



KINSEY RANCH DEVELOPMENT

INVESTMENT MEMORANDUM



Executive Summary:

The subject property is located North of Miles City, Montana, and consists of 8,000 +/- acres with three miles of riverfront property along the Yellowstone River. Of the 8,000 acres, 180 acres have State and BLM land leases, and 800 +/- acres are being reserved for infrastructure improvements, leaving approximately 7,000 acres deeded private for development opportunity. **The property is available to purchase for anywhere between \$13-16MM. The expansion, infrastructure improvements, and land parceling would cost approximately \$2.5MM.** Infrastructure improvements will include everything from land leveling, to including graveling, to extending roads, and dredging a reservoir for additional water for the expansion. The property has gravel and scoria deposits within in itself to be utilized. In the center of the property there is a large reservoir that will be designed to accommodate private fishing and recreation for the tenants. As mentioned previously, there is Yellowstone River frontage on the entire south side of the property which is entirely private and covered in white tail deer, mule deer, antelope, and pheasant for tenants to hunt and fish.

Presently, the ranch has a rental income of \$150/acre that is irrigated, which returns ~\$500,000 annually. Lease agreements for 2021 will be determined as negotiations of the ranch's purchase further develop. Once the ranch is developed the buyer intends to put forth an irrigation district which will obtain the responsibility for maintaining all irrigation equipment and maintenance – charging a per acre fee for delivery of water after the sale of the individual properties to maintain reoccurring revenue streams.

In addition to the irrigated properties, the buyer intends to subdivide the remaining property into 20-40 acre tracts targeting different aspects within the property. Housing pads, access roads, and utilities will be provided to each site. These tracts will be brought to market as soon as possible to capture the influx of people relocating to more rural areas in Montana or purchasing a second home. The first phase of individual lot sales will include ~200 lots. Additional phases will be built, allowing property sales to grow organically with sales.

The buyer will be utilizing a professional marketing and public relations team to sell tracts through wide-spread digital marketing and social media, promoting values of small-town America and Montana's world-renowned hunting and fishing. There is also potential to partner with homebuilders to increase the property's attraction to those wanting to build a home while keeping the actual housing construction separate from the buyer's wheelhouse.

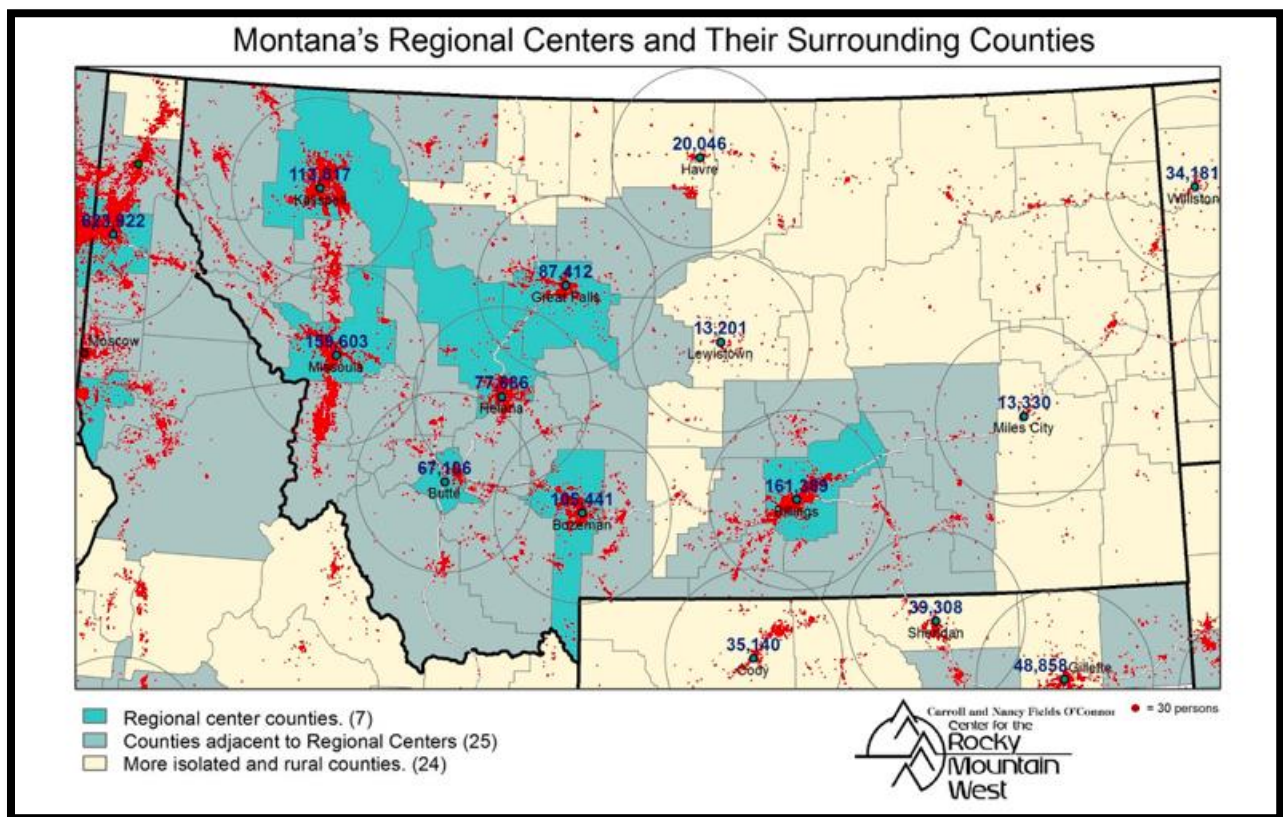
In order to build a financial model for this development, we assumed that the 7,000 acres will be developed into approximately 350, twenty acre lots. We also assumed a 70% LTC development loan (common for this asset type). **Total project costs will equate to \$19MM or \$2,714/acre. This project will require \$5.7MM (30%) in upfront equity before any loan dollars are funded.** After all equity is injected, the bank (which will be identified at a later date) will provide a \$13.3MM (70%) construction loan. Yearly DSC will equate to approximately \$1.2MM until the loan is paid off and we have accounted for that in our models.

Assuming all available lots are sold at \$7,500/acre, the project will yield an NOI of \$52MM, which equates to a 391% debt yield, and a 25% LTV. The IRR model above is based on a 70% LTC development loan, a 3-year hold period, and 15 sales/month. **Based on these assumptions, the project generates an IRR of 382%, and a 2-year payback period. If we assume 50% of profits, our return will be a 2.86x multiple on our initial investment.**

Market Analysis:

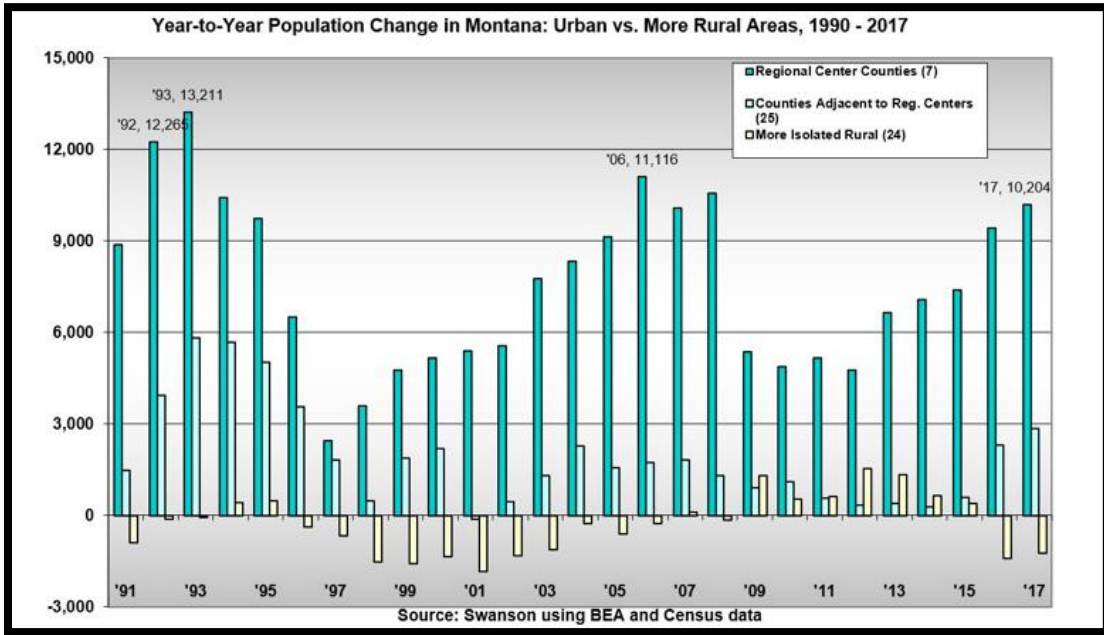
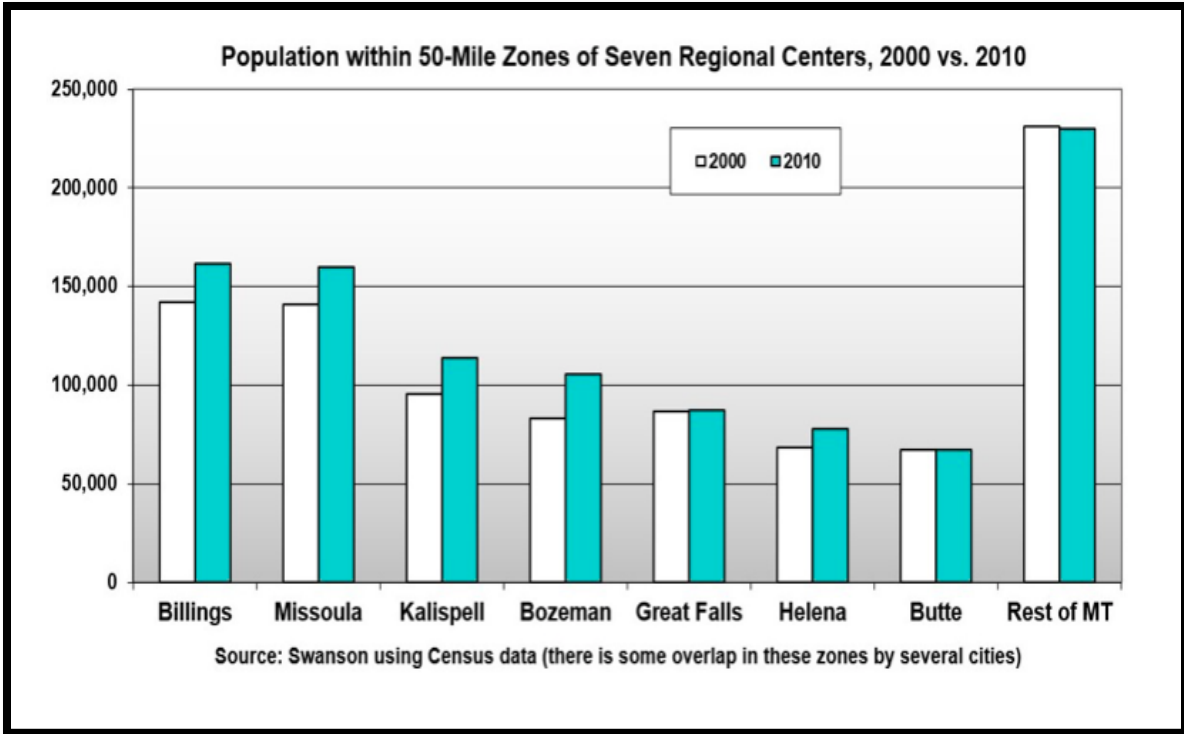
Population Growth in Montana

While Montana's population has increased by 8% in the last decade, population growth remains largely subject to urban areas within the Western Mountain region. The population growth is also largely affected by Montana's economic growth, which is also highly variable depending on whether such regions in Montana are deemed urban, sub-urban, or rural. Montana Department of Labor and Industry Chief Economist, Barbara Wagner, reported the slowest growing areas in Montana are cities and regions with populations between 10,000 to 19,000 people, which includes Miles City and the larger Custer County.¹ As noted by Larry Swanson, Ph. D of Economics and Regional Sciences at University of Montana reported, "[A] key aspect of Montana's growth and change is the steady emergence of its small cities as growing centers of commerce and trade and high quality places to live and work. Most of these centers also are located in the Western Mountain region, including Missoula, Kalispell, Bozeman, Helena and Butte. Montana's two other major regional centers, Billings and Great Falls, are more formally located in Montana's Central Front. Figure 106.2 shows counts for the number of persons living within the 50-mile zones of the seven largest regional centers in 2010 and 2000. Outside of these zones, Montana's total population actually shrank a bit, indicating the state's growing urbanization."



¹ Wagner, B.. Economic Growth in Rural Montana. Retrieved January 14, 2021, from <https://lmi.mt.gov/Portals/193/Publications/LMI-Pubs/Articles/2017/1217-RuralEconomy.pdf>

² Swanson, L. Montana: One State with Three Changing Regions. Retrieved January 14, 2021, from http://www.umt.edu/this-is-montana/columns/stories/montana_regions_2of3.php



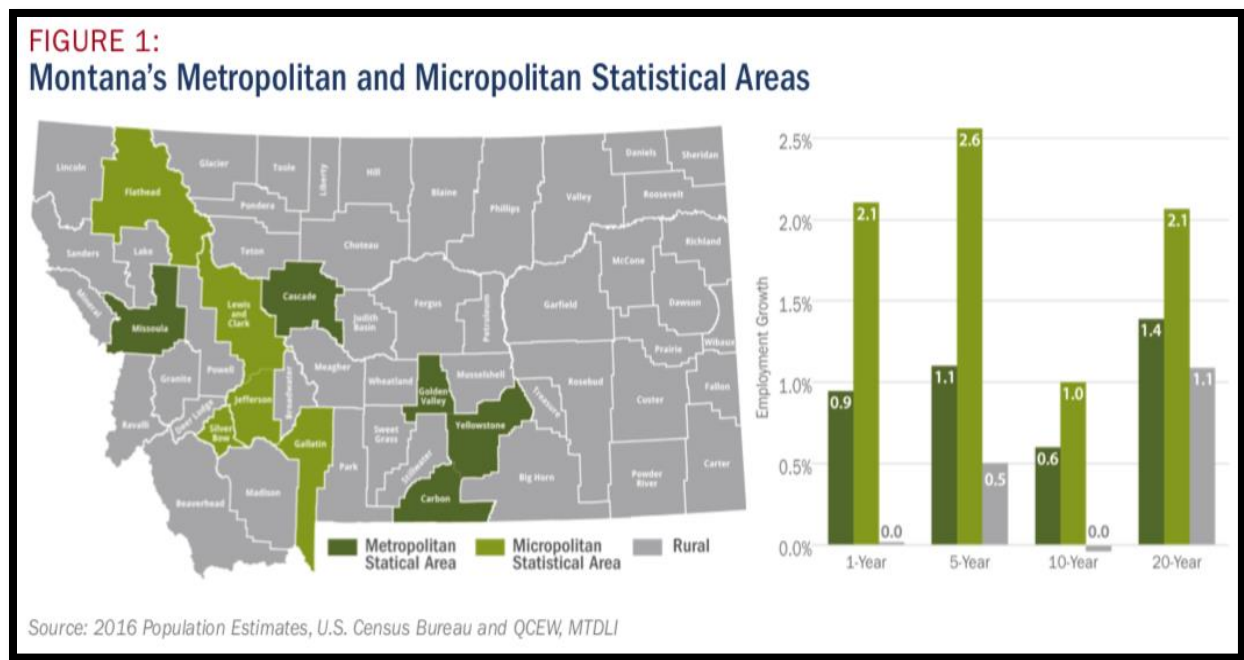
Per the data collected, there is no information to support the hypothesis that there is an increase in Montana’s rural population, including Custer County, despite Montana’s overall population growth as this growth is largely centered in urban regions.

Population Projections in Montana

Montana has a moderate population growth of 0.79%, which is about middle-of-the-road in the United States. Forecasts show Montana's population will grow 14% over the next 30 years, reaching 1.16 million by 2030. It's also estimated that by 2030, Montana will be one of ten states in the country to have more people over the age of 65 than under the age of 18, and it will be one of only six states to have 25% of its population aged 65 and older, which could impact future growth.¹

Economic Fluctuations and Projections in Montana

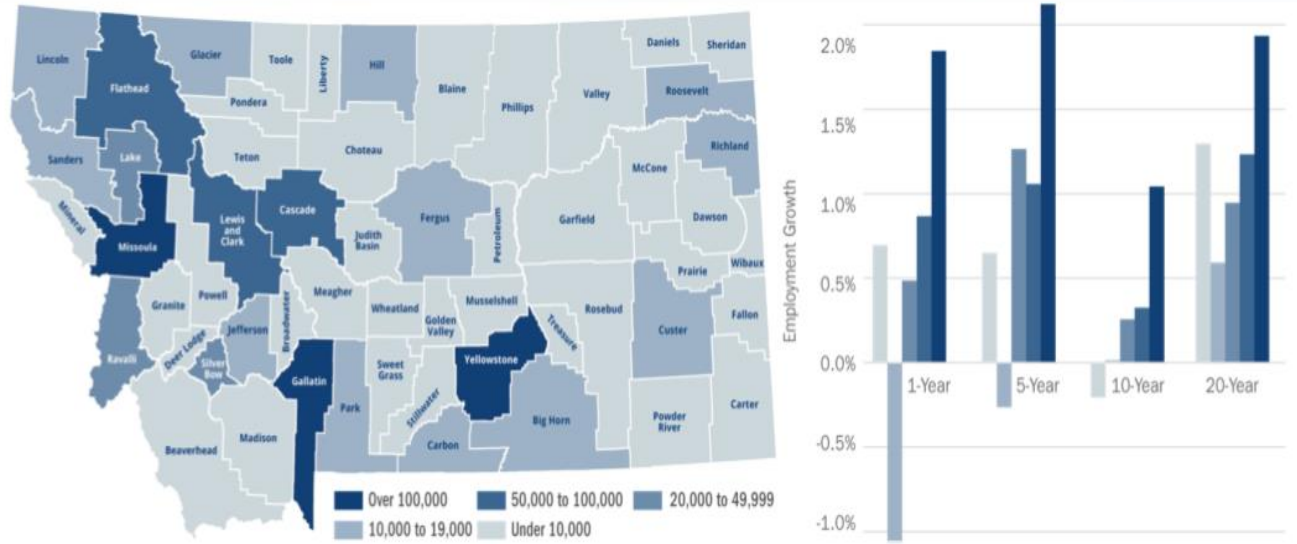
As noted in Wagner's report², rural employment growth is set to grow 1.1% by 2036. However, rural population growth may very well increase despite a slow employment growth due to an increase in urban jobs which rural residents commute to. Moreover, Wagner's figure 1 below does not represent the possibility of second-home homebuyers or retirees who will not be working in the area in which they purchase real estate. Despite Montana becoming one of the greyest states, this only accounts for approximately 25% of the population as stated above. Economic growth for areas with a population between 10,000 and 19,000 people is estimated to maintain its negative employment growth until 2036, where there will be a significant increase in this metric for rural areas and Montana as a whole.



³ World Population Review: Montana Population 2020. Retrieved January 14, 2021 from <https://worldpopulationreview.com/states/montana-population>

⁴ Figure 1, Wagner, B.. Economic Growth in Rural Montana. Retrieved January 14, 2021, from <https://lmi.mt.gov/Portals/193/Publications/LMI-Pubs/Articles/2017/1217-RuralEconomy.pdf>

FIGURE 3:
Montana Population by County



Source: 2016 Population Estimates, U.S. Census Bureau and Quarterly Census of Employment and Wages, Montana Department of Labor & Industry

Comparative Market Analysis:

Comparative Market Analysis						
Custer County						
Address	Acres	Listing Price	Sold Price	LP/Acre	SP/Acre	DOM
n/a	1.01	\$ 29,030.00	n/a	\$ 28,742.57	n/a	n/a
Lufborough Dr, Miles City, MT 59301	1.02	\$ 29,315.00	n/a	\$ 28,740.20	n/a	939
n/a	1.77	\$ 50,870.00	n/a	\$ 28,740.11	n/a	n/a
00 Frontage, Hysham, MT 59038	3.238	\$ 25,000.00	n/a	\$ 7,720.82	n/a	124
Road 564, Glendive, MT 59330	3.96	\$ 30,000.00	n/a	\$ 7,575.76	n/a	39
400 Yellowstone Ave, Terry, MT, 59349	5	\$ 50,000.00	n/a	\$ 10,000.00	n/a	150
Parkview Dr, Glendive, MT 59330	20	\$ 97,000.00	n/a	\$ 4,850.00	n/a	760
116 Road 247, Glendive MT 59330	20	\$ 99,000.00	n/a	\$ 4,950.00	n/a	112
Glendive, Terry, MT, 59349	20	\$ 150,000.00	n/a	\$ 7,500.00*	n/a	153
00 Pumphouse Rd, Hysham, MT 59038	30.65	\$ 245,200.00	n/a	\$ 8,000.00	n/a	124
0000 Sub 10N. Block 49E. Lot 30 Kinsey Farms Unit 77, Miles City, MT	46.86	\$ 278,500.00	n/a	\$ 5,943.24	n/a	39

***\$7,500 will be used in the financial model as a base sales price/acre.**

Company Overview (XL Land and Livestock, Inc.):

Excel Industries strides to build a solid background in the development of agricultural land to provide more acres throughout the Yellowstone River Valley. Thus, being able to compete with the rest of the Country's advancements in higher production rates from constant improvement to soils and water conservation. XL Land and Livestock has been in business since 2010 and is based out of Kinsey, Montana.

XL Land and Livestock, Inc. Management Team:

Lonnie Hagemeister – Lonnie is a Partner at XL Land and Livestock. He co-founded the company in 2010 and has over 20 years of experience in the industry. Lonnie has deep knowledge in the development of land in Kinsey, Montana. There is no one better to run the day-to-day operations for this investment, and we are pleased to be in business with him.

Financial Analysis:

Sources/Uses -

	Sources			Uses			
	\$	\$ / Lot	\$ / Acre	\$	\$ / Lot	\$ / Acre	
Equity:	5,700,000	28,500	814	Land	16,000,000	80,000	2,286
Development Loan:	13,300,000	66,500	1,900	Expansion	2,500,000	12,500	357
				Subdividing	250,000	1,250	36
				Financing Costs	250,000	1,250	36
	\$ 19,000,000	\$ 95,000	\$ 2,714		\$ 19,000,000	\$ 95,000	\$ 2,714

The table above is based on a 70% LTC development loan (common for this asset type). Total project costs will equate to \$19MM or \$2,714/acre. This project will require \$5.7MM (30%) in upfront equity before any loan dollars are funded. After all equity is injected, the bank (which will be identified at a later date) will provide a \$13.3MM (70%) construction loan. Yearly DSC will equate to approximately \$1.2MM until the loan is paid off and we have accounted for that in our models.

Debt Underwriting Model -

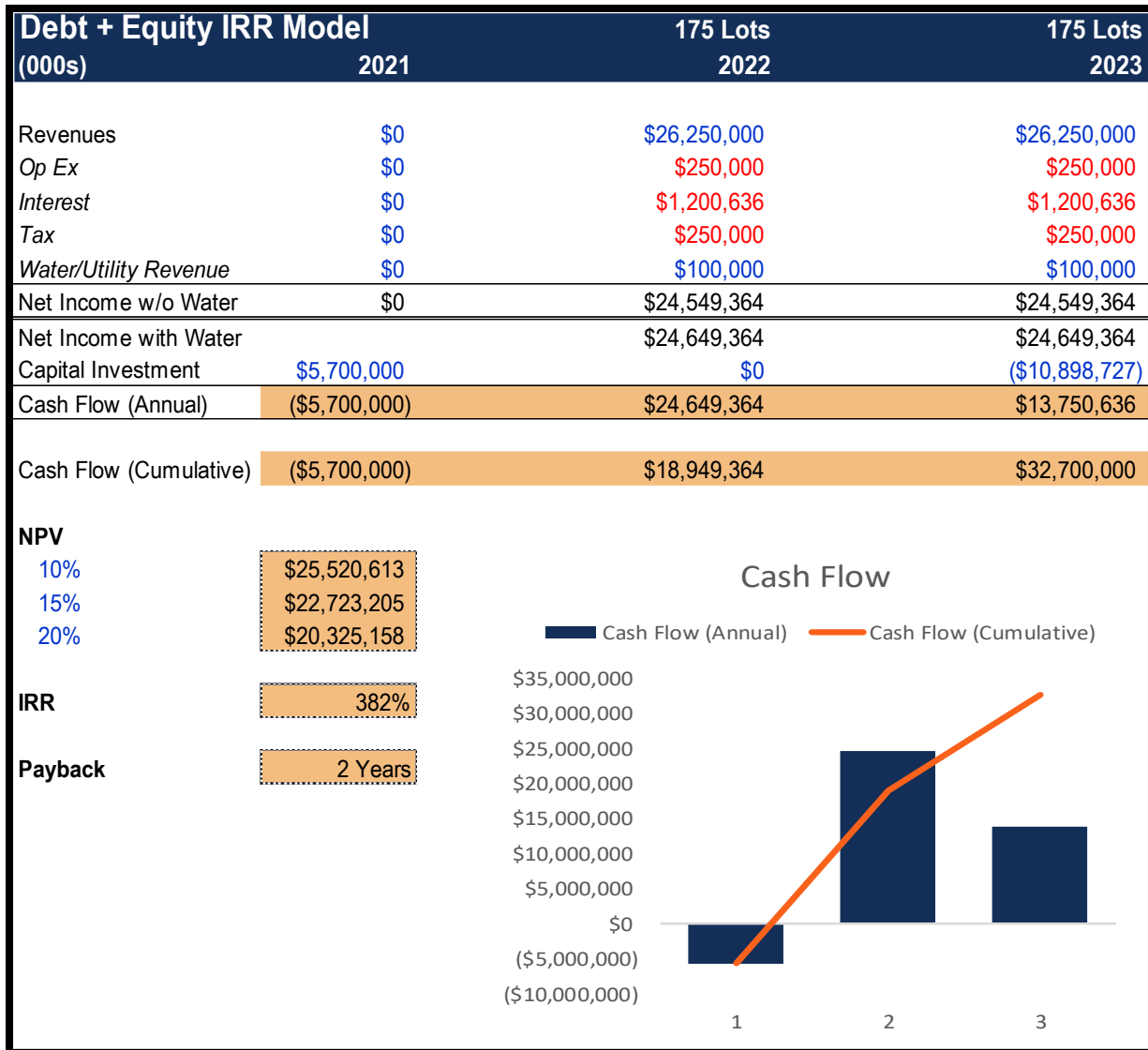
Lots Available (20 acre parcels with 7000 acres total):	350								
Lots:	100			200			350		
Assumed Sale Price (per 20 acre):	Kinsey Investment - \$7,500/lot								
\$ 150,000	50 Lots (20 acre) Proforma			100 Lots (20 acre) Proforma			200 Lots (20 acre) Proforma		
	Untrended			Untrended			Untrended		
	\$ Annually	\$ / Lot	\$ / Acre	\$ Annually	\$ / Lot	\$ / Acre	\$ Annually	\$ / Lot	\$ / Acre
Potential Sale Revenue	\$52,500,000	262,500	7,500	\$52,500,000	262,500	7,500	\$52,500,000	262,500	7,500
Water Revenue	50,000	250	7.14	50,000	250	7.14	50,000	250	7.14
Utility Revenue	50,000	250	7.14	50,000	250	7.14	50,000	250	7.14
Total Gross Revenue	\$52,600,000	\$263,000	7,514.29	\$52,600,000	\$263,000	7,514.29	\$52,600,000	\$263,000	7,514.29
Vacancy	(37,571,429)	(187,857)	(5,367.35)	(22,542,857)	(112,714)	(3,220.41)	0	0	0.00
Effective Gross Income	\$15,028,571	\$75,143	2,146.94	\$30,057,143	\$150,286	4,293.88	\$52,600,000	\$263,000	7,514.29
Expenses/Taxes	(500,000)	(2,500)	(71.43)	(500,000)	(2,500)	(71.43)	(500,000)	(2,500)	(71.43)
Reserves	(50,000)	(250)	(7.14)	(40,000)	(200)	(5.71)	(40,000)	(200)	(5.71)
Net Operating Income	\$14,478,571	\$14,478,571	144.79	\$29,517,143	\$29,517,143	295.17	\$52,060,000	\$260,300	7,437.14
Total Project Cost	19,000,000			19,000,000			19,000,000		
Equity Amount	5,700,000			5,700,000			5,700,000		
Loan Amount	13,300,000			13,300,000			13,300,000		
Vacancy	71.43%			42.86%			0.00%		
Debt Yield	108.86%			221.93%			391.43%		
Value	14,478,571			29,517,143			52,060,000		
"Desktop" Loan-to-Value	91.9%			45.1%			25.5%		
Loan-to-Cost	70.0%			70.0%			70.0%		
Interest Only DSC, LIBOR + 300 bps	24.19x			49.32x			86.98x		
15-year / Actual Rate	11.86x			24.18x			42.64x		
15-year / 4.50%	11.86x			24.18x			42.64x		

Please note that we have assumed 7,000 acres will be available for sale, which accounts for 350, twenty acre lots. The first column above shows the proforma for the subject development assuming only 100 lots are sold. At \$150,000 for a 20-acre lot, the project will yield an NOI of \$14.4MM, which equates to a 108% debt yield, and a 91% LTV.

The second column on the previous page shows the proforma for the subject development assuming only 200 lots are sold. At \$150,000 for a 20-acre lot, the project will yield an NOI of \$29.5MM, which equates to a 221% debt yield, and a 45% LTV.

The third column on the previous page shows the proforma for the subject development assuming all 350 lots are sold. At \$150,000 for a 20-acre lot, the project will yield an NOI of \$52MM, which equates to a 391% debt yield, and a 25% LTV.

IRR Model -



The IRR model above is based on a 70% LTC development loan, a 3-year hold period, 15 sales/month, and a sales price of \$7,500/acre. As a result, the project generates an IRR of 382%, and a 2-year payback period. If we assume 50% of profits, our return will be a 2.86x multiple on our initial investment.

Summary:

- The financial metrics for this investment are strong. Our all-in acquisition and improvement cost will be approximately \$2,714/acre, and our projected sale cost is approximately \$7,500/acre. Based on a 3-year hold period, the project will generate an IRR of 382%, and a 2-year payback period. If we assume 50% of profits, our return will be a 2.86x multiple on our initial investment.
 - Lonnie Hagemester has over 20-years of experience in this industry and will be a very strong operator for this investment. Lonnie has a team that can execute on all infrastructure improvements, and he is in the process of speaking with marketing teams to help market these properties as soon as possible.
 - The potential water rights are an attractive part of this investment, and they will yield returns long after all lots are sold.
 - In a worst-case scenario, this land can be sold as agricultural land. Based on our research, we believe that agricultural land can be sold for approximately \$4,000/acre in this submarket.
 - The largest hurdle we need to overcome with this investment is whether we are comfortable with the rate of population, migration, and absorption in the submarket.
-