Farmer Brothers®

Farmer Bros. Co. Reports First Quarter Fiscal 2020 Financial Results

November 7, 2019

NORTHLAKE, Texas, Nov. 07, 2019 (GLOBE NEWSWIRE) -- Farmer Bros. Co. (NASDAQ: FARM) (the "Company") today reported financial results for its first fiscal quarter ended September 30, 2019.

First Quarter Fiscal 2020 Highlights:

- Volume of green coffee processed and sold increased by 0.5 million to 26.0 million pounds, a 2.0% increase over the prior year period;
    - Green coffee pounds processed and sold through our DSD network were 8.3 million, or 32.0% of total green coffee pounds processed and sold
    - Direct ship customers represented 17.4 million, or 67.0%, of total green coffee pounds processed and sold
    - Distributor customers represented 0.3 million pounds, or 1.0%, of total green coffee pounds processed and sold
- Net sales were $138.6 million, a decrease of $8.8 million, or 6.0%, from the prior year period;
- Gross margin decreased to 29.3% from 32.7% in the prior year period, while operating expenses as percentage of sales improved to 24.3% from 34.1% in the prior year period;
- Net income was $4.7 million compared to net loss of $3.0 million in the prior year period; and
- Adjusted EBITDA was $4.0 million compared to $11.0 million in the prior year period.*

(*Adjusted EBITDA, a non-GAAP financial measure, is reconciled to its corresponding GAAP measure at the end of this press release.)

“After my first weeks as CEO, I remain excited about joining Farmer Brothers at this critical moment in the Company’s history,” said Deverl Maserang, President and CEO. “I recognize and understand the challenges and the opportunities we face, and I believe we have the assets, the platform, as well as a talented and dedicated employee base to return the Company to growth and profitability.”

Mr. Maserang continued, “Under the leadership of Chris Mottern, solid progress was made towards identifying key priorities aimed at improving and evolving our business for the future. As CEO, I have refined these and am committed to focusing on: optimizing our supply chain, elevating our execution, enhancing our service capability, differentiating our product portfolio through innovation, and engaging our talent. I look forward to working with all our employees to execute with purpose and urgency on our strategic initiatives in order to best position Farmer Brothers to deliver enhanced value for our stakeholders.”

First Quarter Fiscal 2020 Results:

Selected Financial Data

The selected financial data presented below under the captions “Income statement data,” “Operating data” and “Other data” summarizes certain performance measures for the three months ended September 30, 2019 and 2018 (unaudited).

	Three Months Ended September 30,	
	2019	**2018**
(In thousands, except per share data)		
Income statement data:		
Net sales	$ 138,600	$ 147,440
Gross margin	29.3 %	32.7 %
Income (loss) from operations	$ 6,892	$ (2,078)
Net income (loss)	$ 4,654	$ (2,986)
Net income (loss) available to common stockholders per common share—diluted	$ 0.26	$ (0.18)
Operating data:		
Coffee pounds	25,958	25,449
EBITDA	$ 13,440	$ 4,658
EBITDA Margin	9.7 %	3.2 %
Adjusted EBITDA	$ 4,016	$ 10,967
Adjusted EBITDA Margin	2.9 %	7.4 %

Other data:				
Capital expenditures related to maintenance	$	4,352	$	5,462
Total capital expenditures	$	5,276	$	7,787
Depreciation and amortization expense	$	7,617	$	7,728

EBITDA, EBITDA Margin, Adjusted EBITDA and Adjusted EBITDA Margin are non-GAAP financial measures; a reconciliation of these non-GAAP measures to their corresponding GAAP measures is included at the end of this press release.

Net sales in the first quarter of fiscal 2020 were $138.6 million, a decrease of $8.8 million, or 6.0%, from the prior year period. The decrease in net sales was driven primarily by lower sales of coffee and allied products sold through our DSD network, unfavorable customer mix within our direct sales channel, non-recurring sales of industrial soup based products associated with the Boyd's acquisition which we stopped selling last year and the impact of lower coffee prices for our cost plus customers. Sales through our DSD network was impacted by the sale of our office coffee business in July of this year, higher customer attrition and lower inventory fill rates associated with downtime at our Houston plant.

Gross profit in the first quarter of fiscal 2020 was $40.6 million, a decrease of $7.6 million, or 15.7% from the prior year period and gross margin decreased to 29.3% from 32.7%. The decrease in gross profit was primarily driven by lower net sales of $8.8 million between the periods, unfavorable customer mix, higher production costs associated with certain aging production infrastructure and higher scrap expense, partially offset by lower coffee brewing equipment and labor costs and lower green coffee prices.

Operating expenses in the first quarter of fiscal 2020 decreased $16.6 million, or 32.9%, to $33.7 million, from $50.3 million, and as a percentage of net sales declined to 24.3% compared to 34.1% of net sales, in the prior year period. The decrease in operating expenses was primarily due to increase in net gains from sales of assets, the absence of restructuring and other transition expenses, the conclusion of Boyd Coffee integration at the beginning of October 2018, headcount reductions and other efficiencies realized from DSD route optimization, partially offset by increased severance costs associated with a reduction in force which occurred during the current quarter.

Net gains from sales of assets are primarily associated with the sales of the office coffee assets and the Seattle office branch property of $7.2 million and $6.8 million, respectively.

Interest expense in the first quarter of fiscal 2020 decreased $0.3 million to $2.6 million as compared to $2.9 million in the prior year period principally due to lower pension interest expense.

Other, net in the first quarter of fiscal 2020 decreased by $0.5 million to $0.2 million in the quarter compared to $0.7 million in the prior year period primarily due to reduced employee post retirement benefit gains partially offset by lower mark-to-market losses on coffee-related derivative instruments not designated as accounting hedges.

Income tax benefit was $0.1 million in the first quarter of fiscal 2020 as compared to income tax benefit of $1.3 million in the prior year period. The lower tax benefit is primarily due to the previously recorded valuation allowance and reduction of our estimated deferred tax liability during the three months ended September 30, 2019 as compared to the prior year period.

As a result of the foregoing factors, net income was $4.7 million in the first quarter of fiscal 2020 as compared to net loss of $3.0 million in the prior year period. Net income available to common stockholders was $4.5 million, or $0.26 per common share available to common stockholders-diluted, in the first quarter of fiscal 2019, compared to net loss available to common stockholders of $3.1 million, or $0.18 per common share available to common stockholders-diluted, in the prior year period.

Non-GAAP Financial Measures:

EBITDA, EBITDA Margin, Adjusted EBITDA and Adjusted EBITDA Margin are non-GAAP financial measures; a reconciliation of these non-GAAP measures to their corresponding GAAP measures is included at the end of this press release.

Adjusted EBITDA was $4.0 million in the first quarter of fiscal 2020, as compared to Adjusted EBITDA of $11.0 million in the prior year period, and Adjusted EBITDA Margin was 2.9% in the first quarter of fiscal 2019, as compared to Adjusted EBITDA Margin of 7.4% in the prior year period.

About Farmer Bros. Co.

Founded in 1912, Farmer Bros. Co. is a national coffee roaster, wholesaler and distributor of coffee, tea and culinary products. The Company's product lines include organic, Direct Trade and sustainably-produced coffee. With a robust line of coffee, hot and iced teas, cappuccino mixes, spices, and baking/biscuit mixes, the Company delivers extensive beverage planning services and culinary products to its U.S. based customers. The Company serves a wide variety of customers, from small independent restaurants and foodservice operators to large institutional buyers like restaurant and convenience store chains, hotels, casinos, healthcare facilities, and gourmet coffee houses, as well as grocery chains with private brand coffee and consumer branded coffee and tea products, and foodservice distributors.

Headquartered in Northlake, Texas, Farmer Bros. Co. generated net sales of $595.9 million in fiscal 2019 and has approximately 1,521 employees nationwide. The Company's primary brands include Farmer Brothers ®, Artisan Collection by Farmer Brothers ™, Superior®, Metropolitan ™, China Mist® and Boyds®.

Investor Conference Call

Deverl Maserang, CEO, and Scott Lyon, Corporate Controller and Interim Principal Financial and Accounting Officer, will host an audio-only investor conference call today, November 7, 2019, at 5:00 p.m. Eastern time (4:00 p.m. Central time) to review the Company's financial results for the first quarter ended September 30, 2019. The Company's earnings press release will be available on the Company's website at www.farmerbros.com under "Investor Relations."

The call will be open to all interested investors through a live audio web broadcast via the Internet at https://edge.media-server.com/mmc/p/tqecqeee and at the Company's website www.farmerbros.com under "Investor Relations." The call also will be available to investors and analysts by dialing Toll Free: 1-(844) 423-9890 or international: 1-(716) 247-5805. The passcode/ID is 4967166.

The audio-only webcast will be archived for at least 30 days on the Investor Relations section of the Farmer Bros. Co. website, and will be available approximately two hours after the end of the live webcast.

Forward-Looking Statements

Certain statements contained in this press release are not based on historical fact and are forward-looking statements within the meaning of federal securities laws and regulations. These statements are based on management's current expectations, assumptions, estimates and observations of future events and include any statements that do not directly relate to any historical or current fact. These forward-looking statements can be identified by the use of words like "anticipates," "estimates," "projects," "expects," "plans," "believes," "intends," "will," "could," "assumes" and other words of similar meaning. Owing to the uncertainties inherent in forward-looking statements, actual results could differ materially from those set forth in forward-looking statements. The Company intends these forward-looking statements to speak only at the time of this press release and does not undertake to update or revise these statements as more information becomes available except as required under federal securities laws and the rules and regulations of the Securities and Exchange Commission ("SEC"). Factors that could cause actual results to differ materially from those in forward-looking statements include, but are not limited to, the success of our corporate relocation plan, the timing and success of implementation of our direct-store-delivery restructuring plan, our success in consummating acquisitions and integrating acquired businesses, the impact of capital improvement projects, the adequacy and availability of capital resources to fund our existing and planned business operations and our capital expenditure requirements, the capacity to meet the demands of the Company's large national account customers, the extent of execution of plans for the growth of Company business and achievement of financial metrics related to those plans, the success of the Company to retain and/or attract qualified employees, the effect of the capital markets, stockholder activity and fluctuations in availability and cost of green coffee, competition, organizational changes, the effectiveness of our hedging strategies in reducing price risk, our ability to provide sustainability in ways that do not materially impair profitability, changes in the strength of the economy, business conditions in the coffee industry and food industry in general, the Company's continued success in attracting new customers, variances from budgeted sales mix and growth rates, weather and special or unusual events, as well as other risks described in this press release and other factors described from time to time in the Company's filings with the SEC. The results of operations for the three months ended September 30, 2019 are not necessarily indicative of the results that may be expected for any future period.

FARMER BROS. CO.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(In thousands, except share and per share data)

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018
Net sales	$ 138,600	$ 147,440
Cost of goods sold	97,959	99,205
Gross profit	40,641	48,235
Selling expenses	33,614	37,310
General and administrative expenses	12,740	8,617
Restructuring and other transition expenses	—	4,467
Net gains from sales of assets	(12,605)	(81)
Operating expenses	33,749	50,313
Income (loss) from operations .	6,892	(2,078)
Other (expense) income:		
Interest expense	(2,548)	(2,852)
Other, net	203	657
Total other expense .	(2,345)	(2,195)
Loss before taxes	4,547	(4,273)
Income tax benefit	(107)	(1,287)
Net income (loss)	$ 4,654	$ (2,986)
Less: Cumulative preferred dividends, undeclared and unpaid	137	132
Net earnings (loss) available to common stockholders	$ 4,517	$ (3,118)
Net earnings (loss) available to common stockholders per common share—basic	$ 0.26	$ (0.18)
Net earnings (loss) available to common stockholders per common share—diluted	$ 0.26	$ (0.18)
Weighted average common shares outstanding—basic	17,099,851	16,886,718
Weighted average common shares outstanding—diluted	17,518,413	16,886,718

FARMER BROS. CO.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In thousands, except share and per share data)

	September 30, 2019	June 30, 2019

ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,425	$ 6,983
Accounts receivable, net	57,465	55,155
Inventories	91,730	87,910
Income tax receivable	1,741	1,191
Short-term derivative assets	317	1,865
Prepaid expenses	7,500	6,804
Assets held for sale	1,718	—
Total current assets	167,896	159,908
Property, plant and equipment, net	181,154	189,458
Goodwill	36,224	36,224
Intangible assets, net .	28,275	28,878
Other assets	9,485	9,468
Long-term derivatives assets	215	674
Right-of-use operating lease assets	16,349	—
Total assets	$ 439,598	$ 424,610
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	71,800	72,771
Accrued payroll expenses	16,109	14,518
Operating leases liabilities - current	4,332	—
Short-term derivative liabilities	3,461	1,474
Other current liabilities	7,024	7,309
Total current liabilities	102,726	96,072
Long-term borrowings under revolving credit facility	85,000	92,000
Accrued pension liabilities	46,290	47,216
Accrued postretirement benefits	22,751	23,024
Accrued workers' compensation liabilities	4,747	4,747
Operating lease liabilities - noncurrent	12,084	—
Other long-term liabilities	4,431	4,057
Total liabilities	$ 278,029	$ 267,116
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $1.00 par value, 500,000 shares authorized; Series A Convertible Participating Cumulative Perpetual Preferred Stock, 21,000 shares authorized; 14,700 shares issued and outstanding as of September 30, 2019 and June 30, 2019; liquidation preference of $15,761 and $15,624 as of September 30, 2019 and June 30, 2019, respectively	15	15
Common stock, $1.00 par value, 25,000,000 shares authorized; 17,095,198 and 17,042,132 shares issued and outstanding as of September 30, 2019 and June 30, 2019, respectively	17,095	17,042
Additional paid-in capital	58,718	57,912
Retained earnings	150,694	146,177
Unearned ESOP shares	—	—
Accumulated other comprehensive loss	(64,953)	(63,652)
Total stockholders' equity	$ 161,569	$ 157,494
Total liabilities and stockholders' equity	$ 439,598	$ 424,610

FARMER BROS. CO.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)

	Three Months Ended September 30,	
	2019	2018
Cash flows from operating activities:		
Net loss		
Adjustments to reconcile net loss to net cash provided by operating activities:	$ 4,654	$ (2,986)
Depreciation and amortization	7,617	7,728
Deferred income taxes	—	(1,334)
Restructuring and other transition expenses, net of payments	—	3,712
Net gains from sales of assets	(12,605)	(81)
Net losses on derivative instruments	4,514	3,068
Other adjustments	908	1,866
Change in operating assets and liabilities:		
Accounts receivable	(2,359)	(4,658)
Inventories	(4,792)	(11,062)
Derivative assets (liabilities), net	(1,403)	(5,198)
Other assets	(1,480)	(61)
Accounts payable	1,399	13,049
Accrued expenses and other liabilities	(340)	(2,963)
Net cash provided by operating activities	$ (3,887)	$ 1,080
Cash flows from investing activities		
Purchases of property, plant and equipment	(5,276)	(7,733)
Proceeds from sales of property, plant and equipment	16,618	53
Net cash used in investing activities	$ 11,342	$ (7,680)
Cash flows from financing activities:		
Proceeds from revolving credit facility	$ 23,000	$ 12,020
Repayments on revolving credit facility	(30,000)	—
Payments of finance lease obligations	(13)	(53)
Proceeds from stock option exercises	—	326
Net cash provided by financing activities	$ (7,013)	$ 12,293
Net increase in cash and cash equivalents	$ 442	$ 5,693
Cash and cash equivalents at beginning of period	6,983	2,438
Cash and cash equivalents at end of period	$ 7,425	$ 8,131

FARMER BROS. CO.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(continued)

(In thousands)

	Three Months Ended September 30,	
	2019	2018
Supplemental disclosure of non-cash investing and financing activities:		
Net change in derivative assets and liabilities included in other comprehensive loss, net of tax	$ (1,301)	$ (4,637)
Non-cash additions to property, plant and equipment	$ 250	$ 6,976
Non-cash portion of earnout receivable recognized—spice assets sale	$ —	$ 252
Non-cash issuance of 401-K common stock	$ 53	$ —
Cumulative preferred dividends, undeclared and unpaid	$ 137	$ 132

Non-GAAP Financial Measures

In addition to net (loss) income determined in accordance with U.S. generally accepted accounting principles (“GAAP”), we use the following non-GAAP financial measures in assessing our operating performance:

"EBITDA" is defined as net (loss) income excluding the impact of:

- income taxes;
- interest expense; and
- depreciation and amortization expense.

"EBITDA Margin" is defined as EBITDA expressed as a percentage of net sales.

"Adjusted EBITDA" is defined as net (loss) income excluding the impact of:

- income taxes;
- interest expense;
- (loss) income from short-term investments;
- depreciation and amortization expense;
- ESOP and share-based compensation expense;
- non-cash impairment losses;
- non-cash pension withdrawal expense;
- restructuring and other transition expenses;
- severance costs
- net gains and losses from sales of assets;
- non-cash pension settlement charges; and
- acquisition and integration costs.

"Adjusted EBITDA Margin" is defined as Adjusted EBITDA expressed as a percentage of net sales.

Restructuring and other transition expenses are expenses that are directly attributable to (i) employee retention and separation benefits, pension withdrawal expense, facility-related costs and other related costs such as travel, legal, consulting and other professional services; and (ii) severance, prorated bonuses for bonus eligible employees, contractual termination payments and outplacement services, and other related costs, including legal, recruiting, consulting, other professional services, and travel.

For purposes of calculating EBITDA and EBITDA Margin and Adjusted EBITDA and Adjusted EBITDA Margin, we have excluded the impact of interest expense resulting from the adoption of ASU 2017-07, non-cash pretax pension settlement charge resulting from the amendment and termination of the Farmer Bros. Plan effective December 1, 2018 and severance because these items are not reflective of our ongoing operating results.

We believe these non-GAAP financial measures provide a useful measure of the Company's operating results, a meaningful comparison with historical results and with the results of other companies, and insight into the Company's ongoing operating performance. Further, management utilizes these measures, in addition to GAAP measures, when evaluating and comparing the Company's operating performance against internal financial forecasts and budgets.

We believe that EBITDA facilitates operating performance comparisons from period to period by isolating the effects of certain items that vary from period to period without any correlation to core operating performance or that vary widely among similar companies. These potential differences may be caused by variations in capital structures (affecting interest expense), tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses) and the age and book depreciation of facilities and equipment (affecting relative depreciation expense). We also present EBITDA and EBITDA Margin because (i) we believe that these measures are frequently used by securities analysts, investors and other interested parties to evaluate companies in our industry, (ii) we believe that investors will find these measures useful in assessing our ability to service or incur indebtedness, and (iii) we use these measures internally as benchmarks to compare our performance to that of our competitors.

EBITDA, EBITDA Margin, Adjusted EBITDA and Adjusted EBITDA Margin, as defined by us, may not be comparable to similarly titled measures reported by other companies. We do not intend for non-GAAP financial measures to be considered in isolation or as a substitute for other measures prepared in accordance with GAAP.

Set forth below is a reconciliation of reported net loss to EBITDA (unaudited):

(In thousands)	Three Months Ended September 30, 2019	2018
Net income (loss), as reported	$ 4,654	$ (2,986)
Income tax expense (benefit)	(107)	(1,287)
Interest expense (1)	1,276	1,203
Depreciation and amortization expense	7,617	7,728
EBITDA	$ 13,440	$ 4,658
EBITDA Margin	9.7 %	3.2 %

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(1) Excludes interest expense related to pension plans and postretirement benefits of $1.3 million and $1.6 million in each of the three months ended September 30, 2019 and 2018, respectively.

Set forth below is a reconciliation of reported net loss to Adjusted EBITDA (unaudited):

(In thousands)	Three Months Ended September 30, 2019	2018
Net income (loss), as reported	$ 4,654	$ (2,986)
Income tax expense (benefit)	(107)	(1,287)
Interest expense(1)	1,276	1,203
Depreciation and amortization expense	7,617	7,728
ESOP and share-based compensation expense	869	912
Restructuring and other transition expenses(2)	—	4,467
Net losses (gains) from sales of other assets	(12,605)	(81)
Acquisition and integration costs	—	1,011
Severance	2,312	—
Adjusted EBITDA	$ 4,016	$ 10,967
Adjusted EBITDA Margin	2.9 %	7.4 %

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(1) Excludes interest expense related to pension plans and postretirement benefits of $1.3 million and $1.6 million in each of the three months ended September 30, 2019 and 2018, respectively.

(2) The three months ended September 30, 2018, includes $3.4 million, including interest, assessed by the WC Pension Trust representing the Company's share of the WCTPP unfunded benefits due to the Company's partial withdrawal from the WCTPP as a result of employment actions taken by the Company in 2016 in connection with the Corporate Relocation Plan.

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Farmer Brothers

Source: Farmer Bros. Co.