

**BUY**

Price \$18.57 (intraday, 12/1/23)

**FLASH NOTE****Thoughts on strategic review - Logical final phase of portfolio restructuring****Summary**

Limoneira recently announced it was pursuing a full strategic review of its business and assets. The announcement comes after almost two years of repositioning the company to shed asset-heavy business lines, underperforming acres, and right-size the balance sheet. With the company still operating a best in class citrus growing and packing operation, with deep industry experience and contacts, as well as its significant land development project we believe there will be numerous options for unlocking shareholder value.

**Key Points**

Given the early stage of any discussions, we can only make educated guesses at what likely potential outcomes could entail. We believe there are three key factors that would likely influence the shape of a broad strategic overhaul:

- The tax basis of the agricultural assets, given their age, creates a tax hurdle for a go-private type transaction, whereas a stock-for-stock transaction we understand would not result in a taxable step up in basis from the <\$10 mn carrying value now to the likely \$200+ mn fair market value of the land holdings.
- The portion of land that has already been placed into the real estate development ("Harvest") project has already been adjusted and is in a separate equity vehicle, which should facilitate cleaner monetization options.
- Management is highly cognizant of the negative impact to cost of capital and pricing efficiency from its microcap status; a view we do not dispute.

Again, with the strategic process only just beginning, and without any specific knowledge other than the review marking the final stage of management's ongoing plan to unlock underlying asset value for its shareholders, we can only speculate on potential outcomes. Based on the "known" considerations that could influence the outcome, we could envision a sale of the real estate venture, leaving a pureplay agriculture company that joins several other microcap produce-related ventures that could stand to benefit from greater scale and diversity through combination. We plan to revisit explicit valuation implications as management shares more details on the process.

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## Investment Thesis

*We believe Limoneira is uniquely positioned to generate strong growth from its existing pipeline of newly planted acres and expanded pack house, which will coincide with a winding-down of capital spending to generate strong free cash flows, in our view. Leveraging this free cash flow profile, vertically integrated asset base, and management acumen, Limoneira is also pursuing an aggressive acquisition strategy, focused on growing its footprint abroad, which we believe could add significant value beyond our current estimates.*

## Target Price Methodology/Risks

Our target price of \$21/sh is based on an 8.5x EV/EBITDA on our FY24 EBITDA estimate of \$18.9 million plus \$10 million of the company's \$25 million growth target, and using a year-end FY23 balance sheet to reflect recent asset monetizations. Our EV is further adjusted by \$115 million for the discounted expected cash flows from the Harvest real estate joint venture and an additional \$50 million of planned non-core divestments.

**Weather.** As with all agriculture, changes in weather patterns can adversely affect crop yields and prices.

**Geographic Concentration.** Much of Limoneira's production and packaging is currently concentrated in California, which is prone to natural disasters, including wildfires and earthquakes.

**Labor costs.** Rising minimum wage regulation and changing immigration policies may have an adverse effect on Limoneira's labor costs.

**Publicly Available Information.** Publicly available valuation of Limoneira shares could drive up asking prices in the M&A pipeline.

**Commodity Price.** The company's realized crop prices could also differ materially from our estimates and cause future earnings to deviate significantly from our forecasts.

## Company Description

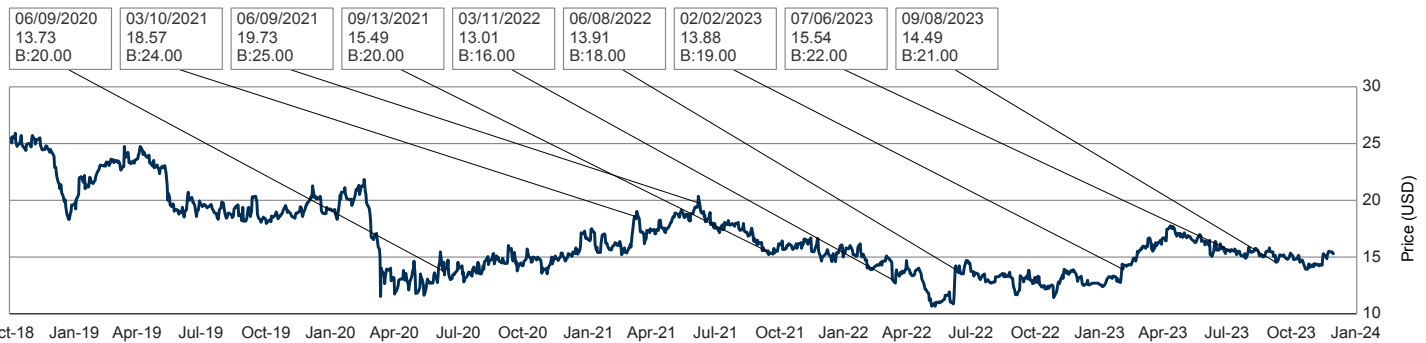
Limoneira is an agribusiness and real estate development company based in Santa Paula, CA, managing 11,430 acres of land centered on the production and marketing of citrus and specialty crops. The company is one of the largest U.S. growers of lemons and avocados, as well as other specialty fruits. Limoneira also operates wholly-owned and jointly-owned citrus assets in Mexico, Argentina, Chile, and elsewhere.

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### Limoneira Company (LMNR) as of November 30, 2023 (in USD)



\*Represents the value(s) that changed.

Buy=B; Hold=H; Sell=S; Discontinued=D; Suspended=SU; Discontinued=D; Initiation=I

For a price chart with our ratings and target price changes for LMNR go to <http://stifel2.bluematrix.com/sellside/Disclosures.action?ticker=LMNR>

Stifel or an affiliate expects to receive or intends to seek compensation for investment banking services from Limoneira Company in the next 3 months.

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