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

November 3, 2020

TEJON RANCH, Calif.--(BUSINESS WIRE)--Nov. 3, 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 nine-months ended September 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.

"We continue to see signs of a rebound from the impact of the global pandemic and resulting governmental shutdowns. In September, the Outlets at Tejon experienced the highest overall sales of any September since our grand opening. Our gas stations at the Tejon Ranch Commerce Center reported fuel volume sales at near pre-COVID-19 levels during August and September. Under California's Blueprint for a Safer Economy, we were just recently allowed to open our full service restaurants, albeit at 25% capacity, and our retail, gas stations, convenience stores and logistic centers remain open," said Gregory S. Bielli, President and CEO. "Our mineral resource segment is trailing behind as oil prices are recovering at a slower pace than expected. The Company's hedging of commodity production provided additional income to meet our forecasted yield levels. We also continue to press ahead with our mixed-use master planned communities, all the while managing our expenditures to preserve cash in the event the COVID-19 pandemic continues well into 2021."

Third Quarter Financial Results

- Net income attributable to common stockholders for the third quarter of 2020 was $0.4 million, or net income per share attributed to common stockholders, basic and diluted, of $0.02, an improvement compared to net income attributable to common stockholders of $47,000, or net income per share attributed to common stockholders, basic and diluted, of $0.00, for the third quarter of 2019.
- Revenues and other income, for the third quarter of 2020, including equity in earnings of unconsolidated joint ventures were up, $15.1 million, compared with $12.2 million for the third quarter of 2019. Factors affecting the quarterly results include:
  - Farming segment revenues were $8.5 million for the three months ended September 30, 2020, an increase of $3.9 million, or 86%, from $4.6 million during the same period in 2019. During the quarter, the Company sold only 456,000 pounds of pistachios compared to 831,000 pounds during the previous year. Although 2020 is not a down bearing year for pistachios, the crop did not receive adequate chilling hours due to warm 2020 winter. Crops with inadequate chilling hours will result in depressed yields and blooms. The Company purchases crop production insurance annually as a hedge against below average production for its almond and pistachio crops. The insurance will pay for reduced production if crop production for the year falls below insured levels. Accordingly, the Company filed a claim with its insurance provider and recuperated a portion of the reduced production. The insurance claim for the Company's pistachio crop was $3.8 million, which was finalized during the third quarter and is reflected in farming revenue.
  - The above increase was partially offset by a decrease in equity in earnings from unconsolidated joint ventures. Equity in earnings from unconsolidated joint ventures were $1.1 million for the three months ended September 30, 2020, a decrease of $1.1 million or 50%, from $2.2 million during the same period in 2019. The change is primarily attributed to an $0.9 million decrease within the Company's Petro Travel Plaza Holdings joint venture. There were significant declines in fuel margins resulting from reduced sales prices. Additionally, quick and full service restaurant margins decreased as a result of closures due to COVID-19. Also contributing to the year-over-year decline in this segment was the fact that the Company experienced decreased operating results from its Five West Parcel joint venture, due to the sale of building and land, its only asset, during the fourth quarter of 2019.

Year-to-Date Financial Results

- Net loss attributable to common stockholders for the first nine months of 2020 was $0.6 million, or net loss per share attributed to common stockholders, basic and diluted, of $0.02, compared with net income attributable to common stockholders of $0.9 million, or net income per share attributed to common stockholders, basic and diluted, of $0.03, for the first nine months of 2019.
- Revenues and other income, for the first nine months of 2020, including equity in earnings of unconsolidated joint ventures, were $34.5 million, compared with $35.4 million for the first nine months of 2019. Factors impacting the year-to-date results include:
  - Commercial/industrial real estate development segment revenues were $7.1 million for the first nine months of 2020, a decrease of $4.9 million, or 41%, from $12.0 million for the first nine months of 2019. The absence of land

  sales and construction management fees in 2020 drove a majority of this decrease.
  - Equity in earnings was $3.6 million for the nine months ended September 30, 2020, a decrease of $1.4 million, or 28%, from $5.0 million during the same period in 2019. The decline is attributed to the same factors discussed within the third quarter financial results.
  - The above decreases were partially offset by an increase in farming revenues. Farming segment revenues were $9.7 million for the first nine months of 2020, an increase of $3.4 million, or 54%, from $6.3 million during the same period in 2019. Increases in year-to-date revenues occurred for the same reasons mentioned within the third quarter financial results above.
  - The Company recognized a $1.3 million gain from selling real estate to the TA/Petro joint venture in 2020, partially offsetting the above mentioned decreases.
  - Lastly, Mineral Resources segment revenues were $9.3 million for the first nine months of 2020, an increase of $0.9 million, or 11%, from $8.4 million for the first nine months of 2019. In 2019, the Company had an unfavorable water sales adjustment of $1.1 million that was tied to an increase in State Water Project (SWP) allocation levels, impacting prior sales pricing. In 2020 however, SWP allocation levels were more favorable to the Company, which in turn improved pricing, resulting in additional water sales revenues. Also in 2020, the Company experienced improved cement and rock aggregate revenues.
- Income tax expense was $1.1 million as of September 30, 2020 compared with $0.3 million for the same period in 2019. The Company had a net loss for the nine months ended September 30, 2020, due to the Company recognizing income tax expense primarily as a result of permanent differences related to Section 162(m) compensation deduction limitations and discrete tax expense associated with stock compensation. The Section 162(m) limitations occurred as a result of changes in tax law arising from the 2017 Tax Cuts and Jobs Act, which did not impact the Company until this year. The discrete item was triggered when stock grants were issued to participants at a price less than the original grant price, causing a deferred tax shortfall. The shortfall recognized during the quarter represents the reversal of excess deferred tax assets recognized in prior periods. The recognition of the shortfall is not anticipated to have an impact on the Company's current income tax payable.

2020 Outlook:

Currently, California is taking a more cautious approach toward reopening than many other states. The Company is beginning to see meaningful improvements in traffic counts at its commerce center. Nevertheless, until the COVID-19 virus is better maintained and/or a vaccine is approved for nationwide distribution, the Company will need to continue to monitor the performance of its operating segments and the solvency of its tenants.

The Company's capital structure provides a solid foundation for continued investment in ongoing and future projects during this time of uncertainty. As of September 30, 2020, total capital, including debt, was approximately $503.1 million. The Company had cash and securities totaling approximately $50.4 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 Company's agribusiness operations are deemed essential and allowed to operate under California's Blueprint for a Safer Economy. COVID-19 did not have a measurable impact on the Company's ability to plant, cultivate and harvest its crops.

The almond industry is on pace for a record production due to a great bloom cycle. 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.

With regards to pistachios, although 2020 is an on production year, unfavorable warm winter conditions adversely impacted the Company's pistachio blooms and yields. Overall 2020 pistachio yields decreased 45% when compared to 2019 which was a down bearing year. The impact of lower chill hours has impacted pistachio growers in the southern end of the San Joaquin Valley where the Company farms, and lower production has been seen in these areas as well. Overall in California, production is up due to 2020 being an on production year and chill hours being greater in growing areas to the north of the Company's landholdings.

The Company will continue to aggressively pursue development, leasing, sales, and investment within the Tejon Ranch Commerce Center and 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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues:				
Real estate - commercial/industrial	$ 2,710	$ 2,620	$ 7,144	$ 12,041
Mineral resources	1,322	1,559	9,276	8,351
Farming	8,537	4,602	9,698	6,303
Ranch operations	944	876	2,483	2,570
Total revenues from Operations	13,513	9,657	28,601	29,265
Operating Income (Loss):				
Real estate - commercial/industrial	684	652	1,440	3,688
Real estate - resort/residential	(273)	(582)	(1,225)	(1,872)
Mineral resources	674	983	4,036	3,345
Farming	429	(1,377)	(1,211)	(2,099)
Ranch operations	(220)	(384)	(1,265)	(1,433)
Income (Loss) from Operating Segments	1,294	(708)	1,775	1,629
Investment income	455	294	834	972
(Loss) gain on sale of real estate	(2)	—	1,331	—
Other income, net	68	19	64	67
Corporate expense	(2,121)	(1,760)	(7,148)	(6,524)

Loss from operations before equity in earnings of unconsolidated joint ventures	(306)	(2,155)	(3,144)	(3,856)
Equity in earnings of unconsolidated joint ventures, net	1,093	2,199	3,629	5,046
Income before income tax expense	787	44	485	1,190
Income tax expense	403	7	1,111	320
Net income (loss)	384	37	(626)	870
Net loss attributable to non-controlling interest	(14)	(10)	(9)	(3)
Net income (loss) attributable to common stockholders	$ 398	$ 47	$ (617)	$ 873
Net income (loss) per share attributable to common stockholders, basic	$ 0.02	$ 0.00	$ (0.02)	$ 0.03
Net income (loss) per share attributable to common stockholders, diluted	$ 0.02	$ 0.00	$ (0.02)	$ 0.03
Weighted average number of shares outstanding:				
Common stock	26,229,226	26,041,353	26,193,058	26,022,022
Common stock equivalents	57,484	195,957	157,579	194,699
Diluted shares outstanding	26,286,710	26,237,310	26,350,637	26,216,721

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 September 30,		Nine Months Ended September 30,	
($ in thousands)	2020	2019	2020	2019

Net income (loss)	$ 384	$ 37	$ (626)	$ 870
Net loss attributable to non-controlling interest	(14)	(10)	(9)	(3)
Net income (loss) attributable to common stockholders	398	47	(617)	873
Interest, net:				
Consolidated	(455)	(294)	(834)	(972)
Our share of interest expense from unconsolidated joint ventures	653	708	1,971	2,176
Total interest, net	198	414	1,137	1,204
Income taxes	403	7	1,111	320
Depreciation and amortization:				
Consolidated	1,455	1,426	3,635	3,562
Our share of depreciation and amortization from unconsolidated joint ventures	1,167	1,013	3,222	3,147
Total depreciation and amortization	2,622	2,439	6,857	6,709
EBITDA	3,621	2,907	8,488	9,106
Stock compensation expense	1,167	338	3,566	1,930
Adjusted EBITDA	$ 4,788	$ 3,245	$ 12,054	$ 11,036

Tejon Ranch Co.
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Source: Tejon Ranch Co.