

Edgar Filing: Andersons, Inc. - Form 10-K

Andersons, Inc.

Form 10-K

February 27, 2019

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Accelerated FilerAndersons,

Inc.NoYes915600093250000.62500.6450.6656300000063000000294300002943000017040000034920000.04940.0360.04460

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## UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549

### FORM 10-K

✓ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

Commission file number 000-20557

## THE ANDERSONS, INC.

(Exact name of the registrant as specified in its charter)

OHIO 34-1562374  
(State of incorporation (I.R.S. Employer  
or organization) Identification No.)  
1947 Briarfield Boulevard, Maumee, Ohio 43537  
(Address of principal executive offices) (Zip Code)  
Registrant's telephone number, including area code (419) 893-5050

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Securities registered pursuant to Section 12(b) of the Act: Common Shares [Nasdaq Global Market]

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated Filer

Non-accelerated filer  Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the registrant's voting stock which may be voted by persons other than affiliates of the registrant was \$914.8 million as of June 30, 2018, computed by reference to the last sales price for such stock on that date as reported on the Nasdaq Global Select Market.

The registrant had approximately 32.5 million common shares outstanding, no par value, at February 15, 2019.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on May 10, 2019, are incorporated by reference into Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K. The Proxy Statement will be filed with the Commission on or about March 15, 2019.

THE ANDERSONS, INC.

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## Part I.

### **Item 1. Business**

#### *Company Overview*

The Andersons, Inc. (the "Company") is a diversified company rooted in agriculture. Founded in Maumee, Ohio in 1947, the Company conducts business across North America in the grain, ethanol, plant nutrient and rail sectors.

#### *Segment Descriptions*

The Company's operations are classified into four reportable business segments: Grain, Ethanol, Plant Nutrient, and Rail. Each of these segments is organized based upon the nature of products and services offered. See Note 14 to the Consolidated Financial Statements in Item 8 for information regarding business segments.

#### *Grain Group*

The Grain Group primarily operates grain elevators in various states in the U.S. Corn Belt. Income is earned on grain bought and sold or "put thru" the elevator, grain that is purchased and conditioned for resale, and space income. Space income consists of appreciation or depreciation in the basis value of grain held and represents the difference between the cash price of a commodity in one of the Company's facilities and an exchange traded futures price ("basis"); appreciation or depreciation between the future exchange contract months ("spread"); and grain stored for others upon which storage fees are earned. The Grain business also offers a number of unique grain marketing, risk management and corn origination services to its customers and affiliated ethanol facilities for which it collects fees.

The Company has a lease and marketing agreement with Cargill, Incorporated for Cargill's Maumee and Toledo, Ohio grain handling and storage facilities. As part of the agreement, Cargill holds marketing rights to grain in the Cargill-owned facilities as well as the adjacent Company-owned facilities in Maumee and Toledo. As of December 31, 2018, the lease of the Cargill-owned facilities covers approximately 6%, or 8.8 million bushels, of the Company's total storage space.

Grain prices are not predetermined, so sales are negotiated by the Company's merchandising staff. The principal grains sold by the Company are corn, soybeans and wheat. Approximately 86% of grain sales by the Company in 2018 were purchased by U.S. grain processors and feeders, and approximately 14% were exported. Most of the Company's exported grain sales are made through intermediaries while some grain is shipped directly to foreign countries, mainly Canada. The Company ships grain from its facilities by rail, truck, or boat. Rail shipments are made primarily to grain processors and feeders with some rail shipments made to exporters on the Gulf of Mexico or east coast. Boat shipments are from the Port of Toledo. In addition, grain is transported via truck for direct ship transactions in which producers sell grain to the Company, but have it delivered directly to the end user.

The Company's grain operations rely principally on forward purchase contracts with producers, dealers and commercial elevators to ensure an adequate supply of grain to the Company's facilities throughout the year. The Company makes grain purchases at prices referenced to regulated commodity exchanges.

The Company competes in the sale of grain with other public and private grain brokers, elevator operators and farmer owned cooperative elevators. Some of the Company's competitors are also its customers. Competition is based primarily on price, service and reliability. Because the Company generally buys in smaller lots, its competition for the purchase of grain is generally local or regional in scope, although there are some large national and international

companies that maintain regional grain purchase and storage facilities. Significant portions of grain bushels purchased and sold are made using forward contracts.

The grain handling business is seasonal in nature in that the largest portion of the principal grains are harvested and delivered from the farm and commercial elevators in July, October and November although a significant portion of the principal grains are bought, sold and handled throughout the year.

Fixed price purchase and sale commitments as well as grain held in inventory expose the Company to risks related to adverse changes in market prices. Grain prices are typically comprised of two components, futures prices on regulated commodity exchanges and local basis adjustments. The Company manages the futures price risk by entering into exchange-traded futures and option contracts with regulated commodity exchanges. The contracts are economic hedges of price risk but are not

designated or accounted for as hedging instruments. These regulated commodity exchanges maintain futures markets for the grains merchandised by the Company. Futures prices are determined by worldwide supply and demand.

The Company's grain risk management practices are designed to reduce the risk of changing commodity prices. In that regard, such practices also limit potential gains from further changes in market prices. The Company has policies that provide key controls over its risk management practices. These policies include a description of the objectives of the programs and review of daily position limits by key management outside of the trading function along with other internal controls. The Company monitors current market conditions and may expand or reduce the purchasing program in response to changes in those conditions. In addition, the Company monitors its counterparties on a regular basis for credit worthiness, defaults and non-delivery.

Purchases of grain can be made the day the grain is delivered to a terminal or via a forward contract made prior to actual delivery. Sales of grain generally are made by contract for delivery in a future period. When the Company purchases grain at a fixed price or at a price where a component of the purchase price is fixed via reference to a futures price on a regulated commodity exchange, it also enters into an offsetting sale of a futures contract on the regulated commodity exchange. Similarly, when the Company sells grain at a fixed price, the sale is offset with the purchase of a futures contract on the regulated commodity exchange. At the close of business each day, inventory and open purchase and sale contracts as well as open futures and option positions are marked-to-market. Gains and losses in the value of the Company's ownership positions due to changing market prices are netted with, and generally offset in the statement of operations by, losses and gains in the value of the Company's futures positions.

When a futures contract is entered into, an initial margin deposit must be sent to the regulated commodity exchange. The amount of the margin deposit is set by the regulated commodity exchange and varies by commodity. If the market price of a futures contract moves in a direction that is adverse to the Company's position, an additional margin deposit, called a maintenance margin, is required by regulated commodity exchanges. Subsequent price changes could require additional maintenance margin deposits or result in the return of maintenance margin deposits by the regulated commodity exchange. Significant increases in market prices, such as those that occur when grain supplies are affected by unfavorable weather conditions and/or when increases in demand occur, can have an effect on the Company's liquidity and, as a result, require it to maintain appropriate short-term lines of credit. The Company may utilize regulated commodity exchange option contracts to limit its exposure to potential required margin deposits in the event of a rapidly rising market.

As of December 31, 2018, the Company owned 33% of the equity in Lansing Trade Group LLC ("LTG"). LTG is largely focused on the movement of physical commodities, including grain and ethanol, and is exposed to some of the same risks as the Company's grain and ethanol businesses. LTG also trades in commodities that the Company's grain and ethanol businesses do not trade in, some of which are not exchange traded. This investment provides the Company with further opportunity to diversify and complement its income through activity outside of its traditional product and geographic regions. This investment is accounted for under the equity method. The Company, along with LTG, also established joint ventures and purchased a grain and food-bean handler and agronomy input provider with 12 locations across Ontario, Canada and Minnesota. These investments are accounted for under the equity method. The Company periodically enters into transactions with these joint ventures as disclosed in Note 13 to the Consolidated Financial Statements in Item 8. In the fourth quarter of 2018, the company announced it entered into an agreement to purchase the remaining equity (not currently owned by the Company) of LTG. The transaction closing was effective January 1, 2019 and will result in the consolidation of LTG and Thompsons and related entities, as they are currently jointly owned by the Company and LTG, in 2019.

#### Ethanol Group



The Ethanol Group owns 100% of an ethanol plant that is located in Iowa which has nameplate capacity of 55 million gallons. The Group also has ownership interests in three limited liability companies (“the ethanol LLCs” or “LLCs”), each of which owns an ethanol plant that is operated by the Company's Ethanol Group. The plants are located in Indiana, Michigan, and Ohio and have combined nameplate capacity of 330 million gallons of ethanol. The Group purchases and sells ethanol, offers facility operations, risk management, and ethanol and corn oil marketing services to the ethanol plants it invests in and operates.

The Company holds a 55% interest in The Andersons Albion Ethanol LLC (“TAAE”) and a 39% interest in The Andersons Clymers Ethanol LLC (“TACE”). On January 1, 2017, The Andersons Ethanol Investment LLC (“TAEI”) was merged with and into The Andersons Marathon Ethanol LLC (“TAME”). The Company had owned 66% of TAEI, which, in turn, had owned 50% of TAME. Pursuant to the merger, the Company’s ownership units in TAEI were canceled and converted into ownership units in TAME. As a result, the Company now directly owns 33% of the outstanding ownership units of TAME. All operating ethanol LLC investments are accounted for using the equity method of accounting.

The Company has a management agreement with each of the LLCs. As part of these agreements, the Ethanol Group runs the day-to-day operations of the plants and provides all administrative functions. The Company is compensated for these services based on a fixed cost plus an indexed annual increase determined by a consumer price index. Additionally, the Company has entered into agreements with each of the LLCs under which it has the exclusive right to act as supplier for 100% of the corn used by the LLCs in the production of ethanol. For this service, the Company receives a fee for each bushel of corn sold. The Company has entered into marketing agreements with each of the ethanol LLCs. Under the ethanol marketing agreements, the Company purchases most, if not all, of the ethanol produced by the LLCs at the same price it will resell the ethanol to external customers. The Ethanol Group receives a fee for each gallon of ethanol sold to external customers sourced from these LLCs. Under the distillers dried grains ("DDG") and corn oil marketing agreements, the Company markets the DDG and corn oil and receives a fee on units sold.

The Company also owns 51% of ELEMENT, LLC ("ELEMENT") and ICM, Inc. owns the remaining 49% interest. ELEMENT is constructing a 70 million-gallon-per-year bio-refinery. ICM, Inc. will operate the facility under a management contract and manage the initial construction of the facility, while the Company will provide corn origination, ethanol marketing, and risk management services. The plant is expected to be operational in 2019.

#### Plant Nutrient Group

The Plant Nutrient Group is a leading manufacturer, distributor and retailer of agricultural and related plant nutrients, corncob-based products, and pelleted lime and gypsum products in the U.S. Corn Belt and Puerto Rico. The Group provides warehousing, packaging and manufacturing services to basic nutrient producers and other distributors. The Group also manufactures and distributes a variety of industrial products throughout the U.S. and Puerto Rico including nitrogen reagents for air pollution control systems used in coal-fired power plants, and water treatment and dust abatement products.

In its plant nutrient businesses, the Company competes with regional and local cooperatives, wholesalers and retailers, predominantly publicly owned manufacturers and privately-owned retailers, wholesalers and importers. Some of these competitors are also suppliers and have considerably larger resources than the Company. Competition in the nutrient business is based largely on depth of product offering, price, location and service. Sales and warehouse shipments of agricultural nutrients are heaviest in the spring and fall.

Wholesale Nutrients - The Wholesale Nutrients business manufactures, stores, and distributes dry and liquid agricultural nutrients, and pelleted lime and gypsum products annually. The major nutrient products sold by the business principally contain nitrogen, phosphate, potassium and sulfur. Product lines include primary nutrients which are typically bought and sold as commodities and specialty products which support more sustainable farming practices and command higher margins. The distribution and sales channels for both types of nutrients are shared within the Wholesale Nutrients business.

Farm Centers - The Farm Centers offer a variety of essential crop nutrients, crop protection chemicals and seed products in addition to application and agronomic services to commercial and family farmers. Soil and tissue sampling along with global satellite assisted services provide for pinpointing crop or soil deficiencies and prescriptive agronomic advice is provided to farmers.

Cob Products - Corncob-based products are manufactured for a variety of uses including laboratory animal bedding and private-label cat litter, as well as absorbents, blast cleaners, carriers and polishers. The products are distributed throughout the United States and Canada and into Europe and Asia. The principal sources for corncobs are seed corn producers.

Lawn Products - Proprietary professional lawn care products are produced for the golf course and professional turf care markets, serving both U.S. and international customers. These products are sold both directly and through distributors to golf courses and lawn service applicators. The Company also produces and sells fertilizer and control products to various markets.

Rail Group

The Company's Rail Group leases, repairs, and sells various types of railcars, locomotives and barges. In addition, the Rail Group offers fleet management services to private railcar owners.

The Company has a diversified fleet of car types (boxcars, gondolas, covered and open top hopper cars, tank cars and pressure differential cars), locomotives and barges serving a broad customer base. The Company operates in both the new and used car markets, allowing the Company to diversify its fleet both in terms of car types, industries and age of cars, as well as repairing and refurbishing used cars for specific markets and customers.

A significant portion of the railcars, locomotives and barges managed by the Company are included on the balance sheet as long-lived assets. The others are either in off-balance sheet operating leases (with the Company leasing assets from financial intermediaries and leasing those same assets to the end-users) or non-recourse arrangements (in which the Company is not subject to any lease arrangement related to the assets but provides management services to the owner of the assets). The Company generally holds purchase options on most assets owned by financial intermediaries. We are under contract to provide maintenance services for many of the Rail Group assets that we own or manage. Refer to the Off-Balance Sheet Transactions section of Management's Discussion and Analysis for a breakdown of our railcar, locomotive and barge positions at December 31, 2018.

In the case of the Company's off-balance sheet Rail Group assets, the Company's risk management philosophy is to match-fund the lease commitments where possible. Match-funding (in relation to lease transactions) means matching the terms of the financial intermediary funding arrangement with the lease terms of the customer in which the Company is both lessee and sublessor. If the Company is unable to match-fund, it will attempt to negotiate an early buyout provision within the funding arrangement to match the underlying customer lease. The Company does not attempt to match-fund lease commitments for Rail Group assets that are on its balance sheet.

Competition for marketing and fleet maintenance services is based primarily on price, service ability, and access to both used equipment and third-party financing. Repair facility competition is based primarily on price, quality and location.

#### ***Other***

Our "Other" activities include corporate income and expense and cost for functions that provide support and services to the operating segments. The results include expenses and benefits not allocated to the operating segments, including a portion of our ERP project. The results of our former retail business, which was closed in 2017, are also included in "Other" activities.

#### ***Employees***

The Andersons offers a broad range of full-time and part-time career opportunities. Each position in the Company is important to its success, and the Company recognizes the worth and dignity of every individual. The Company strives to treat each person with respect and utilize his or her unique talents. At December 31, 2018, the Company had 1,802 full-time and 56 part-time or seasonal employees.

#### ***Government Regulation***

Grain sold by the Company must conform to official grade standards imposed under a federal system of grain grading and inspection administered by the United States Department of Agriculture ("USDA").

The production levels, markets and prices of the grains that the Company merchandises are affected by United States government programs, which include acreage control and price support programs of the USDA. In regard to our investments in ethanol production facilities, the U.S. government has mandated a ten percent blend for motor fuel gasoline sold.

The U.S. Food and Drug Administration ("FDA") has developed bioterrorism prevention regulations for food facilities, which require that the Company registers its grain operations with the FDA, provide prior notice of any imports of food or other agricultural commodities coming into the United States and maintain records to be made available upon request that identifies the immediate previous sources and immediate subsequent recipients of its grain commodities.

The Company, like other companies engaged in similar businesses, is subject to a multitude of federal, state and local environmental protection laws and regulations including, but not limited to, laws and regulations relating to air quality, water quality, pesticides and hazardous materials. The provisions of these various regulations could require modifications of certain of the Company's existing facilities and could restrict the expansion of future facilities or significantly increase the cost of their operations. Compliance with environmental laws and regulations did not materially affect the Company's earnings or competitive position in 2018.

In addition, the Company continues to assess the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and has concluded that the Company is not a major swap dealer or major swap participant. The Company continues to monitor developments in the law, including the regulation of swaps and derivatives.

### ***Available Information***

The Company's Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are available on the Company's website soon after filing with the Securities and Exchange Commission. The Company's website address is <http://www.andersonsinc.com>. The public may read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. These reports are also available at the SEC's website: <http://www.sec.gov>.

### **Item 1A. Risk Factors**

Our operations are subject to risks and uncertainties that could cause actual results to differ materially from those discussed in this Form 10-K and could have a material adverse impact on our financial results. These risks can be impacted by factors beyond our control as well as by errors and omissions on our part. The following risk factors should be read carefully in connection with evaluating our business and the forward-looking statements contained elsewhere in this Form 10-K.

***Certain of our business segments are affected by the supply and demand of commodities and are sensitive to factors outside of our control. Adverse price movements could negatively affect our profitability and results of operations.***

Our Grain, Ethanol and Plant Nutrient businesses buy, sell and hold inventories of agricultural input and output commodities, some of which are readily traded on commodity futures exchanges. Unfavorable weather conditions, both local and worldwide, as well as other factors beyond our control, can affect the supply and demand of these commodities and expose us to liquidity pressures to finance hedges in the grain business in rapidly rising markets. In our Plant Nutrient business, changes in the supply and demand of these commodities can also affect the value of inventories that we hold, as well as the price of raw materials as we are unable to effectively hedge these commodities. Increased costs of inventory and prices of raw material would decrease our profit margins and adversely affect our results of operations.

**Corn** - The principal raw material that the ethanol LLCs use to produce ethanol and co-products is corn. As a result, an increase in the price of corn in the absence of a corresponding increase in petroleum-based fuel prices will typically decrease ethanol margins thus adversely affecting financial results in the ethanol LLCs. At certain levels, corn prices may make ethanol uneconomical to produce for fuel markets. The price of corn is influenced by weather conditions and other factors affecting crop yields, shift in acreage allocated to corn versus other major crops and general economic and regulatory factors. These factors include government policies and subsidies with respect to agriculture and international trade, and global and local demand and supply. The significance and relative effect of these factors on the price of corn is difficult to predict. Any event that tends to negatively affect the supply of corn, such as adverse weather or crop disease, could increase corn prices and potentially harm the income generated from our investments in ethanol LLCs. In addition, we may also have difficulty, from time to time, in physically sourcing corn on economical terms due to supply shortages. High costs or shortages could require us to suspend ethanol operations until corn is available on economical terms, which would have an adverse effect on operating results.

**Grains** - While we attempt to manage the risk associated with commodity price changes for our grain inventory positions with derivative instruments, including purchase and sale contracts, we are unable to offset 100% of the price risk of each transaction due to timing, availability of futures and options contracts and third-party credit risk. Furthermore, there is a risk that the derivatives we employ will not be effective in offsetting all of the risks that we are trying to manage. This can happen when the derivative and the underlying value of grain inventories and purchase and sale contracts are not perfectly matched. Our grain derivatives, for example, do not perfectly correlate with the basis component of our grain inventory and contracts. (Basis is defined as the difference between the local cash price of a

commodity and the corresponding exchange-traded futures price.) Differences can reflect time periods, locations or product forms. Although the basis component is smaller and generally less volatile than the futures component of our grain market price, basis moves on a large grain position can significantly impact the profitability of the Grain business.

Our futures, options and over-the-counter contracts are subject to margin calls. If there are large movements in the commodities market, we could be required to post significant levels of margin deposits, which would impact our liquidity. There is no assurance that the efforts we have taken to mitigate the impact of the volatility of the prices of commodities upon which we rely will be successful and any sudden change in the price of these commodities could have an adverse effect on our business and results of operations.

Natural gas - We rely on third parties for our supply of natural gas, which is consumed in the drying of wet grain, manufacturing of certain lawn products, pelleted lime and gypsum, and manufacturing of ethanol within the LLCs. The prices

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for and availability of natural gas are subject to market conditions. These market conditions often are affected by factors beyond our control such as higher prices resulting from colder than average weather and overall economic conditions. Significant disruptions in the supply of natural gas could impair the operations of the ethanol facilities. Furthermore, increases in natural gas prices or changes in our natural gas costs relative to natural gas costs paid by competitors may adversely affect future results of operations and financial position.

**Gasoline and oil** - We market ethanol as a fuel additive to reduce vehicle emissions from gasoline, as an octane enhancer to improve the octane rating of gasoline with which it is blended and as a substitute for petroleum-based gasoline. As a result, ethanol prices will be influenced by the supply and demand for gasoline and oil and our future results of operations and financial position may be adversely affected if gasoline and oil demand or price changes.

**Potash, phosphate and nitrogen** - Raw materials used by the Plant Nutrient business include potash, phosphate and nitrogen, for which prices can be volatile and are driven by global and local supply and demand factors. Significant increases in the price of these commodities may result in lower customer demand and higher than optimal inventory levels. In contrast, reductions in the price of these commodities may create lower of cost or net realizable value adjustments to inventories.

***Some of our business segments operate in highly regulated industries. Changes in government regulations or trade association policies could adversely affect our results of operations.***

Many of our business segments are subject to government regulation and regulation by certain private sector associations, compliance with which can impose significant costs on our business. Other regulations are applicable generally to all our businesses and corporate functions, including, without limitation, those promulgated under the Internal Revenue Code, the Affordable Care Act, the Employee Retirement Income Security Act (ERISA) and other employment and health care related laws, federal and state securities laws, and the US Patriot Act. Failure to comply with such regulations can result in additional costs, fines or criminal action.

A significant part of our operations is regulated by environmental laws and regulations, including those governing the labeling, use, storage, discharge and disposal of hazardous materials. Because we use and handle hazardous substances in our businesses, changes in environmental requirements or an unanticipated significant adverse environmental event could have an adverse effect on our business. We cannot assure that we have been, or will at all times be, in compliance with all environmental requirements, or that we will not incur costs or liabilities in connection with these requirements. Private parties, including current and former employees, could bring personal injury or other claims against us due to the presence of, or exposure to, hazardous substances used, stored or disposed of by us, or contained in our products. We are also exposed to residual risk because some of the facilities and land which we have acquired may have environmental liabilities arising from their prior use. In addition, changes to environmental regulations may require us to modify our existing plant and processing facilities and could significantly increase the cost of those operations.

**Grain and Ethanol businesses** - In our Grain and Ethanol businesses, agricultural production and trade flows can be affected by government programs and legislation. Production levels, markets and prices of the grains we merchandise can be affected by U.S. government programs, which include acreage controls and price support programs administered by the USDA and required levels of ethanol in gasoline through the Renewable Fuel Standards as administered by the EPA. Other examples of government policies that can have an impact on our business include tariffs, duties, subsidies, import and export restrictions and outright embargoes. Because a portion of our grain sales are to exporters, the imposition of export restrictions and other foreign countries' regulations could limit our sales opportunities and create additional credit risk associated with export brokers if shipments are rejected at their destination. In particular, the imposition of new tariffs or uncertainty around future tariff levels can cause significant fluctuations in the futures and basis levels of agricultural commodities, impacting our earnings.



The compliance burden and impact on our operations and profitability as a result of the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act and related regulations have imposed additional regulatory tasks which took effect in 2014, although the full burden of the Act is not yet fully-known as some areas of regulatory rule making are not yet completed. These efforts to change the regulation of financial markets may subject users of derivatives to extensive oversight and regulation by the Commodity Futures Trading Commission. Such initiatives could impose significant additional costs on us, including operating and compliance costs, and could materially affect the availability, as well as the cost and terms, of certain transactions. We will continue to monitor these developments. Any of these matters could have an adverse effect on our business, financial condition, liquidity, results of operations and prospects.

Rail - Our Rail business is subject to regulation by the American Association of Railroads and the Federal Railroad Administration. These agencies regulate rail operations with respect to health and safety matters. New regulatory rulings could negatively impact financial results through higher maintenance costs or reduced economic value of railcar assets.

The Rail business is also subject to risks associated with the demands and restrictions of the Class I railroads, a group of rail companies owning a high percentage of the existing rail lines. These companies exercise a high degree of control over whether private railcars can be allowed on their lines and may reject certain railcars or require maintenance or improvements to the railcars. This presents risk and uncertainty for our Rail business and it can increase maintenance costs. In addition, a shift in the railroads' strategy to investing in new rail cars and improvements to existing railcars, instead of investing in locomotives and infrastructure, could adversely impact our business by causing increased competition and creating an oversupply of railcars. Our rail fleet consists of a range of railcar types (boxcars, gondolas, covered and open top hoppers, tank cars and pressure differential cars) and locomotives. However, a large concentration of a particular type of railcar could expose us to risk if demand were to decrease for that railcar type. Failure on our part to identify and assess risks and uncertainties such as these could negatively impact our business.

Demand for rail cars closely follows general economic activity and may be adversely affected by recession or general economic slowdowns.

**Plant Nutrient** - Our Plant Nutrient business manufactures certain agricultural nutrients and uses potentially hazardous materials. All products containing pesticides, fungicides and herbicides must be registered with the EPA and state regulatory bodies before they can be sold. The inability to obtain or the cancellation of such registrations could have an adverse impact on our business. In the past, regulations governing the use and registration of these materials have required us to adjust the raw material content of our products and make formulation changes. Future regulatory changes may have similar consequences. Regulatory agencies, such as the EPA, may at any time reassess the safety of our products based on new scientific knowledge or other factors. If it were determined that any of our products were no longer considered to be safe, it could result in the amendment or withdrawal of existing approvals, which, in turn, could result in a loss of revenue, cause our inventory to become obsolete or give rise to potential lawsuits against us. Consequently, changes in existing and future government or trade association policies may restrict our ability to do business and cause our financial results to suffer.

***We are required to carry significant amounts of inventory across all of our businesses. If a substantial portion of our inventory becomes damaged or obsolete, its value would decrease, and our profit margins would suffer.***

We are exposed to the risk of a decrease in the value of our inventories due to a variety of circumstances in all of our businesses. For example, within our Grain and Ethanol businesses, there is the risk that the quality of our grain inventory could deteriorate due to damage, moisture, insects, disease or foreign material. If the quality of our grain were to deteriorate below an acceptable level, the value of our inventory could decrease significantly. In our Plant Nutrient business, planted acreage, and consequently the volume of fertilizer and crop protection products applied, is partially dependent upon government programs and the producer's perception of demand. Technological advances in agriculture, such as genetically engineered seeds that resist disease and insects, or that meet certain nutritional requirements, could also affect the demand for our crop nutrients and crop protection products. Either of these factors could render some of our inventory obsolete or reduce its value. Within our rail repair business, major design improvements to loading, unloading and transporting of certain products can render existing (especially old) equipment obsolete.

***Our substantial indebtedness could negatively affect our financial condition, decrease our liquidity and impair our ability to operate the business.***

If cash on hand is insufficient to pay our obligations or margin calls as they come due at a time when we are unable to draw on our credit facility, it could have an adverse effect on our ability to conduct our business. Our ability to make payments on and to refinance our indebtedness will depend on our ability to generate cash in the future. Our ability to

generate cash is dependent on various factors. These factors include general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Certain of our long-term borrowings include provisions that require minimum levels of working capital and equity and impose limitations on additional debt. Our ability to satisfy these provisions can be affected by events beyond our control, such as the demand for and the fluctuating price of grain. Although we are and have been in compliance with these provisions, noncompliance could result in default and acceleration of long-term debt payments.

***We face increasing competition and pricing pressure from other companies in our industries. If we are unable to compete effectively with these companies, our sales and profit margins would decrease, and our earnings and cash flows would be adversely affected.***

The markets for our products in each of our business segments are highly competitive. While we have substantial operations in our region, some of our competitors are significantly larger, compete in wider markets, have greater purchasing power, and have considerably larger financial resources. We also may enter into new markets where our brand is not recognized and in

which we do not have an established customer base. Competitive pressures in all of our businesses could affect the price of, and customer demand for, our products, thereby negatively impacting our profit margins and resulting in a loss of market share.

***Our Grain and Ethanol businesses use derivative contracts to reduce volatility in the commodity markets. Non-performance by the counter-parties to those contracts could adversely affect our future results of operations and financial position.***

A significant amount of our grain and ethanol purchases and sales are made through forward contracting. In addition, the Company uses exchange traded and, to a lesser degree, over-the-counter contracts to reduce volatility in changing commodity prices. A significant adverse change in commodity prices could cause a counter-party to one or more of our derivative contracts to not perform on its obligation.

***A significant portion of the Company's assets are geographically concentrated in the Eastern Corn Belt. Localized weather and other market factors may have a disproportionate impact on our business compared to our competitors.***

A significant portion of Company's the assets are exposed to conditions in the Eastern Corn Belt. In this region, adverse weather during the fertilizer application, planting, and harvest seasons can have negative impacts on our Grain, Ethanol and Plant Nutrient businesses. Higher basis levels or adverse crop conditions in the Eastern Corn Belt can increase the input costs or lower the market value of our products relative to other market participants that do not have the same geographic concentration.

***We rely on a limited number of suppliers for certain of our raw materials and other products and the loss of one or several of these suppliers could increase our costs and have a material adverse effect on any one of our business segments.***

We rely on a limited number of suppliers for certain of our raw materials and other products. If we were unable to obtain these raw materials and products from our current vendors, or if there were significant increases in our supplier's prices, it could significantly increase our costs and reduce our profit margins.

***Our investments in unconsolidated entities accounted for under the equity method are subject to risks beyond our control.***

We currently have investments in several limited liability companies and joint ventures. By operating a business through this arrangement, we do not have control over certain operating decisions as we would if we owned the business outright. Specifically, we cannot act on major business initiatives without the consent of the other investors, who may not always be in agreement with our ideas.

***The Company may not be able to effectively integrate future businesses it acquires.***

We continuously look for opportunities to enhance our existing businesses through strategic acquisitions. The process of integrating an acquired business into our existing business and operations may result in unforeseen operating difficulties and expenditures as well as require a significant amount of management resources. There is also the risk that our due diligence efforts may not uncover significant business flaws or hidden liabilities. In addition, we may not realize the anticipated benefits of an acquisition and they may not generate the anticipated financial results. Additional risks may include the inability to effectively integrate the operations, products, technologies and personnel of the acquired companies. The inability to maintain uniform standards, controls, procedures and policies would also negatively impact operations.

***Our business involves considerable safety risks. Significant unexpected costs and liabilities would have an adverse effect on our profitability and overall financial position.***

Due to the nature of some of the businesses in which we operate, we are exposed to significant operational hazards such as grain dust explosions, fires, malfunction of equipment, abnormal pressures, blowouts, pipeline and tank ruptures, chemical spills or run-off, transportation accidents and natural disasters. Some of these operational hazards may cause personal injury or loss of life, severe damage to or destruction of property and equipment or environmental damage and may result in suspension of operations and the imposition of civil or criminal penalties. If grain dust were to explode at one of our elevators, if an ethanol plant were to explode or catch fire, or if one of our pieces of equipment were to fail or malfunction due to an accident or improper maintenance, it could put our employees and others at serious risk.

***The Company's information technology systems may impose limitations or failures, or may face external threats, which may affect the Company's ability to conduct its business.***

The Company's information technology systems, some of which are dependent on services provided by third parties, provide critical data connectivity, information and services for internal and external users. These interactions include, but are not limited to, ordering and managing materials from suppliers, converting raw materials to finished products, inventory management, shipping products to customers, processing transactions, summarizing and reporting results of operations, complying with regulatory, legal or tax requirements, human resources and other processes necessary to manage the business. The Company has put in place business continuity plans for its critical systems. However, if the Company's information technology systems are damaged, or cease to function properly due to any number of causes, such as catastrophic events or power outages, and the Company's business continuity plans do not allow it to effectively recover on a timely basis, the Company may suffer interruptions in the ability to manage its operations, which may adversely impact the Company's operating results. Our security measures may also be breached due to employee error, malfeasance, or otherwise. In addition, although the systems continue to be refreshed periodically, portions of the infrastructure are outdated and may not be adequate to support new business processes, accounting for new transactions, or implementation of new accounting standards if requirements are complex or materially different than what is currently in place.

Additionally, outside parties may attempt to destroy critical information, or fraudulently induce employees, third-party service providers, or users to disclose sensitive information to gain access to our data or our users' data. As a response, the Company requires user names and passwords to access its information technology systems. The Company also uses encryption and authentication technologies designed to secure the transmission and storage of data and prevent access to Company and user data or accounts. The Company also conducts annual tests and assessments using independent third parties. As with all companies, these security measures are subject to third-party security breaches, employee error, malfeasance, faulty password management, or other irregularities. We cannot assure our ability to prevent, repel or mitigate the effects of such an attack by outside parties. The Company also relies on third parties to maintain and process certain information which could be subject to breach or unauthorized access to Company or employee information. Any such breach or unauthorized access could result in an inability to perform critical functions, significant legal and financial exposure, damage to our reputation, and a loss of confidence in the security of our services that could potentially have an adverse effect on our business.

***The Company's design and implementation of the Company's Enterprise Resource Planning system could face significant difficulties.***

The Company is designing and implementing the Company's Enterprise Resource Planning ("ERP") systems, requiring significant capital and human resources to deploy. There is risk of such implementations being more expensive and taking longer to fully implement than originally planned, resulting in increased capital investment, higher fees and expenses of third parties, delayed deployment scheduling, and more on-going maintenance expense once implemented, and, as such, the ultimate costs and schedules are not yet known. If for any reason portions of the implementation are not successful, the Company could be required to expense rather than capitalize related amounts. Beyond cost and scheduling, potential flaws in the implementation of an ERP system may pose risks to the Company's ability to operate successfully and efficiently. These risks include, without limitation, inefficient use of employees, distractions to the Company's core businesses, adverse customer reactions, loss of key information, delays in decision making, as well as unforeseen additional costs due to the inability to integrate vital information processes.

***Unauthorized disclosure of sensitive or confidential customer information could harm the Company's business and standing with our customers.***

The protection of our customer, employee and Company data is critical to us. The Company relies on commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential customer information, such as payment card and personal information. The Company also conducts annual tests and assessments using independent third parties. Despite the security measures the Company has in place,

its facilities and systems, and those of its third-party service providers, may be vulnerable to security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming or human errors, or other similar events. Any security breach involving the misappropriation, loss or other unauthorized disclosure of confidential information, whether by the Company or its vendors, could damage our reputation, expose us to risk of litigation and liability, disrupt our operations and harm our business.

*A change in tax laws or regulations of any federal, state or international jurisdiction in which we operate could increase our tax burden and otherwise adversely affect our financial position, results of operations, cash flows and liquidity.*

We continue to assess the impact of various U.S. federal, state, local and international legislative proposals that could result in a material increase to our U.S. federal, state, local and/or international taxes. We cannot predict whether any specific legislation will be enacted or the terms of any such legislation. However, if such proposals were to be enacted, or if modifications were to be made to certain existing regulations, the consequences could have a material adverse impact on us, including increasing our tax burden, increasing our cost of tax compliance or otherwise adversely affecting our financial position, results of operations, cash flows and liquidity. Changes in applicable U.S. or foreign tax laws and regulations, or their interpretation and application, including the possibility of retroactive effect, could affect our tax expense and profitability as they did in 2017 upon passage of the Tax Cuts and Jobs Act. Such impact may also be affected positively or negatively by subsequent potential judicial interpretation or related regulation or legislation which cannot be predicted with certainty.

### **Item 1B. Unresolved Staff Comments**

The Company has no unresolved staff comments.

### **Item 2. Properties**

The Company's principal agriculture, rail, and other properties are described below.

#### ***Agriculture Facilities***

(in thousands)	Grain Storage (bushels)	Agricultural Fertilizer	
		Dry Storage (tons)	Liquid Storage (tons)
Canada	680	—	—
Illinois	12,464	56	11
Indiana	27,095	145	143
Iowa	2,600	—	70
Michigan	30,236	53	27
Minnesota	—	18	67
Nebraska	13,219	—	45
Ohio	37,710	189	65
Puerto Rico	—	—	10
Tennessee	3,567	—	—
Texas	1,043	—	—
Wisconsin	—	27	77
	128,614	488	515

The grain facilities are mostly concrete and steel tanks, with some flat storage buildings. The Company also owns grain inspection buildings and dryers, maintenance buildings and truck scales and dumps. Approximately 90% of the total storage capacity noted above, which excludes temporary pile storage, is owned, while the remaining 10% of the total capacity is leased from third parties.



The Plant Nutrient Group's wholesale nutrient and farm center properties consist mainly of fertilizer warehouse and formulation and packaging facilities for dry and liquid fertilizers. The Company owns approximately 99% of the dry and liquid storage capacity noted above.

***Other Properties***

The Company owns an ethanol facility in Denison, Iowa with a nameplate capacity of 55 million gallons. The company also owns land in Colwich, Kansas where it is constructing a 70 million-gallon-per-year bio-refinery, on schedule to be completed in 2019.

The Company owns lawn fertilizer production facilities in Maumee, Ohio, Bowling Green, Ohio, Montgomery, Alabama, and Mocksville, North Carolina. It also owns a corncob processing and storage facility in Delphi, Indiana. The Company leases

370,000 square feet of a lawn fertilizer warehouse facility in Toledo, Ohio and a 245,000 square foot distribution center in Maumee, Ohio. The Company operates 24 railcar repair facilities throughout the country.

The Company's administrative office building is leased under a build-to-suit financing arrangement. The Company owns approximately 1,992 acres of land on which the above properties and facilities are located and approximately 351 acres of farmland and land held for future use.

The Company believes that its properties are adequate for its business, well maintained and utilized, suitable for their intended uses and adequately insured.

### **Item 3. Legal Proceedings**

The Company is currently subject to various claims and suits arising in the ordinary course of business, which include environmental issues, employment claims, contractual disputes, and defensive counterclaims. The Company accrues liabilities in which litigation losses are deemed probable and estimable. The Company believes it is unlikely that the results of its current legal proceedings, even if unfavorable, will be materially different from what it currently has accrued. There can be no assurance, however, that any claims or suits arising in the future, whether taken individually or in the aggregate, will not have a material adverse effect on our financial condition or results of operations.

### **Item 4. Mine Safety**

Not applicable.

**Executive Officers of the Registrant**

The information is furnished pursuant to Instruction 3 to Item 401(b) of Regulation S-K. The executive officers of The Andersons, Inc., their positions and ages (as of February 27, 2019) are presented in the table below.

<b>Name</b>	<b>Position</b>	<b>Age</b>	<b>Year Assumed</b>
Jeffrey C. Blair	President, Plant Nutrient Group		2017
	Vice President of Sales (Intrepid Potash, Inc)	46	2016
	Director of Potash Sales (Intrepid Potash, Inc)		2013
Valerie M. Blanchett	Vice President, Human Resources	57	2016
	Vice President, Human Resources, Food Ingredients and Systems (Cargill)		2010
Patrick E. Bowe	President and Chief Executive Officer	60	2015
	Corporate Vice President, Food Ingredients and Systems (Cargill)		2007
Naran U. Burchinow	Senior Vice President, General Counsel and Secretary	65	2005
Srikanth R. Dasari	Vice President, Treasurer		2017
	Treasurer (Westinghouse Electric Company)	48	2016
	Head of Treasury Front Office (Dow Corning)		2010
	Corporate Controller		2019
Michael T. Hoelter	Assistant Corporate Controller	36	2017
	Grain Group Controller		2015
	Financial Reporting Manager		2013
Michael S. Irmes	President, Ethanol Group		2016
	Vice President and General Manager, Ethanol Group	65	2015
	Vice President, Commodities and Risk, Ethanol Group		2012
Corbett J. Jorgenson	President, Andersons Trade Group		2016
	Vice President, Americas, Corporate Transportation (Cargill)	44	2015
	Vice President, Commercial Lead, AgHorizons USA (Cargill)		2013
William E. Krueger	President, Andersons Trade Group	52	2018
	President and Chief Executive Officer, Lansing Trade Group, LLC		1995
Anthony A. Lombardi	Chief Information Officer		2016
	Vice President, Global Business Services and Chief Information Officer (Armstrong World Industries)	60	2010
Joseph E. McNeely	President, Rail Group	54	2017
	President and Chief Executive Officer (FreightCar America, Inc.)		2013
Anne G. Rex	Vice President, Strategy, Planning and Development	54	2019
	Vice President, Corporate Controller		2012
Brian A. Valentine	Senior Vice President and Chief Financial Officer		2018
	Corporate Vice President and Chief Financial Officer (The Lubrizol Corporation)	50	2011

**Part II.**

**Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters**

The Common Shares of The Andersons, Inc. trade on the Nasdaq Global Select Market under the symbol "ANDE." On February 18, 2014, the Company effected a three-for-two stock split to its outstanding shares as of January 21, 2014. All share, dividend and per share information set forth in this 10-K has been retroactively adjusted to reflect the stock split.

***Shareholders***

At February 15, 2019, there were approximately 32.5 million common shares outstanding, 1,123 shareholders of record and approximately 10,517 shareholders for whom security firms acted as nominees.

The Company's transfer agent and registrar is Computershare Investor Services, LLC, 2 North LaSalle Street, Chicago, IL 60602. Telephone: 312-588-4991.

***Dividends***

The Company has declared and paid consecutive quarterly dividends since the end of 1996, its first year of trading on the Nasdaq market. Dividends paid from January 2017 to January 2019 are as follows:

<b>Payment Date</b>	<b>Amount</b>
1/24/2017	\$0.1600
4/24/2017	\$0.1600
7/24/2017	\$0.1600
10/23/2017	\$0.1600
1/23/2018	\$0.1650
4/23/2018	\$0.1650
7/23/2018	\$0.1650
10/22/2018	\$0.1650
1/23/2019	\$0.1700

While the Company's objective is to pay a quarterly cash dividend, dividends are subject to Board of Director approval.

**Equity Plans**

The following table gives information as of December 31, 2018 about the Company's Common Shares that may be issued upon the exercise of options under all of its existing equity compensation plans.

Plan category	Equity Compensation Plan Information		
	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	1,036,971 <sup>(1)</sup>	\$ 35.32	461,078 <sup>(2)</sup>
Equity compensation plans not approved by security holders <sup>(3)</sup>	—	—	—

This number includes 325,000 Non-Qualified Stock Options ("Options"), 246,804 total shareholder return-based performance share units, 246,798 earnings per share-based performance share units, and 218,369 restricted shares outstanding under The Andersons, Inc. 2014 Long-Term Performance Compensation Plan.

(1) This number does not include any shares related to the Employee Share Purchase Plan. The Employee Share Purchase Plan allows employees to purchase common shares at the lower of the market value on the beginning or end of the calendar year through payroll withholdings. These purchases are completed as of December 31.

(2) This number includes 51,414 Common Shares available to be purchased under the Employee Share Purchase Plan and 409,664 shares available under equity compensation plans.

In connection with the Company's acquisition of the interests in LTG the Company did not already own the Company established the Lansing Acquisition 2018 Inducement and Retention Award Plan (the "Inducement Plan"). The Inducement Plan is to be used exclusively for the grant of equity awards to individuals who were not previously an employee or non-employee director of the Company (or following a bona fide period of non-employment), as an inducement material to each such individual entering into employment with the Company and to replace existing LTG equity awards. The Company expects to issue up to 650,000

(3) shares of restricted stock under the Inducement Plan in multiple grants. Approximately 280,000 shares have vesting dates of June 30, 2019, April 1, 2020 and April 1, 2021; and the remaining shares have vesting dates of January 1, 2020, January 1, 2021 and January 1, 2022. All awards under the Inducement Plan are subject to each such employee's continued employment with the Company on such vesting dates. Unvested shares of restricted stock are entitled to vote, entitled to dividends (provided that the actual payment of dividends is conditioned upon the vesting of the shares) and are not transferable.

**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

No shares were repurchased in 2018, 2017 or 2016.

**Performance Graph**

The graph below compares the total shareholder return on the Corporation's Common Shares to the cumulative total return for the Nasdaq U.S. Index and a Peer Group Index. The indices reflect the year-end market value of an investment in the stock of each company in the index, including additional shares assumed to have been acquired with cash dividends, if any. The Peer Group Index, weighted for market capitalization, includes the following companies:

Archer-Daniels-Midland Co. Nutrien  
 GATX Corp. The Greenbrier Companies, Inc.  
 Green Plains, Inc. The Scott's Miracle-Gro Company  
 Ingredion Incorporated

We have adjusted the Peer Group Index for 2018 to better reflect the Company's business. We removed Agrium, Inc. due to its merger with Potash Corporation of Saskatchewan to form Nutrien and have included Nutrien in our new peer group.

The graph assumes a \$100 investment in The Andersons, Inc. Common Shares on December 31, 2012 and also assumes investments of \$100 in each of the Nasdaq U.S. and Peer Group indices, respectively, on December 31 of the first year of the graph. The value of these investments as of the following calendar year-ends is shown in the table below the graph.

	Base Period December 31, 2013	Cumulative Returns				
		2014	2015	2016	2017	2018
The Andersons, Inc.	\$ 100.00	\$90.14	\$54.53	\$78.46	\$55.73	\$54.54
NASDAQ U.S.	100.00	114.75	122.74	133.62	173.22	168.30
New Peer Group Index	100.00	116.12	85.61	106.95	113.84	105.18
Former Peer Group Index	100.00	118.47	100.07	128.70	133.42	122.62

**Item 6. Selected Financial Data**

The following table sets forth selected consolidated financial data of the Company. The data for each of the five years in the period ended December 31, 2018 is derived from the Consolidated Financial Statements of the Company. The data presented below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in Item 7, and the Consolidated Financial Statements and notes thereto included in Item 8.

(in thousands, except for per share and ratios and other data)	<b>For the years ended December 31,</b>					
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	
<b>Operating results</b>						
Sales and merchandising revenues (a)	<b>\$3,045,382</b>	\$3,686,345	\$3,924,790	\$4,198,495	\$4,540,071	
Gross profit	<b>302,005</b>	318,799	345,506	375,838	397,139	
Equity in earnings of affiliates	<b>27,141</b>	16,723	9,721	31,924	96,523	
Other income, net (b)	<b>16,002</b>	22,507	12,473	46,472	31,125	
Net income (loss)	<b>41,225</b>	42,609	14,470	(11,322 )	122,645	
Net income (loss) attributable to The Andersons, Inc.	<b>41,484</b>	42,511	11,594	(13,067 )	109,726	
EBITDA (c)	<b>171,560</b>	87,356	123,949	85,219	254,992	
<b>Financial position</b>						
Total assets		<b>2,392,003</b>	2,162,354	2,232,849	2,359,101	2,364,692
Working capital		<b>189,848</b>	260,495	258,350	241,485	226,741
Long-term debt, recourse (d)		<b>349,834</b>	418,339	397,065	436,208	298,638
Long-term debt, non-recourse (d)		<b>146,353</b>	—	—	—	—
Total equity		<b>876,764</b>	822,899	790,697	783,739	824,049
<b>Cash flows / liquidity</b>						
Cash flows from (used in) operations		<b>(35,519 )</b>	75,285	39,585	154,134	(10,071 )
Depreciation and amortization		<b>90,297</b>	86,412	84,325	78,456	62,005
Cash invested in acquisitions (e)		<b>(2,248 )</b>	(3,507 )	—	(128,549 )	(20,037 )
Purchase of investments		<b>(1,086 )</b>	(5,679 )	(2,523 )	(938 )	(238 )
Investments in property, plant and equipment and capitalized software		<b>(142,579 )</b>	(34,602 )	(77,740 )	(72,469 )	(59,675 )
Net proceeds from (investment in) Rail Group assets (f)		<b>(87,566 )</b>	(106,124 )	(28,579 )	(38,407 )	(57,968 )
<b>Per share data (g)</b>						
Net income (loss) - basic		<b>1.47</b>	1.51	0.41	(0.46 )	3.85
Net income (loss) - diluted		<b>1.46</b>	1.50	0.41	(0.46 )	3.84
Dividends declared		<b>0.6650</b>	0.6450	0.6250	0.5750	0.4700
Year-end market value		<b>29.89</b>	31.15	44.70	31.63	53.14
<b>Ratios and other data</b>						
Net income (loss) attributable to The Andersons, Inc. return on beginning equity attributable to The Andersons, Inc.	<b>5.1</b>	% 5.5	% 1.5	% (1.6 )	)% 15.6	%
Funded long-term debt to equity ratio (h)	<b>0.6-to-1</b>	0.5-to-1	0.5-to-1	0.6-to-1	0.4-to-1	
Weighted average shares outstanding (000's)	<b>28,258</b>	28,126	28,193	28,288	28,367	
Effective tax rate	<b>22.5</b>	% 307.6	% 32.3	% 2.1	% 33.4	%

(a) Includes sales of \$625.2 million in 2018, \$1,089.7 million in 2017, \$854.6 million in 2016, \$872.1 million in 2015, and \$1,064.4 million in 2014, pursuant to marketing and origination agreements between the Company and the unconsolidated ethanol LLCs. The adoption of ASC 606 led to a change in treatment of grain origination transactions that are now shown net versus gross. This change caused a decrease in revenue and an equal offsetting decrease to cost of sales.

(b) Includes \$23.1 million for the gain on dilution and partial share redemption of the LTG investment in 2015 and \$17.1 million for the gain on partial share redemption of LTG in 2014.

(c) Earnings before interest, taxes, depreciation and amortization, or EBITDA, is a non-GAAP measure. The Company believes EBITDA provides additional information to investors and others about its operations allowing an evaluation of underlying operating performance and period-to-period comparability. EBITDA

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does not and should not be considered as an alternative to net income as determined by generally accepted accounting principles.

(d) Excludes current portion of long-term debt.

(e) During 2015, the Company acquired 100% of the stock of Kay Flo Industries, Inc.

(f) Represents the net of purchases of Rail Group assets offset by proceeds on sales of Rail Group assets.

(g) Earnings per share are calculated based on Income attributable to The Andersons, Inc.



(h) Calculated by dividing long-term debt by total year-end equity as stated under “Financial position.”

The following table sets forth our reconciliation of Net Income (loss) to EBITDA.

(in thousands)	For the years ended December 31,				
	2018	2017	2016	2015	2014
Net income (loss) attributable to The Andersons, Inc.	\$41,484	\$42,511	\$11,594	\$(13,067)	\$109,726
Add:					
Provision (benefit) for income taxes	11,931	(63,134)	6,911	(242)	61,501
Interest expense	27,848	21,567	21,119	20,072	21,760
Depreciation and amortization	90,297	86,412	84,325	78,456	62,005
EBITDA	\$171,560	\$87,356	\$123,949	\$85,219	\$254,992

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Forward Looking Statements**

The following “Management's Discussion and Analysis of Financial Condition and Results of Operations” contains forward-looking statements which relate to future events or future financial performance and involve known and unknown risks, uncertainties and other factors that may cause actual results, levels of activity, performance or achievements to be materially different from those expressed or implied by these forward-looking statements. The reader is urged to carefully consider these risks and factors, including those listed under Item 1A, “Risk Factors.” In some cases, the reader can identify forward-looking statements by terminology such as “may”, “anticipates”, “believes”, “estimates”, “predicts”, or the negative of these terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially. These forward-looking statements relate only to events as of the date on which the statements are made and the Company undertakes no obligation, other than any imposed by law, to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

### **Executive Overview**

Our operations are organized, managed and classified into four reportable business segments: Grain, Ethanol, Plant Nutrient, and Rail. Each of these segments is based on the nature of products and services offered. Prior to 2018, we reported the Retail operations as a fifth reportable business segment even though it did not meet the quantitative thresholds for segment disclosures. As previously disclosed, we closed the Retail business during 2017, and accordingly have recast the prior results for this segment within the Other category, which also includes other corporate level costs not attributable to an operating segment.

The agricultural commodity-based business is one in which changes in selling prices generally move in relationship to changes in purchase prices. Therefore, increases or decreases in prices of the agricultural commodities that the business deals in will have a relatively equal impact on sales and cost of sales and a much less significant impact on gross profit. As a result, changes in sales for the period may not necessarily be indicative of the overall performance of the business and more focus should be placed on changes to gross profit.

### ***Grain Group***

The Grain Group's performance reflects a decrease in storage income which was partially offset by year on year growth in the food ingredient business and risk management services. Additionally, our earnings from affiliates have improved significantly year over year. The Group continues to refine its portfolio and sold four of its Tennessee

locations. We also announced the acquisition of the remaining equity of LTG, which was finalized in January 2019.

Total grain storage capacity, including temporary pile storage, is approximately 141 million bushels as of December 31, 2018 and 150 million bushels as of December 31, 2017. This decrease in capacity is a result of the sale of four Tennessee locations in 2018. Grain inventories on hand at December 31, 2018 were 109.4 million bushels, a de minimis amount of which were stored for others. This compares to 113.8 million bushels on hand at December 31, 2017, of which 1.0 million bushels were stored for others.

The group will focus on integration of the LTG business, growth of originations, risk management services and the food ingredient business while monitoring continuing trade wars which could cause more volatility in the market.

### *Ethanol Group*

The Ethanol Group's results reflect higher sales volumes of ethanol and related co-products with the Albion expansion operating for the full year, better corn to ethanol yields, and improved DDG values. As we move into 2019, we expect the similar pressures that we experienced in 2018 with margins continuing to be impacted by high industry production and inventory levels. Construction of our new bio-refinery continues on budget and we expect production to begin mid-year.

Volumes shipped for the years ended December 31, 2018 and 2017 were as follows:

	Twelve months ended December 31,	
(in thousands)	2018	2017
Ethanol (gallons)	<b>451,306</b>	411,087
E-85 (gallons)	<b>61,382</b>	47,676
Corn Oil (pounds)	<b>20,348</b>	17,959
DDG (tons)	<b>158</b>	162

The above table shows only shipped volumes that flow through the Company's revenues. Total ethanol, DDG, and corn oil production by the unconsolidated LLCs is higher. However, the portion of this volume that is sold directly to their customers is excluded here.

### *Plant Nutrient Group*

The Plant Nutrient Group's results improved year-over-year results in all business lines with the exception of specialty products. Primary nutrient tons were relatively flat but experienced significant margin improvement. An increase in specialty tons was not enough to overcome the decrease in margin for these products. The group focused on cost reduction which helped strengthen results as they work to overcome continued margin compression on specialty products.

Total storage capacity at our wholesale nutrient and farm center facilities was approximately 488 thousand tons for dry nutrients and approximately 515 thousand tons for liquid nutrients at December 31, 2018, which is similar to the prior year.

Looking ahead, the Group expects to be impacted by low margins, especially in specialty nutrients. While primary nutrient prices have strengthened, we do not anticipate significant appreciation in 2019. The Group will remain focused on increasing sales and operational efficiency.

Tons shipped by product line (including sales and service tons) for the years ended December 31, 2018 and 2017 were as follows:

	Twelve months ended December 31,	
(in thousands)	2018	2017
Primary Nutrients	<b>1,424</b>	1,477
Specialty Nutrients	<b>694</b>	654
Other	<b>56</b>	67
Total tons	<b>2,174</b>	2,198

***Rail Group***

The Rail Group's results were lower than the prior year. Base leasing results were relatively flat due to an increase in gross profit that was partially offset by an increase in interest expense. Income from car sales was lower in 2018 as a result of changes in accounting standards. Despite start-up costs for four new locations, repair income increased compared to 2017. Rail Group assets under management (owned, leased or managed for financial institutions in non-recourse arrangements) at December 31, 2018 were 23,463 compared to 24,104 at December 31, 2017. While overall cars under management decreased, the group was actually able to scrap a significant number of idle cars at favorable scrap rates and purchase new cars, most of which were under lease. As such, the average utilization rate (Rail Group assets under management that are in lease service,

exclusive of those managed for third-party investors) was 90.9% for the year ended December 31, 2018 which was 5.9% higher than the prior year.

In 2019, the Group expects continued, steady growth in the leasing business while withstanding additional expense due to tank car recertification. The Group is also looking for additional growth on its repair business.

### *Other*

In 2018, the Company announced the acquisition of the remaining interest not previously owned in LTG and incurred \$6.5 million in one-time expenses related to the acquisition, which closed in the beginning of 2019. These costs were largely offset by \$5.1 million of gains related to other investments during the year. Looking ahead, the Company will focus on LTG integration efforts and synergy opportunities.

Our “Other” represents corporate functions that provide support and services to the operating segments. The results contained within this group include expenses and benefits not allocated back to the operating segments, including a significant portion of our ERP project and retail from the prior year.

### **Operating Results**

The following discussion focuses on the operating results as shown in the Consolidated Statements of Operations with a separate discussion by segment. Additional segment information is included in Note 14 to the Company's Consolidated Financial Statements in Item 8.

(in thousands)	Year ended December 31,		
	2018	2017	2016
Sales and merchandising revenues	<b>\$3,045,382</b>	\$3,686,345	\$3,924,790
Cost of sales and merchandising revenues	<b>2,743,377</b>	3,367,546	3,579,284
Gross profit	<b>302,005</b>	318,799	345,506
Operating, administrative and general expenses	<b>257,872</b>	286,993	316,093
Asset impairment	<b>6,272</b>	10,913	9,107
Goodwill impairment	—	59,081	—
Interest expense	<b>27,848</b>	21,567	21,119
Equity in earnings of affiliates	<b>27,141</b>	16,723	9,721
Other income, net	<b>16,002</b>	22,507	12,473
Income (loss) before income taxes	<b>53,156</b>	(20,525)	) 21,381
Income (loss) attributable to noncontrolling interests	<b>(259)</b>	) 98	) 2,876
Income (loss) before income taxes attributable to The Andersons, Inc.	<b>\$53,415</b>	\$(20,623)	) \$18,505

### **Comparison of 2018 with 2017**

#### *Grain Group*

(in thousands)	Year ended December 31,	
	2018	2017
Sales and merchandising revenues	<b>\$1,436,979</b>	\$2,106,464
Cost of sales and merchandising revenues	<b>1,307,125</b>	1,975,076
Gross profit	<b>129,854</b>	131,388
Operating, administrative and general expenses	<b>105,662</b>	107,478
Asset impairment	<b>1,564</b>	10,913
Interest expense	<b>11,843</b>	8,320
Equity in earnings of affiliates	<b>12,932</b>	4,509

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Other income, net	<b>2,959</b>	3,658
Income (loss) before income taxes	<b>\$26,676</b>	\$12,844

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Operating results for the Grain Group improved \$13.8 million compared to full year 2017 results. Sales and merchandising revenues decreased \$669.5 million compared to 2017 which was largely offset by a decrease in cost of sales and merchandising revenues of \$668.0 million for a decrease in gross profit of \$1.5 million. The adoption of ASC 606 led to a decrease in revenue of \$688.3 million and an equal offsetting decrease to cost of sales related primarily to a change in treatment of grain origination transactions that are now shown net versus gross. Gross profit is down slightly due to the divestiture of certain Tennessee locations, however the remaining locations had a gross profit increase of \$2.4 million, much of which is due to corn and soybean space income.

Operating, administrative and general expenses decreased \$1.8 million compared to full year 2017 results. This is primarily due to a decrease in operating costs as a result of the sale of certain Tennessee locations. However, this decrease was partially offset by a \$2.2 million increase in costs as the Group continued its ERP implementation at several locations, as well as an increase in depreciation, utilities and other direct costs.

The Grain Group recorded asset impairment charges relating to the Tennessee assets of \$1.6 million and \$10.9 million in 2018 and 2017, respectively. These assets were all sold during 2018.

Interest expense increased \$3.5 million due to higher interest rates and higher average working capital levels.

Equity in earnings of affiliates improved \$8.4 million primarily due to the improved operating results of LTG across all of its business units.

### *Ethanol Group*

(in thousands)	Year ended December 31,	
	2018	2017
Sales and merchandising revenues	<b>\$743,690</b>	\$708,063
Cost of sales and merchandising revenues	<b>725,285</b>	688,206
Gross profit	<b>18,405</b>	19,857
Operating, administrative and general expenses	<b>13,296</b>	13,216
Interest (income) expense	<b>(1,888)</b>	(67)
Equity in earnings of affiliates	<b>14,209</b>	12,214
Other income, net	<b>650</b>	54
Income before income taxes	<b>21,856</b>	18,976
Income (loss) attributable to noncontrolling interests	<b>(259)</b>	98
Income (loss) before income taxes attributable to The Andersons, Inc.	<b>\$22,115</b>	\$18,878

Operating results attributable to the Company for the Ethanol Group improved \$3.2 million from full year 2017 results. Sales and merchandising revenues increased \$35.6 million. This was driven by a 10% increase in ethanol gallons sold, a portion of which is attributable to the Albion plant expansion, and a 29% increase in E-85 gallons sold. Cost of sales and merchandising revenues increased \$37.1 million due to increased volumes sold, along with an increase in input cost and mark-to-market adjustments on open ethanol contracts. Despite higher volumes, the cost of sales drivers led to a gross profit decrease of \$1.5 million.

Interest income increased by \$1.8 million as a result of capitalizing interest related to the construction of the bio-refinery facility. Equity in earnings of affiliates increased \$2.0 million due to improved results from the unconsolidated ethanol LLCs.

**Plant Nutrient Group**

(in thousands)	Year ended December 31,	
	2018	2017
Sales and merchandising revenues	<b>\$690,536</b>	\$651,824
Cost of sales and merchandising revenues	<b>591,635</b>	547,179
Gross profit	<b>98,901</b>	104,645
Operating, administrative and general expenses	<b>82,867</b>	89,357
Goodwill impairment	—	59,081
Interest expense	<b>6,499</b>	6,420
Other income, net	<b>2,495</b>	5,092
Income (loss) before income taxes attributable to The Andersons, Inc.	<b>\$12,030</b>	\$(45,121)

Operating results for the Plant Nutrient Group improved \$57.2 million compared to full year 2017 results. Sales and merchandising revenues increased \$38.7 million. This was primarily driven by a 6% increase in Specialty tons due to an increase in lawn product sales. Cost of sales and merchandising revenues increased \$44.5 million as a result of the increase in sales. Despite higher sales, margins remained challenged leading to a decreased of \$5.7 million in gross profit. Primary and Specialty gross profit decreased \$3.4 million driven by compression in the specialty business and the sale of our Florida locations in 2017 led to a \$3.4 million decrease in gross profit. These decreases were slightly offset by favorable results in lawn products.

Operating, administrative, and general expenses decreased \$6.5 million from the prior year. Cost savings initiatives led to a \$1.3 million decrease in expenses primarily related to maintenance, supplies, and professional services. Additionally, health care related expenses decreased \$0.6 million compared to the prior year. Included in 2017 results were \$1.4 million bad debt reserves and one quarter of expenses for the Florida locations prior to their sale.

The group recognized goodwill impairment charges of \$59.1 million in 2017 after experiencing several periods of compressed margins and lower sales volumes, as well as anticipated unfavorable operating conditions in the nutrient market.

Other income decreased \$2.6 million. Current year results are driven by rental income from warehouse space, while prior year results reflect a \$4.7 million gain on the sale of the Florida farm center locations.

**Rail Group**

(in thousands)	Year ended December 31,	
	2018	2017
Sales and merchandising revenues	<b>\$174,177</b>	\$172,123
Cost of sales and merchandising revenues	<b>119,332</b>	119,664
Gross profit	<b>54,845</b>	52,459
Operating, administrative and general expenses	<b>24,897</b>	23,270
Asset impairment	<b>4,708</b>	—
Interest expense	<b>11,377</b>	7,023
Other income, net	<b>3,516</b>	2,632
Income (loss) before income taxes attributable to The Andersons, Inc.	<b>\$17,379</b>	\$24,798

Operating results for the Rail Group declined \$7.4 million compared to the full year 2017 results. Sales and merchandising revenues increased \$2.1 million. Leasing revenue increased \$9.4 million due to an increase in full-year average utilization from 85.0% in the prior year to 90.9% in the current year. This was partially offset by \$5.6 million decrease in car sale volume, in part driven by the adoption of the new revenue recognition standard, and a \$1.9 million decrease in repair revenue as a result of a large order that occurred in the prior year but was not repeated. Cost of sales



and merchandising revenues decreased \$0.3 million due to lower car sales, in addition to lower freight and storage costs, as we had fewer idle cars on average than the prior year. These decreases were partially offset by an increase in repair cost of sales related to additional revenue. As a result of these factors, Rail gross profit increased \$2.4 million compared to the prior year.

Operating, administrative and general expenses increased by \$1.6 million, largely due to increased expenses with the addition of four new repair shops.

Asset impairment charges were recorded for \$4.7 million from a decision to scrap idle, out-of-favor cars during the second quarter of 2018, taking advantage of high scrap prices.

Interest expense increased \$4.4 million. This increase was primarily a result of a rising interest rate environment as well as increased borrowings under the group's credit facility which resulted in a \$1.8 million increase in interest. In addition, \$1.7 million of the increase is due to the impact of adopting the new revenue accounting guidance which unrecognized certain car sales from previous periods and recorded those rail assets and a corresponding financing liability in the current year.

Other income increased \$0.9 million due to a \$2.4 million gain on the sale of barges which was partially offset by \$1.7 million lower end of lease settlement gains.

***Other Group***

(in thousands)	Year ended December 31,	
	2018	2017
Sales and merchandising revenues	\$—	\$47,871
Cost of sales and merchandising revenues	—	37,421
Gross profit	—	10,450
Operating, administrative and general expenses	<b>31,150</b>	53,672
Interest (income) expense	<b>17</b>	(129 )
Other income, net	<b>6,382</b>	11,071
Income (loss) before income taxes attributable to The Andersons, Inc.	<b>\$(24,785)</b>	\$(32,022)

The decreases in sales and merchandising revenue, cost of sales and merchandising revenues, and gross profit are entirely a result of the retail business partially operating in the first six months of 2017 but no longer operational in 2018.

Operating, administrative and general expenses decreased by \$22.5 million. This decrease was a result of \$28.1 million in charges incurred in 2017 related to the retail business which was partially offset by \$6.5 million in transaction costs in 2018 relating to the LTG acquisition.

Other income decreased \$4.7 million compared to the prior year. Other income for 2018 includes \$3.9 million of gains related to the sale of an investment and a \$1.2 million gain related to the revaluation of another investment, both in our venture business. Included in 2017 are \$10.2 million in gains related to the liquidation and sale of the retail stores.

***Income Taxes***

Income tax expense of \$11.9 million was provided at 22.5%. In 2017, benefit of \$63.1 million was provided at 307.6%. The higher effective tax rate in 2017 relative to the loss before income taxes was due primarily to the US enacted Tax Cuts and Jobs Act, also commonly referred to as "US tax reform" and non-deductible goodwill impairment charges.

**Comparison of 2017 with 2016*****Grain Group***

(in thousands)	Year ended December 31,	
	2017	2016
Sales and merchandising revenues	\$2,106,464	\$2,357,171
Cost of sales and merchandising revenues	1,975,076	2,249,089
Gross profit	131,388	108,082
Operating, administrative and general expenses	107,478	112,507
Asset impairment	10,913	—
Interest expense	8,320	7,955
Equity in earnings of affiliates	4,509	(8,746 )
Other income, net	3,658	5,472
Income (loss) before income taxes	12,844	(15,654 )
Loss attributable to noncontrolling interests	—	(3 )
Income (loss) before income taxes attributable to The Andersons, Inc.	\$12,844	\$(15,651 )

Operating results for the Grain Group improved \$28.5 million in 2017 compared to full year 2016 results. Sales and merchandising revenues decreased \$250.7 million compared to 2016 due to a 24% decrease in bushels sold. This decrease was driven by two main factors. First, more bushels are being strategically stored due to strong space income opportunities in the market. Second, there was an intentional reduction in bushels sold directly from supplier to customer as the group continues to focus only on the most profitable markets to increase margins. Cost of sales and merchandising revenues decreased due to the same items above but to a lesser extent for a net favorable gross profit impact of approximately \$23.3 million. The gross profit increase was driven by a \$31.5 million increase in space income relating to corn, beans, and wheat as the value of storage capacity significantly improved, as well as a \$7.8 million increase from risk management fees, trading income and other items compared to 2016. These gains were partially offset by a \$12.9 million decrease in drying and mixing income related to unusual wheat blending opportunities in 2016 that did not occur in 2017 and handling margins related to both harvest timing and grain storage decisions.

Operating, administrative and general expenses decreased \$5.0 million in 2017 compared to full year 2016 results. The decrease was primarily due to a reduction of \$3.5 million in costs as a result of the disposition of the Iowa facilities in 2016 and a \$3.6 million decrease due to reductions in labor and benefits at the remaining facilities as a result of productivity initiatives and lower employee costs. The decreases were partially offset by minor increases in 2017 depreciation, maintenance and other expenses.

The Grain Group recorded asset impairment charges of \$10.9 million relating to its Western Tennessee assets in 2017.

Equity in earnings of affiliates improved \$13.3 million in 2017 primarily due to the improved operating results of LTG, which also continued to recover from under performance in its core markets in 2016.

***Ethanol Group***

(in thousands)	Year ended December 31,	
	2017	2016
Sales and merchandising revenues	\$708,063	\$544,556
Cost of sales and merchandising revenues	688,206	524,252
Gross profit	19,857	20,304
Operating, administrative and general expenses	13,216	11,211
Interest (income) expense	(67 )	35

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Equity in earnings of affiliates	12,214	18,467
Other income, net	54	77
Income (loss) before income taxes	18,976	27,602
Income attributable to noncontrolling interests	98	2,879
Income (loss) before income taxes attributable to The Andersons, Inc.	\$18,878	\$24,723

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Operating results attributable to the Company for the Ethanol Group declined \$5.8 million in 2017 from full year 2016 results. Sales and merchandising revenues increased \$163.5 million. This was driven by a 39% increase in ethanol gallons sold, a portion of which is attributable to the Albion plant expansion. Cost of sales and merchandising revenues increased \$164.0 million due to an increase in sales volume. Despite higher volumes, higher input costs and lower DDG values caused gross profit to decrease \$0.4 million.

Operating, administrative and general expenses increased \$2.0 million in 2017 compared to the same period in 2016, primarily as a result of the write-off of a potential capital project. Equity in earnings of affiliates decreased \$6.3 million due to lower results from the unconsolidated ethanol LLCs. These results were primarily driven by low ethanol and DDG margins. The decrease was also driven by our merging TAEI with and into TAME in the first quarter. Prior to this transaction, the noncontrolling interest in TAEI was attributed 33% of the gains and losses of TAME recorded by the Company in its equity in earnings of affiliates. With a 33% direct ownership in TAME now, our share of gains and losses recorded in equity in earnings of affiliates will decrease, with a correlated decrease in income attributable to noncontrolling interests.

### ***Plant Nutrient Group***

(in thousands)	Year ended December 31,	
	2017	2016
Sales and merchandising revenues	\$651,824	\$725,176
Cost of sales and merchandising revenues	547,179	603,045
Gross profit	104,645	122,131
Operating, administrative and general expenses	89,357	102,892
Asset impairment	—	2,331
Goodwill impairment	59,081	—
Interest expense	6,420	6,448
Other income, net	5,092	3,716
Income (loss) before income taxes attributable to The Andersons, Inc.	\$(45,121)	\$14,176

Operating results for the Plant Nutrient Group declined \$59.3 million when comparing 2017 and 2016 results. Sales and merchandising revenues decreased \$73.4 million. Approximately 64% of the decrease is due to a 30% decrease in farm center tons sold as a result of the sales of our farm center locations in Florida in the first quarter of 2017 and Iowa in the first quarter of 2016 and a 6% decrease in average sales prices for all remaining farm center locations. A 6% decrease in average sale prices in the wholesale business accounts for the majority of the remaining decrease. Cost of sales and merchandising revenues decreased \$55.9 million, for the same reasons. As such, gross profit decreased by \$17.5 million. Margins remain tight due to competitive pressures, excess nutrient supply in the wholesale and farm center businesses, and lower crop prices.

Operating, administrative, and general expenses decreased \$13.5 million from full year 2016. The largest driver was a \$8.1 million decrease in labor and benefits, much of it relating to the sale of farm center locations in Florida in the first quarter of 2017 and the sale of the farm center locations in Iowa in the first quarter of 2016. Smaller reductions were also realized in a number of other categories as part of our overall cost control efforts. The group recognized goodwill impairment charges of \$59.1 million after experiencing several periods of compressed margins and lower sales volumes, as well as anticipated unfavorable operating conditions in the nutrient market for some time. The group recognized a \$2.3 million asset impairment in 2016 associated with the closure of a cob facility.

Other income increased \$1.4 million compared to fiscal 2016 primarily as a result of a \$4.7 million gain on the sale of farm center locations in Florida in the first quarter of 2017. This increase was partially offset by a \$1.8 million legal settlement, net of insurance recoveries, in the third and fourth quarters of 2017.



**Rail Group**

(in thousands)	Year ended December 31,	
	2017	2016
Sales and merchandising revenues	\$ 172,123	\$ 163,658
Cost of sales and merchandising revenues	119,664	107,729
Gross profit	52,459	55,929
Operating, administrative and general expenses	23,270	18,971
Asset impairment	—	287
Interest expense	7,023	6,461
Other income, net	2,632	2,218
Income (loss) before income taxes attributable to The Andersons, Inc.	\$ 24,798	\$ 32,428

Operating results for the Rail Group declined \$7.6 million in 2017 compared to the full year 2016 results. Sales and merchandising revenues increased \$8.5 million. Revenue from car sales increased by \$11.0 million due to a higher volume of car sales and repair and other revenue increased \$2.0 million as a result of revenue generated by new shops. These increases were partially offset by a \$4.5 million decrease in leasing revenues due to average utilization of 85.0% in 2017 and 87.8% in 2016, as well as a 2% decrease in lease rates compared to the prior year. Cost of sales and merchandising revenues increased \$11.9 million due to an \$11.0 million increase in car sales and \$0.8 million related to higher leasing costs. As a result of these factors, Rail gross profit decreased \$3.5 million compared to 2016.

Operating expenses increased by \$4.3 million, largely due to higher labor and benefit costs from opening new repair shops. Interest expense increased due to higher rates and more debt resulting from purchases in 2017.

**Other**

(in thousands)	Year ended December 31,	
	2017	2016
Sales and merchandising revenues	\$ 47,871	\$ 134,229
Cost of sales and merchandising revenues	37,421	95,169
Gross profit	10,450	39,060
Operating, administrative and general expenses	53,672	70,512
Asset impairment	—	6,489
Interest (income) expense	(129 )	220
Other income, net	11,071	990
Income (loss) before income taxes attributable to The Andersons, Inc.	\$ (32,022)	\$ (37,171 )

Sales and merchandising revenues decreased \$86.4 million while cost of sales and merchandising revenues decreased \$57.7 million. These decreases were due to lower volumes as a result of the closure of the retail business during the second quarter of 2017. Additionally, inventory liquidation markdowns caused a significant decrease in margins leading to a \$28.6 million decrease in gross profit in 2017.

Operating, administrative and general expenses decreased by \$16.8 million as a result of the mid-year retail closure and a reduction in information technology costs. This decrease was partially offset by one-time exit charges of \$11.5 million, most of which was for severance costs. Other income increased \$10.0 million primarily from gains on the sale of three store properties and fixtures.

**Income Taxes**

Income tax benefit of \$63.1 million was provided at 307.6%. In 2016, income tax expense of \$6.9 million was provided at 32.3%. The higher effective tax rate in 2017 relative to the loss before income taxes was due primarily to

the US enacted Tax Cuts and Jobs Act, also commonly referred to as “US tax reform” and non-deductible goodwill impairment charges.



## Liquidity and Capital Resources

### Working Capital

At December 31, 2018, the Company had working capital of \$189.8 million, a decrease of \$70.6 million from the prior year. This decrease was attributable to changes in the following components of current assets and current liabilities:

(in thousands)	December 31, 2018	December 31, 2017	Variance
<b>Current Assets:</b>			
Cash and cash equivalents	<b>\$ 22,593</b>	\$34,919	\$(12,326)
Accounts receivables, net	<b>207,285</b>	183,238	24,047
Inventories	<b>690,804</b>	648,703	42,101
Commodity derivative assets – current	<b>51,421</b>	30,702	20,719
Other current assets	<b>50,703</b>	63,790	(13,087 )
Assets held for sale	<b>392</b>	37,859	(37,467 )
Total current assets	<b>1,023,198</b>	999,211	23,987
<b>Current Liabilities:</b>			
Short-term debt	<b>205,000</b>	22,000	183,000
Trade and other payables	<b>462,535</b>	503,571	(41,036 )
Customer prepayments and deferred revenue	<b>32,533</b>	59,710	(27,177 )
Commodity derivative liabilities – current	<b>32,647</b>	29,651	2,996
Accrued expenses and other current liabilities	<b>79,046</b>	69,579	9,467
Current maturities of long-term debt	<b>21,589</b>	54,205	(32,616 )
Total current liabilities	<b>833,350</b>	738,716	94,634
<b>Working capital</b>	<b>\$ 189,848</b>	\$260,495	\$(70,647)

In comparison to the prior year, current assets increased primarily due to increases in accounts receivable, inventory and commodity derivative assets. Accounts receivable increased due primarily to a higher volume of grain shipments at the end of the period, coupled with a relative increase in corn prices. Inventory increased for several reasons including higher Primary and Specialty inventory from carryover tons from a slow fall season and higher inventory values in the Grain group as we owned more beans than the prior year. This was partially offset by a decrease in Other current assets primarily due to decreases in prepaid taxes and idle rail group assets as a result of the scrap program and higher utilization year-over-year. Assets held for sale decreased as certain Grain assets and the remaining retail store were sold in the current year. Current commodity derivative assets and liabilities, which reflect the customer net asset or liability based on the value of forward contracts as compared to market prices at the end of the period, have increased. See the discussion below on additional sources and uses of cash for an understanding of the decrease in cash from prior year.

Current liabilities increased as a result of an increase in short-term debt supporting working capital needs. This increase was partially offset by a decrease in payables due to a decrease in payables for grain and a decrease in Customer prepayments and deferred revenue based on timing of shipments in the Grain group in the prior year.

### Sources and Uses of Cash 2018 compared to 2017

#### *Operating Activities and Liquidity*

Our operating activities used cash of \$35.5 million in 2018 compared to cash provided by operations of \$75.3 million in 2017. The significant change in operating cash flows in 2017 relates primarily to the changes in working capital,

particularly accounts receivable, inventory, and commodity derivatives discussed above.

Net income tax refunds of \$5.4 million were received in 2018 and net income taxes of \$2.1 million were paid in 2017.

### *Investing Activities*

Investing activities used \$186.0 million in 2018 compared to \$113.5 million used in 2017. Cash used for the purchases of property, plant, equipment, and capitalized software increased \$108.0 million primarily due to costs associated with the construction of the bio-refinery facility in 2018.

Purchases of Rail Group assets increased to \$167.0 million in the current year compared to \$143.0 million in 2017 as the Company continues to replace idle and scrapped cars with newer cars under lease. Proceeds from the sale of Rail Group assets were \$79.4 million in 2018 and \$37.0 million in 2017. The increase is primarily due to the sale of 50 barges in 2018. As such, net spend on Rail assets decreased \$18.6 million compared to the prior year.

Capital spending for 2018 on property, plant and equipment includes: Grain - \$17.2 million; Ethanol - \$101.3 million; Plant Nutrient - \$15.7 million; Rail - \$5.3 million; and \$3.0 million in corporate / enterprise resource planning project spending.

Proceeds from the sale of assets increased \$13.6 million due to the sale of three Tennessee grain locations and the sale of a corporate investment.

We expect to spend approximately \$113 million in 2019 on conventional property, plant and equipment which includes estimated 2019 capital spending for the completion of ELEMENT. An additional \$158 million is estimated to be spent on the purchase and capitalized modifications of railcars and barges with related sales or financings of approximately \$133 million.

### *Financing Arrangements*

Net cash provided by financing activities was \$209.2 million in 2018, compared to \$10.5 million in 2017. The change in financing activity is primarily the result of an increase in borrowings to support working capital needs and capital expenditures. Further, we received proceeds from our noncontrolling interest owner related to our investment in the bio-refinery facility, which incurred significant construction costs, as noted above.

As of December 31, 2018, the Company was party to borrowing arrangements with a syndicate of banks that provide a total of \$1,070 million in borrowings. This amount includes \$70 million for ELEMENT and \$200 million for The Andersons Railcar Leasing Company LLC, that is non-recourse to the Company. Of that total, we had \$664.1 million available for borrowing at December 31, 2018. Peak short-term borrowings to date were \$555.0 million on April 12, 2018. Typically, our highest borrowing occurs in the late winter and early spring due to seasonal inventory requirements in our fertilizer and grain businesses.

We paid \$18.6 million in dividends in 2018 compared to \$18.2 million in 2017. We paid \$0.165 per common share for the dividends paid in January, April, July and October 2018, and \$0.160 per common share for the dividends paid in January, April, July and October 2017. On December 20, 2018, we declared a cash dividend of \$0.170 per common share, payable on January 23, 2018 to shareholders of record on January 2, 2018.

Certain of our long-term borrowings include covenants that, among other things, impose minimum levels of equity and limitations on additional debt. We are in compliance with all such covenants as of December 31, 2018. In addition, certain of our long-term borrowings are collateralized by first mortgages on various facilities or are collateralized by railcar assets. Our non-recourse long-term debt is collateralized by ethanol plant assets and railcar assets.

Because we are a significant consumer of short-term debt in peak seasons and the majority of this is variable rate debt, increases in interest rates could have a significant impact on our profitability. In addition, periods of high grain prices and / or unfavorable market conditions could require us to make additional margin deposits on our exchange traded futures contracts. Conversely, in periods of declining prices, we receive a return of cash.

We believe our sources of liquidity will be adequate to fund our operations, capital expenditures and payments of dividends in the foreseeable future. Furthermore, in January, the company entered in to a new syndicated credit facility which provides for unsecured borrowings of up to \$1,650 million and will be used to finance its increased operations as a result of the January acquisition of LTG among other needs.

Sources and Uses of Cash 2017 compared to 2016

*Operating Activities and Liquidity*

Our operating activities provided cash of \$75.3 million in 2017 compared to cash provided by operations of \$39.6 million in 2016. The increase in cash provided was due to several factors. Net income excluding the non-cash impact of impairments, gains on sale of assets and deferred tax change increased by \$6.0 million compared to 2016 and the impact of operating asset and liability fluctuations resulted in a \$50.0 million increase in operating cash flows. This was partially offset by a \$25.3 million decrease due to improved operating results at our equity affiliates which were not fully distributed in the form of cash, as well as other individually small fluctuations in operating activities.

Net income tax refunds of \$2.1 million and \$10.6 million were received in 2017 and 2016, respectively. The Company makes quarterly estimated tax payments based on year to date annualized taxable income. The net refunds received in 2016 are primarily due to a \$12.0 million refund of overpaid 2015 Federal income taxes.

*Investing Activities*

Investing activities used \$113.5 million in 2017 compared to \$28.2 million used in 2016. Purchases of Rail Group assets increased to \$143.0 million in 2017 compared to \$85.3 million in 2016. This increase was partially offset by proceeds from the sale of Rail Group assets which were \$36.9 million in 2017 and \$56.7 million in 2016. As such, net spend on Rail assets increased \$77.5 million compared to 2016. Property, plant, and equipment and capitalized software decreased \$43.1 million compared to the same period in 2016 with the largest decrease related to the corporate headquarter spend in 2016. Capital spending for 2017 on property, plant and equipment includes: Grain - \$10.9 million; Ethanol - \$3.7 million; Plant Nutrient - \$10.7 million; Rail - \$3.5 million; and \$5.8 million in corporate / enterprise resource planning project spending. Proceeds from the sale of assets decreased \$36.0 million.

*Financing Arrangements*

Net cash provided by financing activities was \$10.5 million in 2017, compared to \$12.5 million used in 2016. The change in financing activity is primarily the result of a decrease in the pay down of long term debt compared to 2016 which was partially offset by an increase in cash being paid to reduce short term borrowings.

We have significant amounts of committed short-term lines of credit available to finance working capital, primarily inventories, margin calls on commodity contracts and accounts receivable. We are party to a borrowing arrangement with a syndicate of banks that provides a total of \$815.0 million in borrowing capacity, including \$15.0 million in non-recourse debt of The Andersons Denison Ethanol LLC. Of that total, we had \$660.5 million remaining available for borrowing at December 31, 2017. Peak short-term borrowings were \$367.0 million on February 15, 2017. Typically, the Company's highest borrowing occurs in the first half of the year due to seasonal inventory requirements in the fertilizer businesses.

We paid \$18.2 million in dividends in 2017 compared to \$17.4 million in 2016. We paid \$0.16 per common share for the dividends paid in January, April, July and October 2017, and \$0.155 per common share for the dividends paid in January, April, July and October 2016. On December 20, 2017, we declared a cash dividend of \$0.165 per common share, payable on January 23, 2018 to shareholders of record on January 2, 2018.

Certain of our long-term borrowings include covenants that, among other things, impose minimum levels of equity and limitations on additional debt. We are in compliance with all such covenants as of December 31, 2017. In addition, certain of our long-term borrowings are collateralized by first mortgages on various facilities or are collateralized by railcar assets. In, 2017, our non-recourse long-term debt is collateralized by ethanol plant assets.



## Contractual Obligations

Future payments due under contractual obligations at December 31, 2018 are as follows:

(in thousands)	Payments Due by Period				Total
	Less than 1 year	1-3 years	3-5 years	After 5 years	
Long-term debt, recourse	\$21,331	\$208,606	\$126,493	\$166,820	\$523,250
Long-term debt, non-recourse	4,829	130,859	9,961	6,370	152,019
Interest obligations (a)	18,131	38,816	20,289	38,190	115,426
Operating leases (b)	16,973	21,842	10,010	8,372	57,197
Purchase commitments (c)	967,417	132,855	—	—	1,100,272
Other long-term liabilities (d)	3,317	6,711	6,804	24,695	41,527
Construction commitment (e)	70,263	—	—	—	70,263
<b>Total contractual cash obligations</b>	<b>\$1,102,261</b>	<b>\$539,689</b>	<b>\$173,557</b>	<b>\$244,447</b>	<b>\$2,059,954</b>

(a) Future interest obligations are calculated based on interest rates in effect as of December 31, 2018 for the Company's variable rate debt and do not include any assumptions on expected borrowings, if any, under the short-term line of credit.

(b) Approximately 51% of the operating lease commitments above relate to Rail Group assets that the Company leases from financial intermediaries. See "Off-Balance Sheet Transactions" below.

(c) Includes the amounts related to purchase obligations in the Company's operating units, including \$886 million for the purchase of grain from producers and \$129 million for the purchase of ethanol from the unconsolidated ethanol LLCs. There are also forward grain and ethanol sales contracts to consumers and traders and the net of these forward contracts are offset by exchange-traded futures and options contracts or over-the-counter contracts. See the narrative description of businesses for the Grain and Ethanol Groups in Item 1 of this Annual Report on Form 10-K for further discussion.

(d) Other long-term liabilities include estimated obligations under our retiree healthcare programs and principal and interest payments for the financing arrangement on our headquarters. Obligations under the retiree healthcare programs are not fixed commitments and will vary depending on various factors, including the level of participant utilization and inflation. Our estimates of postretirement payments through 2023 have considered recent payment trends and actuarial assumptions.

(e) In 2018, the Company entered into an agreement to construct a bio-refinery. The company expects to contribute \$70.3 million in 2019 for the construction of this plant.

At December 31, 2018, we had standby letters of credit outstanding of \$32.9 million.

## Off-Balance Sheet Transactions

Our Rail Group utilizes leasing arrangements that provide off-balance sheet financing for its activities. We lease assets from financial intermediaries through sale-leaseback transactions, the majority of which involve operating leases. Rail Group assets we own or lease from a financial intermediary are generally leased to a customer under an operating lease. We also arrange non-recourse lease transactions under which we sell assets to a financial intermediary and assign the related operating lease to the financial intermediary on a non-recourse basis. In such arrangements, we generally provide ongoing maintenance and management services for the financial intermediary and receive a fee for such services.

The following table describes our Rail Group asset positions at December 31, 2018.

Method of Control	Financial Statement	Units
Owned - railcars available for sale	On balance sheet – current	373
Owned - railcar assets leased to others	On balance sheet – non-current	20,552
Railcars leased from financial intermediaries	Off balance sheet	2,271
Railcars in non-recourse arrangements	Off balance sheet	254
<b>Total Railcars</b>		<b>23,450</b>
Locomotive assets leased to others	On balance sheet – non-current	24
Locomotive assets leased from financial intermediaries	Off balance sheet	4
<b>Total Locomotive Assets</b>		<b>28</b>
Barge assets leased from financial intermediaries	Off balance sheet	15
<b>Total Barges</b>		<b>15</b>

In addition, we manage approximately 1,360 railcars for third-party customers or owners for which we receive a fee.



We have future lease payment commitments aggregating \$42.3 million for the Rail Group assets we lease from financial intermediaries under various operating leases. Remaining lease terms vary with none exceeding fifteen years. Where appropriate, we utilize non-recourse arrangements in order to minimize credit risk. Refer to Note 15 to the Company's Consolidated Financial Statements in Item 8 for more information on our leasing activities.

### **Critical Accounting Estimates**

The process of preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Management evaluates these estimates and assumptions on an ongoing basis. Estimates and assumptions are based on historical experience and management's knowledge and understanding of current facts and circumstances. Actual results, under conditions and circumstances different from those assumed, may change from these estimates.

Certain of our accounting estimates are considered critical, as they are important to the depiction of the Company's financial statements and/or require significant or complex judgment by management. There are other items within our financial statements that require estimation, however, they are not deemed critical as defined above. Note 1 to the Consolidated Financial Statements in Item 8 describes our significant accounting policies which should be read in conjunction with our critical accounting estimates.

Management believes that the accounting for grain inventories and commodity derivative contracts, including adjustments for counterparty risk, and impairment of long-lived assets, goodwill and equity method investments involve significant estimates and assumptions in the preparation of the Consolidated Financial Statements.

#### *Grain Inventories and Commodity Derivative Contracts*

Grain inventories are stated at their net realizable value, which approximates estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The Company marks to market all forward purchase and sale contracts for grain and ethanol, over-the-counter grain and ethanol contracts, and exchange-traded futures and options contracts. The overall market for grain inventories is very liquid and active; market value is determined by reference to prices for identical commodities a regulated commodity exchange (adjusted primarily for transportation costs); and the Company's grain inventories may be sold without significant additional processing. The Company uses forward purchase and sale contracts and both exchange traded and over-the-counter contracts (such as derivatives generally used by the International Swap Dealers Association). Management estimates fair value based on exchange-quoted prices, adjusted for differences in local markets, as well as counter-party non-performance risk in the case of forward and over-the-counter contracts. The amount of risk, and therefore the impact to the fair value of the contracts, varies by type of contract and type of counter-party. With the exception of specific customers thought to be at higher risk, the Company looks at the contracts in total, segregated by contract type, in its quarterly assessment of non-performance risk. For those customers that are thought to be at higher risk, the Company makes assumptions as to performance based on past history and facts about the current situation. Changes in fair value are recorded as a component of cost of sales and merchandising revenues in the statement of operations.

#### *Impairment of Long-Lived Assets, Goodwill, and Equity Method Investments*

The Company's business segments are each highly capital intensive and require significant investment. Fixed assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. This is done by evaluating the recoverability based on undiscounted projected cash flows, excluding interest. If an asset group is considered impaired, the impairment loss to be recognized is measured as the amount by which the asset group's carrying amount exceeds its fair value.

We also annually review the balance of goodwill for impairment in the fourth quarter, using quantitative analyses. Goodwill is tested for impairment at the reporting unit level, which is the operating segment or one level below the operating segment. The quantitative review for impairment takes into account our estimates of future cash flows. Our estimates of future cash flows are based upon a number of assumptions including lease rates, lease terms, operating costs, life of the assets, potential disposition proceeds, budgets and long-range plans. These factors are discussed in more detail in Note 4, Goodwill and Intangible Assets.

In addition, the Company holds investments in several companies that are accounted for using the equity method of accounting. The Company reviews its investments to determine whether there has been a decline in the estimated fair value of the investment that is below the Company's carrying value which is other than temporary. Other than consideration of past and current performance, these reviews take into account forecasted earnings which are based on management's estimates of future performance.

**Item 7a. Quantitative and Qualitative Disclosures about Market Risk**

The market risk inherent in the Company's market risk-sensitive instruments and positions is the potential loss arising from adverse changes in commodity prices and interest rates as discussed below.

*Commodity Prices*

The Company's daily net commodity position consists of inventories, related purchase and sale contracts, exchange-traded futures, and over-the-counter contracts. The fair value of the position is a summation of the fair values calculated for each commodity by valuing each net position at quoted futures market prices. The Company has established controls to manage and limit risk exposure, which consists of daily review of position limits and effects of potential market price moves on those positions.

A sensitivity analysis has been prepared to estimate the Company's exposure to market risk of its net commodity position. Market risk is estimated as the potential loss in fair value resulting from a hypothetical 10% adverse change in quoted market prices. The result of this analysis, which may differ from actual results, is as follows:

	December 31,	
(in thousands)	2018	2017
Net commodity position	<b>\$3,373</b>	<b>\$(1,224)</b>
Market risk	<b>337</b>	<b>(122 )</b>

*Interest Rates*

The fair value of the Company's long-term debt is estimated using quoted market prices or discounted future cash flows based on the Company's current incremental borrowing rates and credit ratings for similar types of borrowing arrangements. Market risk, which is estimated as the potential increase in fair value resulting from a hypothetical one-half percent decrease in interest rates, is summarized below:

	December 31,	
(in thousands)	2018	2017
Fair value of long-term debt, including current maturities	<b>\$517,998</b>	<b>\$474,769</b>
Carrying value less fair value	<b>5,813</b>	<b>1,451</b>
Market risk	<b>6,611</b>	<b>7,643</b>

Actual results may differ. The estimated fair value and market risk will vary from year to year depending on the total amount of long-term debt and the mix of variable and fixed rate debt.

Additionally, the Company may enter into interest rate swaps from time to time to manage our mix of fixed and variable interest rate debt effectively. See Note 6 for further discussion on the impact of these hedging instruments.

**Item 8. Financial Statements and Supplementary Data**

**The Andersons, Inc.**

**Index to Financial Statements**

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## Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of  
The Andersons, Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of The Andersons, Inc. and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, equity, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, based on our audits and the reports of the other auditors, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Lansing Trade Group, LLC or Lux JV Treasury Holding Company S.à.r.l as of and for the years ended December 31, 2018, 2017, and 2016, the Company's investments which are accounted for by use of the equity method. The accompanying financial statements of the Company include its equity investment in Lansing Trade Group, LLC of \$102 million and \$93 million and Lux JV Treasury Holding Company S.à r.l of \$45 million and \$47 million as of December 31, 2018 and 2017, respectively, and its equity in earnings (losses) in Lansing Trade Group, LLC of \$10.4 million, \$4.0 million, and (\$9.9) million and Lux JV Treasury Holding Company S.à.r.l of \$2.2 million, \$0.5 million, and \$1.2 million for the years ended December 31, 2018, 2017, and 2016, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Lansing Trade Group, LLC and Lux JV Treasury Holding Company S.à r.l, is based solely on the reports of the other auditors.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

### Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for revenue from contracts with customers in 2018 due to the adoption of Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material

misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Cleveland, Ohio

February 27, 2019

We have served as the Company's auditor since 2015.

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**Report of Independent Registered Public Accounting Firm**

The Members and Board of Managers

Lansing Trade Group, LLC:

*Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheet of Lansing Trade Group, LLC and subsidiaries (the Company) as of December 31, 2018, the related consolidated statements of comprehensive income, equity, and cash flows for the year ended December 31, 2018, and the related notes (collectively, the consolidated financial statements). In our opinion, based on our audit and the report of the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the results of its operations and its cash flows for the year ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We did not audit the consolidated financial statements of Lux JV Treasury Holding Company S.a.r.l (Lux JV) (a 50 percent owned investee company). The Company's investment in Lux JV at December 31, 2018 was \$44.7 million and its equity in earnings of Lux JV was \$1.6 million for the year ended December 31, 2018. The consolidated financial statements of Lux JV were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Lux JV, is based solely on the report of the other auditors.

*Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit and the report of the other auditors provides a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2017.

Kansas City, Missouri

February 27, 2019

**Report of Independent Registered Public Accounting Firm**

**To the Members and Board of Managers  
Lansing Trade Group, LLC:**

*Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheet of Lansing Trade Group, LLC and subsidiaries (the Company) as of December 31, 2017, the related consolidated statements of comprehensive income, equity, and cash flows for the year ended December 31, 2017, and the related notes (collectively, the consolidated financial statements). In our opinion, based on our audit and the report of the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for year ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We did not audit the consolidated financial statements of Lux JV Treasury Holding Company S.a.r.l. (a 50% percent owned investee company). The Company's investment in Lux JV Treasury Holding Company S.a.r.l. at December 31, 2017 was \$46.7 million and its equity in earnings of Lux JV Treasury Holding Company S.a.r.l. was \$0.7 million for the year ended December 31, 2017. The consolidated financial statements of Lux JV Treasury Holding Company S.a.r.l. were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Lux JV Treasury Holding Company S.a.r.l., is based solely on the report of the other auditors.

*Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities law and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2017.

Kansas City, Missouri

February 26, 2018





## **Report of Independent Registered Public Accounting Firm**

**To the Board of Managers and Shareholders of  
Lux JV Treasury Holding Company S.à r.l.**

### **Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheet of Lux JV Treasury Holding Company S.à r.l. and its subsidiaries, (together, the Company) as of December 31, 2018 and 2017, and the related consolidated statements of operations and retained earnings and cash flows for each of the three years in the period ended December 31, 2018, including the related notes (not included herein) (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of operations and their cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

### **Chartered Professional Accountants**

February 21, 2019

London, Canada

We have served as the Company's auditor since 2013.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Managers  
Lansing Trade Group, LLC  
Overland Park, Kansas

We have audited the accompanying consolidated statements of comprehensive income, equity and cash flows of Lansing Trade Group, LLC and Subsidiaries (the "Company") the year ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the consolidated financial statements of Lux JV Treasury Holding Company S.à.r.l., an entity in which Lansing Trade Group, LLC has an investment in and accounts for under the equity method of accounting, for which Lansing Trade Group, LLC recorded equity in earnings of affiliates of \$2.6 million for the year ended December 31, 2016. The financial statements of Lux JV Treasury Holding Company S.à.r.l. were audited by other auditors whose report thereon has been furnished to us, and our opinion on the financial statements expressed herein, insofar as it relates to the amounts included for Lux JV Treasury Holding Company S.à.r.l., is based solely on the report of the other auditors.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the Company's consolidated results of operations and cash flows for the year ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

/s/ Crowe LLP

Elkhart, Indiana  
February 27, 2017



**The Andersons, Inc.**  
**Consolidated Balance Sheets**  
**(In thousands)**

	December 31, 2018	December 31, 2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	<b>\$22,593</b>	\$34,919
Accounts receivable, less allowance for doubtful accounts of \$8,325 in 2018; \$9,156 in 2017	<b>207,285</b>	183,238
Inventories (Note 2)	<b>690,804</b>	648,703
Commodity derivative assets – current (Note 6)	<b>51,421</b>	30,702
Other current assets	<b>50,703</b>	63,790
Assets held for sale	<b>392</b>	37,859
Total current assets	<b>1,023,198</b>	999,211
Other assets:		
Commodity derivative assets – noncurrent (Note 6)	<b>480</b>	310
Goodwill (Note 4)	<b>6,024</b>	6,024
Other intangible assets, net (Note 4)	<b>99,138</b>	112,893
Equity method investments	<b>242,326</b>	223,239
Other assets	<b>22,341</b>	12,557
	<b>370,309</b>	355,023
Rail Group assets leased to others, net (Note 3)	<b>521,785</b>	423,443
Property, plant and equipment, net (Note 3)	<b>476,711</b>	384,677
Total assets	<b>\$2,392,003</b>	\$2,162,354

**The Andersons, Inc.**  
**Consolidated Balance Sheets (continued)**  
**(In thousands)**

	December 31, 2018	December 31, 2017
<b>Liabilities and equity</b>		
Current liabilities:		
Short-term debt (Note 5)	<b>\$205,000</b>	\$22,000
Trade and other payables	<b>462,535</b>	503,571
Customer prepayments and deferred revenue	<b>32,533</b>	59,710
Commodity derivative liabilities – current (Note 6)	<b>32,647</b>	29,651
Accrued expenses and other current liabilities	<b>79,046</b>	69,579
Current maturities of long-term debt (Note 5)	<b>21,589</b>	54,205
Total current liabilities	<b>833,350</b>	738,716
Other long-term liabilities	<b>32,184</b>	33,129
Commodity derivative liabilities – noncurrent (Note 6)	<b>889</b>	825
Employee benefit plan obligations (Note 7)	<b>22,542</b>	26,716
Long-term debt, less current maturities (Note 5)	<b>496,187</b>	418,339
Deferred income taxes (Note 8)	<b>130,087</b>	121,730
Total liabilities	<b>1,515,239</b>	1,339,455
Commitments and contingencies (Note 15)		
Shareholders' equity:		
Common shares, without par value (63,000 shares authorized; 29,430 shares issued in 2018 and 2017)	<b>96</b>	96
Preferred shares, without par value (1,000 shares authorized; none issued)	—	—
Additional paid-in-capital	<b>224,396</b>	224,622
Treasury shares, at cost (936 in 2018; 1,063 in 2017)	<b>(35,300)</b>	(40,312)
Accumulated other comprehensive loss	<b>(6,387)</b>	(2,700)
Retained earnings	<b>647,517</b>	633,496
Total shareholders' equity of The Andersons, Inc.	<b>830,322</b>	815,202
Noncontrolling interests	<b>46,442</b>	7,697
Total equity	<b>876,764</b>	822,899
Total liabilities and equity	<b>\$2,392,003</b>	\$2,162,354

The Notes to Consolidated Financial Statements are an integral part of these statements.

**The Andersons, Inc.**  
**Consolidated Statements of Operations**  
(In thousands, except per share data)

	Year ended December 31,		
	2018	2017	2016
Sales and merchandising revenues	<b>\$3,045,382</b>	\$3,686,345	\$3,924,790
Cost of sales and merchandising revenues	<b>2,743,377</b>	3,367,546	3,579,284
Gross profit	<b>302,005</b>	318,799	345,506
Operating, administrative and general expenses	<b>257,872</b>	286,993	316,093
Asset impairment	<b>6,272</b>	10,913	9,107
Goodwill impairment	<b>—</b>	59,081	—
Interest expense	<b>27,848</b>	21,567	21,119
Other income:			
Equity in earnings of affiliates, net	<b>27,141</b>	16,723	9,721
Other income, net	<b>16,002</b>	22,507	12,473
Income (loss) before income taxes	<b>53,156</b>	(20,525)	) 21,381
Income tax provision (benefit)	<b>11,931</b>	(63,134)	) 6,911
Net income (loss)	<b>41,225</b>	42,609	14,470
Net income (loss) attributable to the noncontrolling interests	<b>(259)</b>	) 98	2,876
Net income (loss) attributable to The Andersons, Inc.	<b>\$41,484</b>	\$42,511	\$11,594
<b>Per common share:</b>			
Basic earnings (loss) attributable to The Andersons, Inc. common shareholders	<b>\$1.47</b>	\$1.51	\$0.41
Diluted earnings (loss) attributable to The Andersons, Inc. common shareholders	<b>\$1.46</b>	\$1.50	\$0.41
Dividends declared	<b>\$0.6650</b>	\$0.6450	\$0.6250

The Notes to Consolidated Financial Statements are an integral part of these statements.

**The Andersons, Inc.**  
**Consolidated Statements of Comprehensive Income**  
**(In thousands)**

	Year ended December 31,		
	2018	2017	2016
Net income (loss)	<b>\$41,225</b>	\$42,609	\$14,470
Other comprehensive income (loss), net of tax:			
Change in fair value of convertible preferred securities (net of income tax of \$0, \$0 and \$74)	<b>(86</b> )	344	(126 )
Change in unrecognized actuarial gain and prior service cost (net of income tax of \$(879), \$(1,809) and \$(4,355))	<b>359</b>	6,138	7,447
Foreign currency translation adjustments	<b>(3,834</b> )	3,286	1,039
Cash flow hedge activity (net of income tax of \$42, \$0 and \$(72))	<b>(126</b> )	—	111
Other comprehensive income (loss)	<b>(3,687</b> )	9,768	8,471
Comprehensive income (loss)	<b>37,538</b>	52,377	22,941
Comprehensive income (loss) attributable to the noncontrolling interests	<b>(259</b> )	98	2,876
Comprehensive income (loss) attributable to The Andersons, Inc.	<b>\$37,797</b>	\$52,279	\$20,065

The Notes to Consolidated Financial Statements are an integral part of these statements.



**The Andersons, Inc.**  
**Consolidated Statements of Cash Flows**  
**(In thousands)**

	<b>Year ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Operating Activities</b>			
Net income (loss)	<b>\$41,225</b>	\$42,609	14,470
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:			
Depreciation and amortization	<b>90,297</b>	86,412	84,325
Bad debt expense	<b>542</b>	3,000	1,191
Equity in (earnings) losses of affiliates, net of dividends	<b>(23,167)</b>	(10,494 )	14,766
Gain on sale of assets	<b>(5,218)</b>	(14,401 )	(667 )
Gains on sales of Rail Group assets and related leases	<b>(9,558)</b>	(10,990 )	(11,019 )
Deferred income taxes	<b>11,018</b>	(63,234 )	6,030
Stock based compensation expense	<b>6,624</b>	6,097	6,987
Goodwill impairment	<b>—</b>	59,081	—
Asset impairment	<b>6,272</b>	10,913	9,107
Other	<b>(1,451)</b>	(55 )	(2,070 )
Changes in operating assets and liabilities:			
Accounts receivable	<b>(24,788)</b>	9,781	(26,429 )
Inventories	<b>(44,060)</b>	16,141	28,165
Commodity derivatives	<b>(16,610)</b>	20,285	(9,990 )
Accounts payable and accrued expenses	<b>(69,935)</b>	(74,237 )	(94,688 )
Other assets	<b>3,290</b>	(5,623 )	19,407
Net cash provided by (used in) operating activities	<b>(35,519)</b>	75,285	39,585
<b>Investing Activities</b>			
Acquisition of businesses, net of cash acquired	<b>(2,248)</b>	(3,507 )	—
Purchases of Rail Group assets	<b>(167,005)</b>	(143,020)	(85,268 )
Proceeds from sale of Rail Group assets	<b>79,439</b>	36,896	56,689
Purchases of property, plant and equipment and capitalized software	<b>(142,579)</b>	(34,602 )	(77,740 )
Proceeds from sale of assets and businesses	<b>47,486</b>	33,879	69,904
Proceeds from returns of investments in affiliates	<b>—</b>	1,069	9,186
Purchase of investments	<b>(1,086)</b>	(5,679 )	(2,523 )
Other	<b>—</b>	1,470	1,534
Net cash provided by (used in) investing activities	<b>(185,993)</b>	(113,494)	(28,218 )
<b>Financing Activities</b>			
Net change in short-term borrowings	<b>183,000</b>	(8,059 )	14,000
Proceeds from issuance of long-term debt	<b>132,000</b>	85,175	81,760
Payments of long-term debt	<b>(121,090)</b>	(57,189 )	(97,606 )
Proceeds from long-term financing arrangements	<b>—</b>	12,195	14,027
Proceeds from (distributions to) noncontrolling interest owner	<b>46,736</b>	(377 )	(5,853 )
Payments of debt issuance costs	<b>(1,446)</b>	(2,024 )	(323 )
Acquisition of noncontrolling interest	<b>(10,000)</b>	—	—
Dividends paid	<b>(18,639)</b>	(18,152 )	(17,362 )
Other	<b>(1,375)</b>	(1,071 )	(1,130 )
Net cash provided by (used in) financing activities	<b>209,186</b>	10,498	(12,487 )
Increase (decrease) in cash and cash equivalents	<b>(12,326)</b>	(27,711 )	(1,120 )
Cash and cash equivalents at beginning of year	<b>34,919</b>	62,630	63,750
Cash and cash equivalents at end of year	<b>\$22,593</b>	\$34,919	\$62,630

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The Notes to Consolidated Financial Statements are an integral part of these statements.

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**The Andersons, Inc.**  
**Consolidated Statements of Equity**  
**(In thousands, except per share data)**

	The Andersons, Inc. Shareholders' Equity						Total
	Common Shares	Additional Paid-in Capital	Treasury Shares	Accumulated Other Comprehensive Loss	Retained Earnings	Noncontrolling Interests	
Balance at January 1, 2016	\$96	\$222,848	\$(52,902)	\$ (20,939 )	\$615,151	\$ 19,485	\$783,739
Net income					11,594	2,876	14,470
Other comprehensive loss				8,471			8,471
Cash distributions to noncontrolling interest						(5,853 )	(5,853 )
Other changes to noncontrolling interest						(172 )	(172 )
Stock awards, stock option exercises and other shares issued to employees and directors, net of income tax of \$458 (196 shares)	67						