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Zacks Small-Cap Research

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

scr.zacks.com

10 S. Riverside Plaza, Chicago, IL 60606

Tejon Ranch (TRC-NYSE)

TRC: Optimistic About Commitment to Delivering Shareholder Value; Anticipate No *Direct* Impact of LA Fires

TRC announced the appointment of Matthew Walker as its next president and CEO, effective March 31, 2025, when the outgoing CEO, Gregory Bielli, retires. Mr. Walker's has extensive prior experience in the real estate space & we like his apparently strong real estate background. We note that in his remarks announcing the new CEO hire, TRC's board chairman noted the company's aim "to monetize [its] landholdings… and drive shareholder value," which we view positively.

Current Price (2/12/24)	$15.49
Valuation	**$26.25**

OUTLOOK

Other recent positive measures, in our view, include the appointment of several new directors to the board & that TRC reached a standstill agreement with a large shareholder that had voiced concerns about the company's direction and operations. We view their agreement as a positive outcome of their discussions, particularly in light of the new board composition. The substantial need for industrial, commercial and residential space near TRC's land -- likely heightened by the upcoming opening of the nearby Hard Rock Hotel & Casino Tejon -- underscores the attractiveness of TRC's property, in our view. With proximity to LA a significant positive, we believe, we do not expect direct impact from the current LA fires.

SUMMARY DATA

52-Week High	**$19.92**
52-Week Low	**$14.71**
One-Year Return (%)	**-9**
Beta	**0.59**
Average Daily Volume (sh)	**90,461**
Shares Outstanding (mil)	**27**
Market Capitalization ($mil)	**$420**
Short Interest Ratio (days)	**4.7**
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**	**$5.7A**	**$10.9A**	**$15.5E**	**$39.5E**
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**	**$0.04A**	**-$0.07A**	**$0.03E**	**-$0.04E**
2025					**$0.03E**

Quarters might not add to annual reflecting rounding

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NEW CEO HAS EXTENSIVE INDUSTRY EXPERIENCE

Company has indicated commitment to deliver value to shareholders

Tejon Ranch Company (NYSE:TRC) announced the appointment of Matthew Walker as its next president and CEO, effective March 31, 2025, when the outgoing CEO, Gregory Bielli, retires. Mr. Walker's has extensive prior experience in the real estate space, having spent 24-years at Los Angeles-based private real estate firm Lowe Enterprises where he is currently an Executive Vice President and shareholder. According to TRC, he oversees Lowe's hospitality and resort community platform. His prior real estate experience also includes resort and residential development, residential sales and marketing, master planned community entitlement and development, as well as resort value add investment and expansion. Prior to Lowe, he held various positions at several architectural firms.

We like his apparently strong real estate background. While we might have preferred a new CEO with public company experience, we note that in his remarks announcing the new CEO, TRC's board chairman noted the company's aim is "to monetize [its] landholdings… and drive shareholder value."

This comes after TRC has been criticized by key shareholders in recent months for not delivering value to shareholders. After all, the company's land holdings are strategically positioned to provide much needed industrial, commercial and residential space in the state. Now, we are optimistic that recent actions by the company could signal TRC's improved commitment to monetizing its asset portfolio and delivering value to shareholders.

View recently named directors as a positive

Among the most significant recent steps the company has taken, we believe, have been the addition of four new members to its board. Denise Gammon, Kenneth Yee, Jeff McCall and Eric Speron will serve as directors on the Tejon Ranch board of directors. They have extensive board experience, including with companies involved in the real estate space, as well as in finance, law, accounting and real estate development.

TRC has increased the number of directors on its board and also filled the vacancy that will occur once Geoffrey Stack retired on December 11, 2024. Collectively the new directors have experience in banking, finance, law, accounting, land and development of master planned communities, as well as general corporate operations. For example, Denise Gammon has more than 30 years of experience in various domestic real estate activities across 30 communities, including master planned communities and other development projects, and Eric Speron has a background in finance, with more than 22 years of financial management and advisory experience.

Does this represent improved TRC response to shareholders?

Importantly, the company has noted that the new directors are consistent with goals to, among other objectives, diversify the board and be "responsive to… investor relations engagement, **including direct meetings and interaction with… investors**," among other company goals. This action on TRC management's part is particularly notable, in our view, as we believe the results of the company's latest annual shareholder meeting reflected rising investor sentiment that change is needed in order to optimize value for shareholders.

In particular, 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. Nitor Capital highlighted its view that the current management team and the board have not created lasting shareholder value. The letter noted 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.

Also view standstill agreement with Nitor Capital as likely a positive outcome of their discussions about the company's direction

Nitor Capital also indicated it wanted 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" and noted that what it termed "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.

Importantly, TRC apparently has subsequently engaged with key shareholders to find ways to augment shareholder returns. In fact, Nitor Capital and the company have "engaged in various discussions and communications concerning the Company's business, financial performance and other matters," and subsequently reached a standstill agreement dated as of November 4, 2024.

According to the language of their agreement, it reflects their respective view that "it is in the best interests of the Company and its stockholders … to come to an agreement with respect to certain matters in respect of the Board of Directors of the Company …and certain other matters…"

View TRC proximity to LA as a significant positive -- substantial need for industrial, warehouse & residential space in the area – and do not expect direct impact from current LA fires



Source: Company reports

Separately, in terms of the fires currently devasted Los Angeles, we note that the company's land is located about 60 miles north of downtown Los Angeles and, therefore likely not directly impacted by the LA fires at this time. Nevertheless, there might be an indirect impact in terms of traffic to the TRCC and possibly some interruptions with logistics to and from the TRCC. Moreover, according to news outlets, parts of Kern County are also currently vulnerable to elevated fire risk.

In general, the proximity of TRC land holdings to LA, as well as to Bakersfield, is a significant positive, in our view. The substantial need for industrial, warehouse and residential space in the markets near TRC's land assets underscores the attractiveness of TRC's property, in our view, and that the location of the company's land asset also makes it appealing as solutions to a broad range of real estate needs. TRCC is located in Kern County, which is experiencing a severe shortage of housing like much of the state, including of apartment units, and of logistics space.

Industrial vacancy rates are as low as 0.5% in the Los Angeles region, according to Courthouse News, which puts upward pressure on lease rates for warehouse space. In turn, this results in warehouse lease rates in LA county among the highest for metropolitan areas in North America. Given the state's restrictive regulations around land development, it is easier to redevelop land that is already zoned for industrial use into warehouse space when existing leases expire than to convert retail space to industrial warehouses, as the latter is more likely to face challenges from municipalities.

TRC has indicated that the TRCC industrial portfolio, through TRC's JVs (joint ventures), is comprised of 2.8 million square feet of gross leasable area (GLA) and is 100% leased. However, TRCC comprises 7.1 million square feet of GLA in total, implying room for expansion. TRCC's wholly owned and JV commercial portfolio comprises 620,907 square feet of GLA and is 95% leased.

We expect the company to report 4Q24 results on or about March 5, 2025. Last year, the company reported its year-end results on March 6, 2024.

DEMAND FOR INDUSTRIAL / WAREHOUSE SPACE – TRCC ATTRACTIVE DISTRIBUTION HUB

High statewide need for additional industrial space

On the warehouse / industrial space front, TRC recently signed a JV with Dedeaux Properties earlier this quarter to develop and lease an approximately 510,500-square-foot, state-of-the-art industrial warehouse at the Tejon Ranch Commerce Center (TRCC). The TRCC currently has 100% occupancy of its industrial space, reflecting the location that is convenient to major urban centers and ports and the lack of supply of industrial space in the region. The new warehouse will be a Class-A divisible cross-dock facility with 185' truck courts and 36' clear height. Dedeaux finished initial development of a site in TRCC earlier this year and views the TRCC as "an efficient distribution hub for shipping goods throughout California and the West."

Warehouse leasing rates and vacancies have eased *slightly* in 2024 as new construction has come online. TRC noted in its latest 10Q that 3Q24, vacancy rates in the Inland Empire continued to climb but at a much slower pace to 6.7% as the construction pipeline posted its lowest quarterly total in eight years. Average asking rents declined for the fifth consecutive quarter…Vacancy increased marginally to 1.9% in San Fernando Valley and remained unchanged at 2.2% in Ventura County, while overall net absorption was negative in both markets…"

However, market supply is expected to tighten further in 2025, according to real estate services firm CBRE. Moreover, almost 28% of existing space is older than 50 years, according to CBRE, while distributors need modern facilities to process high volumes of goods, highlighting – in our view – the attractiveness of TRC's modern class A properties.

TRC also has had a strong recent track record of pre-leasing planned new industrial space even before construction has begun. We believe this 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. For instance, Sunrise Brands, a California-based producer, distributor and retailer of branded (such as Rebecca Minkoff) and private-label apparel, leased an entire building before it was built. During construction, Sunrise took temporary space at TRCC and once it vacated the temporary space and relocated to the new 446,400 square foot building in January 2024, TRC signed a new lease for that 240,000 square feet of space that Sunrise had occupied with RectorSeal, a manufacturer and distributor of industrial components. The company has also begun construction of a new distribution facility for Nestlé USA that will total more than 700,000 square feet at TRCC east.

HIGH DEMAND FOR RESIDENTIAL UNITS

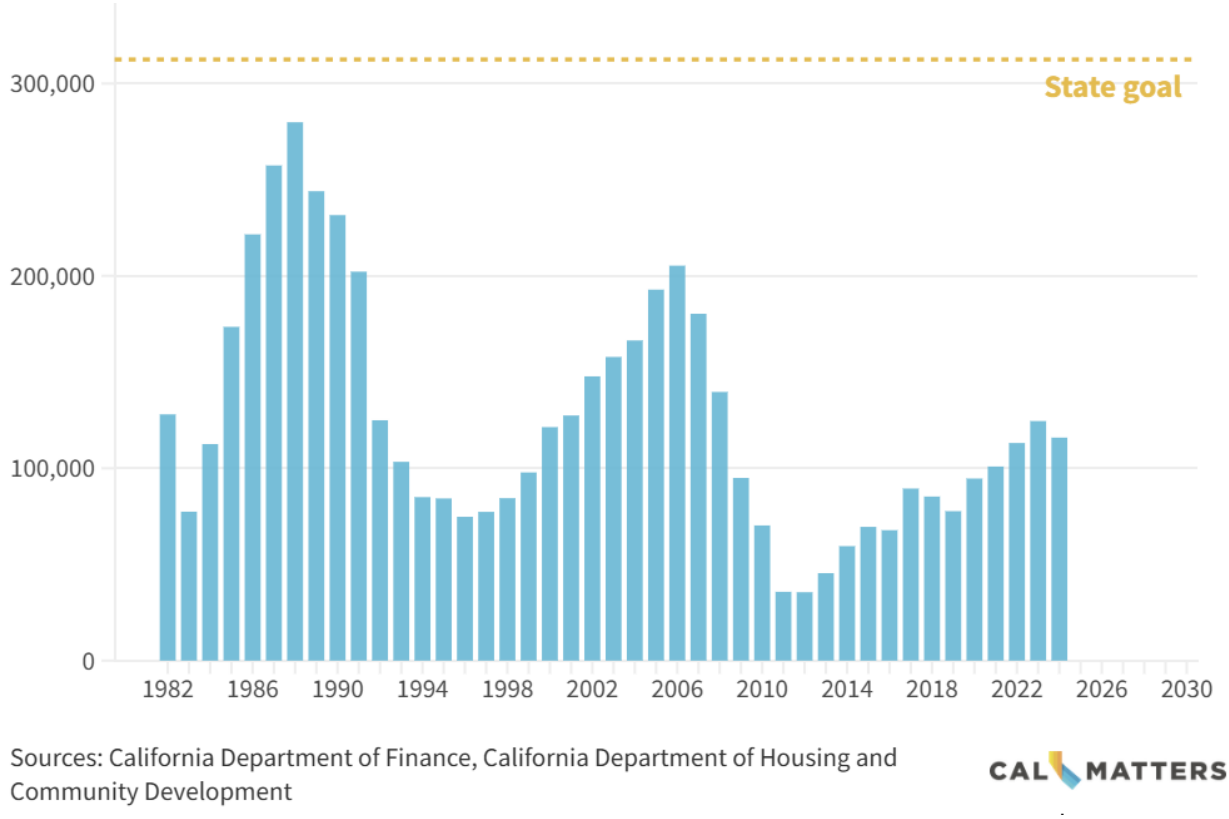
And substantial statewide need for additional industrial space

On the residential front, there is a severe statewide shortage of residential property, which is likely only to be exacerbated by the opening of the nearby Hard Rock Hotel & Casino Tejon. For example, 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, 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.

In addition, the development of the Hard Rock Hotel & Casino Tejon is expected to drive further demand for housing. In 2022, legislation passed ratifying a gaming compact between the state of California and the Tejon Indian Tribe. The Hard Rock Hotel & Casino Tejon is planned to consist of more than 700,000 square feet of gaming space, dining sites and hotel rooms. 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, likely further driving demand for affordable housing in the region, in our view.

The company is developing a multi-family residential complex, adjacent to the Outlets at Tejon that is expected to provide housing for people living nearby the TRCC, including many employed at the TRCC. The planned expansion of the TRCC industrial space is also expected to lead to new jobs, likely driving demand for convenient and affordable housing. 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.



California has some of the highest rental rates nationwide. TRC 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. Terra Vista at Tejon as TRCC will be 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 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.

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 2Q25.

VALUATION

Currently, 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 does not reflect what we see as the growing value of TRCC space. We believe our valuation could prove conservative in the near-term but 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 note that the ongoing expansion at TRCC is not reflected in our current valuation analysis and we expect multiple expansion on TRC shares as the company hits certain milestones in its development objectives.

RECENT NEWS

- TRC announced the appointment of a new president & CEO on February 11, 2025.
- On 11/5/24, TRC announced the addition of four board members.
- Tejon Ranch Company and Dedeaux Properties announced JV to develop industrial warehouse at the TRCC on 10/10/24.
- On 9/24/24, Tejon Ranch named a new SVP- Corporate Communications and Public Affairs.
- TRC held its annual shareholder meeting on 5/14/24.
- On 3/20/24, TRC's President and CEO announced his retirement plans.
- 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.

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 sensitive.
- 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	2Q24A	3Q24A	4Q24E	2024E	2025E
Real estate - commercial/industrial	$9,536	$19,476	$40,515	$2,676	$2,633	$3,397	$3,052	$11,758	$2,945	$2,550	$3,002	$2,833	$11,330	$12,170
Mineral resources	10,736	20,987	21,595	6,912	1,600	3,118	2,894	14,524	2,489	2,032	3,166	3,458	11,145	14,873
Farming	13,866	11,039	13,001	1,185	1,025	2,642	9,098	13,950	865	142	3,242	7,926	12,175	14,369
Ranch operations	3,692	4,111	4,106	1,492	840	1,052	1,123	4,507	1,107	965	1,446	1,315	4,833	4,615
Total revenues	**37,830**	**55,613**	**79,217**	**12,265**	**6,098**	**10,209**	**16,167**	**44,739**	**7,406**	**5,689**	**10,856**	**15,532**	**39,483**	**46,026**
Real estate - commercial/industrial	7,122	11,953	16,356	1,695	1,685	2,137	2,536	8,053	1,927	1,990	2,088	2,180	8,185	8,488
Real estate - resort/residential	1,612	1,723	1,629	388	324	367	449	1,528	1,561	427	328	434	2,750	2,805
Mineral resources	6,414	13,559	12,969	4,066	925	2,000	1,694	8,685	2,116	1,115	1,812	1,741	6,784	6,920
Farming	15,103	14,116	19,811	2,013	1,474	2,157	9,613	15,257	2,067	1,087	6,252	7,530	16,936	17,274
Ranch operations	4,896	4,679	5,024	1,330	1,338	1,196	1,179	5,043	1,227	1,261	1,223	1,328	5,039	5,140
Corporate expenses	9,430	9,843	9,699	2,287	2,222	2,315	3,048	9,872	2,492	3,357	2,945	2,572	11,366	13,071
Total expenses	44,577	55,873	65,488	11,779	7,968	10,172	18,519	48,438	11,390	9,237	14,648	15,785	51,060	53,698
Operating income / (loss)	(6,747)	(260)	13,729	486	(1,870)	37	(2,352)	(3,699)	(3,984)	(3,548)	(3,792)	(253)	(11,577)	(7,672)
Investment income	884	57	634	456	619	700	782	2,557	685	630	528	587	2,430	2,065
Gain (loss) real estate sales	1,331	-	-			-		-				-		-
Other (loss) income	110	164	1,088	334	(32)	(30)	(410)	(138)	(70)	(71)	(69)	(24)	(234)	(1,400)
Total other income	2,325	221	1,722	790	587	670	372	2,419	615	559	459	563	2,196	665
Operating income/(loss)	(4,422)	(39)	15,451	1,276	(1,283)	707	(1,980)	(1,280)	(3,369)	(2,989)	(3,333)	309	(9,382)	(7,007)
Equity pickup	4,504	9,202	7,752	1,517	1,938	1,161	2,252	6,868	1,513	2,769	3,329	1,407	9,018	9,027
Pretax income	82	9,163	23,203	2,793	655	1,868	272	5,588	(1,856)	(220)	(4)	1,717	(363)	2,020
Taxes	829	3,821	7,393	1,013	391	2,215	(1,296)	2,323	(942)	(1,176)	1,832	481	195	737
Net income (loss)	(747)	5,342	15,810	1,780	264	(347)	1,568	3,265	(914)	956	(1,836)	1,236	(558)	1,283
Minority interest	(7)	(6)	2	6	(3)	(6)	3	-	-	1		-	1	-
Net income	(740)	5,348	15,808	1,774	267	(341)	1,565	3,265	(914)	957	(1,836)	1,236	(557)	1,283
Loss/share - EPS (FD)	($0.03)	$0.20	$0.59	$0.07	$0.01	($0.01)	$0.06	$0.12	($0.03)	$0.04	($0.07)	$0.03	($0.04)	$0.03
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	26.8

Source: Company reports, Zacks estimates

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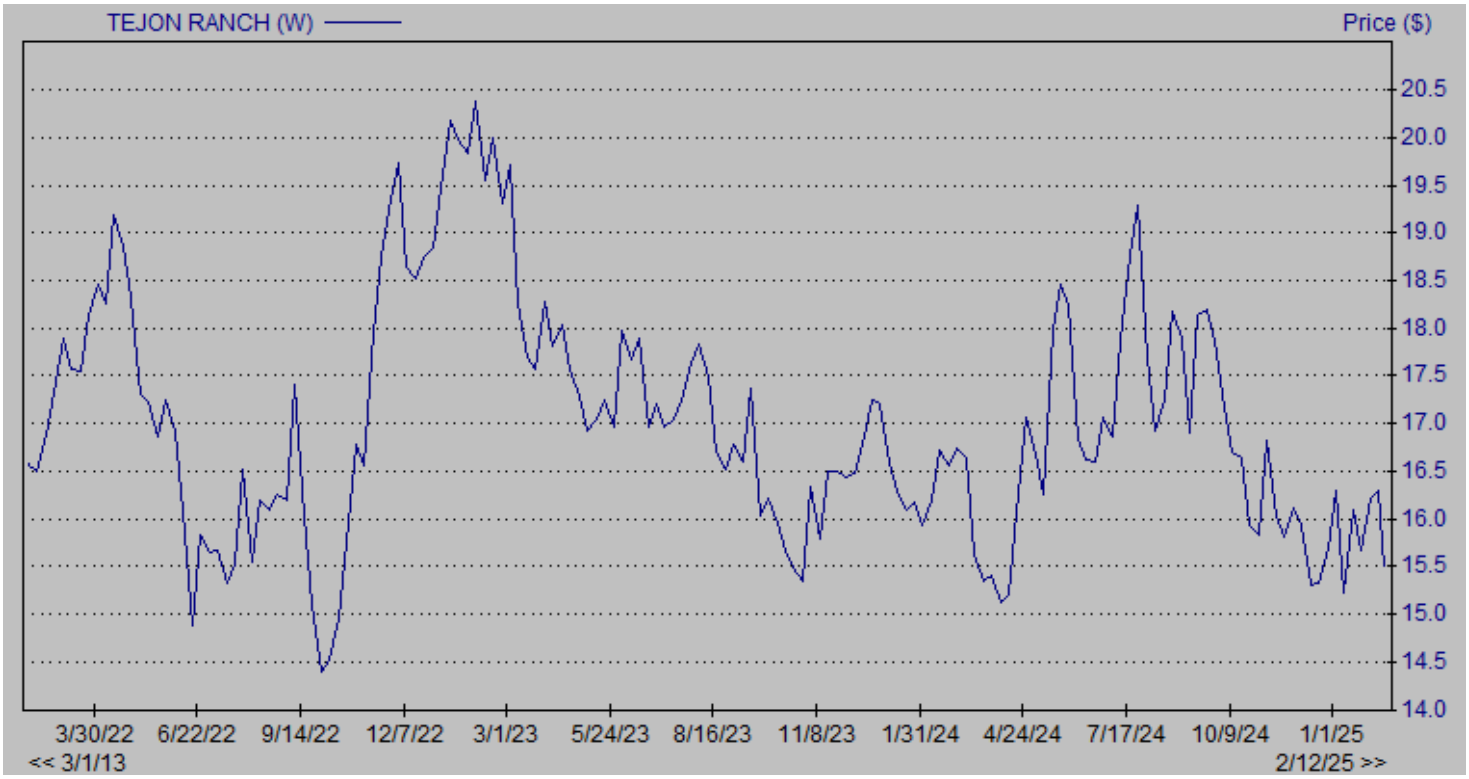
HISTORICAL STOCK PRICE



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