in 2023 and by 2024, that percentage had increased to 28%. The percentages increased by varying amounts for all of the eight directors that TRC had nominated.

We believe this indicates rising investor sentiment that change is needed within the company's top management members. We also believe this has important implications for the search for a new CEO to replace the company's outgoing CEO, Gregory Bielli. On March 20, 2024, Mr. Gregory Bielli announced his intention to retire as TRC CEO on December 31, 2024.

We believe TRC now has an opportunity to strengthen its management team and improve its interaction with public shareholders and can use the upcoming retirement of the CEO, in our view, to make important positive changes. We believe the way the 2024 vote played out shows that a sufficient number of shareholders align with Nitor Capital in withholding support for the named directors and also in not endorsing the company's compensation structure.

With the percentage of votes either abstaining or voting against approving named executive officer compensation from 9% in 2023 to a sizable 39% in 2024, shareholders have sent a clear message to the company, in our view. Following the shareholder vote, Nitor Capital issued another letter to shareholders commending fellow stockholders for "taking an important first step to hold the Board accountable…" Nitor also indicated that Glass Lewis, a well-known independent proxy advisory firm, had recommended that TRC shareholders vote against TRC's say-on-pay proposal.

We believe these results could positively impact the CEO search. Trading volume in TRC shares has increased substantially over the last several days. This *might possibly* indicate the entrance of new potentially more active shareholders, we believe. As noted, TRC has until year-end 2024 to find a new CEO, although Gregory Bielli is expected to serve as a senior advisor to the company through 2025 to help enact a smooth transition. Many of the executives Nitor named to withhold votes from have been placed on the search committee seeking a replacement for the CEO.

Another opportunity to add value to the executive leadership team

With the upcoming retirement of Mr. Bielli at year-end, Tejon Ranch could use the 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 and see another opportunity for the company to improve the senior management team. 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. We believe the company added value to its management team with his appointment and now has an opportunity to add a new CEO who also brings expertise and value to the executive leadership team.

SUBSTANTIAL NEED FOR HOUSING UNDESCORES VALUE OF TRC'S ASSETS

Development can address housing, job creation needs…

We continue to believe the substantial need for residential units in the market near TRC's land assets also underscores the attractiveness of TRC property. The location of the company's land asset also makes it appealing as residential property. TRCC is located in Kern County, which is experiencing a severe shortage of housing like much of the state, including of apartment units. In 2019, a report from the California Housing Partnership estimated that Kern County needed an additional 26,200+ affordable rental units to meet its housing shortage. In fact, development has lagged compared to many other areas within the state, with the slow pace of development exacerbating the housing shortage problem. 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.

The company is developing a multi-family residential complex, adjacent to the Outlets at Tejon that is expected to providing housing for people living nearby the TRCC, including many employed at the TRCC. Design and engineering for Phase 1 of the company's planned multi-family residential development at TRCC is underway. Phase 1 includes 228 of 495 residential units planned, which is called *Terra Vista at Tejon.*

TRC will commence construction on Terra Vista at Tejon as TRCC transitions to a mixed-use master-planned community. The 495 units will consist of affordable studio, one, and two-bedroom apartment homes. TRCC employees and others working nearby, as well as residents in south Bakersfield, the southern portion of Kern County, and the adjacent Mountain Communities, are also expected to view *Terra Vista at Tejon* as convenient housing. Upon completion, *Terra Vista at Tejon* is expected to be the largest rental community in Kern County.

Terra Vista at Tejon is expected to include a range of amenities, in addition to its proximity to nearby roadways and to the TRCC. While there is no immediately adjacent supermarket shopping currently, TRC has indicated plans to open a grocery store by the time *Terra Vista* Phase 1 opens. In addition, planned amenities will include a clubhouse with a pool, spa and fitness facilities, outdoor areas for entertaining and playing, a large park area connected to the Outlets at Tejon that will host community gatherings and events, among others. The apartment homes will also feature fiber optic connectivity for high-speed internet and streaming services. The first units are expected to become available in 1H25.

Terra Vista at Tejon is expected to provide housing for people working near the TRCC, including many employed at the TRCC itself. TRCC comprises 6.4 million square feet of GLA (gross leasable area. The planned apartment development will help provide much-needed housing. As they expand, the Outlets at Tejon and the industrial space are also expected to lead to new jobs, likely driving demand for convenient and affordable housing.

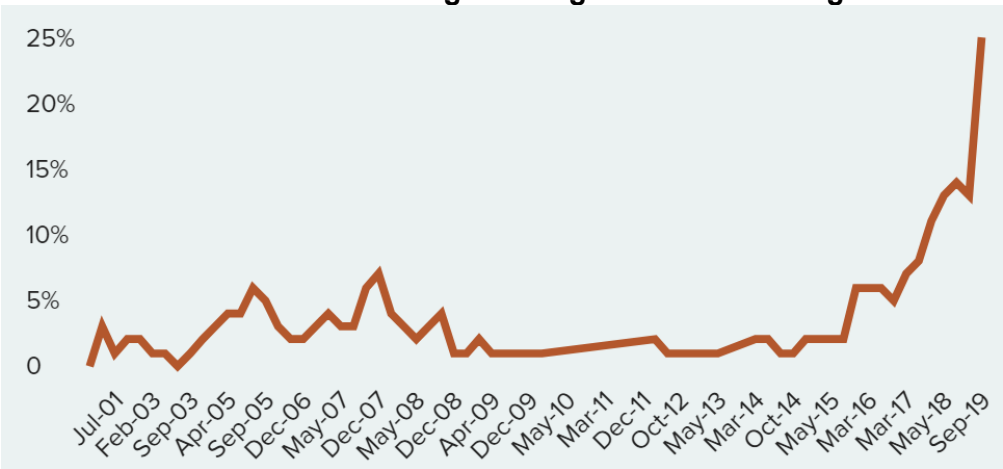
Hard Rock Hotel & Casino Tejon another potential source of demand for Terra Vista housing

In addition, a nearby casino and hotel complete underway are another factor expected to drive demand for housing. In 2022, legislation passed ratifying a gaming compact between the state of California and the Tejon Indian Tribe. Hard Rock International and the Tejon Indian Tribe recently held a groundbreaking ceremony of the Hard Rock Hotel & Casino Tejon, which is planned to consist of more than 700,000 square feet of gaming space, dining sites and hotel rooms.

Importantly, the hotel / casino project is expected to create about 2,000 jobs during the construction. Once the complex is open, it is expected to create about 5,000 direct and indirect full-time and part-time jobs, which could be another source of demand for affordable housing, in our view.

California legislative initiatives might also provide a positive tailwind, in our view. California Assembly Bill (AB) 1449 aims to exempt certain affordable apartment developments from review by the California Environmental Quality Act (CEQA). Specifically, the bill is expected to "exempt from CEQA certain actions taken by a public agency related to affordable housing projects, as defined, if certain requirements are met" until January 1, 2033. To qualify for exemption, projects need to be located in densely populated urban areas and include a number of units for residents who earn less than 80% of the median income in the local market, among other requirements. In addition, California governor Gavin Newsom has established the Housing Accountability Unit to facilitate the state's goal of adding affordable housing.

Percent of Californians Believing Housing is State's Leading Issue



Source: the Public Policy Institute of California (PPIC)

The state overall has a severe shortage of housing, particularly affordable housing. According to the National Low Income Housing Coalition, there is a statewide shortage of affordable and available rental homes for people with incomes at or below the poverty guideline or 30% of the local area median income (AMI). More and more Californians believe that housing shortage is an issue, according to the Public Policy Institute of California (see chart above). There is a shortage of housing in the greater Los Angeles metropolitan region overall, just as there is in the state generally. By historical measures, new and used house inventory is virtually non-existent. Reflecting the imbalance between supply (inventory) and demand, housing prices continue to increase. TRC is the only major area close to Los Angeles where infrastructure is possible and one of the few real estate development companies with scale.

VALUATION

We 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 $26 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 and which we believe could prove conservative in the near-term. 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-$26/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.

The current price of TRC shares is down from a 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. 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 NEWS

- TRC held its annual shareholder meeting on 5/14/24.
- TRC announced 1Q24 results on 5/7/24.
- On 1/23/24, TRC announced that Nestlé would begin operating at the TRCC.
- Tejon Ranch announced commencement of *Terra Vista* construction on January 9, 2024.
- TRC and Majestic announced a new TRCC tenant on December 4, 2023.
- TRC secured a new unsecured revolving credit facility on November 11, 20/23.

RISKS

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

- Discussions to move development 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 and interest rates have increased. 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)

	2020A	2021A	2022A	1Q23A	2Q23A	3Q23A	4Q23A	2023A	1Q24A	2Q24E	3Q24E	4Q24E	2024E
Real estate - commercial/industrial	$9,536	$19,476	$40,515	$2,676	$2,633	$3,397	$3,052	$11,758	$2,945	$2,817	$3,533	$4,940	$14,235
Mineral resources	10,736	20,987	21,595	6,912	1,600	3,118	2,894	14,524	2,489	2,564	3,149	3,458	11,660
Farming	13,866	11,039	13,001	1,185	1,025	2,642	9,098	13,950	865	1,271	3,382	4,155	9,673
Ranch operations	3,692	4,111	4,106	1,492	840	1,052	1,123	4,507	1,107	848	1,063	1,315	4,333
Total revenues	**37,830**	**55,613**	**79,217**	**12,265**	**6,098**	**10,209**	**16,167**	**44,739**	**7,406**	**7,500**	**11,126**	**13,868**	**39,900**
Real estate - commercial/industrial	7,122	11,953	16,356	1,695	1,685	2,137	2,536	8,053	1,927	1,702	2,158	5,158	10,945
Real estate - resort/residential	1,612	1,723	1,629	388	324	367	449	1,528	1,561	1,405	371	434	3,771
Mineral resources	6,414	13,559	12,969	4,066	925	2,000	1,694	8,685	2,116	1,799	1,808	1,741	7,463
Farming	15,103	14,116	19,811	2,013	1,474	2,157	9,613	15,257	2,067	2,077	2,088	2,098	8,330
Ranch operations	4,896	4,679	5,024	1,330	1,338	1,196	1,179	5,043	1,227	1,271	1,208	1,328	5,034
Corporate expenses	9,430	9,843	9,699	2,287	2,222	2,315	3,048	9,872	2,492	2,155	2,338	2,338	9,324
Total expenses	44,577	55,873	65,488	11,779	7,968	10,172	18,519	48,438	11,390	10,409	9,970	13,098	44,867
Operating income / (loss)	(6,747)	(260)	13,729	486	(1,870)	37	(2,352)	(3,699)	(3,984)	(2,909)	1,156	770	(4,967)
Investment income	884	57	634	456	619	700	782	2,557	685	625	707	(272)	1,745
Gain (loss) real estate sales	1,331	-	-			-		-		-	-	-	
Other (loss) income	110	164	1,088	334	(32)	(30)	(410)	(138)	(70)	(32)	(30)	24	(109)
Total other income	2,325	221	1,722	790	587	670	372	2,419	615	593	677	(248)	1,637
Operating income/(loss)	(4,422)	(39)	15,451	1,276	(1,283)	707	(1,980)	(1,280)	(3,369)	(2,316)	1,833	522	(3,330)
Equity pickup	4,504	9,202	7,752	1,517	1,938	1,161	2,252	6,868	1,513	1,957	1,173	1,876	6,519
Pretax income	82	9,163	23,203	2,793	655	1,868	272	5,588	(1,856)	(358)	3,005	2,398	3,189
Taxes	829	3,821	7,393	1,013	391	2,215	(1,296)	2,323	(942)	395	2,237	(240)	1,450
Net income (loss)	(747)	5,342	15,810	1,780	264	(347)	1,568	3,265	(914)	(753)	768	2,638	1,739
Minority interest	(7)	(6)	2	6	(3)	(6)	3	-	-	-	-	-	-
Net income	(740)	5,348	15,808	1,774	267	(341)	1,565	3,265	(914)	(753)	768	2,638	1,739
Loss/share - EPS (FD)	($0.03)	$0.20	$0.59	$0.07	$0.01	($0.01)	$0.06	$0.12	($0.03)	($0.03)	$0.03	$0.08	$0.04
Average shares out (Mns)	26.3	26.4	26.7	26.6	26.9	26.8	26.7	26.7	26.8	26.8	26.8	26.8	26.8

Source: Company reports, Zacks estimates

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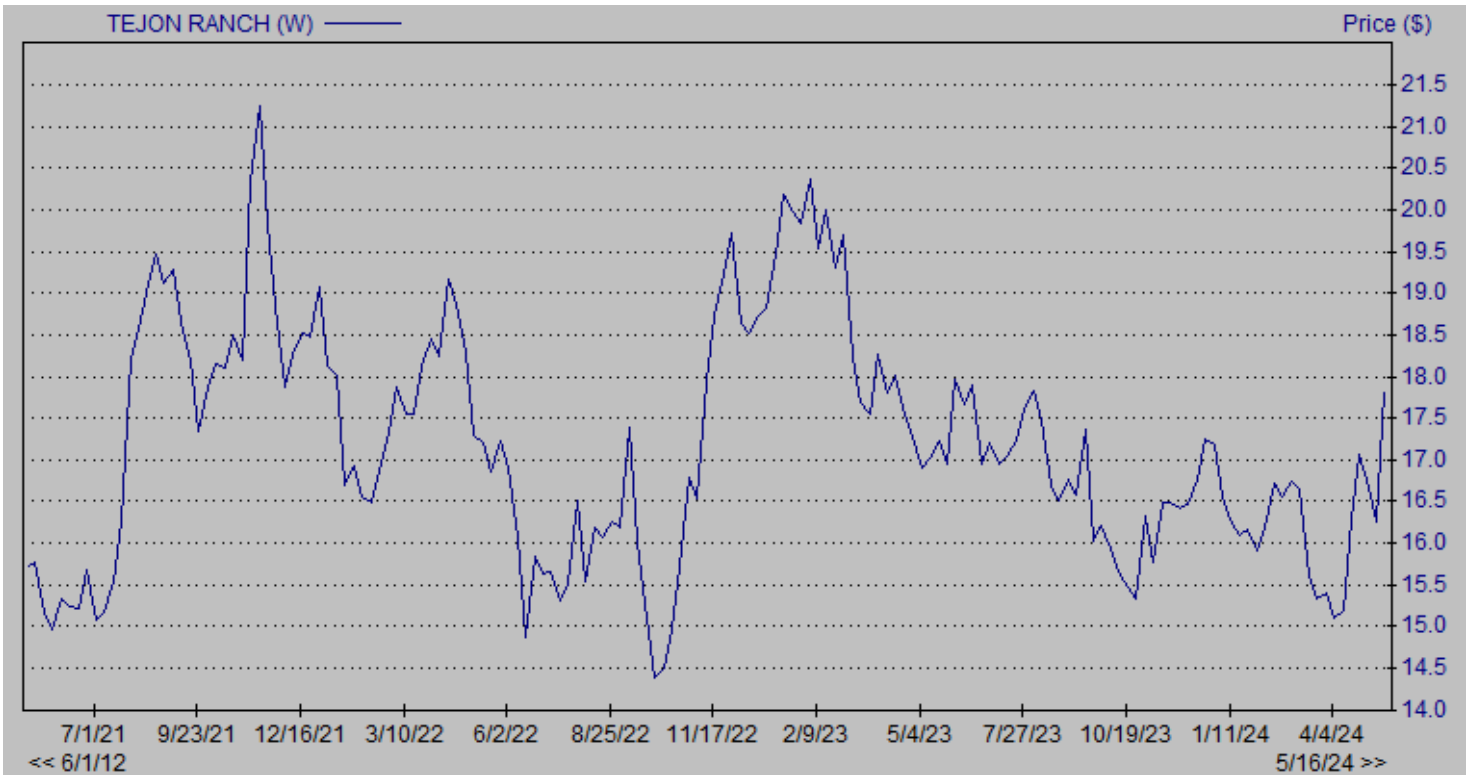
HISTORICAL STOCK PRICE



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