Farmer Brothers®

Farmer Bros. Co. Reports First Quarter Fiscal 2021 Financial Results

November 5, 2020

NORTHLAKE, Texas, Nov. 05, 2020 (GLOBE NEWSWIRE) -- Farmer Bros. Co. (NASDAQ: FARM) (the "Company") today reported financial results for its first fiscal quarter ended September 30, 2020.

First Quarter Fiscal 2021 Highlights:

- Volume of green coffee processed and sold decreased by 5.0 million to 20.9 million pounds, a 19.4% decrease compared to the prior year period primarily due to the impact of the COVID-19 pandemic discussed below;
  - Green coffee pounds processed and sold through our DSD network were 4.8 million, or 22.8% of total green coffee pounds processed and sold; and
  - Direct ship customers represented 16.2 million, or 77.2%, of total green coffee pounds processed and sold
- Net sales were $97.3 million, a decrease of $41.3 million, or 29.8%, from the prior year period;
- Net sales declined at the height of the COVID-19 in April 2020 by approximately between 65% to 70% compared to a decline of approximately 45% of pre COVID-19 weekly sales at the end of the fourth quarter of fiscal 2020, and improved to an approximate decline of 33% from the pre COVID-19 weekly average at the end of the first quarter ended September 30, 2020;
- Gross margin decreased to 23.0% from 29.3% in the prior year period;
- Operating expenses as percentage of sales increased to 34.8% from 24.3% in the prior year period;
- Net loss was $6.3 million compared to net loss of $4.7 million in the prior year period; and
- Adjusted EBITDA was $5.7 million compared to $4.0 million in the prior year period.*
- As of September 30, 2020, total debt outstanding was $69.8 million and cash and cash equivalents was $11.0 million compared to $122.0 million and $60.0 million, respectively, as of June 30, 2020.

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

Deverl Maserang, President and CEO said, “I’m proud of our team and the focus we have had on execution this quarter. We are seeing measurable progress on the rollout of the new handheld technology that allows for greater efficiencies in order and inventory management in real time and our team members are excited about this tool. Also, during this quarter, we selected Rialto, California as the location for our new West Coast distribution center, which we expect to begin operating in the third quarter. While we continue to face challenges from the impact of COVID-19, we remain focused on maintaining cost savings and we’re seeing promising trends as our customers’ businesses are showing signs of recovery. As a result, we have been able to bring back some of our team members to support these customers. Due to COVID-19, many challenges remain, but we are cautiously optimistic given these promising developments.”

First Quarter Fiscal 2021 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, 2020 and 2019 (unaudited).

	Three Months Ended September 30,	
	2020	2019
(In thousands, except per share data)		
Income statement data:		
Net sales	$ 97,270	$ 138,600
Gross margin	23.0 %	29.3 %
(Loss) income from operations	$ (11,443)	$ 6,892
Net (loss) income	$ (6,270)	$ 4,654
Net (loss) income available to common stockholders per common share—diluted	$ (0.37)	$ 0.26
Operating data:		
Coffee pounds	20,933	25,958
EBITDA(1)	$ 2,906	$ 13,440

EBITDA Margin(1)		3.0 %		9.7 %
Adjusted EBITDA(1)	$	5,693	$	4,016
Adjusted EBITDA Margin(1)		5.9 %		2.9 %
Other data:				
Capital expenditures related to maintenance	$	1,595	$	4,352
Total capital expenditures	$	4,366	$	5,276
Depreciation and amortization expense	$	7,041	$	7,617

(1) 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 2021 were $97.3 million, a decrease of $41.3 million, or 29.8%, from the prior year period. The decrease in net sales was driven primarily by lower sales of coffee, beverage and allied products sold through our DSD network due to the COVID-19 pandemic. At the beginning of our fiscal first quarter ended September 30, 2020, sales from our DSD customers were down by approximately 45% from pre COVID-19 weekly average sales. However, as of September 30, 2020, due to lifting of some government restrictions and reopening of some of our customers' businesses, our DSD revenues had improved to an approximate decline of 33% from the pre COVID-19 weekly average sales. The largest DSD revenue declines were from restaurants, hotels and casino channels. Our direct ship sales declined 7.5% compared to the prior year period due to lower coffee volume related to COVID-19, partially offset by the impact of coffee prices for our cost plus customers, improved volume from our retail business, products sold to key grocery stores under their private labels, and third party e-commerce platforms.

Gross profit in the first quarter of fiscal 2021 was $22.4 million, a decrease of $18.2 million, or 44.8% from the prior year period and gross margin decreased to 23.0% from 29.3%. The decrease in gross profit was primarily driven by lower net sales of $41.3 million partially offset by lower cost of goods sold. The decrease in gross margin was impacted by COVID-19 and the unfavorable impact it had on our customer mix and higher production variances, partially offset by lower freight costs and lower coffee brewing equipment costs resulting from the various costs savings initiatives implemented.

Operating expenses in the first quarter of fiscal 2021 were comparable with the prior year period at $33.9 million, from $33.7 million, and as a percentage of net sales increased to 34.8% compared to 24.3% of net sales, in the prior year period. Operating expenses were impacted by a decrease in selling expenses of $10.1 million and a decrease in general and administrative expenses of $3.0 million, offset by the absence of $14.0 million of net gains realized from sales of assets in the prior year period. Net gains from sales of assets in the prior year quarter were primarily associated with the sales of the office coffee assets and one branch property. The decrease in selling expenses was primarily driven by reductions in headcount, lower DSD sales commissions and lower travel expenses. The decrease in general and administrative expenses was associated primarily with reductions in third party costs and reductions in headcount due to the COVID-19 pandemic.

Interest expense in the first quarter of fiscal 2021 increased $0.7 million to $3.2 million as compared to $2.5 million in the prior year period principally due to the write-off of deferred finance cost related to our debt amendment and the amortization of de-designated interest rate swap costs, partially offset by lower pension interest expense.

Other, net in the first quarter of fiscal 2021 increased by $8.4 million to $8.6 million in the quarter compared to $0.2 million in the prior year period. The increase in Other, net was primarily a result of higher amortized gains on our postretirement medical benefit plan due to the curtailment announced in March 2020 and higher mark-to-market net gains on coffee-related derivative instruments not designated as accounting hedges.

Income tax expense was $0.1 million in the first quarter of fiscal 2021 as compared to income tax benefit of $0.1 million in the prior year period. The tax expense and tax benefit in the three months ended September 30, 2020 and 2019 respectively, were primarily driven by change in previously recorded valuation allowance and change in our estimated deferred tax liability.

As a result of the foregoing factors, net loss was $6.3 million in the first quarter of fiscal 2021 as compared to net income of $4.7 million in the prior year period. Net loss available to common stockholders was $6.4 million, or $0.37 per common share, in the first quarter of fiscal 2021, compared to net income available to common stockholders of $4.5 million, or $0.26 per common share, in the prior year period.

Our capital expenditures for the three months ended September 30, 2020 were $4.4 million, representing lower maintenance capital spend of $1.6 million, a 17.2% reduction compared to the prior year period. These spending reductions were driven by several key initiatives put in place, including a focus on refurbished CBE equipment to drive cost savings, and reductions across some capital categories due to additional cost controls implemented during the COVID-19 pandemic.

As of September 30, 2020, the outstanding debt on our revolver was $69.8 million, a decrease of $52.2 million since June 30, 2020. Our cash balance decreased by $49.0 million, from $60.0 million as of June 30, 2020, to $11.0 million as of September 30, 2020. These changes resulted from the $55.2 million of repayments on our revolver completed under the terms of our amended credit facility. The net improvement in our liquidity provides additional financial and working capital flexibility as we prepare for our busiest season.

In July 2020, we amended our existing senior secured revolving credit facility. As of October 28, 2020, our total debt was $69.0 million and we had cash on hand of $8.7 million and $38.9 million of availability on our amended credit facility.

Non-GAAP Financial Measures:

EBITDA, EBITDA Margin, Adjusted EBITDA and Adjusted EBITDA Margin are non-GAAP (U.S. generally accepted accounting principles) financial measures within the meaning of the rules of the Securities and Exchange Commission ("SEC"). See the Non-GAAP Financial Measures section on why the Company believes these supplemental measures are useful, reconciliations to the most directly comparable GAAP measure, and the limitations on the use of these supplemental measures.

Adjusted EBITDA was $5.7 million in the first quarter of fiscal 2021, as compared to Adjusted EBITDA of $4.0 million in the prior year period, and

Adjusted EBITDA Margin was 5.9% in the first quarter of fiscal 2020, as compared to Adjusted EBITDA Margin of 2.9% 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 $501.3 million in fiscal 2020. The Company's primary brands include Farmer Brothers®, Artisan Collection by Farmer Brothers ™, Superior®, Metropolitan ™, China Mist® and Boyds®.

Investor Conference Call

Deverl Maserang, Chief Executive Officer, and Scott Drake, Chief Financial Officer, will host an audio-only investor conference call today, November 5, 2020, at 5:00 p.m. Eastern time (4:00 p.m. Central time) to review the Company's financial results for the first fiscal quarter ended September 30, 2020. 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/d9r456oc 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 5042339.

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, duration of the COVID-19 pandemic's disruption to the Company's business and customers, levels of consumer confidence in national and local economic business conditions, the duration and magnitude of the pandemic's impact on unemployment rates, the success of the Company's strategy to recover from the effects of the pandemic, the success of the Company's turnaround strategy, the five key initiatives, the impact of capital improvement projects, the adequacy and availability of capital resources to fund the Company's existing and planned business operations and the Company's capital expenditure requirements, the relative effectiveness of compensation-based employee incentives in causing improvements in Company performance, the capacity to meet the demands of our 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 success of the Company's adaptation to technology and new commerce channels, the effect of the capital markets as well as other external factors on stockholder value, fluctuations in availability and cost of green coffee, competition, organizational changes, the effectiveness of our hedging strategies in reducing price and interest rate risk, changes in consumer preferences, 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, our 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 report and other factors described from time to time in our filings with the SEC. The results of operations for the three months ended September 30, 2020 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,	
	2020	2019
Net sales	$ 97,270	$ 138,600
Cost of goods sold	74,851	97,959
Gross profit	22,419	40,641
Selling expenses	23,498	33,614
General and administrative expenses	9,746	12,740
Net losses (gains) from sales of assets	618	(12,605)
Operating expenses	33,862	33,749
(Loss) income from operations	(11,443)	6,892
Other (expense) income:		

Interest expense	(3,244)	(2,548)
Other, net	8,559	203
Total other expense	5,315	(2,345)
Loss before taxes	(6,128)	4,547
Income tax expense (benefit)	142	(107)
Net (loss) income	$ (6,270)	$ 4,654
Less: Cumulative preferred dividends, undeclared and unpaid	142	137
Net (loss) income available to common stockholders	$ (6,412)	$ 4,517
Net (loss) income available to common stockholders per common share—basic	$ (0.37)	$ 0.26
Net (loss) income available to common stockholders per common share—diluted	$ (0.37)	$ 0.26
Weighted average common shares outstanding—basic	17,420,442	17,099,851
Weighted average common shares outstanding—diluted	17,420,442	17,518,413

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

	September 30, 2020	June 30, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,025	$ 60,013
Accounts receivable, net	42,115	40,882
Inventories	71,729	67,408
Income tax receivable	—	831
Short-term derivative assets	945	165
Prepaid expenses	8,050	7,414
Total current assets	133,864	176,713
Property, plant and equipment, net	162,848	165,633
Intangible assets, net	20,059	20,662
Other assets	9,202	8,564
Long-term derivatives assets	23	10
Right-of-use operating lease assets	29,025	21,117
Total assets	$ 355,021	$ 392,699
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	50,038	36,987
Accrued payroll expenses	12,826	9,394
Operating leases liabilities - current	7,631	5,854
Short-term derivative liabilities	2,630	5,255
Other current liabilities	6,624	6,802
Total current liabilities	79,749	64,292
Long-term borrowings under revolving credit facility	69,800	122,000
Accrued pension liabilities	59,097	58,772
Accrued postretirement benefits	10,151	9,993
Accrued workers' compensation liabilities	4,569	4,569
Operating lease liabilities - noncurrent	21,818	15,628
Other long-term liabilities	6,209	5,532
Total liabilities	$ 251,393	$ 280,786
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, 2020 and June 30, 2020; liquidation preference of $16,320 and $16,178 as of September 30, 2020 and June 30, 2020, respectively	15	15
Common stock, $1.00 par value, 25,000,000 shares authorized; 17,431,815 and 17,347,774 shares issued and outstanding as of September 30, 2020 and June 30, 2020, respectively	17,432	17,348
Additional paid-in capital	63,104	62,043
Retained earnings	102,124	108,536
Accumulated other comprehensive loss	(79,047)	(76,029)
Total stockholders’ equity	$ 103,628	$ 111,913
Total liabilities and stockholders’ equity	$ 355,021	$ 392,699

FARMER BROS. CO.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)

	Three Months Ended September 30,	
	2020	**2019**
Cash flows from operating activities:		
Net (loss) income	$ (6,270)	$ 4,654
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	7,041	7,617
Net losses (gains) from sales of assets	618	(12,605)
Net losses on derivative instruments	807	4,514
Other adjustments	958	908
Change in operating assets and liabilities:		
Accounts receivable	(1,046)	(2,359)
Inventories	(4,321)	(4,792)
Derivative assets/liabilities, net	(7,553)	(1,403)
Other assets	1,181	(1,480)
Accounts payable	12,880	1,399
Accrued expenses and other liabilities	4,690	(340)
Net cash provided (used) by operating activities	$ 8,985	$ (3,887)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(4,366)	(5,276)
Proceeds from sales of property, plant and equipment	226	16,618
Net cash (used) provided in investing activities	$ (4,140)	$ 11,342
Cash flows from financing activities:		
Proceeds from revolving credit facility	$ 3,000	$ 23,000
Repayments on revolving credit facility	(55,200)	(30,000)
Payments of finance lease obligations	(9)	(13)
Payment of financing costs	(1,624)	—
Net cash used by financing activities	$ (53,833)	$ (7,013)
Net (decrease) increase in cash and cash equivalents	$ (48,988)	$ 442
Cash and cash equivalents at beginning of period	60,013	6,983
Cash and cash equivalents at end of period	$ 11,025	$ 7,425

FARMER BROS. CO.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (continued)

(In thousands)

	Three Months Ended September 30,			
	2020		**2019**	
Supplemental disclosure of non-cash investing and financing activities:				
Non-cash additions to property, plant and equipment	$	171	$	250
Non-cash issuance of 401-K common stock	$	77	$	53
Cumulative preferred dividends, undeclared and unpaid	$	142	$	137

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;
- proxy contest-related expenses;
- non-recurring costs associated with the COVID-19 pandemic;
- net gains and losses from sales of assets;
- non-cash pension settlements and postretirement benefits curtailment; and
- acquisition, integration and strategic 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 and postretirement benefits resulting from the amendment and termination of the Farmer Bros. pension and postretirement benefits plans 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):

	Three Months Ended September 30,	
(In thousands)	2020	2019
Net (loss) income, as reported	$ (6,270)	$ 4,654
Income tax (benefit) expense	142	(107)
Interest expense (1)	1,993	1,276
Depreciation and amortization expense	7,041	7,617
EBITDA	$ 2,906	$ 13,440
EBITDA Margin	3.0 %	9.7 %

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(1) Excludes interest expense related to pension plans and postretirement benefits.

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

	Three Months Ended September 30,	
(In thousands)	2020	2019
Net (loss) income, as reported	$ (6,270)	$ 4,654
Income tax (benefit) expense	142	(107)
Interest expense(1)	1,993	1,276
Depreciation and amortization expense	7,041	7,617
ESOP and share-based compensation expense	1,155	869
Strategic initiatives	341	—
Net losses (gains) from sales of other assets	618	(12,605)
Non-recurring costs associated with the COVID-19 pandemic	111	—
Severance	562	2,312
Adjusted EBITDA(2)	$ 5,693	$ 4,016
Adjusted EBITDA Margin	5.9 %	2.9 %

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(1) Excludes interest expense related to pension plans and postretirement benefits.

(2) Adjusted EBITDA for the three months ended September 30, 2020 includes $7.2 million of higher amortized gains resulting from the curtailment of the postretirement medical plan in March 2020. These higher gains will continue until the plan sunset on January 1, 2021. See Note 10, *Employee Benefit Plans*, of the Notes to Unaudited Condensed Consolidated Financial Statements included in our quarterly ended September 30, 2020, on Form 10-Q for details.

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Farmer Brothers®

Source: Farmer Bros. Co.