

Discovery Group

3Q Beat on Top/Miss on Bottom; Lemon Prices Firm on Low Supply Due to Weather; Brokered Fruit Helps Beat; RE Sales To Pick Up Given New Interest; Buy, \$24 PT

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Summary and Recommendation

Buy-Rated Limoneira Company (LMNR—\$24 PT) reported 3Q23 results on 9/7 AMC with generally inline results with a beat on the top and a slight miss on the bottom, revs./adj. EBITDA of \$52.5M/\$2.8M versus Street at \$49.7M/\$6M. Revs were down 11% Y/Y, with adj. EBITDA of \$2.8M, down from \$14.8M LY. 3Q displayed weaker lemon prices and lower utilization due to heavy rains in California earlier this year, delaying harvest and causing pest damage. From lack of lemons, prices have been firming up from early August, expecting to lift pricing for the winter. Avocado revs were impacted heavily by the same issues plaguing lemons. Brokered lemon revs surprised to the upside with \$8.8M for 3Q versus \$5M LY, indicating traction in its packing/shipping pivot. Earnings were impacted by higher growing & packing costs, partially offset by decreases in third-party grower and supplier costs. Farm management revs also surprised to the positive with \$5.4M in revs for 3Q. Additional fallowing was done in AZ, leading to a further monetization of water assets in continuation of its efforts to exit non-strategic assets. Management indicated that lemon prices have so far this quarter been elevated to the low 20s, indicating higher EBITDA profits if prices are sticky. Continued growth in brokered revs from suppliers in South America should complement increased packing/shipping from Chile. LMNR had discussed the possibility of higher revenues from selling water rights in Yuma, AZ, where it has class 3 water rights to the Colorado River. LMNR will get \$1.3M/year from 600 acres of fallowed land (out of its 1,300 acres), which could triple to quadruple from further price increases. LMNR should be able to show increased lot sales at higher prices at its Harvest development aided by land sales at its Phase 2 area as interest in its land resurfaces. LMNR lowered FY23E to a range of 4.7M-5.0M lemon cartons and reduced avocado production to 3.8M pounds this year. We maintain a Buy with a \$24 PT on LMNR's prospects of land and water-rights monetization and rising third-party lemon volumes at firming lemon prices.

Key Points

- **Generally inline 2Q; low lemon/avocado prices impact results.** 2Q was impacted by the inability to harvest due to inclement weather and intense competition from Mexican growers, though that is looking to ease now. LMNR sold 1.35M lemon cartons at an average price of \$17.92 per carton, with ~50% coming from outside growers. LMNR sold 2.8M lbs of avocados at an average price of \$0.99 per lb, up significantly from 0.9M lbs in the last quarter. There were some marginal orange and specialty citrus sales that would not continue in quarters ahead due to the sale of all orange and citrus growing land in the Northern counties. LMNR announced further fallowing of its land in Yuma, AZ, generating higher revenues from the sale of water rights in Yuma, AZ, where it has class 3 water rights to the Colorado River. With the Department of Interior instructing seven states that derive water from the Colorado River to reduce intake by a third, these states would be forced to go to those with senior water rights (like class 3 LMNR has) so farmed land could be fallowed to make water available for urban use. Overall, lemon prices are looking to firm up, continuing the trend from early August and likely to provide a lift for winter lemon prices. We assume lemon prices to stay around \$20 per carton for the next several quarters. LMNR ended 3Q with \$11M in cash and \$40.8M in total debt.
- **Asset-light, pack & ship pivot driving results.** LMNR had pivoted its business model from purely farming lemons to packing, marketing, and shipping them for other growers domestically and in Mexico and South America. From suffering low prices (and reduced margins) on over-supplied lemons, it makes ~\$2.00/carton to \$2.50/carton in operating profit from the third-party growers it services. **(Continued on next page...)**

STOCK DATA			
Market Cap (mil)			\$271.8
52-Week Range			\$11.00–\$17.90
3-Month ADTV			101,253
Shares Outstanding (mil)			18.0
Dividend Yield			1.99%
Float (%)			93.4
Short Interest			567,297
Enterprise Val. (mil)			\$312.0
Fiscal Year-End			October
FINANCIAL DATA			
Rev. (mil)	2022A	2023E	2024E
1Q	\$39.3	\$37.9A	-
2Q	\$46.8	\$48.1A	-
3Q	\$58.9	\$52.5A	-
Prior 3Q	-	\$46.8	-
4Q	\$39.7	\$40.6	-
Prior 4Q	-	\$38.3	-
FY	\$184.6	\$179.1	\$215.3
Prior FY	-	\$171.0	\$206.9
Adj. EBITDA	2022A	2023E	2024E
1Q	\$(6.2)	\$(7.9)A	-
2Q	\$5.8	\$6.2A	-
3Q	\$14.2	\$2.8A	-
Prior 3Q	-	\$5.3	-
4Q	\$(3.8)	\$(1.7)	-
Prior 4Q	-	\$1.5	-
FY	\$11.9	\$(0.6)	\$15.1
Prior FY	-	\$5.1	\$13.2
BALANCE SHEET DATA			
			3Q23
Cash & Equivalents			\$11.0
Long-Term Debt			\$40.8
Shareholders' Equity			\$195.4
Debt/Cap			17.3%
<i>\$ in millions.</i>			

Analyst certification and important disclosures can be found on pages 5 - 8 of this report.

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- **(...Continued from prior page)** Its One World of Citrus allows it to scale and fill its updated packinghouse capacity from 70% to 100%, growing sales and EBITDA. LMNR's pivot to its asset-light strategy by packing and shipping would help it make \$2.00/carton to \$2.50/carton in spreads at any lemon price. To that effect, LMNR announced that it would scale up its total cartons packed and shipped from its current 5.4M cartons to 15M cartons shipped in five years (a target upped on this call from 12M in cartons in 5 years). This entails adding a 5M carton capacity in Chile in three years. Pivoting away from 100% self-production (cutting production in less productive farming areas) to sourcing more lemons from outside growers in its asset-light volume expansion should lead to higher margins and profits. Higher brokered revs of \$8.8M are expected to continue, given the company's recent efforts to continue sourcing lemons from new suppliers in South America.
- **Discount to sum-of-parts value of \$35/sh!** An investor in LMNR finds the company in an interesting and opportunistic spot—a large, established grower with a sizable land bank, slowly emerging from an oversupply slump and stagnant prices. Armed with a mandate to make itself asset-light while simultaneously becoming an even bigger supplier of lemons. The increased cash flows are expected from rising demand, firming prices, and an expanded One World of Citrus agency model with real-estate monetization and non-strategic land/water sales that could continue to help Limoneira. LMNR looks to increase its operational cash flows, improve its business model, and monetize sizable land and water assets. At an enterprise value of ~\$300M, LMNR seems to be a bargain, considering the current fair market value of its assets is closer to ~\$600M. It trades at 13x FY25E EV/EBITDA relative to its Ag. comps at ~20x. Our \$24 PT assumes a 20x multiple to FY25E EBITDA.

Valuation

Our \$24 is supported by a sum-of-the-parts value of LMNR at the fair market value of assets that currently is \$35 per share.

Risks

External supply/demand shocks. A big risk to investing in LMNR is an act-of-God event creating a shock on the supply/demand dynamics of edible commodities and farm products. Weather-related external shocks could materially affect the supply chains of lemons and avocados or cause flood impacts on LMNR's internal food production.

Weather. Unpredictable and extreme weather may cause significant fluctuations in commodity prices, impact yield on the company's acreage, or damage yield, which may, in turn, affect profits.

Government control of water rights. Given the environmental and political risks of farming in the U.S., we believe access to these rights over the long term represents a possible risk.

Post-COVID comeback. Domestic restaurant demand, materially affected during COVID, may not recover sufficiently for the company's farmed products, presenting a risk to investors.

Excess international supply may not correct. The domestic lemon market faces supply pressure from certain European and Latin American countries. LMNR's own exports also face risks both geopolitically and from excess supply from growers in the region.

Financial Model

Limoneira B. Riley Securities (<small>\$ Millions, except per-share and common-share data</small>)	FY 2020	FY 2021	2022				FY 2022	2023E				FY 2023E	FY 2024E	FY 2025E
			Jan	Apr	Jul	Oct		Jan	Apr	Jul	Oct			
			Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4E			
Agribusiness	159.9	161.4	38.1	45.4	57.6	38.2	179.3	36.5	46.7	51.1	39.2	173.5	209.8	229.9
Other operations	4.6	4.6	1.2	1.4	1.3	1.4	5.3	1.4	1.4	1.4	1.4	5.6	5.4	5.4
Total Revenues	164.6	166.0	39.3	46.8	58.9	39.7	184.6	37.9	48.1	52.5	40.6	179.1	215.3	235.4
Operating expenses:														
Agribusiness	157.8	148.5	41.2	37.6	41.5	40.3	160.7	41.2	38.2	46.8	40.1	166.4	187.0	194.2
Other operations	4.5	4.3	1.1	1.1	1.1	1.1	4.4	1.2	1.0	1.0	1.0	4.3	-	-
Loss (gain) on disposal of assets	0.0	0.1	(0.1)	0.3	0.2	(5.0)	(4.5)	(39.7)	6.7	1.5		(31.5)	-	0
Selling, general & administrative	21.3	19.4	6.6	5.1	5.0	5.1	21.8	9.3	6.0	4.6	4.4	24.3	24.8	30.0
Total operating expense	183.6	172.4	48.8	44.2	47.9	41.5	182.4	12.0	51.9	54.0	45.6	163.6	211.8	224.2
Operating profit / loss (EBIT)	(19.0)	(6.3)	(9.6)	2.6	11.1	(1.9)	2.2	25.9	(3.9)	(1.5)	(5.0)	15.5	3.5	11.2
Interest expense-net	(1.7)	(1.1)	0.2	(0.7)	(0.8)	(1.0)	(2.2)	(1.2)	1.1	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
Equity in earnings of unconsolidated affiliates	0.3	3.2	0.1	0.3	0.3	0.7	1.3	0.3	0.1	0.2	0.2	0.7	1.2	2.3
Loss on stock in Calavo Growers, Inc.	(6.3)	-	-	-	-	-	-	-	-	-	-	-	-	-
Other income	0.2	0.1	0.0	0.1	0.0	(1.1)	(1.0)	(2.6)	0.2	(0.2)	(0.2)	(2.8)	(2.8)	(2.8)
Earnings before Income Taxes	(26.5)	(4.2)	(9.3)	2.3	10.6	(3.3)	0.3	22.4	(2.5)	(1.6)	(5.1)	13.1	1.6	10.4
Income Tax Expense	8.5	0.3	2.7	(0.7)	(3.3)	0.6	(0.8)	(6.8)	0.9	0.4	1.3	(4.3)	(0.4)	(2.6)
Net income / loss	(18.0)	(3.9)	(6.6)	1.6	7.3	(2.8)	(0.5)	15.5	(1.6)	(1.2)	(3.8)	8.9	1.2	7.8
Loss (income) attributable to non-controlling interest	1.5	0.5	0.1	(0.0)	0.1	0.1	0.2	0.1	0.0	0.1	0.1	0.3	0.3	0.3
Net income/loss attributable to Limoneira Co.	(16.5)	(3.4)	(6.5)	1.6	7.4	(2.7)	(0.2)	15.6	(1.6)	(1.2)	(3.7)	9.2	1.5	8.1
Preferred dividends	(0.5)	(0.5)	(0.1)	(0.1)	(0.1)	(0.1)	(0.5)	(0.1)	(0.1)	0.1	0.1	(0.1)	(0.1)	(0.1)
Income/loss applicable to common stock	(17.0)	(3.9)	(6.6)	1.4	7.3	(2.8)	(0.7)	15.4	(1.7)	(1.2)	(3.7)	8.8	1.1	7.7
Earnings Per Share	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EPS - GAAP	(0.96)	(0.23)	(0.38)	0.08	0.40	(0.16)	(0.04)	0.84	(0.10)	(0.07)	(0.20)	0.47	0.06	0.40
Weighted average shares														
Diluted (M) (Incl. Preferred)	17.6	17.6	17.4	17.5	18.3	17.5	17.5	18.4	18.3	18.4	18.5	18.4	19.0	19.5
Common Size:														
Growth Y-O-Y														
Revenues	-4.0%	0.9%	2.5%	3.1%	20.1%	18.4%	11.2%	-4.1%	2.9%	-11.3%	2.5%	-0.1%	20.2%	9.3%
Adj. EBITDA	-430.5%	-223.6%	-103.2%	-4.3%	80.8%	-28.5%	51.7%	-26.1%	6.5%	-80.4%	55.7%	-104.7%	-2823.1%	50.8%
Net income	177.1%	-79.1%	-68.7%	3.9%	131.1%	40.7%	-93.1%	335.1%	-203.7%	-117.1%	-37.1%	1969.6%	-86.8%	563.5%
EPS	-136.7%	-196.0%	-53.3%	-20.5%	101.5%	44.0%	-123.3%	320.0%	-221.9%	-117.7%	-25.8%	1275.3%	-87.7%	584.4%
Select Financial Information (\$ Millions unless per-share data)														
Adj EBITDA Margin	-3.9%	4.7%	-15.9%	12.4%	24.0%	-9.6%	6.4%	-20.8%	12.8%	5.3%	-4.2%	-0.3%	7.0%	9.7%
Net Margin	-10.0%	-2.1%	-16.6%	3.3%	12.5%	-6.7%	-0.1%	41.2%	-3.4%	-2.2%	-9.1%	5.1%	0.7%	3.4%
Price	\$ 14.70	\$ 14.70	\$ 14.70	\$ 14.70	\$ 14.70	\$ 14.70	\$ 14.70	\$ 14.70	\$ 14.70	\$ 14.70	\$ 14.70	\$ 14.70	\$ 14.70	\$ 14.70
FD Market cap	258.7	258.7	255.8	257.3	269.0	257.3	257.3	270.2	269.6	270.5	272.5	270.7	279.2	286.6
Cash & Investments	0.5	0.4	0.8	1.0	1.0	0.9	0.9	12.5	9.8	11.0	12.0	12.0	15.1	0.7
Total LT Debt	122.6	130.4	142.1	135.6	129.0	104.1	104.1	40.9	40.8	40.8	40.8	40.8	40.8	10.8
Enterprise value	380.8	388.6	397.1	391.9	397.0	360.5	360.5	298.6	300.6	300.3	301.4	301.4	305.0	296.8
Depreciation & Amortization	10.1	9.8	2.5	2.5	2.5	2.4	9.8	2.4	2.0	2.0	2.0	8.5	8.5	7.4
Stock based compensation	2.0	2.6	1.0	0.4	0.6	0.7	2.7	1.1	1.0	0.8	1.2	4.0	4.0	4.0
EBITDA	(13.1)	7.2	(6.9)	5.4	13.9	0.2	12.6	26.1	(1.5)	1.2	(2.9)	22.2	10.6	18.3
Adj. EBITDA	(6.3)	7.8	(6.2)	5.8	14.2	(3.8)	11.9	(7.9)	6.2	2.8	(1.7)	(0.6)	15.1	22.8
EBITDA (LTM)	-13.1	7.2	3.4	2.8	8.8	12.6	12.6	-7.9	38.6	25.9	22.9	22.2	10.6	18.3
Adj. EBITDA (LTM)	-6.3	7.8	4.7	4.4	10.7	9.9	11.9	8.3	8.6	-2.7	-0.6	-0.6	15.1	22.8
EV/Adj. EBITDA (LTM) ratio	-60.0x	49.6x	85.0x	88.8x	36.9x	36.4x	30.3x	36.1x	34.8x	NMF	-481.3x	NMF	20.2x	13.0x
Income Taxes	(8.5)	(0.3)	(2.7)	0.7	3.3	(0.6)	0.8	6.8	(0.9)	(0.4)	(1.3)	4.3	0.4	2.6
Capital expenditures	10.6	9.8	2.1	2.0	3.6	2.4	10.1	2.2	3.3	3.5	3.5	12.5	12.5	12.5
Operating Cash Flow	(11.3)	9.6	(8.2)	7.0	12.1	3.9	14.8	(21.2)	2.7	31.0	4.5	17.1	7.6	11.1
Investing Cash Flow	3.8	(10.2)	(0.7)	0.3	(4.9)	24.7	19.4	99.1	(3.7)	(3.1)	(3.5)	88.8	(4.5)	4.5
Financing Cash Flow	7.4	0.5	9.3	(7.0)	(21.1)	(14.8)	(33.5)	(66.3)	(1.7)	(1.6)	-	(69.6)	-	-
Net Cash Flow	(0.1)	(0.1)	0.4	0.3	(13.8)	13.8	0.7	11.6	(2.7)	26.4	1.0	36.3	3.1	15.6
FCF (LTM)	-0.1	-0.1	-1.0	-0.4	-13.5	0.7	0.7	12.0	9.0	49.2	36.3	36.3	3.1	15.6
Shareholders' equity	195.8	188.4	180.6	180.0	185.7	181.1	181.1	200.1	197.8	195.4	191.7	191.7	192.8	200.5
Price/book	1.3x	1.4x	1.4x	1.4x	1.4x	1.4x	1.4x	1.4x	1.4x	1.4x	1.4x	1.4x	1.4x	1.4x
Book value per share	\$ 11.12	\$ 10.71	\$ 10.38	\$ 10.28	\$ 10.15	\$ 10.35	\$ 10.35	\$ 10.89	\$ 10.79	\$ 10.62	\$ 10.34	\$ 10.41	\$ 10.15	\$ 10.28
Leverage Ratio (Net Debt/EBITDA)	NMF	18.0x					8.2x	3.4x	3.6x	-10.9x	-46.1x	1.3x	1.7x	0.4x
Dividend	2.04%	2.04%	0.51%	0.51%	0.51%	0.51%	2.04%	0.51%	0.51%	0.51%	0.51%	2.04%	2.04%	2.04%

Source: Company Financials and B. Riley Securities Research

*Closing price of last trading day immediately prior to the date of this publication unless otherwise indicated.

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