VALUATION: Transforming Information into a Model Format
Source materials: Textbook, instructor materials – esp. notes on ROIC and FCFF models.

Select a publicly traded company from Yahoo Finance (or another financial research web site of your choice). Create your own Excel model (based on the principles shown in the text book as well your own prior course work) to complete the following tasks:

1) Calculate the weighted average cost of capital [WACC] of the firm (identifying and enumerating the capital sources, their respective cost, and mix);

For my analysis, I chose the publicly traded company, Tejon Ranch (TRC). Its WACC = 7.45% using the classic CAPM. The calculation itself and further information is on the following sheet: =WACC!B12

2) List and explain what you believe are the underlying risk factors that justify or clarify the basis for the individual cost of each of the capital sources (e.g., the specific financial and liquidity risks associated with the debt, specific operational and business risks associated with the equity). If for example you were examining an airline company, operating and business risk factors might include but not be limited to energy costs, revenue per passenger miles, seating capacity utilization rates and so forth. For its financial risk, the airline's net free cash flow in relation to its fixed charges [principal plus interest] under different economic scenarios (optimistic, middle-of-the road and pessimistic) is helpful in determining risk exposure.
Based on my conclusive findings, while there are other risk factors such as low sales volume partially attributed to price fluctuations in various commodities, it can be inferred with a high level of confidence that Tejon Ranch Company has exposed itself to higher risks in real-estate transactions creating outstanding debt in bond repayments and subsequently low to non existent liquidity arising therefrom. This statement is also supported by the company's free cash flow of $-20.8 million as of December 31, 2016 (confirmed by Wall Street Journal - http://quotes.wsj.com/TRC/financials/annual/cash-flow). This number was calculated by deducting capital expenditures of -$26.4 million dollars in real estate related purchases (property and equipment expenditures) from the net positive operating cash of $585,000.00. A more detailed "picture" is painted below with specific enumerations.

Income statement analysis:
First and foremost, from looking at the income statement, it is apparent that Tejon Ranch has experienced a negative net revenue growth of 2% from 2012 – 2016. A higher volume of sales is necessary to offset this amount and point it into a positive sales trajectory. Furthermore, total expenses (e.g. corporate expenses, farming, mineral resources, etc.) have started to trail revenues in year 2014, and by 2015, the firm began operating at a loss (negative net income). With its real estate holdings and total investment income, the firm's net income from 2012 – 2016 is at $17.6 million.

Cash flow statement analysis:

Outlining potential risks: revenue per real estate sold – specifically: gain on sale of easements. Easements are defined as the right to use someone else's land. Tejon ranch has no cash from operations in this area. This is a potential risk because in 2010 they have purchased 62,000 acres of land that is not being used, albeit, for conservation purposes (source: http://tejonranch.com/conservation-easements-to-be-purchased-covers-62000-acres/).
Due to the fact that some items that were not made visible through the consolidated statement of cash flows, delving deeper into the corporate 10-Q from 2016 was necessary.

In relation to real-estate debt and risk exposure, there has been a total of 1,931 acres of Tejon Ranch Company's land secured by the East Community Facilities District (CFD) by liens. Liens are known as rights to secure property such as land until the debt is fully discharged. In this case, a total of $55,000,000 in special taxes related to bond debt has been secured for TRCC-East. This poses a huge risk for Tejon Ranch in that continuing operations with repayment of this debt. (page 33 of 10_Q from SEC filings)
As of September 30, 2016, Tejon Ranch has experienced exposure to unfavorable price fluctuations associated with certain inventories and accounts receivable, namely pistachios and almonds (ranging from 3.82 to $4.92 per pound). This fluctuation, though, at first glance may not appear significant, it does increase almost exponentially as the production volume increases over time.
(page 35 of 10_Q – from SEC filings)
Futhermore, Tejon Ranch has exposed itself to another potential source of risk, in what is known as "betting the company on a single project" (Haloulakos, pg. 53 – High Flight). In 2014, TRC purchased a partner interest in TMV, LLC for $70 million dollars, and has invested heavily in other joint ventures. Furthermore, there are not enough proceeds from sale of various real estate assets to offset the negative cash flow resulting in investing activities.

3) If you were to use most recent Cash from Operations and the WACC you calculated in #1, what is the implied Horizon or Terminal Value? What is the implied Horizon or Terminal Value if you were to use Net Free Cash Flow? [Note: Net Free Cash Flow = Cash from Operations MINUS Cash from Investing MINUS Cash from Financing]

Using cash from operations and a 7.45% WACC yields a terminal value of $9.5 million – a long term growth rate of -32.43% is used because it is the net growth from years 1-5, hence longer term, negative, and therefore more pessimistic (Valuation Sheet!B10)

Using net free cash flow, a terminal value of -1.1 million is produced =Valuation Sheet!G26
Which of these values do you believe is most accurate in valuing the enterprise? Explain your reasoning.

Using net free cash flow is more accurate in valuing the enterprise because it is more realistic. As outlined in the capital costs financed by debt and equity in (#2) above, net free cash flow includes cash from operating activities, and thus, is all inclusive. You cannot value an enterprise without looking at its investment income and financing. It's like valuing a slice of pizza at the total value of the whole pie.

In conclusion, Tejon Ranch has a negative economic value resulting from the negative net present value (NPV) as evidenced in net free cash flow. Using the weighted average cost of capital for this model is necessary because it is the rate at which Tejon Ranch is expected to pay (on average) to all of stockholders to finance its assets. As of December 31, 2016, Tejon Ranch Company's reported stockholder equity of $305.9 million =Statements of Equity!G28.
Tejon Ranch Company earns returns that do not stack up to its cost of capital. As the firm grows, it will destroy its value.

<u>The learning goals from this assignment are:</u>
Familiarize yourself with the *mechanics of using Accounting data for Valuation* while refining your *interpretive* skills.

WACC using Classic CAPM		Formulas	Formula Description
pg. 71 of Financial Modeling Textbook (Calculating the Weighted Average Cost of Capital (WACC))		$WACC = \frac{E}{E+D} r_E + \frac{D}{E+D} r_D (1 - T_C)$	$E = market\ value\ of\ firm's\ equity,$ $D = market\ value\ of\ firm's\ debt,$ $T_C = firm's\ corporate\ tax\ rate,$ $r_E = firm's\ cost\ of\ equity,$ $r_D = firm's\ cost\ of\ debt$
Equity (Market Cap)	395.55	Source: Yahoo Finance	
Debt (using book value of debt calculation)	77.72	<-- ='Cash Flow '!B68	latest 2 year average of Long-Term Debt & Capital Lease Obligation (+) latest 2 year average of current portion of long term debt
Risk-Free Rate of Return	0.0237	Source: Current 10yr Treasury Rate (sourced from Ycharts)	
Beta	1.0900	Source: Yahoo Finance	sensitivity of the expected excess asset returns to the expected excess market returns
Cost of Equity (Using CAPM)	0.0891	<-- =0.0237 + 1.09*0.06	Risk-Free Rate of Return + Beta of Asset * (Expected Return of the Market - Risk-Free Rate of Return)
Cost of Debt	0.0000	<-- =0/B4	
Weight of Equity	0.8358	<-- =B3/(B3+B4)	<-- E/(E+D) = 395.760 / (395.760 + 77.722) = 0.8359
Weight of debt	0.1642	<-- =B4/(B3+B4)	<-- D/ (E+D) = D / (E + D) = 77.722 / (395.760) + 77.722) = 0.1641
Tax Rate (2016)	0.3948	<-- ='Pro Forma (Detailed)'!B10	
WACC	**7.45%**	<-- =0.8358*0.0891+0.1642*0*(1-0.3948)	<-- = E / (E + D) * Cost of Equity + D / (E + D) * Cost of Debt * (1 - Tax Rate) = 0.8359*0.0921+0.1641*0*(1-0.33675)

The weighted average cost of capital (WACC) is the rate that a company is expected to pay on average to all its security holders to finance its assets.

Tejon Ranch Co's weighted average cost of capital is 7.45%. Tejon Ranch Co earns returns that do not stack up to its cost of capital. It will destroy value as it grows. The WACC increases as the beta and rate of return on equity increase, as an increase in WACC denotes a decrease in valuation and an increase in risk.

CONSOLIDATED STATEMENTS OF CASH FLOW

($ in thousands)	Twelve Months Ended December 31				
	2016	**2015**	**2014**	**2013**	**2012**
OPERATING ACTIVITIES					
Net income	$ 515	$ 2,912	$ 5,762	$ 4,103	$ 4,283
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	$ 4,549	$ 5,090	$ 4,871	$ 4,226	$ 4,954
Amortization of premium/discount of marketable securities	$ 434	$ 555	$ 769	$ 879	$ 874
Equity in earnings	$ (7,098)	$ (6,324)	$ (5,294)	$ (4,006)	$ (2,535)
Non-cash retirement plan expense	$ 1,046	$ 997	$ 164	$ 865	$ 1,047
Gain on sale of real estate/assets	$ (1,183)	$ (95)	$ -	$ (46)	$ (676)
Gain on sale of easements	$ -	$ -	$ -	$ -	$ -
Deferred income taxes	$ 1,939	$ (120)	$ 112	$ (8)	$ 1,810
Ammortization of Stock compensation expense	$ 4,585	$ 3,757	$ 3,534	$ 929	$ 5,440
Excess tax benefit from stock-based compensation	$ -	$ -	$ -	$ -	$ 8
Distribution of earnings from unconsolidated joint ventures	$ 4,500	$ 7,200	$ -	$ -	$ 7,200
Changes in operating assets and liabilities:					
Receivables, inventories, prepaids and other assets, net	$ (1,603)	$ 2,733	$ 2,291	$ 3,712	$ (1,761)
Current liabilities, net	$ (2,099)	$ 263	$ 1,009	$ (1,118)	$ (6,552)
Net cash provided by operating activities	**$ 5,585**	**$ 16,968**	**$ 13,218**	**$ 9,536**	**$ 14,092**
Growth (%) in net cash Provided by operating activities)	-67.09%	28.37%	38.61%	-32.33%	-
Total growth (%) of net cash provided by operating activities)(Year 2012- 2016) = Long Term Growth	**-32.43%**				
INVESTING ACTIVITIES					
Maturities and sales of marketable securities	$ 11,750	$ 24,157	$ 20,844	$ 29,779	$ 19,809
Funds invested in marketable securities	$ (5,983)	$ (15,574)	$ (8,525)	$ (21,392)	$ (16,984)
Capital expenditures (Real estate and equipment expenditures & Property and equipment expenditures)	$ (26,380)	$ (28,048)	$ (25,255)	$ (31,193)	$ (20,669)
Reimbursement of outlet center costs				$ 512	$ -
Reimbursement proceeds from Communities Facilities District	$ 6,155	$ 4,971	$ -	$ 17,809	$ -
Proceeds from sale of real estate/assets	$ 4,616	$ 796	$ -	$ -	$ -
Proceeds from sale of easements	$ -	$ -	$ -	$ -	$ -
Investment in unconsolidated joint ventures	$ (2,000)	$ (52)	$ (9,656)	$ (3,415)	$ (6,154)
Purchase of partner interest in TMV LLC	$ -	$ -	$ (70,000)	$ -	$ -
Distribution of equity from unconsolidated joint ventures	$ 1,600	$ 1,100	$ -	$ 1,000	$ 1,512
Investments in long-term water assets	$ -	$ -			$ (797)
Other	$ -	$ (11)	$ -	$ (711)	$ 10
Net cash used in investing activities	**$ (10,242)**	**$ (12,661)**	**$ (92,592)**	**$ (7,611)**	**$ (23,273)**
Growth (%) in net cash used in investing activities)	**-19.11%**	**-86.33%**	**1116.55%**	**-67.30%**	**-**
Total growth (%) of net cash used in investing activities)(Year 2012- 2016)	**943.83%**				
FINANCING ACTIVITIES					
Borrowings of line of credit	$ 20,700	$ 17,540	$ 31,050	$ -	$ -
Repayments of line of credit	$ (13,000)	$ (24,390)	$ (24,200)	$ -	$ -
Borrowings of short-term debt	$ -	$ -	$ -	$ -	$ 1,500
Repayments of short-term debt	$ -	$ -	$ -	$ -	$ (1,500)
Borrowings of long-term debt	$ -	$ -	$ 70,000	$ 4,750	$ -
Repayments of long-term debt	$ (815)	$ (244)	$ (244)	$ (310)	$ (39)
Proceeds from exercise of stock options	$ -	$ -	$ -	$ 211	$ 370
Taxes on vested stock grants	$ (2,900)	$ (921)	$ (625)	$ (4,764)	$ (2,303)
Net cash provided by (used in) provided by financing activities	**$ 3,985**	**$ (8,015)**	**$ 75,981**	**$ (113)**	**$ (1,972)**
Net Cash Flow (net change in cash)	**$ (672)**	**$ (3,708)**	**$ (3,393)**	**$ 1,812**	**$ (11,153)**
Free cash flow (FCF) - confirmed by Wall Street Journal (click to link)	**$ (20,795)**	**$ (11,080)**	**$ (12,037)**	**$ (21,657)**	**$ (6,577)**
Net Free cash flow growth	**-81.88%**	**9.28%**	**-287.25%**	**-116.25%**	**-**
Total growth (%) in net free cash) = Long Term Growth	**-476.09%**				

Increase (decrease) in cash and cash equivalents	$ (672)	$ (3,708)	$ (3,393)	$ 1,812	$ (11,153)
Cash and cash equivalents at beginning of year	$ 1,930	$ 5,638	$ 9,031	$ 7,219	$ 18,372
Cash and cash equivalents at end of year	$ 1,258	$ 1,930	$ 5,638	$ 9,031	$ 7,219
SUPPLEMENTAL CASH FLOW INFORMATION					
Increase in CIP attributable to reclassifying equity in investment of TMV, LLC	$ -	$ -	$ 44,950	$ -	$ -
Accrued capital expenditures included in current liabilities	$ 652	$ 329	$ 1,096	$ 2,058	$ 2,293
Sale of assets accounted as direct finance leases	$ -	$ -	$ -	$ -	$ 913
Capital expenditure financing arrangement	$ 467	$ -	$ -	$ -	$ -
Taxes paid (net of refunds)	$ 1,135	$ 1,817	$ (2,384)	$ 15	$ 4,021
Common stock issued for water purchase	$ -	$ -	$ -	$ 9,370	$ -
Current portion of long term debt	11.55	0.82	7.09	0.23	0.04
Long-Term Debt & Capital Lease Obligation	69.85	73.22	74.02	4.46	0.21
Book Value of debt (d)	77.72				

PRO FORMA FINANCIALS (Tejon Ranch Company (TRC))

Sales growth	-2%	<-- =SUM(B22:F22)
Current assets/Sales	102%	<-- =B84/B21
Current liabilities/Sales	41%	<-- =B107/B21
Net fixed assets/Sales	101%	<-- =B87/B21
Costs of goods sold/Sales	90%	<-- =B30/B21
Depreciation rate	-11%	<-- =B48
Tax rate	39%	<-- =B44/B43
WACC (using classic CAPM)	7.45%	

CONSOLIDATED STATEMENTS OF INCOME

					Year Ended December 31
($ in thousands, except per share amounts)	**2016**	**2015**	**2014**	**2013**	**2012**
REVENUES:					
Real estate - commercial/industrial	$ 9,438	$ 8,272	$ 7,845	$ 11,148	$ 9,941
Mineral resources	$ 14,153	$ 15,116	$ 16,255	$ 1,266	$ 583
Farming	$ 18,648	$ 23,836	$ 23,435	$ 10,242	$ 14,012
Ranch operations	$ 3,338	$ 3,923	$ 3,534	$ 22,682	$ 22,553
Total revenues	**$ 45,577**	**$ 51,147**	**$ 51,069**	**$ 45,338**	**$ 47,089**
% Growth	*-10.9%*	*0.2%*	*12.6%*	*-3.7%*	*-*
Costs and Expenses:					
Cost of Goods Sold (CGS)					
Real estate - commercial/industrial	$ 7,100	$ 6,694	$ 7,206	$ 12,902	$ 12,271
Real estate - resort/residential	$ 1,630	$ 2,349	$ 2,608	$ 3,351	$ 4,761
Mineral resources	$ 7,796	$ 7,396	$ 6,418	$ 462	$ 334
Farming	$ 18,673	$ 18,984	$ 16,250	$ 14,806	$ 13,323
Ranch operations	$ 5,734	$ 6,112	$ 5,998	$ -	$ -
Total Cost of Goods Sold	$ 40,933	$ 41,535	$ 38,480	$ 31,521	$ 30,689
Gross Profit	$ 4,644	$ 9,612	$ 12,589	$ 13,817	$ 16,400
Corporate expenses	$ 12,550	$ 12,808	$ 10,646	$ 12,641	$ 13,272
Total expenses	**$ 53,483**	**$ 54,343**	**$ 49,126**	**$ 44,162**	**$ 43,961**
Operating (loss) income	$ (7,906)	$ (3,196)	$ 1,943	$ 1,176	$ 3,128
Other Income:					
Gain on sale of real estate	$ 1,044	$ -	$ -		$ -
Investment income	$ 457	$ 528	$ 696	$ 941	$ 1,242
Interest income (expense)	$ -	$ -	$ -	$ -	$ (12)
Other income	$ 158	$ 381	$ 526	$ 66	$ 113
Total other income	$ 1,659	$ 909	$ 1,222	$ 1,007	$ 1,343
(Loss) income from operations before equity in earnings of unconsolidated joint ventures	$ (6,247)	$ (2,287)	$ 3,165	$ 2,183	$ 4,471
Equity in earnings of unconsolidated joint ventures, net	$ 7,098	$ 6,324	$ 5,294	$ 4,006	$ 2,535
Income before income tax expense	$ 851	$ 4,037	$ 8,459	$ 6,189	$ 7,006
Income tax expense	$ 336	$ 1,125	$ 2,697	$ 2,086	$ 2,723
Net income	**$ 515**	**$ 2,912**	**$ 5,762**	**$ 4,103**	**$ 4,283**
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	$ 4,549	$ 5,090	$ 4,871	$ 4,226	$ 4,954
Depreciation rate	-11%	4%	15%	-15%	-
Net (loss) income attributable to non-controlling interest	$ (43)	$ (38)	$ 107	$ (62)	$ (158)
Net income attributable to common stockholders	$ 558	$ 2,950	$ 5,655	$ 4,165	$ 4,441
Net income per share attributable to common stockholders, basic	$ 0.03	$ 0.14	$ 0.27	$ 0.21	$ 0.22
Net income per share attributable to common stockholders, diluted	$ 0.03	$ 0.14	$ 0.27	$ 0.20	$ 0.22

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

					Year Ended December 31
($ in thousands)	**2016**	**2015**	**2014**	**2013**	**2012**
Net income	$ 515	$ 2,912	$ 5,762	$ 4,103	$ 4,283
Other comprehensive income/(loss):					
Unrealized loss on available-for-sale securities	$ 62	$ (188)	$ (208)	$ (348)	$ 182
Benefit plan adjustments	$ (371)	$ (1,301)	$ (3,168)	$ 2,218	$ (922)
Benefit plan reclassification for losses included in net income	$ -	$ 536	$ 407	$ -	$ -
SERP liability adjustments	$ 214	$ 234	$ (1,003)	$ 1,098	$ (12)
Equity in other comprehensive income of unconsolidated joint venture	$ -	$ -	$ -	$ -	$ 152
Unrealized interest rate swap gains/(losses)	$ 1,040	$ 678	$ (2,227)	$ -	$ -
Other comprehensive income (loss) before taxes	$ 945	$ (41)	$ (6,199)	$ 2,968	$ (600)
Benefit (provision) for income taxes related to other comprehensive loss items	$ (282)	$ 38	$ 2,644	$ (1,183)	$ 238
Other comprehensive (loss) income	$ 663	$ (3)	$ (3,555)	$ 1,785	$ (362)
Comprehensive income	$ 1,178	$ 2,909	$ 2,207	$ 5,888	$ 3,921
Comprehensive (loss) income attributable to non-controlling interests	$ (43)	$ (38)	$ 107	$ (62)	$ (158)
Comprehensive income attributable to common stockholders	$ 1,221	$ 2,947	$ 2,100	$ 5,950	$ 4,079

CONSOLIDATED BALANCE SHEET

					December 31
($ in thousands)	**2016**	**2015**	**2014**	**2013**	**2012**
ASSETS					
Current Assets:					
Cash and cash equivalents	$ 1,258	$ 1,930	$ 5,638	$ 9,031	$ 7,219
Marketable securities - available-for-sale	$ 26,675	$ 32,815	$ 42,140	$ 55,436	$ 65,049
Accounts receivable	$ 8,740	$ 6,511	$ 8,506	$ 7,108	$ 8,768
Inventories	$ 3,084	$ 3,517	$ 4,098	$ 3,510	$ 3,839
Prepaid expenses and other current assets	$ 4,458	$ 4,120	$ 4,456	$ 7,707	$ 4,881
Deferred tax assets	$ 2,282	$ 4,659	$ 1,089	$ 452	$ 997
Total current assets	$ 46,497	$ 53,552	$ 65,927	$ 83,244	$ 90,753
Real estate and improvements - held for lease, net	$ 20,026	$ 21,942	$ -	$ -	$ -
Real estate development (includes $89,381 at December 31, 2016 and $89,381 at December 31, 2015, attributable to Centennial Founders, LLC, Note 17)	$ 248,265	$ 235,466	$ -	$ -	$ -
Property and equipment, net of depreciation (includes $74,726 at December 31, 2013 and $72,115 at December 31, 2012, attributable to Centennial Founders LLC, Note 15)	$ 46,034	$ 44,469	$ 282,974	$ 146,542	$ 146,590
Investments in unconsolidated joint ventures	$ 33,803	$ 30,680	$ 32,604	$ 62,604	$ 54,022
Long-term water assets	$ 42,413	$ 43,806	$ 45,349	$ 46,754	$ 28,565
Long-term deferred tax assets	$ -	$ -	$ 3,487	$ 1,592	$ 5,376
Other assets	$ 2,663	$ 2,004	$ 1,774	$ 2,143	$ 2,550
Fixed assets					
At cost	$ 50,583	$ 49,559	$ 287,845	$ 150,768	$ 151,544
Depreciation	$ (4,549)	$ (5,090)	$ (4,871)	$ (4,226)	$ (4,954)
Net fixed Assets	$ 46,034	$ 44,469	$ 282,974	$ 146,542	$ 146,590
TOTAL ASSETS	$ 439,701	$ 431,919	$ 432,115	$ 342,879	$ 327,856
LIABILITIES AND EQUITY					
Current Liabilities:					
Trade accounts payable	$ 2,415	$ 3,252	$ 3,347	$ 5,028	$ 3,845
Accrued liabilities and other	$ 3,188	$ 3,492	$ 2,774	$ 2,647	$ 2,132
Income taxes payable	$ -	$ 1,237	$ 1,703	$ -	$ -
Deferred income	$ 1,529	$ 1,525	$ 1,164	$ 865	$ 1,195
Revolving line of credit	$ 7,700	$ -	$ 6,850	$ -	$ -
Current maturities of long-term debt	$ 3,853	$ 815	$ 244	$ 234	$ 41
Total current liabilities	**$ 18,685**	**$ 10,321**	**$ 16,082**	**$ 8,774**	**$ 7,213**
Long-term debt, less current portion	$ 69,853	$ 73,223	$ 74,215	$ 4,459	$ 212

Long-term deferred gains	$	3,662	$	3,816	$	3,683	$	2,248	$	2,248
Other liabilities	$	13,034	$	13,251	$	13,802	$	6,518	$	6,508
Pension liability	$	-	$	-	$	-	$	693	$	3,416
Total liabilities	**$**	**105,234**	**$**	**100,611**	**$**	**107,782**	**$**	**22,692**	**$**	**19,597**
Commitments and contingencies										
Equity:										
Tejon Ranch Co. Stockholders' Equity										
Common stock, $0.50 par value per share:										
Authorized shares - 30,000,000										
Issued and outstanding shares - 20,810,301 at December 31, 2016 and 20,688,154 at December 31, 2015	$	10,405	$	10,344	$	10,318	$	10,282	$	10,043
Additional paid-in capital	$	229,762	$	216,803	$	212,763	$	210,848	$	198,117
Accumulated other comprehensive loss	$	(6,239)	$	(6,902)	$	(6,899)	$	(3,333)	$	(5,118)
Retained earnings	$	71,947	$	71,389	$	68,439	$	62,785	$	65,550
Total Tejon Ranch Co. Stockholders' Equity	$	305,875	$	291,634	$	284,621	$	280,582	$	268,592
Non-controlling interest	$	28,592	$	39,674	$	39,712	$	39,605	$	39,667
Total equity	$	334,467	$	331,308	$	324,333	$	320,187	$	308,259
Total Liability and Equities	**$**	**439,701**	**$**	**431,919**	**$**	**432,115**	**$**	**342,879**	**$**	**327,856**

Tejon Ranch Company (TRC) - Valuation

cash from operations year ending 31 Dec. 2016	$ 5,585.00	
Growth rate of Net FCF, years 1-5 (average)	-19.36%	<-- Optimistic about short-term growth
Long-term FCF growth rate	-32.43%	<-- More pessimistic about long-term growth
Weighted average cost of capital, WACC	7.45%	

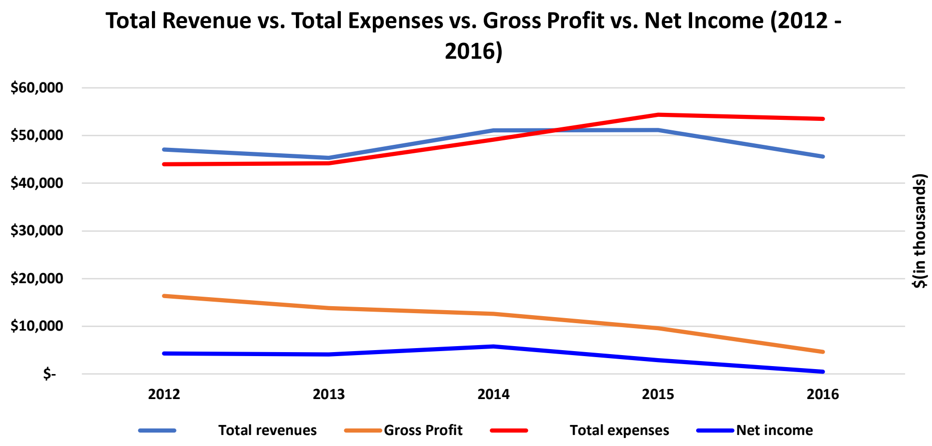
($ in thousands)		**2012**	**2013**	**2014**	**2015**	**2016**	
	t = 0	t = 1	t = 2	t = 3	t = 4	t = 5	
Cash from operations		$ 14,092.00	$ 9,536.00	$ 13,218.00	$ 16,968.00	$ 5,585.00	
Terminal value = CF(1+g)/ (r-g)						**$ 9,462.24**	<-- =G9*(1+B4)/(B5-B4)
Total		$ 14,092.00	$ 9,536.00	$ 13,218.00	$ 16,968.00	$ 15,047.24	<-- =SUM(G9:G10)

Enterprise value, present value of of row 11 $55,268.91 <-- =NPV(B5,C11:G11)

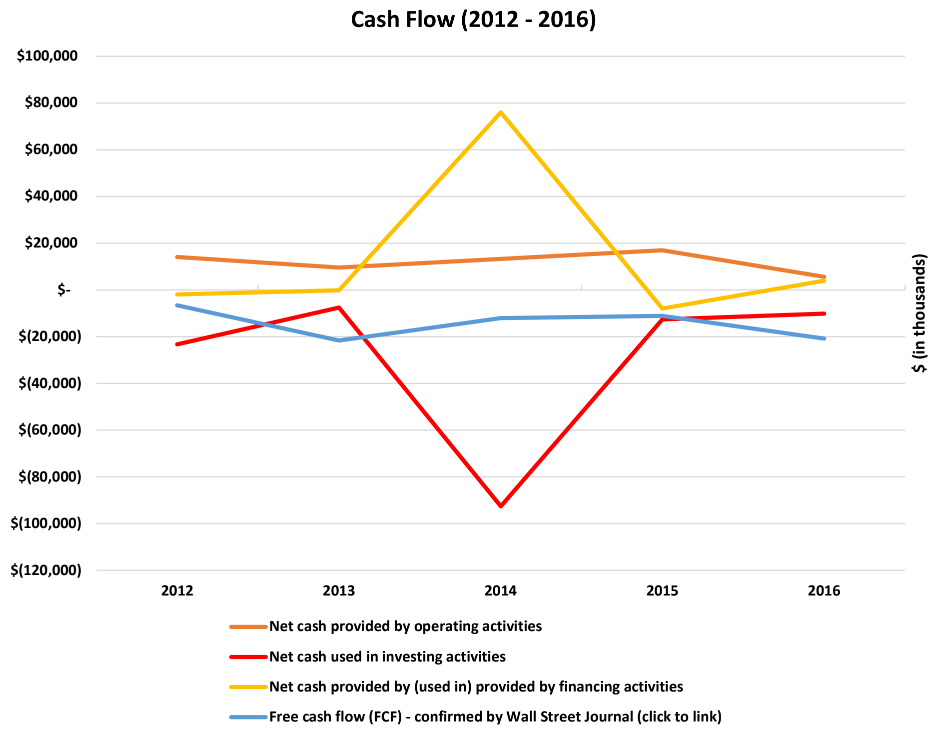
Net Free cash flow (FCF) year ending 31 Dec. 2016	$ (672.00)	
Growth rate of Net FCF, years 1-5 (average)	-19.36%	<-- Optimistic about short-term growth
Long-term FCF growth rate	-32.43%	<-- More pessimistic about long-term growth
Weighted average cost of capital, WACC	7.45%	

($ in thousands)		**2012**	**2013**	**2014**	**2015**	**2016**	
	t = 0	t = 1	t = 2	t = 3	t = 4	t = 5	
Net Free Cash Flow		$ (11,153.00)	$ (1,812.00)	$ 3,393.00	$ (3,708.00)	$ (672.00)	
Terminal value = CF(1+g)/ (r-g)						**$ (1,138.68)**	<-- =G25*(1+B20)/(B21-B20)
Total		$ (11,153.00)	$ (1,812.00)	$ 3,393.00	$ (3,708.00)	$ (1,810.68)	<-- =SUM(G25:G26)

Enterprise value, present value of of row 11 ($13,260.65) <-- =NPV(B21,C27:G27)



This graph compares Tejon Ranch's Total Revenue and Net Income , gross profit, and total expenses from 2012 - 2016. Tejon Ranch has experienced a negative net revenue growth of 2% from 2012 – 2016. A higher volume of sales is necessary to offset this amount and point it into a positive sales trajectory. Furthermore, total expenses (e.g. corporate expenses, farming, mineral resources, etc.) have started to trail revenues in year 2014, and by 2015, the firm began operating at a loss (negative net income). With its real estate holdings and total investment income, the firm's net income from 2012 – 2016 is at $17.6 million. Earnings power and net income are discussed on page 6 of Chapter 1 of "High Flight," by George A. Haloulakos.



In 2014, TRC purchased a partner interest in TMV, LLC for $70 million dollars, and has invested heavily in other joint ventures. Furthermore, there are not enough proceeds from sale of various real estate assets to offset the negative cash flow resulting in investing activities.

CONSOLIDATED STATEMENTS OF EQUITY

($ in thousands)	Common Stock Shares Outstanding	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholder's Equity	Non-controlling Interest	Total Equity
Balance, December 31, 2013	$ 20,563,023	$ 10,282	$ 210,848	$ (3,333)	$ 62,785	$ 280,582	$ 39,605	$ 320,187
Net income	$ -	$ -	$ -	$ -	$ 5,655	$ 5,655	$ 107	$ 5,762
Other comprehensive income	$ -	$ -	$ -	$ (3,555)	$ -	$ (3,555)	$ -	$ (3,555)
Restricted stock issuance	$ 94,014	$ 47	$ (47)	$ -	$ -	$ -	$ -	$ -
Stock compensation	$ -	$ -	$ 2,564	$ -	$ -	$ 2,564	$ -	$ 2,564
Shares withheld for taxes and tax benefit of vested shares	$ (20,559)	$ (11)	$ (603)	$ (11)	$ -	$ (625)	$ -	$ (625)
Warrants exercised	$ -	$ -	$ 1	$ -	$ (1)	$ -	$ -	$ -
Balance, December 31, 2014	$ 20,636,478	$ 10,318	$ 212,763	$ (6,899)	$ 68,439	$ 284,621	$ 39,712	$ 324,333
Net income	$ -	$ -	$ -	$ -	$ 2,950	$ 2,950	$ (38)	$ 2,912
Other comprehensive loss	$ -	$ -	$ -	$ (3)	$ -	$ (3)	$ -	$ (3)
Restricted stock issuance	$ 85,584	$ 43	$ (43)	$ -	$ -	$ -	$ -	$ -
Stock compensation	$ -	$ -	$ 3,922	$ -	$ -	$ 3,922	$ -	$ 3,922
Shares withheld for taxes and tax benefit of vested shares	$ (33,908)	$ (17)	$ (904)	$ -	$ -	$ (921)	$ -	$ (921)
Modified share-based awards	$ -	$ -	$ 1,065	$ -	$ -	$ 1,065	$ -	$ 1,065
Balance, December 31, 2015	$ 20,688,154	$ 10,344	$ 216,803	$ (6,902)	$ 71,389	$ 291,634	$ 39,674	$ 331,308
Net income (loss)	$ -	$ -	$ -	$ -	$ 558	$ 558	$ (43)	$ 515
Other comprehensive income	$ -	$ -	$ -	$ 663	$ -	$ 663	$ -	$ 663
Restricted stock issuance	$ 200,240	$ 100	$ (100)	$ -	$ -	$ -	$ -	$ -
Stock Compensation	$ -	$ -	$ 4,881	$ -	$ -	$ 4,881	$ -	$ 4,881
Shares withheld for taxes and tax benefit for vested shares	$ (78,093)	$ (39)	$ (2,861)	$ -	$ -	$ (2,900)	$ -	$ (2,900)
Centennial redemption of withdrawing member interest	$ -	$ -	$ 11,039	$ -	$ -	$ 11,039	$ (11,039)	$ -
Balance, December 31, 2016	$ 20,810,301	$ 10,405	$ 229,762	$ (6,239)	$ 71,947	$ 305,875	$ 28,592	$ 334,467