

ANDE Earnings Call Transcript

Date: 2025-11-05

Quarter: 3

Operator: Good morning, ladies and gentlemen, and welcome to The Andersons 2025 Third Quarter Earnings Conference Call. My name is Joe, and I will be your coordinator for today. [Operator Instructions] As a reminder, this conference is being recorded for replay purposes. I will now hand the presentation to your host for today, Mr. Mike Hoelter, Vice President, Corporate Controller and Investor Relations. Please proceed.

Michael Hoelter: Thanks, Joe. Good morning, everyone, and thank you for joining us for The Andersons Third Quarter earnings call. We have provided a slide presentation that will enhance today's discussion. This webcast is being recorded, and the recording and the supporting slides will be made available on the Investors page of our website shortly. Please direct your attention to the disclosure statement on Slide 2 as well as the disclaimers in the press release related to forward-looking statements. Certain information discussed today constitutes forward-looking statements that reflect the company's current views with respect to future events, financial performance and industry conditions. These forward-looking statements are subject to various risks and uncertainties. Actual results could differ materially as a result of many factors, which are described in the company's reports on file with the SEC. We encourage you to review these factors. This presentation and today's prepared remarks contain non-GAAP financial measures. Reconciliations of the GAAP to non-GAAP measures are included within the appendix of this presentation. On the call with me today are Bill Krueger, President and Chief Executive Officer; and Brian Valentine, Executive Vice President and Chief Financial Officer. After our prepared remarks, we will be happy to take your questions. I will now turn the call over to Bill.

William Krueger: Thanks, Mike, and good morning, everyone. Thank you for joining this call to discuss our third quarter results and outlook for the remainder of 2025. This quarter represents the first reporting period since we completed the purchase of the minority share in our ethanol plants at the end of July, supporting strategic growth in renewable fuels. In the third quarter, we recognized income for 45Z tax credits on our share of gallons produced and sold to date in 2025. As we move into 2026, we are continuing to make investments to further improve plant production efficiency for ethanol and co-products, lower carbon intensity and to grow our renewable feedstocks merchandising, all of which are part of our stated strategy. In Agribusiness, we are executing on our strategy to selectively invest in facility expansions and improvements to support our customer base. We have talked previously about 2 significant long-term construction projects that we expect to have fully operational in 2026. They include the addition of soybean meal export capacity and other operational improvements at our Port of Houston facility and the addition of a mineral processing plant at our Carlsbad, New Mexico transload facility. We are also investing additional growth capital in our premium ingredient business at our Mansfield, Illinois location to meet customer demand for cleaned corn being used in the chip, tortilla and pet food markets. Once again, our renewables business had a solid quarter with higher production and yields supported by strong demand. However, corn and production costs were higher than the prior year. We expect to see a reduction in the price of corn as we move through harvest. In agribusiness, we had improved year-over-year fertilizer results with increased volume and margin. The ag cycle remains in a trough due to abundant domestic supply and uncertainty around trade policy resulting in limited export trade flows for some commodities. We remain focused on supporting our customers in the current environment. We continue to evaluate potential growth opportunities within our strategy and

expect that more M&A; opportunities may come to market because of the current economic pressures. Next, Brian will discuss our quarterly results.

Brian Valentine: Thanks, Bill, and good morning, everyone. We're now turning to our third quarter results on Slide #5. In the third quarter of 2025, the company reported net income attributable to The Andersons of \$20 million or \$0.59 per diluted share and adjusted net income of \$29 million or \$0.84 per diluted share. This compares to adjusted net income of \$25 million or \$0.72 per diluted share in the third quarter of 2024. Revenues increased slightly with the addition of Skyland despite overall lower commodity prices. Gross profit declined due to challenging ag fundamentals, combined with higher input costs in renewables. Expenses also increased with the majority relating to the addition of Skyland. Adjusted pretax earnings were \$31 million for the quarter compared to \$35 million in 2024, with the decline coming from agribusiness. This was partially offset by the net company impact of 45Z tax credits of \$9 million, which included a cumulative catch-up for various costs to achieve as well as incentives. Adjusted EBITDA for the third quarter was \$78 million compared to \$97 million in 2024. Our effective tax rate varies each quarter based primarily on tax credits earned and the amount of income or loss attributable to noncontrolling interests. In addition, in the current quarter, we eliminated certain reserves against uncertain tax positions. We now expect our full year adjusted effective tax rate to be in the range of 15% to 18%. Next, we'll move to Slide 6 to discuss cash, liquidity and debt. We generated cash flow from operations before changes in working capital of \$68 million in the third quarter of 2025 compared to \$86 million in the third quarter of 2024. This continues to demonstrate our ability to generate positive cash flows throughout the ag cycle. Our readily marketable grain inventories continue to be well in excess of our short-term debt, and we ended the quarter with a cash balance of \$82 million. Next, we'll take a look at capital spending and long-term debt on Slide #7. Third quarter capital spending was \$67 million compared to \$38 million in 2024, with the increased attributable to spending on long-term growth projects as well as normal maintenance capital on the addition of the Skyland grain assets. We continue to take a disciplined, responsible approach to capital spending, which we expect will be approximately \$200 million for the year, excluding acquisitions. Our long-term debt-to-EBITDA is approximately 2x, which remains well below our stated target of less than 2.5x. We continue to have a balance sheet with significant capacity to support further growth investments even after the \$425 million in cash paid to acquire the full ownership of our ethanol plants during the third quarter. We are evaluating additional capital investments, including projects to improve efficiency and increase capacity at our existing facilities as well as further M&A; opportunities that align with our growth strategy. Next, we'll move on to a review of each of our businesses, beginning with Agribusiness on Slide 8. The Agribusiness segment reported adjusted pretax income attributable to the company of \$2 million compared to \$19 million in the third quarter of 2024. We completed wheat harvest during the quarter, and we're pleased with the volumes and quality in both the Eastern and Western grain belts. We earned wheat carry income in the third quarter and are positioned for continued space income. However, similar to the first half of the year, oversupplied grain markets and global trade uncertainty negatively impacted our grain asset locations for other commodities. Farmers remained hesitant to sell at current prices and corn harvest delays resulted in limited inventory builds in the third quarter. In addition, customers continue to make short-term purchasing decisions, reducing our merchandising opportunities. Finally, our fertilizer business benefited from increased margins and volume in this typically quiet quarter as producers focus on grain harvest. We continue to evaluate opportunities to optimize our portfolio and integrate our former Trade and Nutrient business segments as well as Skyland. During the third quarter, we made the decision to exit a few underperforming businesses that no longer align with our strategy, which led to some additional write-downs. We continue to review our portfolio, which could result in further changes going forward. Agribusiness had adjusted EBITDA of \$29 million in the third quarter compared to \$45 million in 2024. Moving to Slide 9. Renewables had another solid quarter, generating adjusted pretax income attributable of \$46 million compared to \$26 million in the third quarter of 2024. Included in the third quarter segment results are year-to-date 45Z tax credits of \$20 million. Our ethanol plants continue to perform well with increased yields for both ethanol and corn oil. Ethanol board crush was similar to last year, but higher Eastern corn basis and natural gas costs impacted profitability. Corn oil prices improved, while feed values remain challenged. As Bill mentioned, third quarter results include 2 months of our full ownership of the ethanol plants,

which added \$12 million of pretax earnings, including the value of tax credits relating to August and September. Renewables had adjusted EBITDA of \$67 million in the third quarter compared to \$63 million last year. And with that, I'll turn things back over to Bill for some comments about our outlook.

William Krueger: Thanks, Brian. In our Renewables segment, fourth quarter demand has remained consistent with 2025 exports expected to reach record volumes. The recent rally in corn futures has reduced board crush. However, corn basis has retreated to harvest values, and we are filling our space. With the fall maintenance shutdown safely behind us, our plants are set up well for strong fourth quarter production. We have approved additional capital focused on further increasing yields for both ethanol and corn oil. We will continue to invest in these well-maintained assets, looking for incremental opportunities to improve efficiency, increase capacity and lower the carbon intensity of our ethanol. Our expected Q4 production should enable us to generate additional 45Z tax credits, resulting in \$10 million to \$15 million of EBITDA after accounting for the incremental qualification expenses. Looking ahead, the rate at which we generate 45Z tax credits is expected to increase based on the guidelines effective for 2026 through 2029. As we mentioned previously, we are preparing for the opportunity to sequester carbon on site at our Clymers, Indiana production facility. The Class VI well permit filed on our behalf continues to move through regulatory review processes. Once this project is approved and operational, we will further reduce the carbon intensity score of the ethanol, enabling us to generate additional tax credits. Our Agribusiness segment is focused on wrapping up the harvest for 2025, with soybeans nearly completed, Western U.S. corn harvest at an estimated 80% complete and the Eastern crop an estimated 70% completed, there are pockets of harvest that are behind these levels due to higher-than-normal rainfall. Corn yield expectations are coming down from late summer estimates due to less than ideal finishing conditions in some areas, but we still anticipate record production across the grain belt. Clarity on trade policy and tariffs will reduce market uncertainties and should provide merchandising and sales opportunities. This, combined with the larger corn and wheat crop providing elevation and space income would allow for better results in the next few quarters. We welcome the positive direction of the trade discussions and we'll closely monitor details, which should emerge over the next few months. Without this clarity, markets are expected to remain challenged through the first half of 2026. Fertilizer activity in the fourth quarter is expected to be at higher margins, but volumes may be challenged if farmers delay purchases because of continued uncertainty. We remain very focused on integration activities in the Agribusiness segment as well as the completion of our previously announced growth projects. We will continue to invest in our safety practices and culture, particularly around assets newer to our portfolio. As mentioned earlier, with the near-term macro challenges in U.S. agriculture markets, we will continue to optimize our portfolio of businesses and the enterprise organizations that support them to extract more value for the shareholder. We believe that the current environment is causing others to do the same, and we'll look at opportunities to achieve growth through acquisitions where we might be a better owner. I want to point out that cash generated through our operations and the variety of tax credits in our renewables business is expected to provide us with additional dry powder for continued reinvestment in both renewables and agribusiness. With the strength of our balance sheet and the desire to grow, we expect to evaluate opportunities within our existing facility footprint as well as acquisitions that fit our financial and strategic criteria. Last quarter, I shared with you a conversion of our run rate 2026 financial target to EPS of \$4.30. We anticipate reaching that target with improved agribusiness results, increased ethanol plant ownership and the impact of tax credits. As I noted in the earnings release, we are hosting an Investor Day on December 9, where we will update our long-term targets through 2028 and provide additional details about our strategy and outlook. I am proud of our team's resilience in this dynamic and challenging environment. We will continue to make responsible decisions that benefit our customers and maximize shareholder value as we execute our strategy. And with that, we are happy to answer your questions.

Operator: [Operator Instructions] And our first question here will come from Pooran Sharma with Stephens.

Pooran Sharma: Congrats on posting the strong results. Just wanted to maybe focus on 45Z tax credits. You did mention that there's the potential or that we should expect to see an increase in contribution from these credits. And we're just doing some rough math. Do you think that increase gets to like \$0.10 per gallon for 4Q? And just wondering if you could maybe provide some details around

how that gets monetized. In regards to 2026, do you think that your CI score -- with the CI score adjustments that you could get to around a \$0.20 per gallon tax credit in 2026?

William Krueger: Both are -- all 3 of those are really good questions. Let's start with Q4. As I mentioned in the script, we are expecting a \$10 million to \$15 million EBITDA benefit from 45Z tax credits on a net basis for 2024 -- for 2025 Q4. For 2026, as we mentioned at the -- in our Q2 call and again today, is we will give more guidance on 2026 forward at our Investor Day on December 9.

Pooran Sharma: Great. I appreciate you pointing that out there for me. Maybe just shift into agribusiness and understand that with the policy kind of clarity, trade policy clarity, you can maybe start to see a little more improvement. And just wondering if you do get that and if you do get China to kind of actually start to purchase on that 12 million metric tons this year, even just the 25 million metric tons annually, do you think that -- how quickly do you think you can get back to a more normalized earnings kind of environment for agribusiness if you do get those kind of 2 pieces for that business? And then how quickly can that change in the China trade policy have an impact on the sorghum market? And sorry, just lastly, just wanted to also understand how Skyland is faring if you could confirm your EBITDA contribution expectations for that business?

William Krueger: I will take the first 2. So for The Andersons, we will benefit more from China purchasing sorghum than soybeans. The opportunity exists as soon as they buy U.S. sorghum and soybeans, we're unable to provide guidance until we actually see them come into the market and purchase product. As we read the summaries of the meeting, the metric tons of soybeans need to be purchased by the end of the year, but don't need to ship by the end of the year. So we'll need to see clarity around those purchases. On sorghum, it would likely be a strong uplift pretty immediately for us. We -- our asset in Houston, our Western grain assets have seen very robust sorghum harvest. So we look forward to the opportunity to see any export business for sorghum. On the Skyland specific question, I'll let Brian handle that one.

Brian Valentine: Yes, sure. I mean, Pooran, when we originally talked about Skyland, our original EBITDA estimate was a run rate of about \$30 million to \$40 million a year. With the headwinds that we've seen this year, we probably will be closer to about half of that number for 2025. But to your point, and just following on Bill's comments, depending on what happens with sorghum exports, we should be able to get back to that run rate if things normalize from that perspective.

Operator: And our next question will come from Ben Mayhew with BMO Capital Markets.

Benjamin Mayhew: First of all, congratulations on the really strong quarter. So my first question has to do with ethanol demand. And just kind of thinking about as we head deeper into fourth quarter, board crush is coming off from third quarter. How are you thinking about just kind of the run rate of margins, the outlook now that we have E15 approval in California, I mean what's the impact of that? Do we -- maybe do we expect lighter export volumes? Or do you expect export volumes to remain strong? And just trying to get a sense of how we exit the year with ethanol margins, which seem to be overall in a lot better place than historically.

William Krueger: Yes, Ben, good questions. The start -- the first part of -- or I'm going to take the second part first. The approval in California is just that. It's approval, and they have to still work through some minor details with CARB that we think will be completed by year-end. So we do look at the E15 as a very positive move in California. Today, we believe that there's plenty of production capacity to handle the additional California barrels that will be consumed in 2026. We also think that as the U.S. is priced today, that we expect demand in 2026 to be relatively flat on both exports and domestic with the potential of a slight uptick in California once the CARB regulations are finalized. In terms of the board crush coming off, that's -- you are correct, it has fallen off. But the corn basis levels have come down substantially as we're entering into the final parts of this 2025 harvest. So if you look at a net effect, I'm not so sure that you can just make the broad assumption that overall ethanol margins are down. You should likely want to take into play the various regions and the reduction of corn basis driving the corn values down lower.

Benjamin Mayhew: Got it. That makes sense. My second question has to do with your comments on your financial position and just kind of getting back into the M&A; search, if you will. So it sounds like you think this environment is to the point where things are -- fundamentals are poor enough in certain areas where assets will likely come to sale. So I'm just wondering like what are some examples of

these asset types that we could think about? And maybe you can't answer this, maybe this is an Investor Day thing, but when you think about the sheer amount of cash flow you're just going to get from these 45Z tax credits, I mean, assuming it all kind of plays out as we think it's going to in the moment, over time, I mean, how do you think about that cash accumulation and what you want to spend it on? What like -- and so maybe you can't fully go into that until the Investor Day, but can you give us a teaser or a hint as to what you're thinking in the near term?

William Krueger: Yes. You are correct. That is the plan for the Investor Day in just a little over a month. But the one thing I do want to remind everyone is over the last several years, we've been very disciplined with our capital allocation. So we don't plan to deviate from that mindset. We think it's rewarded our shareholders well. And we do believe there will be opportunities. I don't feel that it's appropriate to be commenting on what we're going to be spending the money on today. As I did state in my script, though, we like our core area of operations, and we're going to continue to be focused on our core strengths as a company and looking for opportunities to deploy capital in those areas.

Operator: [Operator Instructions] Our next question will come from Jaeson Schmidt with Lake Street.

Jaeson Schmidt: Just given the current backdrop, do you think the agribusiness margins have troughed here in Q3?

William Krueger: That's an excellent question. As we look towards Q4 with the size of the wheat harvest that got completed and the corn crop that we're finishing up right now, I think it's fair to assume knowing what we know today that Q4 '25 results should be trending back closer to a Q4 2024 results, obviously, stating that we still have a ways to go to get through Q4, but we do feel like the market dynamics are set up as long as we have clarity on trade policy that 2026 should provide more opportunities than 2025. And Jaeson, back to the comment that I made in the script is our assumptions come from increased agribusiness results. Our fertilizer business is going to have a decent 2025. We need to focus on the grains and grains products side of that business, and that's kind of where we're looking at 2026 today.

Jaeson Schmidt: Got you. That's really helpful. And then can you remind us what the remaining CapEx requirements are for the 2 large construction projects?

Brian Valentine: Yes. I would say, look, we expect our full year CapEx this year, we expect to be in the range of \$200 million, probably 60%-ish of that is growth capital. And so I would say with regard to those projects, there's probably another \$30 million to \$50 million.

Jaeson Schmidt: Okay. Perfect. And then just the last one for me, and I'll jump back into queue. Just going off some of the previous questions, I know you mentioned sort of your discipline with your capital allocation strategy. But just kind of reconciling that with this excess cash flow that will be coming into the tax credits, does that change sort of the size and scope of things you'd look at in the future?

William Krueger: That's a fair question. And I think if you look back, Jaeson, over the last 2 years, our size and scope have altered with the \$425 million capital deployment for the ethanol plants, the \$75 million for Houston. I really do think that we've looked -- we've started to look at larger opportunities that maybe have more scale. Simultaneously, if we see an easy bolt-on that fits right down the fairway for us, we're likely going to continue to look at those. But I do think that you make a good observation that our expected cash flows in the future will allow us to look at larger M&A; projects.

Operator: And our next question will be a follow-up from Ben Mayhew with BMO Capital Markets.

Benjamin Mayhew: I'm back for one more. Just a question on the fertilizer business. And you noted in third quarter, which is typically a weaker quarter for this business, volumes and margins were up. So like what does that indicate to you ahead of the next planting season? And I guess attached to that question is an update on the U.S. farmer. Now versus maybe a month or 2 ago, what are you hearing from the farmers in terms of level of optimism and willingness to kind of spend on inputs for the next marketing year?

William Krueger: I will start with the sentiment portion of that. I don't know that you could have had a much lower farmer sentiment 60 days ago, we have had a nice rally in soybeans, I think, don't quote me on this, but somewhere around 15 month highs. So with the recent rallies in the futures market, the optimism that there will be funds coming out of Washington, D.C. once the government reopens, I think has raised the sentiment of the U.S. producer. And so in comparing -- in looking at our fertilizer business in a silo, comparing Q4 or excuse me, Q3 of 2025 to Q3 of 2024 is where the uptick was

coming. I do think that the producer is going to be cautious. They're making a lot of their fall application decisions as we speak. And you could see, as I mentioned in the script, is if there's uncertainty, they could delay those decisions until the spring. And that's what we are -- we plan to figure out over the next 30 days, just to be quite honest with you.

Operator: And with that, we will conclude our question-and-answer session. I'd like to turn the conference back over to Mike Hoelter for any closing remarks.

Michael Hoelter: Thanks, Joe. We want to thank you all for joining us this morning. Our next earnings conference call is scheduled for Wednesday, February 18, 2026, at 8:30 a.m. Eastern Time when we will review our fourth quarter results. As always, thank you for your interest in The Andersons, and we look forward to speaking with you again soon.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.