Tejon Ranch Co. Announces Second Quarter and Year-to-date 2020 Financial Results

August 5, 2020

TEJON RANCH, Calif.--(BUSINESS WIRE)--Aug. 5, 2020-- Tejon Ranch Co., or the Company, (NYSE:TRC), a diversified real estate development and agribusiness company, today announced financial results for the three- and six-months ended June 30, 2020.

The Company is in the process of entitling, planning and developing four master planned developments. Three of the developments are mixed-use residential communities and the fourth is a large commercial/industrial center currently in operation with nearly 6.0 million square feet completed and an additional 14.3 million square feet available for development. When these four master planned developments are fully built out, Tejon Ranch will be home to 34,783 housing units, more than 35 million square feet of commercial/industrial space and 750 lodging units.

"As an essential business as defined by the state of California, the vast majority of our operations remained open during the government shutdown. During the quarter, we worked with our commercial tenants to negotiate rent deferrals, where appropriate, and also continued to evaluate opportunities to further reduce expenses and maximize cash flow, without sacrificing growth. As we manage through the pandemic, the health and wellness of our employees and other stakeholders remain a primary focus," said Gregory S. Bielli, President and CEO. "During the quarter, we sold land and a building to our Petro joint venture and recognized a $1.3 million gain. The building is set to be redeployed later this year, and will generate additional shareholder value in our commercial operations. We remain steadfastly focused on our real estate development efforts to help meet California’s ongoing housing, employment, conservation and lifestyle needs."

Second Quarter Financial Results

- Net loss attributable to common stockholders for the second quarter of 2020 was $0.3 million, or net loss per share attributed to common stockholders, basic and diluted, of $0.01, compared with net income attributable to common stockholders of $0.7 million, or net income per share attributed to common stockholders, basic and diluted, of $0.03, for the second quarter of 2019.
- Revenues and other income, for the second quarter of 2020, including equity in earnings of unconsolidated joint ventures, were $7.4 million, compared with $11.3 million for the second quarter of 2019. Factors affecting the quarterly results include:
    - Commercial/industrial real estate development segment revenues were $2.1 million for the three months ended June 30, 2020, a decrease of $4.5 million, or 68%, from $6.6 million for the three months ended June 30, 2019. The 2020 period did not include land sale revenues and construction management fee opportunities associated with the Company’s TRC-MRC 3 joint venture, which accounted for the decrease.
    - Farming revenues were $0.2 million for the three months ended June 30, 2020, a decrease of $0.7 million or 78%, from $0.9 million for the three months ended June 30, 2019. For the quarter, the Company had no sales of almonds or pistachios primarily related to timing of sales. The third and fourth quarter of each year is when the majority of our crop sales occur.
    - Equity in earnings from unconsolidated joint ventures were $1.2 million for the three months ended June 30, 2020, a decrease of $0.8 million or 40%, from $2.0 million during the same period in 2019. The change was primarily attributed to a $0.9 million decrease from the Company's Petro Travel Plaza Holdings joint venture. While fuel margins improved over the comparison period, the joint venture experienced significant declines in quick and full service restaurant margins resulting from closures due to COVID-19.
    - The above decreases were partially offset by an increase in mineral resources revenues, which were $1.8 million for the three months ended June 30, 2020, an increase of $1.1 million, or 157%, from $0.7 million for the three months ended June 30, 2019. In 2019, the Company had an unfavorable water sales adjustment of $1.0 million that was tied to State Water Project (SWP) allocation levels. In 2020 however, SWP allocation levels were more favorable to the Company, and resulted in $0.4 million in additional water sales revenues. Increases in water sales revenues were offset by a $0.3 million decrease in oil and gas royalties driven by reduced production and depressed oil prices resulting from a lack of demand and oversupply over the comparative periods.
    - Lastly, the Company recognized a $1.3 million gain from selling land and a building to the TA/Petro joint venture that will later be redeployed at the joint venture level.
- Income tax expense was $0.2 million and $0.2 million for the three months ended June 30, 2020 and 2019, respectively. Despite having a net loss, income tax expense was recorded as a result of recognizing a non deductible permanent tax item.

Year-to-Date Financial Results

- Net loss attributable to common stockholders for the first six months of 2020 was $1.0 million, or net loss per share attributed to common stockholders, basic and diluted, of $0.04, compared with net income attributable to common stockholders of $0.8 million, or net income per share attributed to common stockholders, basic and diluted, of $0.03, for the first six months of 2019.

- Revenues and other income, for the first six months of 2020, including equity in earnings of unconsolidated joint ventures, were $19.3 million, compared with $23.2 million for the first six months of 2019. Factors affecting the year-to-date results include:
    - Commercial/industrial real estate development segment revenues were $4.4 million for the first six months of 2020, a decrease of $5.0 million, or 53%, from $9.4 million for the first six months of 2019. The lack of land sales and construction management fees mentioned above drove a majority of this decrease. Additionally, in 2019, the Company recognized a true-up related to 2018 spark spread revenues from the Pastoria Energy Facility that was greater than original estimates. This true-up did not reoccur in 2020.
    - The Company's farming segment and equity in earnings in unconsolidated joint ventures saw a combined decrease of $0.9 million, or 20%, over the comparative period largely for the same reasons discussed within our second quarter financial results.
    - The above decreases were partially offset by an increase in mineral resources revenues, which were $8.0 million for the first six months of 2020, an increase of $1.2 million, or 18%, from $6.8 million for the first six months of 2019. In addition to the factors discussed within the second quarter financial results above, a tenant of the Company experienced increases in demand for cement as a result of road construction projects, which increased royalty revenues.
    - Lastly, the Company recognized a $1.3 million gain from selling real estate to the TA/Petro joint venture as mentioned above
- Income tax expense was $0.7 million and $0.3 million as of June 30, 2020 and 2019, respectively. Despite having a net loss, income tax expense was recorded as a result of recognizing a discrete tax accounting item. This item will not have an impact on the Company's income taxes payable and represents a reversal of excess deferred tax benefits that were previously taken. The remainder of the expenses recorded is attributed to the permanent items discussed above.

2020 Outlook:

Currently, California is taking a more cautious approach toward reopening than many other states. Spikes in positive COVID-19 cases during recent weeks have prompted the governor and local health officials to scale back previously announced re-openings. The pandemic and its adverse effects have become more prevalent in locations where the Company, its customers, suppliers or third-party business partners conduct business. As a result, Tejon Ranch will likely not see meaningful improvements in its operating results until the COVID-19 virus is better maintained and/or a vaccine is approved for nationwide distribution.

The Company's capital structure provides a solid foundation for continued investment in ongoing and future projects during this time of uncertainty. As of June 30, 2020, total capital, including debt, was approximately $502.1 million. The Company has cash and securities totaling approximately $49.3 million and $35.0 million available on its line of credit. The Company is also taking steps to maximize positive cash flow, in the event a lack of liquidity in the economy resulting from responses to the COVID-19 pandemic limits the Company's access to future third party funding.

The price of a barrel of oil is sensitive to global production levels and demand. Social distancing and the California Department of Health's Guidance on Closure of Sectors in Response to COVID-19 on July 1, 2020 arising from the pandemic reduced the demand for oil, leading to a decline in production as well as lower prices. As a result, the Company does not expect improvements in oil royalties for the foreseeable future.

The Company's agribusiness operations are deemed essential and allowed to operate under the California Department of Health's Guidance on Closure of Sectors in Response to COVID-19 on July 1, 2020. A portion of the Company's farm labor force is contracted from outside parties, and, thus far, COVID-19 has not impacted our ability to hire outside labor.

For 2020, the almond industry is expecting record production due to a great bloom cycle and favorable weather. The industry continues to see strong demand for its product, but the expected increase in production has begun to negatively impact prices. The mix of demand has been changed in the near term as a result of COVID-19 as more product is moving through wholesale markets and less through high end users such as restaurants. This temporary trend has also negatively impacted pricing.

For pistachios, 2020 is the alternate bearing year in which the orchards will produce a greater than average crop, but current industry estimates for the 2020 crop are less than originally forecasted. This change in estimate is allowing prices to stay in line with 2019 crop pricing. Demand has continued to stay strong for pistachios thus far this year.

The Company will continue to aggressively pursue development, leasing, sales, and investment within TRCC and in its joint ventures, and will also continue to invest in its residential projects, including Mountain Village at Tejon Ranch, Centennial at Tejon Ranch and Grapevine at Tejon Ranch.

During 2020, the Company will continue to invest funds in master project infrastructure, defending currently held entitlements, as well as vertical development within its active commercial and industrial developments. California is one of the most highly regulated states in which to engage in real estate development and, as such, natural delays, including those resulting from litigation, can be reasonably anticipated. Accordingly, throughout the next few years, the Company expects net income to fluctuate from year-to-year based on commodity prices, production within its farming segment and mineral resources segment, and the timing of sales of land and the leasing of land within its industrial developments.

About Tejon Ranch Co.

Tejon Ranch Co. (NYSE: TRC) is a diversified real estate development and agribusiness company, whose principal asset is its 270,000-acre land holding located approximately 60 miles north of Los Angeles and 30 miles south of Bakersfield.

More information about Tejon Ranch Co. can be found on the Company's website at www.tejonranch.com.

To watch a video overview of Tejon Ranch Co., please visit: http://tejonranch.com/investorvideo/

Forward Looking Statements:

The statements contained herein, which are not historical facts, are forward-looking statements based on economic forecasts, strategic plans and other factors, which by their nature involve risk and uncertainties. Some of the factors that could cause actual results to differ materially are the following: business conditions and the general economy, future commodity prices and yields, market forces, the ability to obtain various governmental entitlements and permits, interest rates, the impact of COVID-19, and other risks inherent in real estate and agriculture businesses. For further information on factors that could affect the Company, the reader should refer to the Company’s filings with the Securities and Exchange Commission.

TEJON RANCH CO.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except earnings per share)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenues:				
Real estate - commercial/industrial	$ 2,114	$ 6,595	$ 4,434	$ 9,421
Mineral resources	1,776	660	7,954	6,792
Farming	209	886	1,161	1,701
Ranch operations	676	805	1,539	1,694
Total revenues from Operations	4,775	8,946	15,088	19,608
Operating Income:				
Real estate - commercial/industrial	367	2,002	756	3,036
Real estate - resort/residential	(326)	(642)	(952)	(1,290)
Mineral resources	1,062	62	3,362	2,362
Farming	(890)	61	(1,640)	(722)
Ranch operations	(502)	(588)	(1,045)	(1,049)
Income from Operating Segments	(289)	895	481	2,337
Investment income	151	329	379	678
Gain on sale of real estate	1,333	—	1,333	—
Other income, net	(12)	22	(4)	48
Corporate expense	(2,494)	(2,290)	(5,027)	(4,764)

(Loss) from operations before equity in earnings of unconsolidated joint ventures	(1,311)	(1,044)	(2,838)	(1,701)
Equity in earnings of unconsolidated joint ventures, net	1,181	1,971	2,536	2,847
(Loss) Income before income tax expense	(130)	927	(302)	1,146
Income tax expense	196	218	708	313
Net (loss) income	(326)	709	(1,010)	833
Net (loss) income attributable to non-controlling interest	7	2	5	7
Net (loss) income attributable to common stockholders	$ (333)	$ 707	$ (1,015)	$ 826
Net (loss) income per share attributable to common stockholders, basic	$ (0.01)	$ 0.03	$ (0.04)	$ 0.03
Net (loss) income per share attributable to common stockholders, diluted	$ (0.01)	$ 0.03	$ (0.04)	$ 0.03
Weighted average number of shares outstanding:				
Common stock	26,220,575	26,031,800	26,174,775	26,012,196
Common stock equivalents	10,935	—	140,715	16,096
Diluted shares outstanding	26,231,510	26,031,800	26,315,490	26,028,292

Non-GAAP Financial Measure

This news release includes references to the Company’s non-GAAP financial measure “EBITDA.” EBITDA represents our share of consolidated net income in accordance with GAAP, before interest, taxes, depreciation, and amortization, plus the allocable portion of EBITDA of unconsolidated joint ventures accounted for under the equity method of accounting based upon economic ownership interest, and all determined on a consistent basis in accordance with GAAP. EBITDA is a non-GAAP financial measure and is used by us and others as a supplemental measure of performance. We use Adjusted EBITDA to assess the performance of our core operations, for financial and operational decision making, and as a supplemental or additional means of evaluating period-to-period comparisons on a consistent basis. Adjusted EBITDA is calculated as EBITDA, excluding stock compensation expense. We believe Adjusted EBITDA provides investors relevant and useful information because it permits investors to view income from our operations on an unleveraged basis before the effects of taxes, depreciation and amortization, and stock compensation expense. By excluding interest expense and income, EBITDA and Adjusted EBITDA allow investors to measure our performance independent of our capital structure and indebtedness and, therefore, allow for a more meaningful comparison of our performance to that of other companies, both in the real estate industry and in other industries. We believe that excluding charges related to share-based compensation facilitates a comparison of our operations across periods and among other companies without the variances caused by different valuation methodologies, the volatility of the expense (which depends on market forces outside our control), and the assumptions and the variety of award types that a company can use. EBITDA and Adjusted EBITDA have limitations as measures of our performance. EBITDA and Adjusted EBITDA do not reflect our historical cash expenditures or future cash requirements for capital expenditures or contractual commitments. While EBITDA and Adjusted EBITDA are relevant and widely used measures of performance, they do not represent net income or cash flows from operations as defined by GAAP, and they should not be considered as alternatives to those indicators in evaluating performance or liquidity. Further, our computation of EBITDA and Adjusted EBITDA may not be comparable to similar measures reported by other companies.

TEJON RANCH CO.

Non-GAAP Financial Measures

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands)	2020	2019	2020	2019
Net (loss) income	$ (326)	$ 709	$ (1,010)	$ 833

Net (loss) income attributable to non-controlling interest	7	2	5	7
Net (loss) income attributable to common stockholders	(333)	707	(1,015)	826
Interest, net				
Consolidated	(151)	(329)	(379)	(678)
Our share of interest expense from unconsolidated joint ventures	638	730	1,318	1,468
Total interest, net	487	401	939	790
Income taxes	196	218	708	313
Depreciation and amortization:				
Consolidated	1,164	1,047	2,180	2,136
Our share of depreciation and amortization from unconsolidated joint ventures	1,031	1,025	2,055	2,134
Total depreciation and amortization	2,195	2,072	4,235	4,270
EBITDA	2,545	3,398	4,867	6,199
Stock compensation expense	1,174	825	2,399	1,592
Adjusted EBITDA	$ 3,719	$ 4,223	$ 7,266	$ 7,791

Tejon Ranch Co.
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Source: Tejon Ranch Co.