

# LMNR – Private Credit Investment Committee Memorandum

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Decision: WATCHLIST (confidence 0.76)

## 1. Executive Summary

We are considering a senior secured lending solution to Limoneira Company, a diversified agribusiness and real-estate developer with operations in California and Chile. The integrated model—spanning citrus and avocado production, greenhouse crops, packing and cold-storage services, plus phased residential and mixed-use land development—provides revenue diversification that helps offset pure agricultural cyclicality. Management has delivered modest mid-single-digit revenue growth and incremental margin expansion through water-efficiency and packing-infrastructure initiatives, while maintaining net leverage in the mid-3x range.

Key credit positives include a tangible asset base, first-lien security over operating assets and land, full corporate guarantees, and ample revolver headroom. Key challenges include exposure to volatile commodity prices, labor and water-cost inflation, and timing risks in real-estate milestones, all of which can compress margins and cash flow. In a rising interest-rate environment, floating-rate debt service and slower housing demand could tighten coverage.

We propose a SOFR-based term loan with leverage-ratchet pricing and enhanced maintenance covenants on both revolver and term debt, coupled with quarterly reporting on parcel sales pipelines and capex ROI. The recommended credit posture is WATCHLIST, reflecting medium-risk sector dynamics and the need to tighten documentation before full investment approval.

## 2. Transaction Overview

Facility: Senior secured term loan (TLB) of \$200–250 million, 5- to 7-year maturity, floating rate (SOFR + 250–350bps) with OID; pari passu first-lien on domestic operating assets, receivables, inventory and real-estate collateral; full parent and domestic subsidiary guarantees.

Proceeds: Refinance existing debt, fund development capex (\$10–15 million in 2025), and support working capital for cyclical harvest periods.

Pricing and Fees: Initial margin of SOFR + 250bps with step-up to +300bps at >3.5x gross leverage and +350bps at >4.0x; 1.0% facility fee on undrawn revolver; customary upfront fee and OID.

Covenants: Quarterly maintenance tests on term loan at 4.0x gross leverage and 2.5x interest coverage; springing leverage test (4.5x gross) on revolver draws; fixed minimum liquidity of \$20 million; EBITDA add-back restrictions; semi-annual reporting of development pipeline and water-efficiency project ROI.

## 3. Business Model, Revenue Diversification and Market Context

Limoneira operates an integrated agribusiness and real-estate platform:

1. **Agricultural Production & Sales:** Core citrus (lemons, avocados, oranges), row and greenhouse crops sold via retail, foodservice and export channels. Volumes drive mid-single-digit revenue growth, but pricing is subject to commodity volatility and weather.
2. **Real Estate & Development:** Phased residential and mixed-use land projects on company-owned acreage in California coastal markets, generating milestone payments and parcel sales that punctuate agricultural cycles.
3. **Agro-tourism & Services:** Packing, cold storage, wholesale brokerage and on-farm visitor experiences. Infrastructure investments in water efficiency and cold chain enhance margins and asset utilization.

Revenue diversification across these segments and geographic footprint (California, Chile) mitigates pure-play cyclicalities, although each line carries its own market and regulatory risks, including water constraints in California and FX exposure in exports.

**Sector Volatility:** Agricultural markets subject to commodity-price swings, weather variability and input-cost inflation (labor, water, energy). Real-estate demand in California is sensitive to mortgage rates and broader economic growth.

**Cost Pass-Through:** Limited mid-season ability to raise prices under annual or harvest-cycle contracts; steep labor or water-cost spikes can compress margins by 150–200bps if not managed through mix shifts or hedging.

**Rate Environment:** Floating-rate debt increases interest-expense volatility; higher rates dampen housing activity, delaying milestone revenues from parcel closings. For lenders, rising SOFR boosts yield but magnifies borrower cash-flow stress and covenant risk.

#### **4. Historical Financial Performance and Credit Metrics**

**Historical Performance:** Mid-single-digit revenue growth driven by volume gains and varietal mix shifts; residential lot sales contribute lumpier but higher-margin cash flows. Consolidated EBITDA margins have gradually expanded with efficiency projects, though exposed to labor and water-cost inflation.

**Leverage & Coverage:** Net debt/EBITDA near 3.3x mid-2024, within moderate-leverage band; interest coverage around 4.0x EBITDA to cash interest. No material maturities before 2027; revolver availability and unencumbered assets underpin liquidity.

**Cash Flow & Capex:** Elevated capex intensity (low-double-digit millions annually) for cold chain, irrigation, and land acquisitions offset by strong harvest-season cash conversion. Development capex timing creates off-cycle liquidity pressure if parcel sales are delayed.

**Scenario Analysis:**

- **Base:** Mid-single-digit growth, modest margin expansion, net leverage stable at ~3.3x.

- Downside: 10% revenue decline + 200bps margin compression, net leverage >4.0x, covenant headroom eroded.
- Upside: Favorable pricing and accelerated lot sales drive EBITDA gains, leverage falls below 3.0x.

## 5. Structure, Documentation and Covenants

Security: First-lien collateral over domestic operating assets (inventory, receivables, equipment), owned land parcels and pledges of material subsidiaries; pari passu between revolver and term loan.

Ranking: Revolver and TLB senior secured; potential subordinated TL2 ranks junior; unsecured notes (if any) pari passu on general unsecured basis.

Covenants: Quarterly maintenance tests on term loan (4.0x gross leverage; 2.5x interest coverage); springing leverage test (4.5x) on revolver; minimum liquidity of \$20 million; restricted payment baskets with leverage-based step-downs; EBITDA add-back caps; change-of-control prepayment.

Documentation: Standard events of default, intercreditor provisions, equity cure rights, customary notice and cure periods. Outstanding documentation items include final EBITDA add-back definitions, cure mechanics for springing covenants and baskets for permitted investments.

## 6. Downside Protection and Loss Pathways

Downside Protection: First-lien security and full guarantees support recovery from both farming and real-estate assets. Leverage-ratchet pricing and maintenance tests create early warning triggers and incentivize deleveraging.

Loss Pathways:

- Commodity/Cost Shock: A 10% drop in crop pricing or yields plus 200bps margin contraction strains free cash flow, pushes net leverage above 4.0x and risks covenant breach. Revolver drawdowns and liquidity erosion could follow.
- Rate Increase: Rising SOFR elevates interest expense, reducing interest coverage below maintenance threshold. Slower home sales delay milestone payments, compounding cash-flow stress.

Mitigants: Enhanced covenants, weekly cash-flow reporting, cap on EBITDA adjustments, mandatory deleverage plans and pricing escalators at defined leverage thresholds.

## 7. Key Risks and Mitigants

- Commodity-Price Volatility – sudden price declines reduce agricultural revenue; mitigant: mix shift to higher-margin varieties and forward contracts.
- Water and Labor-Cost Inflation – input-cost spikes squeeze margins; mitigant: ongoing irrigation capex with proven paybacks and selective crop portfolio.
- Real-Estate Timing – housing slowdown delays parcel closings; mitigant: phased development schedule and conservative sales assumptions.
- Floating-Rate Exposure – rising rates increase debt service; mitigant: limited hedging overlay and pricing ratchets to adjust margin.
- Covenant-Lite Elements – term loan on incurrence covenant regime; mitigant: impose quarterly maintenance tests and restrict add-backs.
- Chile Operations Risk – regulatory changes or underperformance on new acreage; mitigant: established local partnerships and proven track record.

## 8. Recommendation and IC Q&A Prep

Recommendation: WATCHLIST

We recommend placing the proposed facility on Watchlist pending finalization of enhanced covenants, EBITDA add-back definitions and reporting requirements. Approval on Watchlist is contingent on:

- Quarterly maintenance tests on term debt at 4.0x gross leverage and 2.5x interest coverage.
- Cap on EBITDA add-backs for pro forma and non-recurring items.
- Leverage-ratchet pricing increments at >3.5x and >4.0x gross.
- Quarterly reporting on development pipeline, parcel sale timing and efficiency project ROI.

IC Q&A Prep:

1. What specific EBITDA adjustments can management include, and how do we cap them?
2. What is the detailed sales pipeline for the next two development phases?
3. How sensitive are projected water-efficiency savings to cost overruns or delays?
4. How much revolver availability remains under stress scenarios?
5. What hedge or forward-pricing programs are in place for key crop inputs?

Appendix

Price Behavior: Citrus and avocado commodity prices have experienced +/-15% swings year over year; forward-pricing volumes represent ~20% of production for citriculture.

Tavily Insights: Regional comparables trade at mid-3x net leverage targets, with covenant-lite structures typically experiencing 150–200bps yield premiums.

Background: Limoneira listed on NASDAQ (LMNR) with \$400 million market cap; management tenure averages 15 years in agribusiness; recent capex completed on Chile acreage acquisition (500 acres) for avocados and citrus.

Recent 90-Day Price Trend:

