



Pope Resources Reports First Quarter 2019 Results

May 7, 2019

POULSBO, Wash., May 7, 2019 /PRNewswire/ -- Pope Resources (NASDAQ:POPE) reported net income attributable to unitholders of \$3.3 million, or \$0.75 per ownership unit, on consolidated revenue of \$25.0 million, for Q1 2019. This compares to net income attributable to unitholders of \$5.7 million, or \$1.31 per ownership unit, on consolidated revenue of \$25.0 million, for Q1 2018.



Pope Resources *A Limited Partnership*

Consolidated cash provided by operations during Q1 2019 was \$5.0 million compared to \$10.7 million during Q1 2018.

Cash available for distribution (CAD)¹ was \$2.7 million during Q1 2019 compared to \$6.3 million during Q1 2018.

"Log demand in our Pacific Northwest operating region was moderate in Q1 2019," said Tom Ringo, President and CEO, "as a harsh winter for the west coast produced disappointing housing starts and lumber take-away, while uncertainty in trade relations with China constrained export markets. We are cautiously optimistic that log prices will strengthen as the spring and summer building season leads to improved log and lumber demand. If and when a trade agreement with China is reached, our export log market should improve as well, providing an additional catalyst for further improvement in log prices. Meanwhile, higher Q1 volume this year compared to last is due to several factors: volume sliding into early 2019 due to severe weather in late 2018, the Partnership's 10% increase in annual sustainable volume, plus more harvest from the Funds' timberlands due to acquisitions."

The following tables summarize key metrics for the quarters ended March 31, 2019, and 2018. Metrics presented on a look-through² basis consist of the sum of the Partnership on a stand-alone basis plus the Partnership's share of its three private equity timber funds, based on the Partnership's percentage ownership interest in each fund, which ranges from 5% to 20%.

(in millions, except volume and price data)

	Q1 2019	Q1 2018
Volume (MMBF) - Partnership	23.4	18.8
Volume (MMBF) - Funds	14.1	13.1
Volume (MMBF) - Look-through ²	25.2	20.5
Delivered log price (\$/MBF) - Partnership	\$629	\$779
Delivered log price (\$/MBF) - Funds	\$631	\$728
Delivered log price (\$/MBF) - Look-through ²	\$628	\$775
Revenue - Consolidated	\$25.0	\$25.0
Net income - Consolidated	\$0.8	\$5.7

Net income attributable to unitholders	\$3.3	\$5.7
Cash flow from operations - Consolidated	\$5.0	\$10.7
Cash available for distribution (CAD) ¹	\$2.7	\$6.3
	March 31, 2019	December 31, 2018
Debt, net of unamortized debt issuance costs - Partnership	\$99.1	\$94.1
Debt, net of unamortized debt issuance costs - Funds	\$57.3	\$57.3

Partnership Timber

Partnership Timber operating income during Q1 2019 was \$6.9 million, compared to \$8.8 million in Q1 2018. Adjusted EBITDDA³ for this segment during Q1 2019 was \$8.5 million, versus \$10.0 million in Q1 2018. Harvest volume increased 24% in Q1 2019 when compared to Q1 2018, as we began to implement our higher annual sustainable cut level in the first quarter of the year. Average realized log prices, however, decreased 19% between the two periods. Compared to historically high log prices in Q1 2018, the Q1 2019 prices were impacted by a reduction in export demand due to uncertainty in trade negotiations with China, which had the further impact of increasing log supply available to domestic mills. In addition, on a per-MBF basis, the harvest, haul and tax rate increased by 21% due to logging in more expensive cable-based units and longer haul distances during the current quarter.

Funds Timber

Funds Timber operating loss during Q1 2019 was a loss of \$877,000, compared to income of \$1.8 million in Q1 2018. Adjusted EBITDDA for this segment during Q1 2019 was \$2.7 million, versus \$4.2 million in Q1 2018. Delivered log volume increased 8% in Q1 2019 versus Q1 2018, due to the Fund IV acquisitions during Q1 2018, while average realized log prices were down 13% due to the aforementioned uncertainty in China trade relations and resulting increase in available log supply. The Partnership's share of Adjusted EBITDDA for Q1 2019 was \$303,000, versus \$539,000 during Q1 2018.

Timberland Investment Management (TIM)

In January 2019, we acquired 7,100 acres in south central Washington on behalf of Fund IV for \$20.3 million, of which the Partnership's share was \$3.0 million.

Total revenue, on an internal reporting basis, substantially all of which is eliminated in consolidation, amounted to \$1.4 million during Q1 2019 versus \$1.0 million in Q1 2018. The increase in revenue is attributable to the three acquisitions by Fund IV during 2018, and the aforementioned January 2019 acquisition. After eliminations, TIM generated an operating loss of \$1.2 million during Q1 2019, compared to an operating loss of \$1.1 million in Q1 2018. Adjusted EBITDDA during Q1 2019 was \$92,000 versus \$42,000 in Q1 2018.

Real Estate

Real Estate generated an operating loss of \$673,000 during Q1 2019, compared to an operating loss of \$934,000 in Q1 2018. Adjusted EBITDDA for the Real Estate segment was negative \$519,000 during Q1 2019, versus negative \$766,000 in Q1 2018. The improvement in both metrics is due primarily to a consulting project in the current year that had no counterpart in Q1 2018, and relatively lower project planning, legal, and personnel costs in Q1 2019.

General & Administrative (G&A)

G&A expenses were \$1.76 million during Q1 2019 compared to \$1.62 million in Q1 2018. The increase in G&A expenses is due primarily to higher legal and professional fees.

Partnership Capital Allocation and Liquidity

In March, the Partnership paid a cash distribution to unitholders of \$4.4 million. During Q1 2019, the Partnership invested \$3.0 million in Fund IV, representing its share of a timberland acquisition. Maintenance capital expenditures during Q1 2019 for the Partnership totaled \$551,000, and the Partnership repurchased 2,456 units at an average price of \$67.56 per unit, totaling \$166,000, under a new unit repurchase authorization that started in March.

The aforementioned Q1 2019 capital outflows were financed by a combination of the following: net borrowings on credit facilities of \$5.1 million and CAD of \$2.7 million (that is net of Real Estate development project expenditures of \$1.0 million and environmental remediation payments totaling \$158,000).

In April, we refinanced the Partnership's \$9.8 million, September 2019 debt maturity with Northwest Farm Credit Services by entering into a 12-year note of the same amount with the same lender. The refinancing lowers the Partnership's weighted average interest rate on its debt to 3.58%, resulting in a \$205,000 annual reduction in interest expense, net of expected annual patronage payments from the Farm Credit system.

Outlook

We expect 2019 harvest volume will range between 63-67 MMBF for the Partnership, and 87-91 MMBF for the Funds, including timber deed sales. The Partnership volume includes 6-10 MMBF of volume from timber located on real estate properties that is not factored into our long-term, sustainable harvest plan of 57 MMBF. On a look-through basis, total 2019 harvest volume, including timber deed sales, is expected to be 75-78 MMBF.

We expect the Partnership to close on the remaining 65 residential lots from our Harbor Hill project in Gig Harbor, Washington; a parcel of timberland in Kitsap County; and an assortment of conservation easement, industrial lot, and residential lot sales.

We will soon post an updated investor presentation to the Investor Relations section of our web site at www.poperesources.com. On Wednesday, June 12, we will conduct our annual Pope Resources investor teleconference. Further details on how to participate in this call will be distributed later this month.

The contents of that presentation are not incorporated into this release or into any of our filings with the Securities and Exchange Commission.

About Pope Resources

Pope Resources, a publicly traded limited partnership, and its subsidiaries Olympic Resource Management and Olympic Property Group, own and manage 120,000 acres of timberland and 2,000 acres of development property in Washington. In addition, Pope Resources co-invests in and consolidates three private equity timber funds that own 141,000 acres of timberland in Washington, Oregon, and California. The Partnership and its predecessor companies have owned and managed timberlands and development properties for over 165 years. Additional information on the company can be found at www.poperesources.com. The contents of our website are not incorporated into this release or into our filings with the Securities and Exchange Commission.

Forward Looking Statements

This press release contains a number of projections and statements about our expected financial condition, operating results, business plans and objectives, and about management's plans for future operations and strategies. These statements reflect management's estimates and intentions based on current goals and expectations about future developments. Because these statements describe our goals, objectives, and anticipated performance, they are inherently uncertain, and some or all of these statements may not come to pass. Accordingly, they should not be interpreted as promises of future management actions or financial performance. Our future actions and actual performance will vary from current expectations and under various circumstances the results of these variations may be material and adverse. Among those forward-looking statements contained in this report are statements about management's expectations for future log prices, harvest volumes and markets, and statements about our expectations for future sales in our Real Estate segment and our Fund operations. Readers, however, should note that all statements other than expressions of historical fact are forward-looking in nature. Some of the factors that may cause actual operating results and financial condition to fall short of expectations, or that may cause us to deviate from our current plans, include our ability to accurately predict fluctuations in log markets domestically and internationally, and to adjust our harvest volumes in a timely and appropriate manner; political sensitivities and events, including the reactions of foreign governments and international treaty organizations and similar bodies, that may affect the cost of competing products and demand for our products; our ability to anticipate and manage interest rate risk as it affects our borrowing costs; fluctuations in interest rates and other factors that affect the U.S. housing market and related demand for our products from that market; our ability to estimate the cost of ongoing and changing environmental remediation obligations, including our ability to anticipate and address the political and regulatory climate that impacts these obligations; increasing reliance on engineered, recycled, and other alternative products as a competitive factor for our products; housing market conditions that affect demand for both our forest products and our real estate offerings; our ability to manage our timber funds and their assets in a manner that our investors consider acceptable, and to raise additional capital or establish new funds on terms that are advantageous to the Partnership; conditions in the housing construction and wood-products markets, both domestically and globally, that affect demand for our products; our ability to consummate various pending and anticipated real estate transactions on the terms management expects; the effects of competition, particularly by larger and better-financed competitors; fluctuations in foreign currency exchange rates that affect both competition for sales of our products and our customers' demand for them; conditions affecting credit markets as they affect the availability of capital and costs of borrowing for us, and the related impacts on purchasers of forest products and development properties; localized housing market conditions in the Puget Sound region of Washington State, which affect demand for our real estate offerings; our ability to manage our timber funds and their assets in a manner that our investors consider acceptable, and to raise additional capital or establish new funds on terms that are advantageous to the Partnership; labor, equipment and transportation costs that affect our net income; our ability to anticipate and mitigate potential impacts of our operations on adjacent properties; and our ability to discover and to accurately estimate other liabilities associated with our assets. Other factors are set forth in that part of our Annual Report on Form 10-K entitled "Risk Factors," and in our other filings with the Securities and Exchange Commission from time to time.

Forward-looking statements in this release are made only as of the date shown above, and we cannot undertake to update these statements.

¹ Management uses cash available for distribution (CAD) as a meaningful indicator of liquidity and, as such, has provided this information in addition to the generally accepted accounting principles (GAAP)-based presentation of cash provided by operating activities. Management considers CAD in evaluating capital allocation alternatives. CAD is calculated for the Partnership only and is a measure of cash generated by the Partnership that starts with GAAP-based consolidated cash provided by operating activities and subtracts cash provided by operating activities for the Funds and capital expenditures of the Partnership only, and adds distributions received by the Partnership from the Funds. CAD represents cash generated that is available to the Partnership for capital allocation alternatives, such as distributions to unitholders, repurchasing units, paying down debt, co-investing in the Funds, acquisition of timberland and real estate, and other discretionary and nondiscretionary activities. Our definition of CAD is limited in that it does not solely represent residual cash flows available for discretionary expenditures since the measure does not deduct required principal payments on the Partnership's debt and other contractual obligations. We believe, therefore, it is important to view CAD as a measure that provides supplemental information to our Consolidated Statements of Cash Flows. Our definition of CAD may be different from similarly titled measures reported by other companies, including those in our industry. CAD is not necessarily indicative of the CAD that may be generated in future periods. CAD is a non-GAAP liquidity measure which is reconciled to the GAAP measure of cash provided by operating activities in the tables below.

²"Look-through" results present the Partnership on a stand-alone basis plus the Partnership's minority share of each fund: 20% for Fund II, 5% for Fund III, and 15% for Fund IV.

³We define Adjusted EBITDDA as earnings before interest, taxes, depletion, depreciation, amortization, gain or loss on timberland sold, and environmental remediation expense. In addition, we reflect Adjusted EBITDDA on an internal reporting basis without eliminating inter-segment activity, which has no net impact on total Adjusted EBITDDA. Accordingly, fees earned from managing the funds are reflected in the Timberland Investment Management segment and this same amount is reflected as expense in the Funds Timber segment. We believe Adjusted EBITDDA captures the ongoing operations of each of our segments and is a useful supplemental metric to assess the segments' financial performance. Our definition of Adjusted EBITDDA may be different from similarly titled measures reported by other companies, including those in our industry. Adjusted EBITDDA is not necessarily indicative of the Adjusted EBITDDA that may be generated in future periods. Adjusted EBITDDA is a non-GAAP performance measure which is reconciled to the GAAP measure of operating income in the tables below.

CONDENSED CONSOLIDATING STATEMENTS OF INCOME (LOSS)

(in millions, except per unit amounts)

	Quarter Ended March 31, 2019				Quarter Ended March 31, 2018			
	Partner-ship	ORM Timber Funds	Consolidating Entries	Consolidated	Partner-ship	ORM Timber Funds	Consolidating Entries	Consolidated
Revenue	\$17.3	\$9.4	(\$1.7)	\$25.0	\$16.7	\$9.5	(\$1.3)	\$25.0
Cost of sales	(7.5)	(9.1)	—	(16.6)	(5.3)	(7.0)	—	(12.3)
Operating expenses	(5.3)	(2.5)	1.7	(6.1)	(5.2)	(1.8)	1.3	(5.7)
Operating income (loss)	4.6	(2.2)	—	2.4	6.2	0.8	—	7.0
Net interest expense	(1.0)	(0.6)	—	(1.5)	(0.6)	(0.6)	—	(1.1)
Income tax expense	—	(0.1)	—	(0.1)	—	(0.1)	—	(0.1)
Net income (loss)	3.6	(2.8)	—	0.8	5.6	0.2	—	5.7
Net loss attributable to noncontrolling interests				2.5				—
Net income attributable to unitholders				\$3.3				\$5.7
Basic and diluted weighted average units outstanding				4.325				4.321
Basic and diluted earnings per unit				\$0.75				\$1.31

CONDENSED CONSOLIDATING BALANCE SHEETS

(in millions)

March 31, 2019

December 31, 2018

Assets:	Partner- ship	ORM Timber Funds	Consol- idating Entries	Consol- idated	Partner- ship	ORM Timber Funds	Consol- idating Entries	Consol- idated
Cash	\$2.0	\$2.8	\$—	\$4.8	\$1.8	\$3.3	\$—	\$5.1
Restricted cash	0.8	—	—	0.8	0.9	—	—	0.9
Land and timber held for sale	6.7	—	—	6.7	5.7	—	—	5.7
Other current assets	5.7	6.3	(1.1)	10.9	4.6	4.9	(1.0)	8.6
Total current assets	15.2	9.1	(1.1)	23.2	13.1	8.3	(1.0)	20.4
Timber and roads	71.0	318.1	—	389.2	72.4	305.6	—	378.0
Timberland	19.6	57.4	—	77.0	19.7	54.5	—	74.3
Land held for development	21.0	—	—	21.0	20.9	—	—	20.9
Buildings and equipment, net	5.6	—	—	5.6	5.5	—	—	5.5
Investment in ORM Timber Funds	44.2	—	(38.3)	5.9	36.0	—	(36.0)	—
Other assets	1.7	0.2	—	1.9	7.3	2.0	—	9.3
Total assets	\$178.3	\$384.9	(\$39.5)	\$523.8	\$174.9	\$370.4	(\$37.0)	\$508.2
Liabilities and equity:								
Current liabilities	\$5.7	\$3.9	(\$1.1)	\$8.4	\$6.5	\$3.2	(\$1.0)	\$8.8
Current portion of long-term debt	0.1	—	—	0.1	0.1	—	—	0.1
Current portion of environmental remediation	0.9	—	—	0.9	1.1	—	—	1.1
Total current liabilities	6.7	3.9	(1.1)	9.4	7.7	3.2	(1.0)	10.0
Long-term debt, net of current portion and unamortized debt issuance costs	99.0	57.3	—	156.3	93.9	57.3	—	151.2
Environmental remediation and other long-term liabilities	8.2	0.1	—	8.3	8.1	0.3	—	—
Total liabilities	113.9	61.3	(1.1)	174.1	109.8	60.9	(1.0)	161.2
Partners' capital	64.4	323.6	(331.2)	56.8	59.2	309.5	(311.3)	57.5
Noncontrolling interests	—	—	292.9	292.9	5.9	—	275.2	281.1
Total liabilities and equity	\$178.3	\$384.9	(\$39.5)	\$523.8	\$174.9	\$370.4	(\$37.0)	\$508.2

RECONCILIATION BETWEEN NET INCOME AND CASH FLOWS FROM OPERATIONS

(in millions)

Quarter ended March 31,

	2019	2018
Net income	\$0.8	\$5.7
Add back (deduct):		
Depletion	6.5	4.7
Equity-based compensation	0.6	0.5
Real estate project expenditures	(1.0)	(0.3)
Depreciation and amortization	0.2	0.1
(Gain) loss on disposal of property and equipment	(0.1)	—
Environmental remediation payments	(0.2)	(0.2)
Change in other operating accounts	(1.9)	—
Cash provided by operations	\$5.0	\$10.7

SEGMENT ADJUSTED EBITDDA

(in millions)

	Partnership Timber	Funds Timber	TIM	Real Estate	G&A and Other	Consolidated
Q1 2019						
Operating income (loss) - external	\$6.9	(\$0.9)	(\$1.2)	(\$0.7)	(\$1.8)	\$2.4
Intersegment activity	—	(1.3)	1.3	0.1	—	—
Operating income (loss) - internal	6.9	(2.2)	0.1	(0.6)	(1.8)	2.4
Depletion, depreciation, and amortization	1.6	4.9	—	0.1	—	6.7
Adjusted EBITDDA	8.5	2.7	0.1	(0.5)	(1.8)	9.1
Less Adjusted EBITDDA attributable to NCI	—	(2.4)	—	—	—	(2.4)
Look-through Adjusted EBITDDA	\$8.5	\$0.3	\$0.1	(\$0.5)	(\$1.8)	\$6.7
Q1 2018						
Operating income (loss) - external	\$8.8	\$1.8	(\$1.1)	(\$0.9)	(\$1.6)	\$7.0
Intersegment activity	(0.1)	(1.0)	1.0	0.1	—	—

Operating income (loss) - internal	8.7	0.8	(0.1)	(0.8)	(1.7)	7.0
Depletion, depreciation, and amortization	1.3	3.4	—	0.1	—	4.8
Adjusted EBITDDA	10.0	4.2	—	(0.8)	(1.6)	11.8
Less Adjusted EBITDDA attributable to NCI	—	(3.7)	—	—	—	(3.7)
Look-through Adjusted EBITDDA	\$10.0	\$0.5	\$ —	(\$0.8)	(\$1.6)	\$8.1

CASH AVAILABLE FOR DISTRIBUTION (CAD)

(In millions)

	Quarter ended March 31,	
	2019	2018
Cash provided by operations - consolidated	\$5.0	\$10.7
Less: Cash provided by operations - Funds	(2.2)	(4.0)
Less: Partnership capital expenditures (1)	(0.6)	(0.8)
Add: Partnership's share of Fund distributions	0.4	0.4
Cash available for distribution (CAD)	\$2.7	\$6.3

(1) Capital expenditures by the Partnership only and excluding timberland acquisitions.

The following two tables reflect the Partnership's share of the Funds' assets, liabilities, and operating results based on its 20%, 5%, and 15% ownership interest in Fund II, Fund III, and Fund IV, respectively. We present this as additional information to help readers understand the financial benefit we receive from investing in these private equity vehicles and the resulting economics of owning Pope Resources units. These results will fluctuate between periods based on the relative activity in each fund and the Partnership's different ownership interest in each fund:

PARTNERSHIP'S SHARE OF TIMBER FUNDS - ASSETS AND LIABILITIES

(In millions)

	March 31, 2019	December 31, 2018
Cash	\$0.3	\$0.7
Other current assets	0.9	0.6
Timber and roads	36.1	34.0
Timberland	6.9	6.4
Other assets	—	1.9

Current liabilities, excluding current portion of long-term debt	0.8	0.4
Total debt	7.1	7.1

PARTNERSHIP'S SHARE OF TIMBER FUNDS - REVENUE AND EXPENSES

(In millions)

	Quarter ended March 31,	
	2019	2018
Revenue	\$1.2	\$1.2
Cost of sales	(1.1)	(0.8)
Operating expenses	(0.3)	(0.2)
Interest expense, net	(0.1)	(0.1)

VOLUME DATA - LOOK-THROUGH BASIS

	Quarter ended March 31,	
	2019	2018
Volumes by species (million board feet):		
Douglas-fir domestic	13.3	12.7
Douglas-fir export	5.2	2.0
Whitewood domestic	0.7	1.0
Whitewood export	0.2	0.5
Cedar	0.5	0.4
Hardwood	1.3	0.7
Pulpwood - all species	4.0	3.2
Total log sale volume	25.2	20.5
Timber deed sale volume	—	—
Total volume	25.2	20.5

PRICE DATA - LOOK-THROUGH BASIS

	Quarter ended March 31,	
	2019	2018
Average price realizations by species (per thousand board feet):		
Douglas-fir domestic	\$ 654	\$ 849
Douglas-fir export	730	926
Whitewood domestic	523	630
Whitewood export	541	759
Pine	410	646
Cedar	967	1,451
Hardwood	646	709
Pulpwood - all species	383	374
Overall delivered log price	628	775

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SOURCE Pope Resources

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