WESTPEAK RESEARCH ASSOCIATION

# Alico, Inc. (NASDAQ: ALCO)

**Consumer Staples – Agricultural Products**

## Squeeze The Day

April 1, 2020

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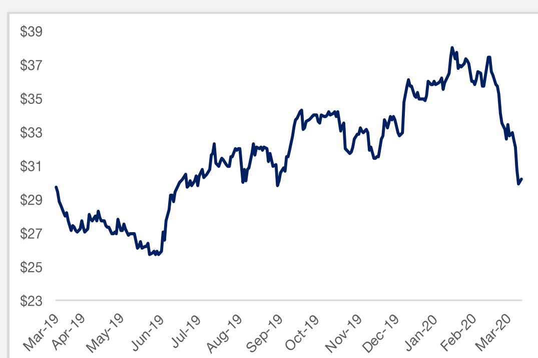
| Equity Research | US |
|---|---|
| **Price Target** | **USD$ 33.00** |
| **Rating** | Buy |
| **Share Price (Apr. 1 Close)** | USD$ 27.20 |
| **Total Return** | 21.3% |

| Key Statistics | |
|---|---|
| **52 Week H/L** | $38.25/$25.25 |
| **Market Capitalization** | $225M |
| **Average Daily Trading Volume** | 11.4K |
| **Net Debt** | $162.1M |
| **Enterprise Value** | $417.3M |
| **Net Debt/EBITDA** | 4.4x |
| **Diluted Shares Outstanding** | 7.5M |
| **Free Float** | 60.3% |
| **Dividend Yield** | 1.00% |

**WestPeak's Forecast**

| | 2019A | 2020E | 2021E |
|---|---|---|---|
| **Revenue** | $122M | $169M | $219M |
| **EBITDA** | $45M | $37M | $39M |
| **Net Income** | $38M | $19M | $27M |
| **EPS** | $5.00 | $2.47 | $2.75 |
| **P/E** | 7.1x | 22.9x | 13.1x |
| **EV/EBITDA** | 7.0x | 11.4x | 10.6x |

**1-Year Price Performance**




*Alico, Inc. ("Alico" or the "Company") is one of America's largest agribusiness leaders, with principal lines of business in citrus production and land and resource management. Alico aims to create shareholder value by maximizing returns of current assets and strategically acquiring new assets to produce high quality agricultural products while employing sustainable environmental leadership.*

### Thesis

Alico seeks to provide strong returns to shareholders by optimizing existing assets and opportunistically acquiring new assets. On an upward recovery trend following Hurricane Irma in 2017, the Company has seen impressive revenue growth for the past two fiscal years. Alico's demonstrated cost control in combination with favorable weather conditions to reach Florida solidify Alico's position as an industry leader and present promising revenue growth in the next production season.

### Drivers

Alico 2.0, the Company's most recent restructuring program, reduced operating costs, improved planting efficiencies, and confirmed Alico's position as a leader in the citrus production industry. The USDA also predicts favorable weather for agricultural production in Florida for the coming season. Favorable weather conditions imply higher levels of citrus production as well as higher consumer demand which will contribute in driving future growth.

### Valuation

We arrive at a target share price of $33.00 based on an equal weighting of our perpetuity growth multiple from our DCF and median EV/EBITDA multiple from our comparable company analysis. Based on these inputs, we initiate a **buy** rating on Alico Inc.

# Business Overview/Fundamentals

## Company Overview

Alico, Inc. ("Alico" or the "Company") is one of America's largest agribusiness leaders, with principal lines of business in citrus production and land management. Alico owns and manages approximately 110,000 acres of land across eight counties in Florida and operates two divisions: (i) Alico Citrus and (ii) Water Resources and Other Operations. With their primary business being in citrus production, Alico Citrus is one of the leading citrus growers in the US. With this position, a growing resource conservation business arm, and steady leadership in the global citrus industry, Alico aims to create value for its shareholders by maximizing returns of current assets and strategically acquiring new assets to produce high quality agricultural products while employing sustainable environmental leadership.

## Business Segments

**Alico Citrus**

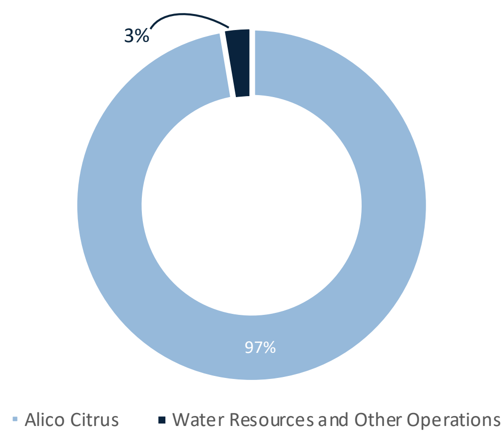
The Company's citrus production segment is their primary source of revenue. Alico owns and manages citrus land in the DeSoto, Polk, Collier, Hendry, Charlotte, Highlands, and Hardee Counties in Florida. The Company cultivates this land for citrus production and delivery to the fresh and processed citrus markets. Alico Citrus primarily produces Hamlin and Valencia oranges for the processed market. For the fresh market, Alico Citrus produces grapefruit, navel, and other fresh varieties. Citrus products are sold in the processed market to processors and bottlers. In 2014, Alico strategically acquired Silver Nip, Orange-Co, and Gator Grove, which are Florida citrus producers. Alico consolidated these three producers into one production entity, Alico Citrus. These acquisitions exhibited Alico's company objective to deploy capital into accretive investment opportunities to generate returns for investors, while enriching their position in the citrus industry.

*Significant Customers:* Approximately 89% of Alico's consolidated revenue came from Tropicana contracts regarding sales of citrus products in the processed market. Alico has won the "Tropicana Grower of the Year" from 2014-2018. Alico's agricultural operations depend on their supplier relationship with Tropicana for most of their business.

*Orange Juice Supply Chain*


- **Citrus Grower:** Alico
- **Processors and Bottlers:** Tropicana
- **Distributors:** Tropicana
- **Retailers:** Costco, Publix, Kroger
- **Consumers:** Final product sold is Tropicana orange juice and fruit juice products

**Figure 1: Alico Revenue Segments**
*FY2019*




*Source: Company Filings*

**Water Resources and Other Operations**

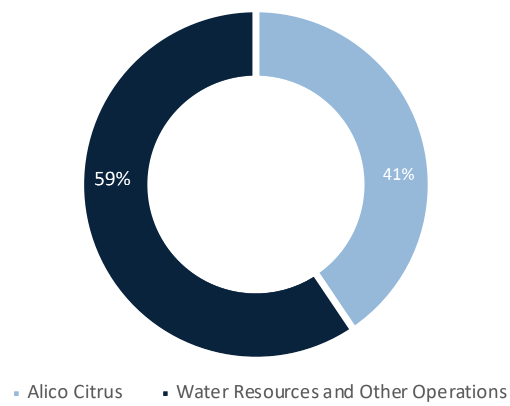
Alico's resource and land management segment generates about 3% of the Company's annual revenue and operates on approximately 66,000 gross acres of Alico's total land holdings in the Collier, Glades, and Hendry Counties in Florida. This business segment focuses on leasing land for recreational and grazing purposes, conservation, and mining activities. On a portion of its land, Alico runs a dispersed water program through this business arm. The environmental services dispersed water project (the "Water Project") retains water from the Caloosahatchee River and rehydrates natural systems in adjacent areas that proceed to the Everglades, a large subtropical wetland in southern Florida. Through the Water Project, Alico exercises environmental responsibility and maintains strong corporate sustainability, helping provide natural habitats to endangered species in the most cost-effective method in the US.

*Dedication to Conservation: The Water Project*

Dispersed water projects benefit taxpayers by protecting the land being used from development and maintaining a position on tax rolls, which provides more resources to contribute towards the surrounding communities' safety, infrastructure, and human capital investment. The Water Project is the largest and most cost-effective water dispersion project in the US. The Water Project accomplishes significant resource conservation and efficient allocation of land in southwest Florida, attesting to Alico's commitment to corporate responsibility and environmentally sustainable operations, as water and resource conservation ensures sustainable agriculture for the future. Comparing the acreage and revenue breakdowns illustrated by Figures 1 and 2, Alico Citrus generates the majority of the Company's consolidated revenue while using a comparable amount of land as the water management segment. The allocation of land and associated revenue generation between their two segments indicates Alico's dedication to environmental responsibility by their willingness to trade off potential returns from a higher allocation of land to citrus production.

**Figure 2: Alico Acregae Composition**

*FY2019*




*Source: Company Filings*

## Business Strategy

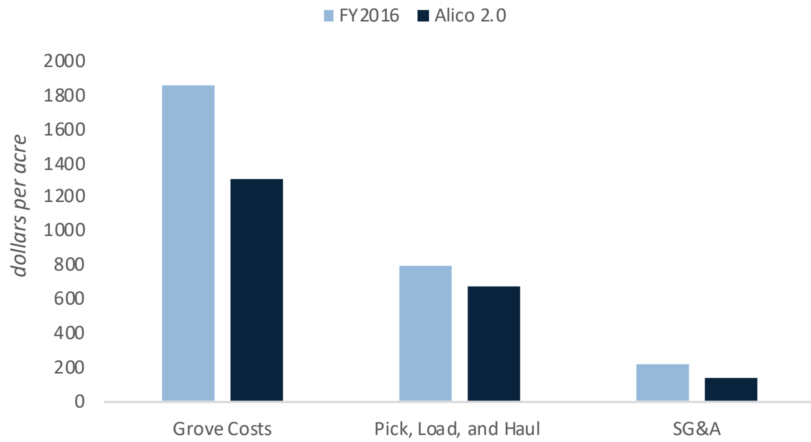
**Alico 2.0 Modernization Program**

In November 2017, Alico announced the Alico 2.0 Modernization Program ("Alico 2.0") for the purpose of restructuring their operations with the goal of cutting expenses and solidifying their position as a leader in the citrus industry. Because of the agricultural nature of Alico's business, the Company faces significant fixed costs. Alico 2.0 was implemented to coalesce three citrus producers (Alico, Orange Co., and Silver Nip, of which the latter two Alico acquired in 2014) into a single business, Alico Citrus. This transition would ensure Alico's position as a leader in the citrus industry.

Alico 2.0's cost cutting strategy was accomplished by an in-depth review of the citrus and ranch operations. Specifically, the program reviewed cost structures, grove costs, purchasing and procurement, professional fees, human resources efficiency, and under-performing assets. In the FY2019 statements, Alico released that Alico 2.0 successfully achieved its goals of cutting operating expenses through the sale of underperforming assets and shutting down parts of operations that were not profitable. Alico announced they improved margins through implementing better farming techniques such as: the precise application of fertilizers and chemicals, outsourcing work such as harvesting, hauling, and certain caretaking tasks, and streamlining grove management.

As of the end of FY2019, Alico announced they generated a total cash amount of $57,800,000 from asset sales including: the sale of their nursery in Gainesville, Florida, the sale of their breeding herd, improving the efficiency of the logistics division by better allocation of resources, and the sale of certain parcels of land on their Ranch. Certain parts of Alico's acreage used for cattle farming generated minimal returns to capital. Through Alico 2.0, the Company will lease ranch land to third party operators instead of running their own cattle operations, ensuring more investment into the citrus segment and reallocation of capital to more productive parts of the business. Figure 3 illustrates Alico's expected cost savings when Alico 2.0 results are fully realized in comparison to operating costs in FY2016 (pre-hurricane).

**Figure 3: Estimates of Operating Costs after Alico 2.0**




*Source: Bloomberg*

**Sustainable, Forward Looking Operations**

Alico prides themselves for keeping sustainability at the forefront of their business operations. An impressive 59% of Alico's total acreage goes towards land and resource conservation and management. Alico aims to maximize their assets to generate high returns for shareholders, however they also dedicate a portion of their assets to making sure their operations remain sustainable for future production. Alico 2.0 included a program to plant over 400,000 citrus trees in FY2018 and FY2019, which the Company estimated should drive growth beyond 2020. The planting of additional citrus trees through Alico 2.0 effectively solidified Alico Citrus' position as a leading citrus producer while ensuring sustainable farming practices for the future of the business.

While restructuring their staffing methods through Alico 2.0, the Company implemented more sustainable farming practices with their employees. Alico encourages its employees to be aware of the geographical footprint of the citrus industry and the effect that it has on the environment. From the Company's dispersed water project to their farming practices in their citrus segment, Alico remarkably demonstrates their corporate values of sustainability and environmental conservation. Alico operates with the futures of both their company and the community within which they operate in mind.

**Maintaining a High-Return Asset Portfolio**

Alico maintains an opportunistic investment strategy, disposing of non-core, under-performing assets and acquiring new assets when the Company determines they would provide strong returns for shareholders. A series of notable acquisitions that demonstrate their investment are those of Orange Co., Silver Nip, and Gator Grove in 2014. Alico's asset management efficiently allocates resources to the most profitable parts of the business, with the most recent and significant restructuring coming from the Alico 2.0 program. A summary of Alico's asset sales from FY2019 is provided in Figure 4.

**Figure 4: FY2019 Assets Held for Sale**

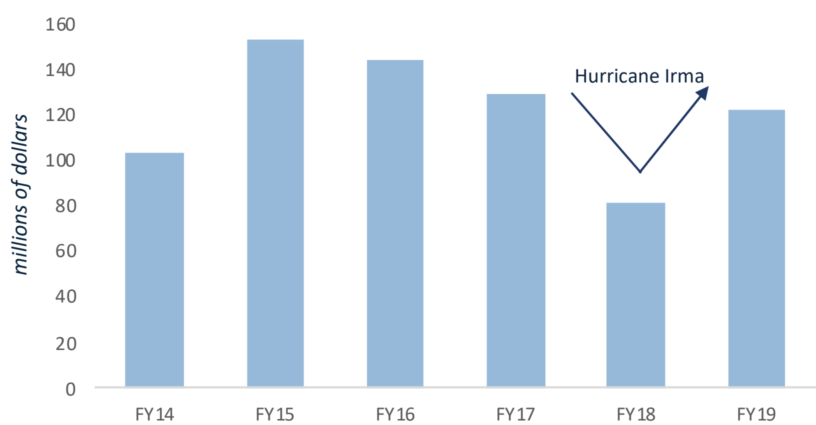
| *figures in thousands* | Price of sale ($) | Gains from sale ($) |
|---|---|---|
| **PPE** | | |
| Trailers | 547 | 547 |
| Office Building | 5,300 | 1,751 |
| **Cattle** | | |
| Breeding Herd | 7,800 | 1,759 |
| **Land** | | |
| Frostproof | 206 | 12 |
| Gal Hog | 7,300 | 6,709 |
| Chancey Bay | 4,200 | (51) |
| Gainesville | 6,500 | 111 |

*Source: Company Filings*

## Impact of Hurricane Irma on Revenues

As agricultural enterprises are highly seasonal in nature and Alico's primary source of revenue comes from their agricultural operations, the Company's revenues are consequently seasonal in nature. Florida's climate is tropical and has historically faced adverse weather. In September 2017, Hurricane Irma damaged a significant portion of Alico's citrus groves. The sharp decline in revenues for FY2018 are the predominantly the result of hurricane impacts on Alico's citrus groves. However, the combination of favourable weather conditions in Florida and the company's improved cost structure after restructurings, we expect Alico to continue their strong recovery that we see in FY2019 revenues in the following years after the hurricane.

**Figure 5: Alico Annual Revenue**




*Source: Company Filings*

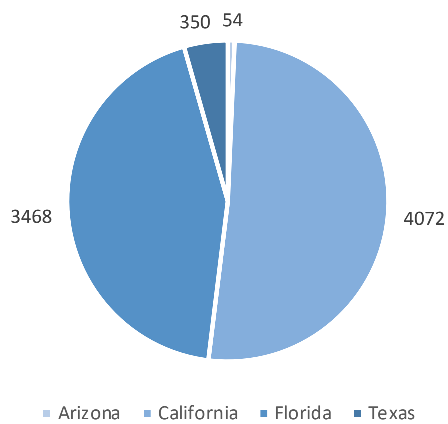
# Industry Analysis

Alico operates in agribusiness activities and operations that focus on the production of citrus fruits, cattle ranching, leasing land for farming, cattle grazing, recreation, land management, and water conservation. Alico operates solely within the US.

## Domestic Citrus Industry Competition

Alico faces heavy competition in their agricultural operations from both domestic and foreign producers. In the US during the 2018-2019 season, California accounted for 51% of total US citrus production, Florida accounted for 44%, and Texas and Arizona together produced the remaining 5%. Within Florida, Alico has maintained a steady market share of 10.8%, 10.6%, and 11.1% in the last three production seasons (2016-2017, 2017-2018, and 2018-2019, respectively). The citrus production industry in the US has no major firms that control a significant share of the market, which remains highly competitive.

**Figure 6: Citrus Production (Domestic)**
*2018-2019 Season, figures in thousands*



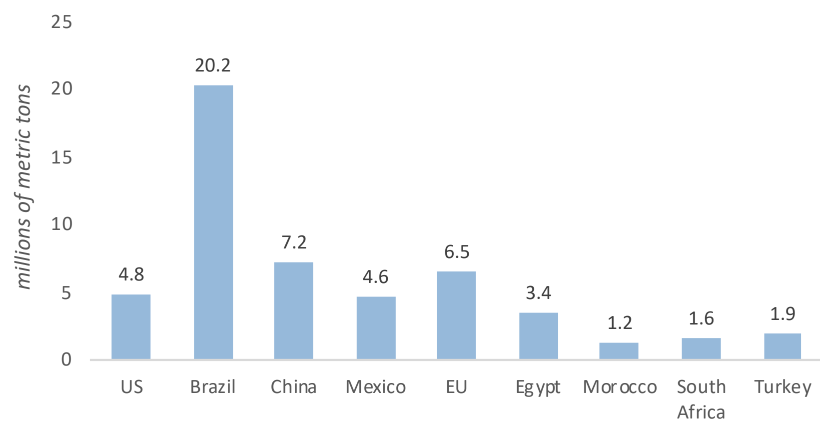

*Source: USDA NASS Citrus Fruits 2019 Summary*

## Foreign Citrus Producer Competition

Alico operates solely within the US, however citrus production is highest internationally in Brazil, China, and Mexico. The US Department of Agriculture (USDA) forecasts for the 2018-2019 season to see increases in global orange production by 6.3 million metric tons, to 54.3 million. This is due to the favorable weather conditions that are expected in the US and Brazil, leading to larger crops.

The Food and Agricultural Organization (FAO) of the United Nations has stated that world citrus production and consumption has grown significantly since the mid-1980s, especially with improvements in transportation and packaging costs. Foreign producers face lower costs of citrus production and less environmental regulation in comparison to Florida, where Alico operates. Import competition has increased over the past five years and IBIS World projects revenue of the US citrus production industry to fall at an annualized rate of 1.5% to $3.7 billion in the next five years. Foreign producers' competitive advantage is mitigated by import tariffs imposed by the US government, allowing Alico to effectively compete in the citrus industry. Overall, with ongoing steady recovery from impacts of Hurricane Irma, we expect Florida citrus production to contribute significantly to the stronger US production of citrus fruit in the coming growing season.

**Figure 7: Global Orange Production Forecast**
*2019-2020 Season*




*Source: USDA FAS Citrus World Markets and Trade report (July 2019)*

## Agriculture Industry Recovery from Hurricane Irma

Citrus production in Florida is expected to increase by 36% *(USDA)* in the upcoming season due to a return to more normal weather conditions following Hurricane Irma and the associated crop recovery from 2017 and 2018. With the larger crop that is expected, consumption is expected to increase as well. The USDA also expected Florida's orange production to rise 3% from the last harvest season, from 71.7 million boxes of oranges to 74 million. Florida citrus production stabilized in 2018 following the destruction of crops due to Hurricane Irma in 2017, and the 2019 season has been the citrus industry's second year of recovery. Citrus production is the state of Florida's second-largest industry, behind tourism. The USDA alongside Florida state departments initiated the Citrus Recovery Block Grant ("CRBG") Program for farmers who maintain active citrus production but have suffered crop damage due to impacts from Hurricane Irma.

*Citrus Production Industry in Florida*

| | | | |
|---|---|---|---|
| Florida's second-largest industry | 45,000 employees | Economic impact of $8.6B | 57.7% of domestic orange production |

*Source: Florida Department of Citrus (FDC)*

# Catalysts

## Increasing Health Concern in North America

With balanced diets and healthy lifestyles being defining trends of the last decade, citrus and fresh fruit consumption is expected to increase in demand across America due to their associated high-nutrient qualities. In particular, we expect companies in Florida will benefit from increased local consumption with rising sustainability concerns that encourage consumers to buy from local farmers and companies. The USDA predicts citrus and fruit production to increase in the next season due to favorable weather conditions; forecasted fruit and vegetable consumption rises with production. With Alico's aforementioned restructuring program, Alico 2.0, the firm effectively cut operating expenses and transitioned to a high-quality, low-cost producer of citrus fruit, this position in combination with industry-wide increases in citrus production present a key opportunity for production growth for Alico.

## Changing Import Tariffs

In light of the EU's illegal subsidies to Airbus, the US is imposing a 25% import tariff on EU imports to the US. The import tariff impacts fresh produce items such as oranges, mandarins, and lemons. In years 2017 and 2018, the US imported $14 million in Spanish clementines and $17 million in Spanish lemons. The higher cost of importing fresh produce from the EU may shift consumption of foreign products to domestically produced citrus and fruit. In combination with the anticipated increase in citrus production in the US due to favorable weather conditions increasing the availability of domestic citrus products, the new import tariff provides more incentive for the shift away from foreign consumption towards domestic consumption.

# Management Team

## John E. Kiernan – CEO and President

Mr. John E. Kiernan leads Alico's management team as CEO and President of the Company, he was appointed CEO in July 2019. He previously served as Alico's CFO, Secretary and Executive VP for four years before becoming CEO. He has over 20 years of management experience, taking over as CEO of Alico after the unanimously approved dismissal of ex-CEO, Mr. Remy Trafelet in mid-2019. Mr. Kiernan's total compensation in FY2019 (while he was still CFO, EVP, and Secretary) was $360,000 with a cash bonus of $640,000, the bonus translating to 178% of his salary. As of February 2019, Mr. Kiernan beneficially owns 13,000 shares of the Company, translating to less than 1% of Alico's common stock.

## Richard Rallo – CFO and Principal Accounting Officer

Mr. Richard Rallo was appointed CFO of Alico during the management restructurings in July 2019 following the termination of Mr. Remy Trafelet's position as CEO. Previously, Mr. Rallo served as Alico's Chief Accounting Officer, responsible for the Company's financial reporting and the accounting department. He has over 30 years of experience in financial positions. Mr. Rallo's compensation as CFO and Principal Accounting Officer in FY2019 comes from an annual base salary of $237,500 with a bonus of $95,000, translating to 40% of his annual base salary.

### Benjamin D. Fishman – Executive Chairman of the Board

Mr. Benjamin D. Fishman serves as the Chairman of Alico and was appointed to this position during the management restructurings in July 2019. He is part of the Boards of Coastal, Wholesome Sweeteners, and Cici's Holdings. Mr. Fishman also serves as MD at Arlon Capital Partners Management Co. LLC. He has prior experience in private equity investing as well as extensive knowledge and experience in the agriculture industry. Mr. Fishman's compensation in FY2018 was $127,500, with an additional issuance of 19,698 shares on behalf of Arlon Food and Agriculture Advisors LLC.

## Shareholder Base & Liquidity

### Shareholder Base

Alico has 7.48 million shares outstanding and a free float of 4.51 million shares, translating to a free float of about 60.3%. Alico's ten largest shareholders are listed in Figure 8 below. All of Alico's top 10 shareholders are based in the US and are composed by the following: 29% Institutional Investors, 31.33% Private Corporations, 10.98% Insiders, and 2.87% Public and Other. Insider shares represent 11% of shares outstanding.

**Figure 8: Alico Top 10 Shareholders**

| Shareholder Name | % Shares Outstanding | Current Position | Value (MM$) |
|---|---|---|---|
| Alron Valencia Holdings LLC | 10.98 | 820,809 | 29.4 |
| Trafelet, Remy W | 10.01 | 748,321 | 26.8 |
| Higgins, Brian Joseph | 6.88 | 514,287 | 18.4 |
| Wilson, Clayton G. | 5.42 | 405,052 | 14.5 |
| Dimensional Fund Advisors, L.P. | 4.40 | 328,574 | 11.8 |
| The Vanguard Group, Inc. | 3.94 | 294,328 | 10.5 |
| BlackRock, Inc. | 3.86 | 288,584 | 10.3 |
| Brokaw, George R. | 3.37 | 252,261 | 9.0 |
| Trafelet Capital Management, L.P. | 2.18 | 162,785 | 5.8 |
| Birch Run Capital Advisors, L.P. | 2.15 | 160,810 | 5.8 |

*Source: CapIQ*

### Liquidity

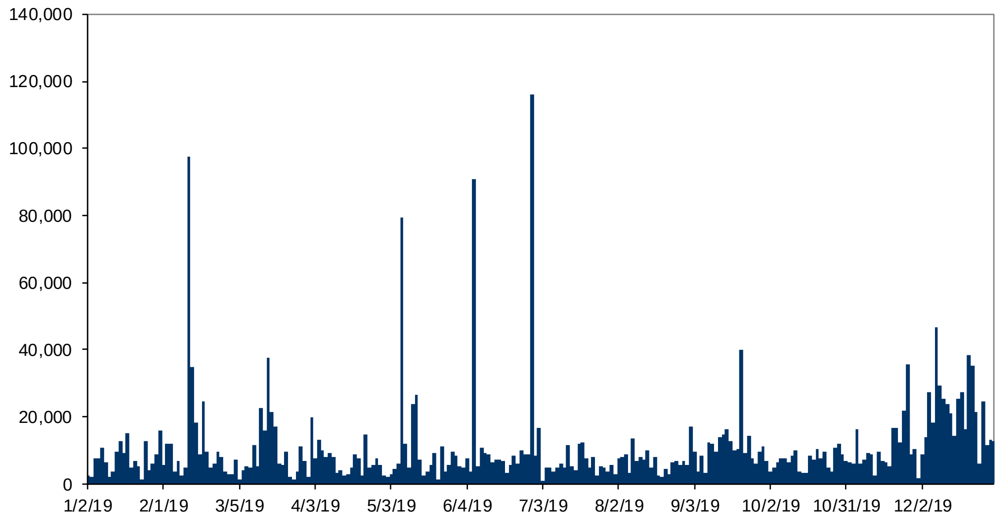
Alico's 3-month average trading volume is currently 12,980 million shares and has a market cap of $268.5 million. Figure 9 illustrates Alico's share turnover in comparison to its industry competitors. Alico's share turnover ratio is 576.27, the highest of its peer group and above the industry average. This indicates a healthy liquidity for the Company in relation to its industry competitors. Figure 10 illustrates Alico's trading volume in the last 12 months.

**Figure 9: Share Turnover Against Industry Mean**
*industry mean calculated from comparable companies*

| Company | Avg. 3-month Volume | Shares Outstanding | Turnover Ratio |
|---|---|---|---|
| Alico, Inc. | 12,980 | 7,480,000 | 576.27 |
| Limoneira Company | 41,980 | 17,770,000 | 423.30 |
| Fresh Del Monte Products | 278,740 | 48,080,000 | 172.49 |
| Calavo Growers Inc. | 139,140 | 17,590,000 | 126.42 |
| Getty Realty Corp. | 98,890 | 41,200,000 | 416.62 |
| J & J Snacks Food Corp. | 87,190 | 18,900,000 | 216.77 |
| Industry Mean | 109,820 | 25,170,000 | 229.19 |

*Source: Yahoo Finance*

**Figure 10: Alico LTM Trading Volume**




*Source: CapIQ*

# Valuation

## Discounted Cash Flow Analysis

**Revenue, Alico Citrus**

The USDA expects an increase in the Florida orange crop for the 2019-2020 harvest season of about 3.4% due to favorable weather conditions and a continuing recovery of the citrus industry from Hurricane Irma in 2017. In combination with Alico's recent operation restructurings through Alico 2.0, we expect lower operating expenses in the next five years and consequently assume consolidated revenue growth rates of 38.5%, 29.5%, 24.6%, 19.8%, and 19.8%, respectively. Figures 11 and 12 demonstrate the predominance of Alico Citrus in contribution to Alico's consolidated revenue. We account for the risk of another hurricane by forecasting revenue using growth rates historically lower than that experienced in FY2019 and what we estimate for FY2020 revenues. Specifically, we estimate revenues to grow at 25%, 15%, 10%, and 10% for FY2021-FY2024, respectively. The lower rates are calculated into our model to account for the uncertainty of the weather in Florida and Alico's overall success being dependent on the favourability of weather during production seasons.

**Figure 11: Alico Consolidated Revenue Forecasts**

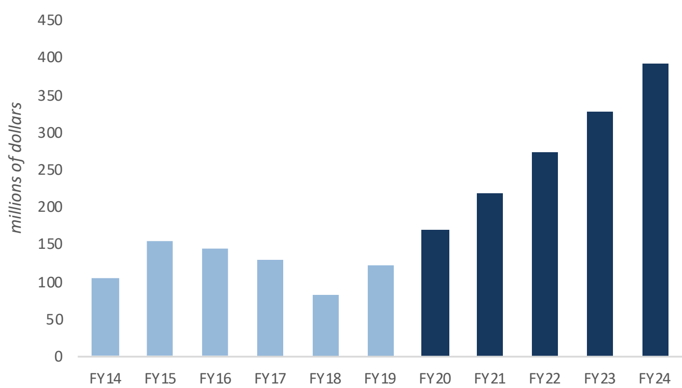
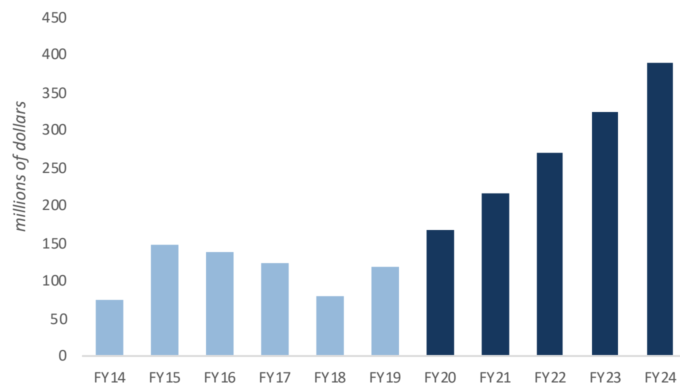



**Figure 12: Alico Citrus Revenue Forecasts**

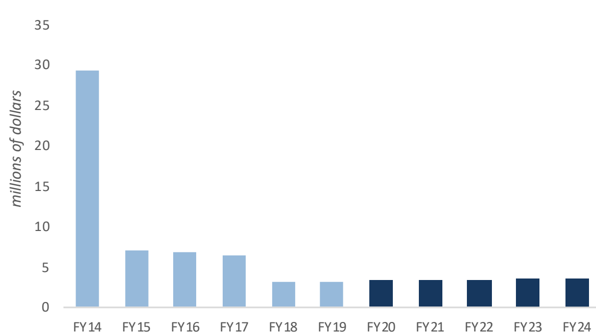



*Source: Company Filings (historicals) and WestPeak Discounted Cash Flow Analysis*

**Revenue, Water Resources and Other Operations**

From historical revenues of the Water Resources and Other Operations segment, we assume a constant growth rate of 2.0% for the next five years. Due to the historically low revenue earned by this division, we expect similar trends in earnings to continue. Alico 2.0's restructuring efforts place emphasis in cost cutting in the citrus business over resource management operations. In previous operating cycles, Alico's primary line of business and driver of revenue has been Alico Citrus. Our growth rate assumption for the land management segment relies on the historical revenue earned by this segment and the main focus of efforts in growing the company going towards their agricultural operations.

**Figure 13: Water Resources and Other Operations Revenue Forecasts**




*Source: Company Filings and WestPeak Discounted Cash Flow Analysis*

**OPEX and SG&A**

We assume Alico's agricultural operating expenses will decrease in the next fiscal years FY2020 and FY2021 as benefits from restructuring program, Alico 2.0, are being realized during this time. Estimates for cost cutting savings released by Alico are approximately 35% per acre in total expenses. Alico estimates SG&A to decline by more than 25% over the next two years as recent information technology investments into production processes have automated and simplified many tasks.

**Capital Expenditures**

Based on Alico's historical capital expenditures and the high fixed costs of an agricultural business, we assume the Company will spend 5.5% of their beginning PP&E on capital expenditures every year for the next 5 years.

**Working Capital**

Due to the seasonality of the agricultural business and Alico's primary line of business being their citrus production, Alico's revenue is largely determined by the environmental conditions of their production season. Alico's planting and growing seasons are cyclically in the first and fourth quarters of their fiscal year (October – December, July – September) and these quarters require more working capital to carry out the planting and harvesting. The second and third quarters (January – March, April to June) generate the majority of Alico's annual revenues. Due to the seasonal nature of Alico's revenue generation, we expect higher working capital requirements in the first and fourth quarters, with lower working capital requirements in the second and third quarters.

**Weighted Average Cost of Capital**

We calculated a weighted average cost of capital of 7.3% for Alico. Cost of equity was calculated using a risk-free rate of 1.9% from US 10-Year Treasury Bonds, an expected market return of 13.0%, for a market risk premium of 11.1%, and the company's 5-year beta of 0.78 from Bloomberg. Cost of debt was calculated using a pre-tax cost of debt of 4.43% and an effective tax rate of 25.45%, tax rate drawn from Bloomberg. With these calculations we arrived at a cost of equity of 10.6%, a cost of debt of 3.3%, and weighted average cost of capital of 7.3%.

**Weighted Price Target**

We calculate our price target based on the price derived from our perpetuity growth method from our DCF and our mean EV/EBITDA multiple from our comparables analysis, both weighted at 50%. This results in a share price of $33.00, which translates to a 21.3% upside from current share price of $27.20 (Apr. 1 close). We initiate a **buy** rating on Alico.

## Comparable Companies Analysis

Alico operates in the agricultural and land management industries, with their primary line of business being in citrus production. The orange and specialty citrus markets are highly competitive and there is no single producer that occupies a significant portion of the market. The following companies are comparable to Alico as they operate similar business models:

**Limoneira Company**

Limoneira is an agribusiness and real estate company based in Santa Paula, California. They operate six business segments: fresh lemons, lemon packing, avocados, other agribusiness, rental operations, and real estate development. They own and manage approximately 15,700 acres of land used for fruit production and real estate development. Their agriculture business focuses on citrus growing, particularly lemons, avocados, and other specialty citrus crops. Limoneira's market cap is $342 million.

**Fresh Del Monte Produce Inc.**

Fresh Del Monte is one of the world's leading vertically integrated producers, marketers, and distributors of fresh and prepared fruits and vegetables. They market and distribute their products to retail stores, club stores, convenience stores, wholesalers, and distributors in Europe, Africa, and the Middle East in addition to North American operations. Unlike Alico and the rest of their peer group, Del Monte sources their products internationally and serve international consumers. In the US, Fresh Del Monte Produce operates out of Florida and has a market cap of $1.7 billion.

**Calavo Growers, Inc.**

Calavo Growers is a leader in the global avocado industry and is growing their fresh food business. Calavo procures avocados from California, Mexico, and other avocado producers around the world. Calavo markets and distributes their agriculture products to retail grocery and foodservice customers, mass merchandisers, and wholesale consumers worldwide. Calavo operates three business segments: Calavo Foods, Fresh products, and Renaissance Food Groups (RFG). Calavo's market cap is $1.48 billion.

**Getty Realty Corp.**

Getty Realty Corp. is the leading publicly traded real estate investment trust (REIT) in the US focusing on the ownership, leasing, and financing of convenience store and gasoline station properties. Getty Realty Corp.'s properties are operating under the brands: 76, Citgo, Conoco, Exxon, Getty, Gulf, Mobil, Shell, Sunoco, and Valero. Getty Realty Corp. operates out of New York and has a market cap of $1,354.3 million.

**J & J Snack Foods Corp.**

J & J Snack Foods Corp. produces snack foods and distributes frozen beverages which are marketed nationally in the US to the food service and retail supermarket industries. J & J's primary snack products are soft pretzels, frozen juice treats, desserts, churros, and bakery products. J & J operates three business divisions: Food Service, Retail Supermarkets, and Frozen Beverages. J & J has a market cap of $3.5 billion.

# Recommendation

## Buy

We believe Alico is currently undervalued by the market. Because of the Company's impressive recovery from impacts of Hurricane Irma on their citrus groves in 2017, we expect a continued steady recovery back to normal rates of production in the upcoming fiscal years. In addition to Alico's impressive recovery post-hurricane, the USDA predicts favorable weather for citrus production in Florida for the 2019-2020 growing season. On the supply side, favorable weather suggests higher volumes of citrus production. On the demand side, the USDA predicts higher levels of production to result in higher consumer demand. FY2019 onward, we expect Alico's operating expenses to decrease as a result of their restructuring program, the Alico 2.0 Modernization Program. The combination of the Company's continued post-hurricane recovery, favorable weather in Florida, and a revamped cost structure lead us to believe Alico offers shareholders solid returns as they continue operating as a leading citrus producer in the US.

Based on our DCF and Comparable Companies analyses, we initiate a **buy** rating on Alico, Inc. with a target share price of $33.00, representative of a 21.3% upside of its current share price of $27.20 (Apr. 1 close).

# Risks

## Adverse Environmental Conditions

Florida has historically experienced tropical windstorms, frosts and freezes, hurricanes, floods, and droughts. Citrus groves that are damaged from unfavorable growing conditions can increase costs, decrease revenues, and materially affect Alico's business, financial conditions, and cash flows. Most recently, Alico's citrus groves were damaged by Hurricane Irma in 2017. The hurricane significantly affected Alico's operations, resulting in net losses attributable to the hurricane of $14,688,000 and $9,429,000 in FY2017 and FY2018, respectively. During the fourth quarter of FY2019, Alico received about $15.6 million in proceeds from the CRBG program. Alico has rebounded impressively following Hurricane Irma and we expect this upward trend to continue due to realizations of Alico 2.0 restructurings and favorable weather conditions.

## Revenue Dependency of Citrus Business

Figure 1 illustrates the composition of Alico's revenue and how 97% of FY2019's revenue was generated by Alico Citrus. In the past three fiscal years (2019, 2018, and 2017), revenues from Alico Citrus represented approximately 97.4%, 96.1%, and 95.1% of Alico's total operating revenues. 89% of Alico's consolidated revenue came from business with Tropicana. Any significant event affecting the citrus business or Alico's business relationship with Tropicana could significantly alter Alico's consolidated operating revenues, financial position, and cash flows.

## Government Imposed Water Regulations

The availability of water is regulated by the state of Florida through water management bylaws which affect the areas in which Alico holds land and operates their citrus business, which are dependent on the availability of surface and underground water. Alico has mitigated this risk by acquiring permits for the next 15 to 20 years for the use of surface and underground water sufficient for their agricultural needs. Any changes to the availability of surface and underground water that are unresolvable by Alico's permits could significantly affect their citrus production.

## HLB and Greening Risk

Alico's citrus groves are subject to material losses from agricultural diseases such as citrus greening ("huanglongbing disease" or "yellow dragon disease") and citrus canker. These diseases have affected many crops in Florida and exist in a portion of Alico's citrus groves. Alico mitigates citrus greening risk by employing management practices that control diseases and the spreading of these diseases.

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# Appendix 1: Summary Page

## Summary Page

| | *Sep-14* | *Sep-15* | *Sep-16* | *Sep-17* | *Sep-18* | *Sep-19* | *Sep-20* | *Sep-21* | *Sep-22* | *Sep-23* | *Sep-24* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *(Figures in mm USD)* | **FY2014** | **FY2015** | **FY2016** | **FY2017** | **FY2018** | **FY2019** | **FY2020** | **FY2021** | **FY2022** | **FY2023** | **FY2024** |
| **Income Statement** | | | | | | | | | | | |
| **Revenue** | **104.0** | **153.1** | **144.2** | **129.8** | **81.3** | **122.3** | **166.2** | **207.0** | **237.6** | **261.1** | **286.9** |
| **EBITDA** | **9.4** | **19.5** | **21.8** | **(6.1)** | **10.5** | **45.2** | **38.3** | **37.3** | **42.8** | **60.0** | **66.0** |
| **Net Income** | **9.5** | **13.2** | **7.0** | **(9.5)** | **12.8** | **37.5** | **20.8** | **18.9** | **22.9** | **35.8** | **40.2** |
| **Earnings Per Share** | **$ 1.29** | **$ 1.64** | **$ 0.84** | **$ (1.14)** | **$ 1.54** | **$ 5.00** | **$ 2.78** | **$ 2.52** | **$ 3.06** | **$ 4.78** | **$ 5.36** |
| **Cash Flow Statement** | | | | | | | | | | | |
| **Capital Expenditures** | **(13.3)** | **(11.5)** | **(14.3)** | **(13.4)** | **(16.4)** | **(20.0)** | **(17.9)** | **(19.3)** | **(19.5)** | **(19.8)** | **(20.1)** |
| **Acquisitions** | **(32.8)** | **(265.6)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Divestitures** | **14.5** | **97.2** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Dividend Payment** | **(2.8)** | **(1.9)** | **(2.0)** | **(2.0)** | **(2.0)** | **-** | **(1.8)** | **(1.8)** | **(1.8)** | **(1.8)** | **(1.8)** |
| **Dividend Per Share** | **$ 0.38** | **$ 0.23** | **$ 0.24** | **$ 0.24** | **$ 0.24** | **$ (0.00)** | **$ 0.24** | **$ 0.24** | **$ 0.24** | **$ 0.24** | **$ 0.24** |
| **Dividend Payout to Earnings** | **29.3%** | **14.2%** | **28.6%** | **-20.9%** | **15.4%** | **-** | **8.6%** | **9.5%** | **7.8%** | **5.0%** | **4.5%** |
| **Dividend Payout to Core FCF** | **8.3%** | **4.6%** | **4.5%** | **4.8%** | **5.3%** | **-** | **3.4%** | **3.4%** | **3.2%** | **2.6%** | **2.4%** |
| **Dividend Yield** | **1.0%** | **0.5%** | **0.8%** | **0.7%** | **0.8%** | **-0.0%** | **0.9%** | **0.9%** | **0.9%** | **0.9%** | **0.9%** |
| **Balance Sheet** | | | | | | | | | | | |
| Current Assets | 125.8 | 70.8 | 73.1 | 66.5 | 72.2 | 62.0 | 57.2 | 82.4 | 101.2 | 131.4 | 166.8 |
| Non-Current Assets | 131.9 | 389.3 | 385.6 | 352.7 | 351.2 | 355.4 | 356.3 | 361.3 | 366.3 | 371.5 | 376.6 |
| **Assets** | **257.7** | **460.1** | **458.7** | **419.2** | **423.4** | **417.4** | **413.5** | **443.7** | **467.5** | **502.9** | **543.4** |
| Current Liabilities | 20.7 | 24.1 | 18.7 | 16.0 | 21.5 | 29.0 | 11.7 | 29.4 | 32.1 | 33.3 | 35.5 |
| Non-Current Liabilities | 75.2 | 260.4 | 261.7 | 237.8 | 224.3 | 189.0 | 182.4 | 182.4 | 182.4 | 182.4 | 182.4 |
| **Liabilities** | **95.8** | **284.6** | **280.4** | **253.8** | **245.8** | **218.0** | **194.1** | **211.8** | **214.4** | **215.7** | **217.9** |
| **Shareholders' Equity** | **161.9** | **170.7** | **173.5** | **160.6** | **172.1** | **194.3** | **213.4** | **230.5** | **251.6** | **285.6** | **324.0** |
| **Cash** | **31.1** | **5.5** | **6.6** | **3.4** | **25.3** | **18.6** | **50.0** | **12.5** | **21.1** | **43.6** | **70.4** |
| **Debt** | **95.8** | **284.6** | **280.4** | **253.8** | **245.8** | **218.0** | **194.1** | **211.8** | **214.4** | **215.7** | **217.9** |
| **Net Debt** | **64.7** | **279.1** | **273.8** | **250.4** | **220.6** | **199.4** | **144.1** | **199.3** | **193.3** | **172.2** | **147.5** |
| **Minority Interests** | **-** | **4.8** | **4.8** | **4.7** | **5.5** | **5.1** | **5.2** | **5.2** | **5.2** | **5.2** | **5.2** |
| **Debt/EBITDA** | **6.9 x** | **14.3 x** | **12.5 x** | **n/a** | **20.9 x** | **4.4 x** | **3.8 x** | **5.3 x** | **4.5 x** | **2.9 x** | **2.2 x** |
| **Operating Metrics** | | | | | | | | | | | |
| **Return on Equity (ROE)** | **5.9%** | **7.7%** | **4.0%** | **-5.9%** | **7.4%** | **19.3%** | **9.8%** | **8.2%** | **9.1%** | **12.5%** | **12.4%** |
| **Return on Assets (ROA)** | **3.7%** | **2.9%** | **1.5%** | **-2.3%** | **3.0%** | **9.0%** | **5.0%** | **4.3%** | **4.9%** | **7.1%** | **7.4%** |
| **Return on Invested Capital (ROIC)** | **2.2%** | **2.1%** | **2.2%** | **-0.4%** | **0.1%** | **3.0%** | **1.7%** | **1.4%** | **1.6%** | **2.4%** | **2.5%** |
| **Valuation Metrics** | | | | | | | | | | | |
| Stock Price (High) | $ 38.30 | $ 48.94 | $ 31.95 | $ 34.45 | $ 34.65 | $ 27.20 | $ 27.20 | $ 27.20 | $ 27.20 | $ 27.20 | $ 27.20 |
| Stock Price (Low) | $ 37.94 | $ 37.16 | $ 26.50 | $ 29.75 | $ 25.55 | $ 27.20 | $ 27.20 | $ 27.20 | $ 27.20 | $ 27.20 | $ 27.20 |
| Stock Price (Average) | $ 38.12 | $ 43.05 | $ 29.23 | $ 32.10 | $ 30.10 | $ 27.20 | $ 27.20 | $ 27.20 | $ 27.20 | $ 27.20 | $ 27.20 |
| Diluted Shares Outstanding (Average) | 7.4 | 8.1 | 8.3 | 8.3 | 8.3 | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 |
| Market Capitalization (Average) | 280.3 | 347.0 | 242.9 | 266.4 | 249.9 | 203.8 | 203.8 | 203.8 | 203.8 | 203.8 | 203.8 |
| Enterprise Value (Average) | 345.0 | 630.9 | 521.4 | 521.6 | 475.9 | 408.3 | 353.0 | 408.2 | 402.3 | 381.1 | 356.5 |
| **P/E** | **29.5 x** | **26.3 x** | **34.9 x** | **n/a** | **19.5 x** | **5.4 x** | **9.8 x** | **10.8 x** | **8.9 x** | **5.7 x** | **5.1 x** |
| **EV/EBITDA** | **36.8 x** | **32.3 x** | **23.9 x** | **n/a** | **45.2 x** | **9.0 x** | **9.2 x** | **11.0 x** | **9.4 x** | **6.3 x** | **5.4 x** |
| **FCF Yield to Market Capitalization** | **-3.8%** | **0.4%** | **1.0%** | **-5.7%** | **-3.2%** | **8.1%** | **15.7%** | **-16.2%** | **4.2%** | **10.9%** | **13.0%** |
| **FCF Yield to Enterprise Value** | **-3.1%** | **0.2%** | **0.5%** | **-2.9%** | **-1.7%** | **4.0%** | **9.1%** | **-8.1%** | **2.1%** | **5.8%** | **7.4%** |
| **Free Cash Flow** | | | | | | | | | | | |
| EBIT | 9.4 | 19.5 | 21.8 | (6.1) | 10.5 | 45.2 | 27.7 | 22.9 | 28.3 | 45.3 | 51.1 |
| Tax Expense | (11.4) | (10.9) | (5.5) | 3.8 | (0.4) | (12.8) | (7.0) | (5.8) | (7.2) | (11.5) | (13.0) |
| D&A | - | - | - | - | - | - | 10.7 | 14.3 | 14.5 | 14.7 | 14.9 |
| Capital Expenditures | (13.3) | (11.5) | (14.3) | (13.4) | (16.4) | (20.0) | (17.9) | (19.3) | (19.5) | (19.8) | (20.1) |
| Changes in NWC | 4.7 | 4.3 | 0.4 | 0.5 | (1.8) | 4.0 | 18.6 | (45.1) | (7.4) | (6.5) | (6.4) |
| **Unlevered Free Cash Flow** | **(10.6)** | **1.4** | **2.5** | **(15.1)** | **(8.0)** | **16.4** | **32.0** | **(32.9)** | **8.6** | **22.2** | **26.5** |

# Appendix 2: Discounted Cash Flow Analysis

## Discounted Cash Flow Analysis

| (Figures in mm USD) | Sep-14 FY2014 | Sep-15 FY2015 | Sep-16 FY2016 | Sep-17 FY2017 | Sep-18 FY2018 | Sep-19 FY2019 | Sep-20 FY2020 | Sep-21 FY2021 | Sep-22 FY2022 | Sep-23 FY2023 | Sep-24 FY2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Free Cash Flow** | | | | | | | | | | | |
| EBIT | 9.4 | 19.5 | 21.8 | (6.1) | 10.5 | 45.2 | 27.7 | 22.9 | 28.3 | 45.3 | 51.1 |
| Less: Tax expense | (11.4) | (10.9) | (5.5) | 3.8 | (0.4) | (12.8) | (7.0) | (5.8) | (7.2) | (11.5) | (13.0) |
| Add: Depreciation and amortization | - | - | - | - | - | - | 10.7 | 14.3 | 14.5 | 14.7 | 14.9 |
| Less: Capital expenditures | (13.3) | (11.5) | (14.3) | (13.4) | (16.4) | (20.0) | (17.9) | (19.3) | (19.5) | (19.8) | (20.1) |
| Less: Change in net working capital | 4.7 | 4.3 | 0.4 | 0.5 | (1.8) | 4.0 | 18.6 | (45.1) | (7.4) | (6.5) | (6.4) |
| **Unlevered Free Cash Flow** | **(10.6)** | **1.4** | **2.5** | **(15.1)** | **(8.0)** | **16.4** | **32.0** | **(32.9)** | **8.6** | **22.2** | **26.5** |
| Discount factor | | | | | | | 1.00 | 2.00 | 3.00 | 4.00 | 5.00 |
| **Present Value of Unlevered Free Cash Flow** | | | | | | **35.8** | **28.4** | **(28.6)** | **6.9** | **16.7** | **18.6** |

### WACC Calculations

| Cost of Equity | |
|---|---|
| Risk-free rate | 1.9% |
| Expected market return | 13.0% |
| **Market Risk Premium** | **11.1%** |
| Beta | 0.78 |
| **Cost of Equity** | **10.6%** |

| Cost of Debt | |
|---|---|
| Pre-tax cost of debt | 4.4% |
| Effective tax rate | 25.5% |
| **Cost of Debt** | **3.3%** |

| WACC | |
|---|---|
| Market value of equity | 203.2 |
| Market value of debt | 162.1 |
| **Total Capitalization** | 365.3 |
| Cost of equity | 10.6% |
| Cost of debt | 3.3% |
| **WACC** | **7.3%** |

### Discounted Cash Flow Valuations

| Perpetuity Growth Method | |
|---|---|
| **Perpetuity Growth Rate** | 2.0% |
| PV sum of unlevered FCF | 77.9 |
| Terminal value | 362.1 |
| **Enterprise Value** | **440.0** |
| Add: Cash | 18.6 |
| Less: Debt | 162.1 |
| Less: Other EV adjustments | 5.1 |
| **Equity Value** | **291.5** |
| Shares outstanding | 7.5 |
| **Implied Share Price** | **$ 39.01** |

| | |
|---|---|
| Current Price | $ 27.20 |
| **Implied Price** | **$ 39.01** |
| **Total Return** | **43.4%** |

| | WACC | | | | |
|---|---|---|---|---|---|
| | 8.10% | 7.60% | 7.10% | 6.60% | 6.10% |
| 1.00% | $ 25.54 | $ 29.20 | $ 33.48 | $ 38.53 | $ 44.59 |
| 1.50% | $ 28.21 | $ 32.38 | $ 37.32 | $ 43.23 | $ 50.45 |
| 2.00% | $ 31.32 | $ 36.13 | $ 41.91 | $ 48.95 | $ 57.73 |
| 2.50% | $ 34.98 | $ 40.62 | $ 47.49 | $ 56.06 | $ 67.03 |
| 3.00% | $ 39.36 | $ 46.08 | $ 54.45 | $ 65.15 | $ 79.34 |

| | 8.10% | 7.60% | 7.10% | 6.60% | 6.10% |
|---|---|---|---|---|---|
| 14.5 x | $ 83.11 | $ 85.40 | $ 87.75 | $ 90.17 | $ 92.66 |
| 15.5 x | $ 89.09 | $ 91.52 | $ 94.02 | $ 96.59 | $ 99.23 |
| 16.5 x | $ 95.08 | $ 97.65 | $ 100.29 | $ 103.01 | $ 105.80 |
| 17.5 x | $ 101.06 | $ 103.77 | $ 106.56 | $ 109.42 | $ 112.37 |
| 18.5 x | $ 107.05 | $ 109.90 | $ 112.83 | $ 115.84 | $ 118.94 |

# Appendix 3: Comparable Company Analysis

## Comparable Company Analysis

*(Figures in mm USD)*

| Company | Ticker | Equity Value | Enterprise Value | EV/EBITDA Multiple 2019A EV/EBITDA | 2020E EV/EBITDA | 2021E EV/EBITDA | P/E Multiple 2019A P/E | 2020E P/E | 2021E P/E |
|---|---|---|---|---|---|---|---|---|---|
| Limoneira | NASDAQ: LMNR | 208.3 | 335.2 | 165.9 x | 13.6 x | 9.3 x | (29.3 x) | 27.3 x | 14.7 x |
| Fresh Del Monte Produ | NYSE: FDP | 1,294.8 | 2,123.5 | 8.4 x | 8.3 x | 7.5 x | 18.2 x | 12.0 x | 9.2 x |
| Calavo Growers Inc. | NASDAQ: CVGW | 995.5 | 995.4 | 12.1 x | 10.4 x | 9.7 x | 27.2 x | 16.8 x | 15.4 x |
| Getty Realty Corp. | NYSE: GTY | 900.2 | 1,341.2 | 13.9 x | 13.4 x | 12.2 x | 18.8 x | 18.4 x | 17.3 x |
| J&J Snack Foods Corp | (NASDAQ: JJSF) | 2,125.5 | 1,883.1 | 11.4 x | 10.7 x | 10.3 x | 22.5 x | 21.6 x | 20.7 x |
| **Alico Inc.** | **NASDAQ: ALCO** | **203.2** | **351.7** | **5.9 x** | **9.2 x** | **9.4 x** | **5.4 x** | **17.3 x** | **10.8 x** |
| **Median** | | | | | **10.7 x** | **9.7 x** | | **18.4 x** | **15.4 x** |
| **Mean** | | | | | **11.3 x** | **9.8 x** | | **19.2 x** | **15.5 x** |
| **High** | | | | | **13.6 x** | **12.2 x** | | **27.3 x** | **20.7 x** |
| **Low** | | | | | **8.3 x** | **7.5 x** | | **12.0 x** | **9.2 x** |

| | EV/EBITDA Implied Price | | P/E Implied Price | |
|---|---|---|---|---|
| Median | $ 35.01 | $ 28.60 | $ 28.83 | $ 38.85 |
| **Mean** | **$ 37.94** | **$ 28.97** | **$ 30.16** | **$ 39.00** |
| High | $ 49.92 | $ 40.73 | $ 42.79 | $ 52.31 |
| Low | $ 22.53 | $ 17.64 | $ 18.88 | $ 23.17 |