Tejon Ranch Co. Reports Third Quarter Results of Operations – 2014

Nov 7, 2014

TEJON RANCH, Calif.--(BUSINESS WIRE)--Nov. 7, 2014-- Tejon Ranch Co. (NYSE:TRC) today released the results of operations for the nine months ended September 30, 2014, with the Company showing net income attributable to common stockholders of $3,739,000, or $0.18 per common share, compared to net income attributable to common stockholders of $4,991,000, or $0.25 per common share, for the same period in 2013. Revenue from operations for the nine months ended September 30, 2014 was $36,708,000, compared to $32,363,000 of revenue for the same period during 2013. All per share references in this release are presented on a fully diluted basis.

For the third quarter ended September 30, 2014, the Company had net income attributable to common stockholders of $1,752,000, or $0.08 per common share, compared to net income attributable to common stockholders of $2,292,000, or $0.11 per common share, for the third quarter of 2013. Revenue from operations for the third quarter of 2014 was $13,852,000 compared to $15,128,000 of revenue during the same period of 2013.

Results of Operations for the First Nine Months of 2014:

Total operating revenue increased $4,345,000, or 13%, during the first nine months of 2014, as compared to the same period in 2013, largely due to improved mineral resources revenues that were partially offset by reduced farming revenues and commercial/industrial revenues.

Mineral resource segment revenues increased $6,746,000, or 84%, during the first nine months of 2014, compared to the same period in 2013, due primarily to water sales totaling $7,702,000. During 2013, there were no water sales. In addition, cement and rock and aggregate royalties increased $428,000 as a result of expanded production driven by road construction in the region. These improvements were partially offset by an $845,000 decrease, or 14%, in oil royalty revenue stemming from lower production from older wells, the timing of new wells coming on-line in the second and third quarter of 2014, and the timing of completion of the expansion of lessees' production facilities. We also saw a decline in oil leasehold payments of $488,000 when compared to 2013 due to a lessee entering the drilling phase of their lease.

The decline in farming revenue of $1,984,000, or 13%, during the first nine months of 2014, compared to the same period in 2013, is primarily due to a decrease in production across all crops resulting from various weather related conditions such as a mild winter, which impacted tree and vine dormant time and very hot weather in early summer. Drought conditions within California did not impact our production levels because we had adequate water supplies for our farming activities. Almond revenue declined $1,385,000, or 21%, due to a decrease in pounds sold related to the 2014 crop and too much lower prior year crop carry forward sales as compared to the same period in 2013. Pistachio revenues decreased $765,000, or 11%, as a result of a 16% decline in pounds sold primarily due to reduced production. These reductions in pounds sold were partially offset by price increases of 10% to 20% on almonds and pistachios. Wine grape revenue increased $130,000, or 11%, compared to 2013 due to an increase in prices.

Commercial/industrial revenues declined $322,000, or 4% compared to the same period in 2013 as a result of lower percentage rent from the Calpine power plant lease being partially offset by an improvement in development fees from the construction of the outlet center.

More than offsetting the improvement in revenues described above is an increase in operating expenses of $5,977,000, or 20%, during the first nine months of 2014, compared to the same period in 2013. The increase in operating expense is mainly due to increases in mineral resource expense coming from water cost of sales of $4,523,000 and higher water contract amortization of $482,000 when compared to the same period in 2013. In addition, we saw increased corporate general and administrative expense due to higher stock compensation expense during 2014, as compared to 2013's lower expense that was largely due to the reversal in 2013 of $2,271,000 of previously recorded stock compensation expense related to unvested awards that would not vest related to the retirement of the Company's then CEO at the end of 2013. These increases in operating expense were partially offset by reduced farming expenses of $1,075,000 due to lower cost of sales tied to reduced production and sales volume related to the 2014 harvest crop.

Overall, net operating income declined $1,632,000, or 54%, compared to the same period in 2013 as a result of the net increase in operating expense as described above. This decline in net operating income was partially offset by a $373,000 improvement in equity in earnings of unconsolidated joint ventures as we saw improvements in our TA/Petro joint venture and began to recognize earnings from the Tejon/Rock Outlet Center LLC joint venture. The net result of operations for the first nine months of 2014 compared to the same period in 2013 resulted in a $1,252,000, or 25%, decline in net income attributable to common stockholders.

Results of Operations for the Third Quarter of 2014:

Revenue declined $1,276,000, or 8%, due primarily to lower farming revenue and reduced commercial/industrial revenues.

Farming revenues fell $764,000, or 8%, during the third quarter of 2014 compared to the same period in 2013 primarily due to a decline of $1,630,000, or 12%, in pistachio revenue because of a decline in pounds sold as a result of lower production, as discussed above, with that being partially offset by higher prices on almonds and wine grapes. Prices increased on these crops from 17% to 30% over the prior year.

Commercial/industrial revenue declined $270,000, or 10%, during the third quarter of 2014 due to a decrease in percentage rent and a reduction in ancillary revenues such as hunting permit revenue.

The primary drivers of the $540,000, or 24%, decline in net income attributable to common stockholders for the quarter, as compared to the same period of 2013, is the decline in revenue as described above and an increase in operating expense coming from higher stock compensation costs and higher water contract amortization costs. Those expenses were partially offset by lower farming cost of sales as a result of reduced 2014 production. Also helping to offset these unfavorable variances is an improvement in equity in earnings from joint ventures due to improved operating results within the Petro/TA joint venture as a result of improved gasoline sales and margins and $255,000 in income from the outlet center joint venture as operations began during the third quarter of 2014.

2014 Outlook:

Management believes that the capital structure of the Company provides a solid foundation for continued investment in our projects. At September 30, 2014, total capital, including long-term debt, was approximately $390,000,000. As of September 30, 2014, the Company also had cash and securities totaling approximately $51,000,000.

As reported on a Current Report on Form 8-K on October 17, 2014, the Company entered into an Amended and Restated Credit Agreement, Term Note, and Revolving Line of Credit Note with Wells Fargo for a $100,000,000 credit facility consisting of a new $70,000,000 ten-year term note and a renewal of the current $30,000,000 revolving line of credit. Funds from the Term Note are being used to finance the Company's purchase of DMB TMV LLC's interest in Tejon Mountain Village LLC, as disclosed in the Current Report on Form 8-K on July 16, 2014.

The Company will continue to aggressively pursue development, leasing, and investment within the Tejon Ranch Commerce Center and in our joint ventures. The Company is continuing to invest in its residential projects to complete the entitlements for the Centennial and Grapevine projects and pre-development investment for Tejon Mountain Village.

The Company believes the variability of its quarterly and annual operating results will continue during the remainder of 2014 due to its farming and real estate activities. Prices received by the Company for many of its products are dependent upon the prevailing market conditions and commodity prices. Many of the Company's projects, especially in real estate, require a lengthy process to complete the entitlement and development phases before revenue can begin to be recognized. The timing of projects and sales of both real estate inventory and non-strategic assets can vary from year-to-year; therefore, it is difficult for the Company to accurately predict quarterly and annual revenues and results of operations.

Tejon Ranch Co. 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 online at http://www.tejonranch.com.

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. In particular, among 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 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.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
THIRD QUARTER ENDED SEPTEMBER 30
(In thousands, except earnings per share)
(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	**2013**	**2014**	**2013**
Revenues:				
Real estate - commercial/industrial	$ 2,572	$ 2,842	$ 8,067	$ 8,389

Real estate - resort/residential	199	410	786	881
Mineral resources	2,393	2,424	14,801	8,055
Farming	8,688	9,452	13,054	15,038
Total revenues	13,852	15,128	36,708	32,363
Costs and Expenses:				
Real estate - commercial/industrial	3,374	3,290	10,021	9,544
Real estate - resort/residential	939	804	2,512	2,378
Mineral resources	505	329	5,932	908
Farming	5,715	6,224	8,585	9,660
Corporate expenses	2,932	2,736	8,288	6,871
Total expenses	13,465	13,383	35,338	29,361
Operating income	387	1,745	1,370	3,002
Other income				
Investment income	138	216	521	729
Other income	66	20	113	37
Total other income	204	236	634	766
Income from operations before equity in earnings of unconsolidated joint ventures	591	1,981	2,004	3,768
Equity in earnings of unconsolidated joint ventures, net	1,707	1,241	3,293	2,920
Income before income tax expense	2,298	3,222	5,297	6,688
Income tax expense	627	919	1,647	1,752
Net income	1,671	2,303	3,650	4,936
Net income (loss) attributable to non-controlling interest	(81)	11	(89)	(55)
Net income attributable to common stockholders	1,752	2,292	3,739	4,991
Net income per share to common stockholders, basic	$ 0.09	$ 0.11	$ 0.18	$ 0.25
Net income per share to common stockholders, diluted	$ 0.08	$ 0.11	$ 0.18	$ 0.25
Weighted average number of shares outstanding:				
Common stock	20,591,529	20,140,473	20,582,082	20,125,792
Common stock equivalents – stock options	32,006	45,489	33,100	40,864
Diluted shares outstanding	20,623,535	20,185,962	20,615,182	20,166,656

Source: Tejon Ranch Co.

Tejon Ranch Co.
Allen Lyda
661-248-3000