

October 15, 2020



Rocky Mountain Chocolate Factory, Inc. Reports First Six Months of Fiscal Year 2021 Operating Results

DURANGO, CO / ACCESSWIRE / October 15, 2020 /Rocky Mountain Chocolate Factory, Inc. (NASDAQ:RMCF) (the "Company," "we" or "our") today reported its operating results for the three and six months ended August 31, 2020. The Company franchises and operates gourmet chocolate and confection stores and self-serve frozen yogurt cafés, and manufactures an extensive line of premium chocolates and other confectionery products.

COVID-19

We have experienced business disruptions resulting from efforts to contain the rapid spread of the novel coronavirus ("COVID-19"), including the vast mandated self-quarantines and closures of non-essential business throughout the United States and around the world. Nearly all stores have been directly and negatively impacted by public health measures taken in response to the COVID-19 pandemic, with nearly all locations experiencing reduced operations as a result of, among other things, modified business hours and store and mall closures. As a result, franchisees and licensees are not ordering products for their stores in line with historical amounts. This trend has negatively impacted, and is expected to continue to negatively impact, among other things, factory sales, retail sales and royalty and marketing fees of the Company.

SECOND QUARTER HIGHLIGHTS

- Total revenue decreased 27.9 percent to \$5.3 million during the three months ended August 31, 2020 compared to \$7.4 million during the three months ended August 31, 2019.
- Same-store pounds of product purchased from the Company's factory by franchisees and co-branded licensees decreased 27.7 percent during the three months ended August 31, 2020 compared to the three months ended August 31, 2019.
- Net income decreased 91.7 percent to \$76,000, or \$0.01 per basic and diluted share in the three months ended August 31, 2020 compared to net income of \$918,000, or \$0.15 per basic and diluted share in the three months ended August 31, 2019.
- Operating income decreased 90.4 percent to \$119,000 in the three months ended August 31, 2020 compared to operating income of \$1.2 million during the three months ended August 31, 2019.
- Factory sales decreased 21.9 percent during the three months ended August 31, 2020 compared to the three months ended August 31, 2019, primarily due to a 34.5 percent decrease in sales of product to our network of franchised and licensed retail stores partially offset by a \$416,000 increase in shipments of product to customers outside our network of franchised retail stores.
- Royalty and marketing fees decreased 34.4 percent in the three months ended August

31, 2020.

- Franchise fees decreased 10.1 percent in the three months ended August 31, 2020 compared to the three months ended August 31, 2019, primarily due to a decrease in revenue resulting from fewer franchise stores in operation and the associated recognition of revenue over the term of the franchise agreement.
- The Company's franchisees opened one U-Swirl location during the three months ended August 31, 2020.

SECOND QUARTER OPERATING RESULTS

Total revenue decreased 27.9 percent to \$5.3 million during the three months ended August 31, 2020 compared to \$7.4 million during the three months ended August 31, 2019.

Total factory sales decreased 21.9 percent to \$3.5 million in the three months ended August 31, 2020 compared to \$4.5 million in the three months ended August 31, 2019. This decrease was due to a 34.5 percent decrease in sales of product to our network of franchised and licensed retail stores, partially offset by a \$416,000 increase in shipments of product to customers outside our network of franchised retail stores. The decrease in sales of product to our network of franchised and licensed retail stores was primarily the result of the COVID-19 pandemic and the associated public health measures in place during the three months ended August 31, 2020, which significantly reduced traffic in our stores. The increase in shipments of product to customers outside our network of franchise and licensed retail stores was primarily the result of sales associated with our strategic alliance with Edible Arrangements®, LLC and its affiliates ("Edible"). Factory gross margins decreased 650 basis points to 16.9 percent of factory sales in the three months ended August 31, 2020 compared to 23.4 percent in the three months ended August 31, 2019.

Retail sales declined 45.1 percent to \$495,000 in the three months ended August 31, 2020 compared to \$902,000 in the three months ended August 31, 2019. This decrease in retail sales was primarily the result of limited operations and limited foot traffic during the three months ended August 31, 2020. The limited operations at our Company-owned stores was the result of the COVID-19 pandemic and the associated public health measures in place during the three months ended August 31, 2020. As of August 31, 2020, all Company-owned stores had resumed limited operations following COVID-19 related closure. Same store sales at all Company-owned stores and cafés decreased 39 percent in the three months ended August 31, 2020 compared to the three months ended August 31, 2019.

Royalty and marketing fees decreased 34.4 percent to \$1.3 million in the three months ended August 31, 2020 compared to \$1.9 million in the three months ended August 31, 2019, primarily due to the COVID-19 pandemic and the associated public health measures in place during the three months ended August 31, 2020 and a decrease in domestic franchise units in operation. Nearly all of our franchised locations experienced reduced operations during the three months ended August 31, 2020. The average number of total domestic franchise stores in operation decreased 4.8 percent from 272 in the three months ended August 31, 2019 to 259 during the three months ended August 31, 2020. This decrease is the result of domestic store closures exceeding domestic store openings. Same store sales at total franchise stores and cafés in operation decreased 29 percent during the three months ended August 31, 2020 compared to the three months ended August 31, 2019. The Company's franchisees opened one *U-Swirl* location during the three months ended August 31, 2020. Complete lists of stores and cafés currently in operation are available on

the Company's websites at www.rmcf.com and www.u-swirlinc.com.

Franchise fees decreased 10.1 percent to \$74,000 in the three months ended August 31, 2020 compared to \$82,000 in the three months ended August 31, 2019, as a result of a decrease in revenue resulting from fewer franchise stores in operation and the associated recognition of revenue over the term of the franchise agreement.

Income from operations decreased 90.4 percent in the three months ended August 31, 2020 to \$119,000 compared to \$1.2 million in the three months ended August 31, 2019.

Net income decreased 91.7 percent to \$76,000, or \$0.01 per basic and diluted share, in the three months ended August 31, 2020, compared to net income of \$918,000, or \$0.15 per basic and diluted share, in the three months ended August 31, 2019.

Adjusted EBITDA (a non-GAAP financial measure defined later in this release) decreased 69.3 percent for the three months ended August 31, 2020 to \$573,000 compared to \$1.9 million for the three months ended August 31, 2019.

SIX-MONTH OPERATING RESULTS

Total revenue decreased 49.2 percent to \$8.0 million during the six months ended August 31, 2020 compared to \$15.8 million during the six months ended August 31, 2019.

Total factory sales decreased 44.2 percent to \$5.6 million in the six months ended August 31, 2020 compared to \$10.1 million in the six months ended August 31, 2019. The decrease was primarily due to a 53.7 percent decrease in sales of product to our network of franchised and licensed retail stores, the result of the COVID-19 pandemic and the associated public health measures in place during the six months ended August 31, 2020, which significantly reduced traffic in our stores, and a 5.9 percent decrease in shipments of product to customers outside our network of franchised retail stores.

Retail sales declined 61.1 percent to \$683,000 in the six months ended August 31, 2020 compared to \$1.8 million in the six months ended August 31, 2019. This decrease in retail sales was primarily due to the COVID-19 pandemic and the associated public health measures in place during the six months ended August 31, 2020. All of our company-owned stores experienced reduced operations and periods of full closure during the six months ended August 31, 2020.

Royalty and marketing fees decreased 58.1 percent to \$1.6 million in the six months ended August 31, 2020 compared to \$3.8 million in the six months ended August 31, 2019, primarily due to the COVID-19 pandemic and the associated public health measures in place during the six months ended August 31, 2020. Nearly all of our franchised locations experienced reduced operations and periods of full closure during the six months ended August 31, 2020. The Company's franchisees opened five *U-Swirl* franchised cafés during the six months ended August 31, 2020. Complete lists of stores and cafés currently in operation are available on the Company's websites at www.rmcf.com and www.u-swirlinc.com.

Franchise fees decreased 31.7 percent to \$129,000 in the six months ended August 31, 2020 compared to \$188,000 in the six months ended August 31, 2019, as a result of a decrease in revenue resulting from fewer franchise stores in operation and the associated

recognition of revenue over the term of fewer franchise agreements.

Operating income decreased from \$2.2 million in the six months ended August 31, 2019 to an operating loss of \$4.7 million in the six months ended August 31, 2020.

A net loss of \$(3.6) million, or \$(0.59) per basic and diluted share, in the six months ended August 31, 2020, compared to net income of \$1.6 million, or \$0.27 per basic and \$0.26 per diluted share, in the six months ended August 31, 2019.

Adjusted EBITDA (a non-GAAP measure defined later in this release) decreased from \$3.7 million in the six months ended August 31, 2019 to a loss of \$(3.5) million in the six months ended August 31, 2020.

Non-GAAP Financial Measures

Adjusted EBITDA, a non-GAAP financial measure, is computed by adding depreciation and amortization, stock-based compensation expenses, costs associated with non-recurring expenses (which include costs associated with Company-owned store closures, proxy contest and related matters, and the evaluation of strategic alternatives) to GAAP income from operations.

This non-GAAP financial measure may have limitations as an analytical tool, and this measure should not be considered in isolation or as a substitute for analysis of results as reported under GAAP. The Company believes that adjusted EBITDA provides additional analytical information on the nature of ongoing operations excluding expenses not expected to recur in future periods, non-cash charges and variations in the effective tax rate among periods. For example, the Company believes that adjusted EBITDA is useful to investors because it provides a measure of operating performance and its ability to generate cash that is unaffected by non-cash accounting measures and non-recurring expenses. However, due to these limitations, the Company uses adjusted EBITDA as a measure of performance only in conjunction with GAAP measures of performance such as income from operations and net income. Reconciliations of this non-GAAP measure to its most comparable GAAP measure are included below.

About Rocky Mountain Chocolate Factory, Inc.

Rocky Mountain Chocolate Factory, Inc., headquartered in Durango, Colorado, is an international franchiser of gourmet chocolate, confection and self-serve frozen yogurt stores and a manufacturer of an extensive line of premium chocolates and other confectionery products. As of October 15, 2020, the Company, through its subsidiaries and its franchisees and licensees operated 399 *Rocky Mountain Chocolate Factory* and self-serve frozen yogurt stores in 40 states, Canada, South Korea, Qatar, the Republic of Panama, and The Republic of the Philippines. The Company's common stock is listed on the Nasdaq Global Market under the symbol "RMCF."

Forward-Looking Statements

This press release includes statements of the Company's expectations, intentions, plans and beliefs that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are intended to come within the safe harbor protection provided by those sections. These forward-looking statements involve various risks and uncertainties. The nature of the Company's operations and the environment in which it operates subjects it

to changing economic, competitive, regulatory and technological conditions, risks and uncertainties. The statements, other than statements of historical fact, included in this press release are forward-looking statements. Many of the forward-looking statements contained in this press release may be identified by the use of forward-looking words such as "will," "intend," "believe," "expect," "anticipate," "should," "plan," "estimate," "potential," or similar expressions. Factors which could cause results to differ include, but are not limited to: the impact of the COVID-19 pandemic and global economic conditions on the Company's business, including, among other things, online sales, factory sales, retail sales and royalty and marketing fees, the Company's liquidity, the Company's cost cutting and capital preservation measures, achievement of the anticipated potential benefits of the strategic alliance with Edible, the ability to provide products to Edible under the strategic alliance, Edible's ability to increase the Company's online sales, changes in the confectionery business environment, seasonality, consumer interest in the Company's products, general economic conditions, the success of the Company's frozen yogurt business, receptiveness of the Company's products internationally, consumer and retail trends, costs and availability of raw materials, competition, the success of the Company's co-branding strategy, the success of international expansion efforts and the effect of government regulations. Government regulations which the Company and its franchisees and licensees either are, or may be, subject to and which could cause results to differ from forward-looking statements include, but are not limited to: local, state and federal laws regarding health, sanitation, safety, building and fire codes, franchising, licensing, employment, manufacturing, packaging and distribution of food products and motor carriers. For a detailed discussion of the risks and uncertainties that may cause the Company's actual results to differ from the forward-looking statements contained herein, please see the "Risk Factors" contained in Item 1A. of the Company's Annual Report on Form 10-K for the fiscal year ended February 29, 2020. Additional factors that might cause such differences include, but are not limited to: the length and severity of the current COVID-19 pandemic and its effect on among other things, factory sales, retail sales, royalty and marketing fees and operations, the effect of any governmental action or mandated employer-paid benefits in response to the COVID-19 pandemic, and the Company's ability to manage costs and reduce expenditures in a low or zero revenue environment and the availability of additional financing if and when required. These forward-looking statements apply only as of the date hereof. As such they should not be unduly relied upon for more current circumstances. Except as required by law, the Company undertakes no obligation to release publicly any revisions to these forward-looking statements that might reflect events or circumstances occurring after the date of this press release or those that might reflect the occurrence of unanticipated events.

**For Further Information, please contact:
Rocky Mountain Chocolate Factory, Inc.
(970) 375-5678**

(Financial Highlights Follow)

STORE INFORMATION

	New stores opened during the three months ended August 31, 2020	Stores open as of August 31, 2020
United States		
Rocky Mountain Chocolate Factory		
Franchise Stores	0	162
Company-Owned Stores	0	2
Cold Stone Creamery	0	98
International License Stores	0	58
U-Swirl		
Franchise Stores	1	76
Company-Owned Stores	0	3
International License Stores	0	2
Total	<u>1</u>	<u>401</u>

SELECTED BALANCE SHEET DATA
(in thousands)
(unaudited)

	August 31, 2020	February 29, 2020
Current Assets	\$ 15,488	\$ 13,612
Total Assets	29,187	27,817
Current Liabilities	9,994	5,607
Total Liabilities	13,135	8,461
Stockholder's Equity	\$ 16,052	\$ 19,356

CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except share and per share data)
(unaudited)

	Three Months Ended August 31,		Three Months Ended August 31,	
	2020	2019	2020	2019
Revenues				
Factory sales	\$ 3,498	\$ 4,482	65.7 %	60.7 %
Royalty and marketing fees	1,260	1,920	23.7 %	26.0 %
Franchise fees	74	82	1.4 %	1.1 %
Retail sales	495	901	9.3 %	12.2 %
Total Revenues	5,327	7,385	100.0 %	100.0 %
Costs and expenses				
Cost of sales	3,054	3,738	57.3 %	50.6 %
Franchise costs	451	442	8.5 %	6.0 %
Sales and marketing	409	435	7.7 %	5.9 %
General and administrative	788	831	14.8 %	11.3 %
Retail operating	330	469	6.2 %	6.4 %
Depreciation and amortization, exclusive of depreciation and amortization expense of \$158 and \$147 included in cost of sales, respectively	176	225	3.3 %	3.0 %
Costs associated with Company-owned store closures	-	-	0.0 %	0.0 %
Total Costs and Expenses	5,208	6,140	97.8 %	83.1 %
Income (loss) from operations	119	1,245	2.2 %	16.9 %
Other income (expense)				
Interest expense	(23)	(3)	-0.4 %	0.0 %
Interest income	5	6	0.1 %	0.1 %
Other, net	(18)	3	-0.3 %	0.0 %
Income (loss) before income taxes	101	1,248	1.9 %	16.9 %
Provision for income taxes	25	330	0.5 %	4.5 %
Consolidated net income (loss)	76	918	1.4 %	12.4 %
Basic Earnings (Loss) Per Common Share				
	\$ 0.01	\$ 0.15		
Diluted Earnings (Loss) Per Common Share				
	\$ 0.01	\$ 0.15		
Weighted Average Common Shares Outstanding				
	6,066,034	5,977,746		
Dilutive Effect of Employee Stock Awards				
	219,043	279,584		
Weighted Average Common Shares Outstanding, Assuming Dilution				
	6,285,077	6,257,330		

CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except share and per share data)
(unaudited)

	Six Months Ended August 31,		Six Months Ended August 31,	
	2020	2019	2020	2019
Revenues				
Factory sales	\$ 5,633	\$ 10,088	70.1 %	63.8 %
Royalty and marketing fees	1,585	3,779	19.7 %	23.9 %
Franchise fees	129	188	1.6 %	1.2 %
Retail sales	683	1,756	8.5 %	11.1 %
Total Revenues	8,030	15,811	100.0 %	100.0 %
Costs and expenses				
Cost of sales	5,937	8,353	73.9 %	52.8 %
Franchise costs	872	925	10.9 %	5.9 %
Sales and marketing	883	992	11.0 %	6.3 %
General and administrative	3,968	1,975	49.4 %	12.5 %
Retail operating	649	918	8.1 %	5.8 %
Depreciation and amortization, exclusive of depreciation and amortization expense of \$316 and \$293 included in cost of sales, respectively	362	457	4.5 %	2.9 %
Costs associated with Company-owned store closures	69	-	0.9 %	0.0 %
Total Costs and Expenses	12,740	13,620	158.7 %	86.1 %
Income from operations	(4,710)	2,191	-58.7 %	13.9 %
Other income (expense)				
Interest expense	(47)	(15)	-0.6 %	-0.1 %
Interest income	11	16	0.1 %	0.1 %
Other, net	(36)	1	-0.4 %	0.0 %
Income before income taxes	(4,746)	2,192	-59.1 %	13.9 %
Provision for income taxes (benefit)	(1,155)	562	-14.4 %	3.6 %
Consolidated net income	(3,591)	1,630	-44.7 %	10.3 %
Basic Earnings Per Common Share	\$ (0.59)	\$ 0.27		
Diluted Earnings Per Common Share	\$ (0.59)	\$ 0.26		
Weighted Average Common Shares Outstanding	6,062,443	5,970,012		
Dilutive Effect of Employee Stock Awards	-	275,935		
Weighted Average Common Shares Outstanding, Assuming Dilution	6,062,443	6,245,947		

GAAP RECONCILIATION

ADJUSTED EBITDA
(in thousands)
(unaudited)

	Three Months Ended August 31,		Change
	2020	2019	
GAAP: Income from Operations	\$ 119	\$ 1,245	-90.4 %
Depreciation and Amortization	335	372	
Stock-Based Compensation Expense	143	156	
Costs associated with non-recurring expenses (1)	(24)	92	
Non-GAAP, adjusted EBITDA	\$ 573	\$ 1,865	-69.3 %

(1) Non-recurring expenses include costs associated with Company-owned store closures, contested proxy costs and the evaluation of strategic alternatives.

	Six Months Ended August 31,		Change
	2020	2019	
GAAP: Income (loss) from Operations	\$ (4,710)	\$ 2,191	-315.0 %
Depreciation and Amortization	678	750	
Stock-Based Compensation Expense	287	387	
Costs associated with non-recurring expenses (1)	274	347	
Non-GAAP, adjusted EBITDA	\$ (3,471)	\$ 3,675	-194.4 %

(1) Non-recurring expenses include costs associated with Company-owned store closures, contested proxy costs, event specific inventory reserves and the evaluation of strategic alternatives.

COVID-19 SPECIFIC FINANCIAL IMPACTS
(in thousands)
(unaudited)

	Six Months Ended August 31, 2020
COVID-19 Specific Impacts	
Accounts and notes receivable reserves	\$ 1,469
Intangible asset and goodwill impairments	476
PPP loans (forgiveness pending*)	1,542
Total COVID-19 Specific Impacts	\$ 3,487

SOURCE: Rocky Mountain Chocolate Factory, Inc.

View source version on accesswire.com:

<https://www.accesswire.com/610508/Rocky-Mountain-Chocolate-Factory-Inc-Reports-First-Six-Months-of-Fiscal-Year-2021-Operating-Results>