

Limoneira Company

(LMNR – \$15.12)

Buy

Price Target: \$19

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A Mixed Quarter But Value Proposition Unchanged; Reiterate Buy Rating And \$19 PT

Limoneira reported mixed Q3'23 results, with the bottom line modestly below our estimates on depressed pricing and delayed harvests, but the core of the value thesis remains intact. We expect the effects of Limoneira's asset monetization strategy to move from a much improved balance sheet in FY23 to a much improved income statement in FY24 given a series of converging factors, and reiterate our Buy rating accordingly despite the Q3'23 results.

- Q3'23 Results** – Limoneira faced an impossible YoY comp, given a prior year which saw both record avocado volume and pricing converge. Backing out the Q3'22 \$9M+ avocado profit, YoY EBITDA only declined by ~\$3M to \$2.8M despite weaker lemon prices and harvest delays which dragged down fresh utilization rates (60%, vs 70%+ YoY). All in, we believe Limoneira navigated a challenging period quite well.

	Q3'22A	Q3'23A	▲	Q3'23E	Q3'23A	▲
Revenue	58,923	52,497	-10.9%	50,000	52,497	5.0%
Gross Profit	16,333	4,618	-71.7%	7,500	4,618	-38.4%
Gross Margin	27.7%	8.8%	-1,890 bps	15.0%	8.8%	-620 bps
Adj EBITDA	14,785	2,842	-80.8%	5,500	2,842	-48.3%
Adj EBITDA Margin	25.1%	5.4%	-1,970 bps	11.0%	5.4%	-560 bps

Source: Company reports and LCSM estimates

- Pricing Improvement On Horizon?** – Limoneira realized an average price/ca of \$17.92 in the period, with YTD pricing even below what was seen in the same period at the onset of Covid. However, management noted an improved environment may be underway as supply constraints across multiple growing regions have led to prices in the \$20-\$25/ca level currently. If even the low end of this range is sustained throughout FY24, we believe our \$16M EBITDA estimate could be conservative by \$4M-\$5M.
- Transition Underway** – Exiting operations in early FY23 which were unprofitable at \$18/ca and overhauling its balance sheet has considerably raised the floor for Limoneira. From this higher floor in FY23, we expect a considerable improvement in FY24 driven by a series of factors, including higher lemon prices, higher avocado volume, a full year of farm management revenue contributions, ramping third party fruit volume, and income from following programs.
- Asset Monetization and Harvest At Limoneira On Track** – We continue to expect ~\$50M of additional real estate asset sales in coming quarters, while an undersupplied real estate market should continue to support Harvest at Limoneira cash flow visibility. Between these initiatives and an improved operational outlook, we believe Limoneira could move from a ~\$30M net debt position ending Q3'23 to a ~\$30M net cash position ending FY24.
- Limoneira Participation At BIG7 Conference** – Limoneira management will be attending the BIG7 Conference hosted by Lake Street Capital Markets in New York City on September 14th.

Changes	Previous	Current
Rating:	--	Buy
Price Target:	--	\$19
FY23E Rev M:	\$176	\$176
FY24E Rev M:	\$195	\$195
FY23E EPS:	\$0.70	\$0.51
FY24E EPS:	\$0.18	\$0.15

Profile

Price:	\$15.12
Shares Out M:	18.0
Market Cap M:	\$272
Enterprise Value M:	\$302
Avg. Daily Vol K:	111
Insiders Own:	9%
Short Int, M / % of float:	0.3 / 2%
Div / Yield:	\$0.30/2.0%

Rev (M)	2022A	2023E	2024E
Jan	\$39.3	\$37.9A	\$40.0
Apr	\$46.8	\$48.1A	\$55.0
Jul	\$58.9	\$52.5A	\$58.0
Oct	\$39.7	\$38.0	\$42.0
FY	\$184.6	\$176.5	\$195.0

EPS	2022A	2023E	2024E
Jan	(\$0.38)	\$0.84A	(\$0.17)
Apr	\$0.08	(\$0.10A)	\$0.17
Jul	\$0.40	(\$0.07A)	\$0.24
Oct	(\$0.16)	(\$0.20)	(\$0.11)
FY	(\$0.04)	\$0.51	\$0.15
EBITDA (M)	\$11.9	(\$0.6)	\$16.4

Valuation	2022A	2023E	2024E
EV/Rev	1.6x	1.7x	1.5x
EV/EBITDA	25.4x	nm	18.4x

Management

CEO	Harold Edwards
CFO	Mark Palamountain

Company Description

Limoneira is an agribusiness company focused on production, processing and distribution of specialty crops with ~85% of its revenue derived from the lemon market. Additional operations include avocado and orange markets, and non-core activities in real estate development.

INVESTMENT THESIS AND VALUATION

We believe Limoneira has effectively navigated a challenging lemon market in recent years and believe a sustainable recovery is underway which the market underestimates. Across its core lemon market, we believe Limoneira has the right approach to expanding its brokered fruit business, which adds volume to its distribution in a capital light manner that can reduce risk amid a continued weak pricing environment. However, the biggest catalysts for the stock in our view are outside of its legacy agribusiness capabilities.

The imminent realization of cash flows from Harvest at Limoneira, which is expected to generate \$115M of cash from FY22 through FY28, can significantly improve the balance sheet by itself. In addition, perhaps the biggest potential catalyst is in the monetization of its land and water rights that management has begun to enact with \$130M of a potential ~\$180M being realized already. We believe this success to date will allow the company to re-deploy capital to growth initiatives and/or return to shareholders, dynamics which give us confidence in the alpha generating potential of the stock over the long term.

We are reiterating our Buy rating and \$19 price target. As shown below in Figure 2, this price target reflects a high-teen multiple of our FY24 estimates, an admittedly high multiple but one we believe is deserved amid a still depressed EBITDA base via weak lemon prices. Over the next few years, we believe shares will see a multiple contraction from this level given the shift from a vertically oriented to a service-oriented business model, but believe this will generate upside for the stock as EBITDA generation can increase dramatically in this model while the balance sheet will be materially improved. Over the mid-term and beyond, we believe upside potential to our price target exists as plans for newfound capital flexibility are made public and hit the income statement, further balance sheet improvement comes via additional real estate sales and/or Harvest at Limoneira income, and possibly water right monetization efforts.

Figure 2: Valuation Analysis	
	FY'24E
FY24 Adjusted EBITDA	16.4
<u>(*) EV/EBITDA Multiple</u>	<u>16.5</u>
(=) Enterprise Value	270.1
(-) Q3'23 Net Debt	30.2
(+) Harvest At Limoneira NPV	64.4
(+) Other Real Estate Sales through FY24	50.0
<u>(+) Water Right Sales Through FY24</u>	<u>0.0</u>
(=) Total Market Cap	354.4
(/) Share Base	18.5
(=) Per Share Value	\$19.18

Source: LSCM estimates

RISKS

- **Continuation Of External Challenges** - We see the biggest risk to an investment in LMNR as being exogenous shocks on the supply/demand dynamic which can significantly impact commodity lemon prices, and have done so since FY19. We especially believe this to be the case on the supply side, as weather related challenges can have a material effect on the company's internally produced supply or global production can flood the market and depress prices.

- **Weather** – Unpredictable and extreme weather events may cause significant fluctuations in commodity prices, impact yield on company owned acreage, or damage yield such that its produce cannot be sold profitably.
- **Water Rights** – While we are comfortable with its current access to water rights, given the environmental and political risks of farming in the US Southwest we believe access to these rights over the long term represents a possible risk.
- **Pandemic Recovery** – The risks presented by COVID-19 extend throughout the supply chain as export markets have become unreliable and domestic demand has been materially impacted, especially from food service customers. Should these pandemic challenges continue, it would present a risk to investors in the immediate term.
- **Reinvestment Risk** – Amid its asset monetization strategy, the company must not only successfully divest its land/water rights assets but also successfully reinvest proceeds.
- **International Trade** – The domestic lemon market faces pressure from importing countries, particularly in Europe and Latin America. Limoneira’s own export activities face risks both from geopolitical threats and from the increasing supply of growers in these regions.

FINANCIAL MODEL

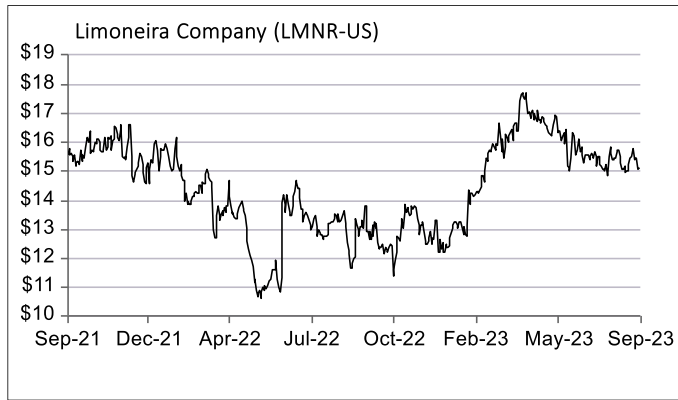
Limoneira Company Financial Model

Income Statement	FY 2020	FY 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	FY 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023E	FY 2023E	FY 2024E
			Jan-22	Apr-22	Jul-22	Oct-22		Jan-23	Apr-23	Jul-23	Oct-23		
Revenue	164,559	166,027	39,274	46,750	58,923	39,658	184,605	37,901	48,070	52,497	38,000	176,468	195,000
Cost of Goods Sold	162,304	152,824	42,318	38,692	42,590	41,489	165,089	42,479	39,198	47,879	38,000	167,556	169,380
Gross Profit	2,255	13,203	(3,044)	8,058	16,333	(1,831)	19,516	(4,578)	8,872	4,618	-	8,912	25,620
Gross Profit Margin	1.4%	8.0%	-7.8%	17.2%	27.7%	-4.6%	10.6%	-12.1%	18.5%	8.8%	0.0%	5.1%	13.1%
SG&A	21,280	19,427	6,599	5,126	5,031	5,059	21,815	9,280	6,005	4,622	5,250	25,157	23,500
% of Revenue	12.9%	11.7%	16.8%	11.0%	8.5%	12.8%	11.8%	24.5%	12.5%	8.8%	13.8%	14.3%	12.1%
Other Operating Expenses	(17)	109	(85)	346	242	(5,003)	(4,500)	(39,742)	6,729	1,545	-	(31,468)	-
Operating Profit	(19,008)	(6,333)	(9,558)	2,586	11,060	(1,887)	2,201	25,884	(3,862)	(1,549)	(5,250)	15,223	2,120
Operating Profit Margin	-11.6%	-3.8%	-24.3%	5.5%	18.8%	-4.8%	1.2%	68.3%	-8.0%	-3.0%	-13.8%	8.6%	1.1%
Interest Expense, net	1,686	1,122	(236)	669	766	1,039	2,238	1,164	(1,058)	63	400	569	1,600
Other Expense (Income), net	5,741	(3,292)	(66)	(377)	(344)	401	(386)	2,359	(262)	16	(1,000)	1,113	(4,000)
Profit Before Taxes	(26,435)	(4,163)	(9,256)	2,294	10,638	(3,327)	349	22,361	(2,542)	(1,628)	(4,650)	13,541	4,520
Income Tax Expense	(8,494)	(266)	(2,650)	722	3,313	(562)	823	6,827	(912)	(378)	(1,302)	4,235	1,266
Income Tax Rate	32.1%	6.4%	28.6%	31.5%	31.1%	16.9%	235.8%	30.5%	35.9%	23.2%	28.0%	31.3%	28.0%
Net Income	(17,941)	(3,897)	(6,606)	1,572	7,325	(2,765)	(474)	15,534	(1,630)	(1,250)	(3,348)	9,306	3,254
Noncontrolling Interest Loss (Income)	1,506	456	88	(11)	52	109	238	97	17	87	-	201	-
Net Income to LMNR	(16,435)	(3,441)	(6,518)	1,561	7,377	(2,656)	(236)	15,631	(1,613)	(1,163)	(3,348)	9,507	3,254
Preferred Dividends	(501)	(501)	(125)	(126)	(125)	(125)	(501)	(125)	(126)	(125)	(125)	(501)	(500)
Net Income to Common Shareholders	(16,936)	(3,942)	(6,643)	1,435	7,252	(2,781)	(737)	15,506	(1,739)	(1,288)	(3,473)	9,006	2,754
Diluted Shares	17,666	17,670	17,448	17,511	18,334	17,540	17,708	18,378	17,597	17,621	17,700	17,824	18,475
Diluted GAAP Earnings Per Share	(\$0.96)	(\$0.22)	(\$0.38)	\$0.08	\$0.40	(\$0.16)	(\$0.04)	\$0.84	(\$0.10)	(\$0.07)	(\$0.20)	\$0.51	\$0.15
Dividends per Common Share	\$0.300	\$0.300	\$0.075	\$0.075	\$0.075	\$0.075	\$0.300	\$0.075	\$0.075	\$0.075	\$0.075	\$0.300	\$0.300

EBITDA	FY 2020	FY 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	FY 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023E	FY 2023E	FY 2024E
			Jan-22	Apr-22	Jul-22	Oct-22		Jan-23	Apr-23	Jul-23	Oct-23		
Net Income to LMNR	(16,435)	(3,441)	(6,518)	1,561	7,377	(2,656)	(236)	15,631	(1,613)	(1,163)	(3,348)	9,507	3,254
Income Tax Expense	(8,494)	(266)	(2,650)	722	3,313	(562)	823	6,827	(912)	(378)	(1,302)	4,235	1,266
Interest Expense	1,686	1,122	(236)	669	766	1,039	2,238	1,164	(1,058)	63	400	569	1,600
Depreciation and Amortization	10,097	9,812	2,480	2,483	2,469	2,366	9,798	2,447	2,044	2,019	1,750	8,260	7,000
EBITDA	(13,146)	7,227	(6,924)	5,435	13,925	187	12,623	26,069	(1,539)	541	(2,500)	22,571	13,120
EBITDA Margin	-8.0%	4.4%	-17.6%	11.6%	23.6%	0.5%	6.8%	68.8%	-3.2%	1.0%	-6.6%	12.8%	6.7%
Stock Based Compensation	2,044	2,582	997	378	618	739	2,732	1,064	965	756	750	3,535	3,250
Other Adjustments	6,725	109	685	346	242	(4,734)	(3,461)	(35,001)	6,729	1,545	-	(26,727)	-
Adjusted EBITDA	(4,377)	9,918	(5,242)	6,159	14,785	(3,808)	11,894	(7,868)	6,155	2,842	(1,750)	(621)	16,370
Adjusted EBITDA Margin	-2.7%	6.0%	-13.3%	13.2%	25.1%	-9.6%	6.4%	-20.8%	12.8%	5.4%	-4.6%	-0.4%	8.4%

Source: Company reports and Lake Street Capital Markets estimates

IMPORTANT DISCLOSURES



Source: FactSet

September 10, 2020 – Rating: Buy - Price Target: \$17
 January 15, 2021 – Rating: Buy - Price Target: \$18
 March 11, 2021 – Rating: Buy - Price Target: \$20.50
 Assuming Coverage: June 5, 2021 – Rating: Buy - Price Target: \$23
 June 9, 2021 – Rating: Buy - Price Target: \$25
 August 25, 2021 – Rating: Buy – Price Target: \$23
 March 11, 2022 – Rating: Buy – Price Target \$19

RATINGS DEFINITION

Buy rated stocks are expected to generate greater than 10% returns during the next 12 months. **Hold** rated stocks are expected to generate returns of 0% to 10% during the next 12 months. **Sell** rated stocks are expected to generate negative returns over the next 12 months and generally do not have a price target.

Information on our valuation methodology and risks can be found in the “Investment Thesis & Valuation” and “Risks” sections above.

RATINGS DISTRIBUTION

(as of June 7, 2023)

Rating	All Covered Companies (%)	Investment Banking Clients (%)
Buy	91.8%	8.9%
Hold	7.6%	7.1%
Sell	0.5%	0.0%

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