



## HF Foods Reports Third Quarter 2020 Financial Results

November 9, 2020

CITY OF INDUSTRY, Calif., Nov. 09, 2020 (GLOBE NEWSWIRE) -- HF Foods Group Inc. (NASDAQ: HFFG), a leading food distributor to Asian restaurants across the Southeast, Pacific and Mountain West regions of the United States, reported third quarter and pro forma financial results for the period ended September 30, 2020.

As previously announced in a press release on November 4, 2019, HF Foods merged with B&R Global Holdings ("B&R"). The pro forma results reflect the combined results of HF Foods Group and B&R as if the transaction had occurred on the first day of the prior period presented.

### Third Quarter 2020 Financial Summary (which includes the B&R transaction in Q3 2020 but not Q3 2019)

- Net revenue increased 85% to \$139.9 million compared to \$75.7 million in the third quarter of 2019.
- Gross profit was \$25.2 million, or 18.0% of total revenue, compared to \$12.2 million, or 16.1% of total revenue, in the third quarter of 2019.
- Net loss was \$624,000, or \$(0.01) per diluted share. This compares to net income of \$1.3 million, or \$0.06 per diluted share, in the third quarter of 2019.
- Adjusted EBITDA was \$6.0 million compared to \$2.7 million in the third quarter of 2019.

### Pro Forma Third Quarter 2020 Financial Summary

- Pro forma net revenue decreased to \$139.9 million from \$205.1 million.
- Pro forma gross profit was \$25.2 million, or 18.0% of total revenue, compared to \$32.4 million, or 15.8% of total revenue, in the third quarter of 2019.
- Pro forma net loss was \$624,000, or \$(0.01) per diluted share, compared to net income of \$1.5 million, or \$0.03 per diluted share, in the third quarter of 2019.
- Pro forma adjusted EBITDA was \$6.0 million compared to \$7.3 million in the third quarter of 2019.

"While we have faced substantial challenges since the COVID-19 pandemic began impacting the U.S. in March, our flexible organizational structure and resilient customer base have allowed us to adapt to changing circumstances, stabilize the business, and reposition our organization for long-term success," said Zhou Min Ni, chairman and Co-CEO of HF Foods. "We operate as a market leader in a highly fragmented industry, which provides us with the unique ability to capitalize on opportunities that will be created in the wake of the current environment. While we cannot predict how COVID-19 or the response to the virus will evolve, we remain optimistic that our scale and our deep understanding of our unique customer base will allow us to return to our long-term growth path when our industry recovers to pre-COVID-19 levels."

### Liquidity & Sales Volumes

At the end of the third quarter of 2020, HF Foods had \$9.2 million in cash and access to approximately \$74.8 million in additional funds through its \$100 million line of credit, subject to a borrowing base calculation. The strategic cost management actions undertaken in late March and April 2020 resulted in an overall increase of the available line of credit, ensured the Company could confidently navigate through an unconventional operating environment, and have positioned the company to expand operating margins as the impacts of COVID-19 on the food services industry diminish.

Since late April 2020, the Company has experienced a steady recovery of business volume as fear among consumers began to subside and pent-up demand for restaurant dining began to build. In the months of May and June, weekly sales recovered to over 50% and 60% of pre-COVID-19 levels, and that recovery trend continued into the third quarter. The Company is now experiencing relatively stable sales volumes equivalent to approximately 70% of pre-COVID-19 levels. With current sales volumes and its adjusted cost structure, the Company is generating positive operating cash flows on a weekly basis.

Peter Zhang, Co-CEO, commented, "Since the second quarter, our weekly sales volumes have steadily improved, and today, they are stable at approximately 70% of pre-COVID-19 levels. These sales volumes, combined with the decisive actions we took to reduce our operating costs, have ensured that we operate more efficiently and continue to generate weekly positive operating cash flows. Because of these internal improvements, we believe we are on stronger footing today than before the pandemic and are optimistic that we will realize even greater operational efficiencies as the effects of the pandemic slowly dissipate."

### Pro Forma Results for the Third Quarter of 2020

On a pro forma basis, revenue in the third quarter of 2020 decreased to \$139.9 million compared to \$205.1 million in the same period last year. The decrease in revenue was due to a decline in sales to independent restaurants as many experienced forced closures or conversion to a take-out only model in response to the COVID-19 pandemic.

Pro forma gross profit was \$25.2 million (18.0% of total revenue) compared to \$32.4 million (15.8% of total revenue) in the third quarter of 2019. The improvement in gross margin was primarily attributable to the Company's strengthened purchasing power and the elimination of lower margin sales to buffet restaurants, many of which remain severely impacted by the outbreak of COVID-19.

Pro forma distribution, selling and administrative expenses for the third quarter were \$25.1 million compared to \$29.0 million in the same period last year. The \$4.0 million decrease was mainly attributed to a corresponding \$5.9 million reduction in distribution and selling costs, which was offset by a non-recurring \$1.9 million increase in legal expense. Distribution, selling and administrative expenses also included a substantial straight-line amortization of \$2.7 million on intangibles, including tradenames and customer relationships associated with the B&R merger transaction based on U.S. accounting GAAP rules.

Pro forma net loss for the third quarter of 2020 was \$624,000, or \$(0.01) per diluted share, compared to net income of \$1.5 million, or \$0.03 per diluted share, in the third quarter of 2019.

Adjusted EBITDA on a pro forma basis in the third quarter of 2020 was \$6.0 million compared to \$7.3 million in the same period last year. The decline was primarily due to reduced revenues, as described above.

#### About HF Foods Group Inc.

HF Foods Group Inc., headquartered in City of Industry, California, is a leading marketer and distributor of fresh produce, frozen and dry food, and non-food products to primarily Asian/Chinese restaurants and other foodservice customers throughout the Southeast, Pacific and Mountain West regions of the United States. With 14 distribution centers along the U.S. eastern and western seaboard, HF Foods aims to supply the increasing demand for Asian American restaurant cuisine. With an in-house proprietary ordering and inventory control network, more than 10,000 established customers in 21 states, and strong relations with growers and suppliers of food products in the US and China, HF Foods Group is able to offer fresh, high-quality specialty restaurant foods and supplies at economical prices to its large and growing base of customers. For more information, please visit [hffoodsgroup.com](http://hffoodsgroup.com).

#### Non-GAAP Financial Measures

**Adjusted EBITDA:** The Company believes that adjusted EBITDA is a useful performance measure and can be used to facilitate a comparison of the Company's operating performance on a consistent basis from period to period and to provide for a more complete understanding of factors and trends affecting the business than GAAP measures alone can provide. Management believes that adjusted EBITDA is less susceptible to variances in actual performance resulting from depreciation, amortization and other non-cash charges and more reflective of other factors that directly affect our operating performance. Management believes that the use of these non-GAAP financial measures provides an additional tool for investors to use in evaluating ongoing operating results and trends and in comparing the Company's financial performance with that of other companies in the same industry, many of which present similar non-GAAP financial measures to investors. The Company presents adjusted EBITDA in order to provide supplemental information that the Company considers relevant for the readers of our consolidated financial statements included elsewhere in its reports filed with the SEC, including its current Quarterly Report on Form 10Q, and such information is not meant to replace or supersede U.S. GAAP measures.

The following table sets forth of the calculation of adjusted EBITDA and reconciliation to net income (loss), the closest U.S. GAAP measure:

	For the three months ended		Change	
	2020	2019	Amount	%
Net income (loss)	\$ (396,939)	\$ 1,528,671	\$ (1,925,610)	(126.0) %
Interest expenses	840,851	482,099	358,752	74.4 %
Income tax provision	(80,910)	607,142	(688,052)	(113.3) %
Depreciation & Amortization	4,474,892	738,904	3,735,988	505.6 %
EBITDA	4,837,894	3,356,816	1,481,078	44.1 %
Change in fair value of interest rate swap contracts	20,022	—	20,022	100.0 %
COVID-19 bad debt reserve recovery	(750,945)	—	(750,945)	100.0 %
Non-recurring (income) expenses*	1,866,415	(625,000)	2,491,415	(398.6) %
Adjusted EBITDA	\$ 5,973,386	\$ 2,731,816	\$ 3,241,570	118.7 %
Percentage of revenue	4.3 %	3.6 %	0.7 %	19.4 %

#### Forward-Looking Statements

All statements in this news release other than statements of historical facts are forward-looking statements which contain our current expectations about our future results. We have attempted to identify any forward-looking statements by using words such as "anticipates," "believes," "could," "expects," "intends," "may," "should" and other similar expressions. Although we believe that the expectations reflected in all of our forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Such statements are not guarantees of future performance or events and are subject to known and unknown risks and uncertainties that could cause the Company's actual results, events or financial positions to differ materially from those included within or implied by such forward-looking statements. Such factors include, but are not limited to, unfavorable macroeconomic conditions in the United States, competition in the food service distribution industry, particularly the entry of new competitors into the Chinese/Asian restaurant market niche, increases in fuel costs or commodity prices, disruption of relationships with vendors and increases in product prices, U.S. government tariffs on products imported into the United States, particularly from China, changes in consumer eating and dining out habits, disruption of relationships with or loss of customers, our ability to execute our acquisition strategy, availability of financing to execute our acquisition strategy, control of the Company by our Chief Executive Officer and principal stockholder, failure to retain our senior management and other key personnel, our ability to attract, train and retain employees, changes in and enforcement of immigration laws, failure to comply with various federal, state and local rules and regulations regarding food safety, sanitation, transportation, minimum wage, overtime and other health and safety laws, product recalls, voluntary recalls or withdrawals if any of the products we distribute are alleged to have caused illness, been mislabeled, misbranded or adulterated or to otherwise have violated applicable government regulations, failure to protect our intellectual property rights, any cyber security incident, other technology disruption, or delay in implementing our information technology systems, statements of assumption underlying any of the foregoing, the continuing impact of the Covid-19 pandemic, and other factors disclosed under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019 and other filings with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date made. Except as required by law, we undertake no obligation to disclose any revision to these forward-looking statements.

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HF Foods Group Inc.  
Condensed Consolidated Balance Sheets  
(Unaudited)

As of

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 9,180,314	\$ 14,538,286
Accounts receivable, net	24,511,153	50,027,134
Accounts receivable - related parties, net	883,331	4,202,870
Inventories, net	61,691,395	77,531,854
Advances to suppliers - related parties, net	297,848	745,135
Other current assets	4,704,736	4,374,338
<b>TOTAL CURRENT ASSETS</b>	<b>101,268,777</b>	<b>151,419,617</b>
Property and equipment, net	138,107,128	37,538,147
Security deposits - related parties	—	591,380
Operating lease right-of-use assets	693,982	17,155,584
Long-term investments	2,361,888	2,296,276
Intangible assets, net	178,520,225	186,687,950
Goodwill	68,511,941	406,703,348
Deferred tax assets	75,411	78,993
Other long-term assets	349,662	372,499
<b>TOTAL ASSETS</b>	<b>\$ 489,889,014</b>	<b>\$ 802,843,794</b>
<b>CURRENT LIABILITIES:</b>		
Bank overdraft	\$ 5,548,970	\$ 14,952,510
Lines of credit	25,208,939	41,268,554
Accounts payable	33,685,243	39,689,911
Accounts payable - related parties	2,663,255	4,521,356
Advances from customers - related parties	6,147	—
Current portion of long-term debt, net	7,736,016	2,726,981
Current portion of obligations under finance leases	292,917	280,243
Current portion of obligations under operating leases	264,335	4,322,503
Accrued expenses and other liabilities	5,212,229	2,610,538
Obligations under interest rate swap contracts	1,357,434	73,158
<b>TOTAL CURRENT LIABILITIES</b>	<b>81,975,485</b>	<b>110,445,754</b>
Long-term debt, net	87,372,668	18,535,016
Promissory note payable - related party	7,000,000	—
Obligations under finance leases, non-current	832,973	1,053,166
Obligations under operating leases, non-current	429,647	12,833,081
Deferred tax liabilities	49,144,170	52,320,045
<b>TOTAL LIABILITIES</b>	<b>226,754,943</b>	<b>195,187,062</b>
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred Stock, \$0.0001 par value, 1,000,000 shares authorized , no shares issued and outstanding as of September 30, 2020 and December 31, 2019, respectively	—	—
Common Stock, \$0.0001 par value, 100,000,000 shares authorized, 53,050,211 shares issued, and 52,145,096 shares outstanding as of September 30, 2020 and December 31, 2019, respectively	5,305	5,305
Treasury Stock, at cost, 905,115 shares as of September 30, 2020 and December 31, 2019, respectively	(12,038,030)	(12,038,030)
Additional paid-in capital	599,617,009	599,617,009
Retained earnings (accumulated deficit)	(328,742,988)	15,823,661
<b>Total shareholders' equity attributable to HF Foods Group Inc.</b>	<b>258,841,296</b>	<b>603,407,945</b>
Noncontrolling interests	4,292,775	4,248,787
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>263,134,071</b>	<b>607,656,732</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 489,889,014</b>	<b>\$ 802,843,794</b>

**Condensed Consolidated Statements of Operations  
(Unaudited)**

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Net revenue - third parties	\$ 137,631,565	\$ 70,568,373	\$ 409,375,346	\$ 211,520,517
Net revenue - related parties	2,287,377	5,130,504	10,907,028	13,697,588
<b>TOTAL NET REVENUE</b>	<b>139,918,942</b>	<b>75,698,877</b>	<b>420,282,374</b>	<b>225,218,105</b>
Cost of revenue - third parties	112,535,923	58,598,428	335,147,332	174,634,207
Cost of revenue - related parties	2,220,161	4,908,301	10,384,355	13,172,741
<b>TOTAL COST OF REVENUE</b>	<b>114,756,084</b>	<b>63,506,729</b>	<b>345,531,687</b>	<b>187,806,948</b>
<b>GROSS PROFIT</b>	<b>25,162,858</b>	<b>12,192,148</b>	<b>74,750,687</b>	<b>37,411,157</b>
<b>DISTRIBUTION, SELLING AND ADMINISTRATIVE EXPENSES</b>	<b>25,050,419</b>	<b>9,969,785</b>	<b>79,549,580</b>	<b>31,428,998</b>
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>112,439</b>	<b>2,222,363</b>	<b>(4,798,893)</b>	<b>5,982,159</b>
<b>Other Income (Expenses)</b>				
Interest income	133	113,930	396	418,397
Interest expenses	(840,851)	(482,099)	(3,116,739)	(1,207,217)
Goodwill impairment loss	—	—	(338,191,407)	—
Other income	270,452	281,619	940,832	905,149
Change in fair value of interest rate swap contracts	(20,022)	—	(1,284,276)	—
<b>Total Other Income (Expenses), net</b>	<b>(590,288)</b>	<b>(86,550)</b>	<b>(341,651,194)</b>	<b>116,329</b>
<b>INCOME (LOSS) BEFORE INCOME TAX PROVISION (BENEFIT)</b>	<b>(477,849)</b>	<b>2,135,813</b>	<b>(346,450,087)</b>	<b>6,098,488</b>
<b>PROVISION (BENEFIT) FOR INCOME TAXES</b>	<b>(80,910)</b>	<b>607,142</b>	<b>(2,052,426)</b>	<b>1,715,532</b>
<b>NET INCOME (LOSS)</b>	<b>(396,939)</b>	<b>1,528,671</b>	<b>(344,397,661)</b>	<b>4,382,956</b>
Less: net income attributable to noncontrolling interests	226,865	181,106	168,988	339,683
<b>NET INCOME (LOSS) ATTRIBUTABLE TO HF FOODS GROUP INC.</b>	<b>\$ (623,804)</b>	<b>\$ 1,347,565</b>	<b>\$ (344,566,649)</b>	<b>\$ 4,043,273</b>
<b>Earnings (loss) per common share - basic and diluted</b>	<b>\$ (0.01)</b>	<b>\$ 0.06</b>	<b>\$ (6.61)</b>	<b>\$ 0.18</b>
<b>Weighted average shares - basic and diluted</b>	<b>52,145,096</b>	<b>22,258,557</b>	<b>52,145,096</b>	<b>22,198,290</b>