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ANDE - Q4 2014 The Andersons, Inc. Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to The Andersons, Inc. 2014-fourth quarter and year-end earnings conference call. (Operator Instructions).

As a reminder, this call is being recorded for replay purposes. I would now like to turn the call over to Jim Burmeister, Vice President, Finance and Treasurer. Please proceed.

Jim Burmeister - *The Andersons, Inc. - VP, Finance and Treasurer*

Thank you, Sally. Good morning, everyone, and thank you for joining us for The Andersons 2014 fourth-quarter and full-year conference call.

For the purposes of today's discussion, we have provided a slide presentation that will enhance our talking points. If you are listening and watching this presentation via our website, the slides and audio should be in sync. For those listening via telephone, you can find a copy of the slide presentation on our website at www.andersonsinc.com. This webcast and supporting slides are being recorded and will be made available on the Investor Relations section of our website.

Certain information discussed today constitutes forward-looking statements. Actual results could differ materially from those presented in the forward-looking statements as a result of many factors, including general economic conditions, weather, competitive conditions, conditions in the Company's industries both in the United States and internationally, and additional factors that are described in the Company's publicly filed documents, including its '34 Act filings and the prospectuses prepared in connection with the Company's offerings.

Today's call includes financial information for which the Company's independent auditors have not completed their review. Although the Company believes that the assumptions upon which the financial information and its forward-looking statements are based are reasonable, it can give no assurance that these assumptions will prove to be true.

On the call with me today are Mike Anderson, Chairman and Chief Executive Officer; Hal Reed, Chief Operating Officer; and John Granato, Chief Financial Officer. Mike, Hal, John and I will answer questions that you may have at the end of the prepared remarks.

Now I will turn it over to Mike for his opening comments.

Mike Anderson - *The Andersons, Inc. - Chairman and CEO*

Thank you, Jim, and it's great to have you part of the ANDE team. The Company had a record year in 2014 led by the results of the Ethanol Group, which benefited from strong margins and superior operating performance. The Ethanol Group had record 2014 operating income of $92.3 million. The Company's earnings were the highest in its history, even after excluding the one-time pretax gain of $17.1 million and the partial redemption of its investment in Lansing Trade Group.

Before we review performance results, I'd like to highlight the fourth-quarter initiatives which demonstrate the Company's continued commitment to diversify growth. The purchase of Auburn Bean & Grain added six grain and four agronomy locations throughout Central Michigan. These additional locations are a nice geographic fit between our other Michigan assets and our Thompsons joint venture in Ontario.

Auburn added grain storage capacity of about 18.1 million bushels and 16,000 tons of dry and 3.7 million gallons of liquid nutrient capacity. The acquisitions of both United Grain, LLC and Keller Grain Inc. in the San Antonio, Texas, area expanded our food grade corn business to a new region.

Further, our Rail Group added 15 barges to its leased portfolio during the quarter, which brings the fleet to 20 barges, 20. Barges provide a growth opportunity for the Rail Group as it allows them to expand into a new asset class that supports customers and industries already served by its rail fleet.

I will now turn this over to John who will provide details of the total Company results.

John Granato - *The Andersons, Inc. - CFO*

Thanks, Mike, and good morning, everyone. The Company generated net income attributable to The Andersons, Inc. of $109.7 million in 2014 or $3.84 per diluted share on revenues of $4.5 billion. In 2013 net income of $89.9 million was reported or $3.18 per diluted share on revenue of $5.6 billion. Revenues were down this year within our agricultural businesses due to lower commodity prices.

Excluding the one-time pretax gain of $17.1 million from the partial redemption of our investment in Lansing Trade Group, full-year 2014 adjusted earnings were $99.1 million or $3.46 per diluted share. The Company reported net income of $25.9 million in the fourth quarter or $0.89 per diluted share on revenues of $1.3 billion. In the same three months of 2013, net income of $30.7 million was reported or $1.08 per diluted share on revenues of $1.6 billion.

The Company's before earnings, interest, taxes, depreciation and amortization were $255 million, and the prior year EBITDA was $219.9 million. For the fourth quarter, EBITDA totaled $60.6 million compared to $65.5 million for the same period of 2013. The Company's 2014 effective tax rate was 33.4%, down 2.6% from 2013, and we are projecting the 2015 tax rate to be 34.6%.

This set of bridge graphs below shows the increase or decrease in each group's operating income for both the fourth-quarter and full-year 2014 in comparison to the prior year. The specifics behind these differences will be detailed by Hal as he walks through each of our six business groups.

Hal Reed - *The Andersons, Inc. - COO*

Thanks, John. In 2014 we saw the Ethanol Group exceed just about every earnings and production record possible. We achieved record operating profit of $92.3 million, which far exceeded their prior year record earnings of $50.6 million. The ethanol business was positively impacted by higher ethanol margins, which, in part, resulted from solid ethanol export demand, lower corn costs and excellent operating performance. The ethanol plants benefited from operational and capital improvements made over the past several years.

During the year, the ethanol team set records for ethanol yields, corn oil yield, E85 sales and ethanol production. Total revenues for the year were $766 million compared to $832 million in the prior year. Revenues decreased due to a decline in the average price per gallon of ethanol.

During 2014 the Company received $89.5 million in net cash distribution from its nonconsolidated ethanol investments. For the fourth quarter, the Ethanol Group's operating income was $17.3 million on revenues of $171 million. During the same period of 2013, operating income was $26.6 million on revenues of $197 million. Although the Ethanol Group had approximately 45% of their January margins hedged coming into the year, as of today no future production is hedged as forward margins are not providing attractive opportunities to do so.

On a positive note, at the end of the fourth quarter, there was a rebound in the distillers dry grains market. We had mentioned last quarter that values had declined to a range of 80% of corn price, due in large part to Chinese import restrictions. We have recently seen values well in excess of 100% of corn price.

Now let's discuss the Grain Group. Its operating income was $58.1 million in 2014, including the $17.1 million gain on the partial sale of Lansing Trade Group. In the prior year, the group had operating income of $46.8 million. The Grain Group's earnings from its investments were down somewhat due in part to a lower ownership interest in Lansing Trade Group.

Full-year results were adversely impacted by approximately $5 million of one-time items, primarily related to asset write-downs. Grain operations did not meet our expectations in 2014, and I'll expand more on that later.

Total revenues for the Grain Group were $2.7 billion in 2014 and $3.6 billion in 2013. Revenues declined due to a 28% decrease in the average price per bushel sold as sales volume was actually up slightly.

For the fourth quarter, the Grain Group's operating income was $24 million on revenues of $686 million -- I'm sorry, $868 million. This compares to $22.1 million in the same period of the prior year on revenues of $1.1 billion.

The group had reduced earnings from its equity investments during the quarter. Further, the harvest was protracted in a number of states in which the Company does business, primarily due to weather conditions.

We have provided ranges in the past that have denoted what operating income per bushel of capacity we would expect our core grain assets to generate. For those watching the webcast, you can see the chart shows our overall 2014 grain operations income was approximately $0.10 per bushel of capacity. The bulk of our assets executed within our expected range; however, a group of assets in the West had significant operating losses. Specifically these are the Iowa grain locations in the Anselmo, Nebraska, facility built in 2012. These locations account for about 16% of the Company's bushel capacity.

The Iowa market has proven to be extremely competitive. The storage to production ratio in Iowa is about 15% higher than most of the areas in which we do business, and after two years of less than average yields, the competition for each bushel has severely restricted our ability to earn space income in that market.

The Anselmo train loading facility has not met our volume or margin expectations as in the first year of operations at this location railroad service was so poor that it nearly shut down our ability to access our real markets.

While rail service improved a bit in 2014, the rail market was still weaker than expected. The grain team is working diligently to improve the performance of these assets. We expect to see improvements of these locations in 2015; however, operating losses are still anticipated as it will take time to build customer bases in these highly competitive markets. We continue to believe our other grain assets will provide historical returns.

Until we rectify the situation with these Western assets however, we feel a more reasonable range for the foreseeable future is $0.15 to $0.35 of bushel capacity.

As we mentioned earlier, the Grain Group completed the acquisition of Auburn Bean & Grain in the fourth quarter, and it was additive to earnings in the fourth quarter. With the addition of the Auburn Bean & Grain assets, grain storage capacity has grown a total of over 162 million bushels.

The Plant Nutrient Group had operating income of $23.8 million in 2014 on revenues of $668 million. In the prior year, the group's operating income was $27.3 million, and revenues were $709 million. The fourth quarter was impacted by a late harvest and poor weather conditions that led to a 19% decline in volume when compared to the same three-month period of the prior year. With normal spring weather, we anticipate that some portion of these lost sales will be regained in the first half of 2015. Margins in 2014 were consistent with the prior year.

Fourth-quarter operating income for the Plant Nutrient Group was $400,000 on revenues of $138 million. In the same three-month period of 2013, the group reported $6.2 million in operating income on revenue of $171 million. Storage capacity of the Plant Nutrient Group increased to 952,000 tons from 924,000 tons, primarily due to the acquisition of Auburn Bean & Grain.

The Rail Group had operating income of $31.4 million in 2014 compared to $42.8 million in 2013. The prior year results included one-time gains of $4.3 million from legal settlements. The leasing business incurred $3.2 million more in freight and maintenance costs in 2014 than in the prior year in order to return idle cars to service. The benefits of this expense will be seen in 2015 through higher utilization rates, which increased almost 3 points in 2014 to end the year at 91%.

The group recognized $15.8 million in pretax gains on sales of railcars and related leases and nonrecourse transactions in 2014. This was $3.6 million less than the $19.4 million of similar gains in 2013.

Rail Group revenues of $149 million for 2014 were lower than the $165 million reported in the prior year, due mainly to reduced car sales. The Rail Group had operating income of $5.6 million in the fourth quarter on revenues of $31 million. In 2013, operating income for the same three-month period was $6.2 million on revenues of $32 million.

During the fourth quarter, the group recognized $1.2 million in gains on railcar sales, which was $900,000 less than the prior year. The 15 barge portfolio added during the quarter proved to be accretive to earnings.

The Turf and Specialty Group had full-year operating income of $700,000 on $134 million of revenue. Last year the group had operating income of $4.7 million on revenues of $141 million. The turf business was negatively impacted during the year by poor weather conditions that led to both production downtime, product delivery issues and demand for certain products.

The cob business had significantly higher expenses this year as it invested in both electrical and operational improvements at the Mt. Pulaski, Illinois, facility. Cob also saw declining sales in both the fracking and cat litter product lines.

During the quarter, the Turf and Specialty Group had operating income of $200,000 on revenue of $25 million. Last year the group reported a loss of $1.4 million on $23 million of revenue during the same period.

The Retail Group's full-year operating loss was $600,000. In the prior year, the group's operating loss was $7.5 million, which included $4.7 million in one-time costs. Excluding one-time items, the group's operating results improved year over year by more than $2 million. Total sales for the group were $141 million in both 2013 and 2014.

During the fourth quarter, the Retail Group had operating income of $1 million. Last year during the same three-month period, the group's operating loss was $3.9 million. The 2014 fourth quarter included $3.9 million of one-time impairment charges on two stores. Fourth-quarter revenues were $39 million and $37 million in 2014 and 2013 respectively.

Now I'll turn the floor back to Jim for the Treasurer's report.

Jim Burmeister - *The Andersons, Inc. - VP, Finance and Treasurer*

Thank you, Hal. The Company ended 2014 in good financial condition with a solid balance sheet. Working capital at year-end was $227 million, down slightly from prior year. Long-term debt dropped to $299 million from $375 million in the prior year-end. We maintain ample access to liquidity, primarily in support of our grain business, with an $850 million revolver, of which $819 million were available at year-end.

As announced in December, the quarterly dividend rate has been increased from $0.11 per share to $0.14 per share, which represents a more than 27% increase in the dividend.

In the fourth quarter, we announced that our board had authorized the repurchase of up to $50 million in the Company's common stock over a two-year period. The primary objective of the share repurchase program is to offset dilution related to the Company's share issuance in connection with its acquisition of Auburn Bean & Grain. A small portion of those shares have been repurchased, and shares will continue to be repurchased from time to time in the open market depending on stock price, market conditions and other factors.

Mike will now cover a few more points before we take questions.

Mike Anderson - *The Andersons, Inc. - Chairman and CEO*

Thank you, Jim. I'd like to conclude today with an outlook for 2015. We see strong fundamentals supporting our core businesses going into 2015, but results will likely be below our record of 2014.

Remember, the adjusted full-year earnings for 2014 are $3.46 per share when the $17.1 million pretax gain is excluded. We expect continued strong performance from the Grain Group's equity investments and improvement in its core grain operations.

Corn planted acres are estimated to be 88 million to 89 million acres, which will be down 2% to 3% from 2014. Bean acres are estimated to be roughly 85 million acres, which is slightly higher than 2014. Assuming trend yields, this should create a good base market for the grain business in 2015. These anticipated acres create a good environment for the Plant Nutrient Group to participate in as well. With the need to replace nutrients in the soil and the fact that some of the lost fourth-quarter volume is expected to be regained in the first half of the year, we believe the Plant Nutrient Group will have a good year.

Ethanol margins took a sharp downturn in fourth-quarter 2014 and remain low. While we have reason to believe margins will improve due to higher gasoline demand, strong DDG demand and ample corn supply, we do not foresee 12-month 2015 average margins approaching 2014 levels.

We do expect to see the Ethanol Group's history of excellent operating metrics continuing into 2015 and beyond. As always, though, the performance of our agricultural businesses is dependent on numerous external factors such as weather. We anticipate the Rail Group having improved financial results in 2015 as it benefits from higher lease rates and utilization, which we believe will increase further in 2015 and could approach the mid-90% level.

We are proud of the results our Company has achieved. The fact that we've achieved such strong aggregate results in spite of a difficult year in our grain operations business highlights the strength of our diversification strategy and business model and the dedication of our team.

This concludes our prepared remarks. Hal, John, Jim and I will now be happy to answer any questions you may have. So Sally, we'll turn it back to you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Farha Aslam, Stephens Inc.

Farha Aslam - *Stephens Inc. - Analyst*

Hi, good morning. Two areas I want to focus on is ethanol and rail. And starting with ethanol, are your plants running at full capacity right now?

Hal Reed - *The Andersons, Inc. - COO*

Yes, they are.

Farha Aslam - *Stephens Inc. - Analyst*

Okay. And do you anticipate to continue to run them at full capacity?

Hal Reed - *The Andersons, Inc. - COO*

I would say, yes, but the market conditions, as you know, changed daily, so we'll react to those as we see them. But we plan to continue forward right now.

Farha Aslam - *Stephens Inc. - Analyst*

Are they profitable right now, breakeven, cash flow positive?

Hal Reed - *The Andersons, Inc. - COO*

Generally margins so far this year have been around breakeven. And, as you know, the spot market bounces every day. But they have been a little bit above and a little bit below for most of the year so far. Cash flow positive obviously. That's an operating breakeven.

Farha Aslam - *Stephens Inc. - Analyst*

Thank you. That's helpful. And then in your Rail Group, your commentary was particularly positive. Just do you anticipate the benefit from sales, which were about $15 million to $16 million this year, to repeat themselves for next year, or do you anticipate the acquisition of barge to help that segment?

John Granato - *The Andersons, Inc. - CFO*

Farha, this is John. I think on the gain on sales, we expect next year to be pretty similar to this year.

Farha Aslam - *Stephens Inc. - Analyst*

And then should we take that $3.2 million in costs that you had this year and just add them because they probably will not recur?

John Granato - *The Andersons, Inc. - CFO*

I think that's probably a pretty good assumption that they won't recur.

Farha Aslam - *Stephens Inc. - Analyst*

Perfect. And how much should we put in for the 15 barges? How much do you think you can earn from those?

John Granato - *The Andersons, Inc. - CFO*

At this point, our fleet is 20 barges, so it's pretty small. So we're just starting to get legs there, I guess. So minimal amounts if any.

Farha Aslam - *Stephens Inc. - Analyst*

Great. Thank you very much. I will pass it on.

Operator

Eric Larson, Janney Capital Markets.

Eric Larson - *Janney Capital Markets - Analyst*

Yes, can you hear me?

Mike Anderson - *The Andersons, Inc. - Chairman and CEO*

Yes, good morning, Eric.

Eric Larson - *Janney Capital Markets - Analyst*

Good morning, all. I just wanted -- I have a couple of questions on the grain business. Obviously the grain side was disappointing to me again this year as well. You actually have a fairly, I guess if you want call it anything, an easy comparison. You have a pretty easy comparison in the first quarter this year. I believe you lost about $6 million a year ago because your storage income was low. I think you had pretty low wheat inventories. Can you give us an idea of how you might come out of the gate with the start of this year with grain profitability and some idea on storage and maybe some of the basis capture that you might be getting?

Unidentified Company Representative

Thanks, Eric. Well, let me give you a couple of thoughts on your questions. First of all, obviously at this point in time, the biggest variable in the first-quarter performance has to do with basis and spreads. It's our space income piece.

So at this point in time, the forward spreads have been a little bit less than people expected, but they appear to be slightly better than last year. It really ends up being a question about basis levels going forward in first quarter. They have been highly variable with the weather in January, and I look to them to stabilize here. But at this point in time, it's just hard to call the basis because whether it happens in first quarter or the second quarter is really a big question. So to call it in one quarter versus the other right now is difficult for us.

Eric Larson - *Janney Capital Markets - Analyst*

Okay. And then the acquisition of Auburn Bean, it was obviously accretive in your fourth quarter. But what might be something we could look at for that business for 2015 in terms of a contribution to earnings?

Unidentified Company Representative

Well, in general, it's operating similar to our base grain assets, and so we describe that range to you relative to that chart. And Auburn is -- I would describe it as much like many of the rest of our Eastern and Central assets. So it's in that standard model range for us.

Eric Larson - *Janney Capital Markets - Analyst*

Okay. And then the final question that I have, I have a lot of questions, but I'll leave it at this. Maybe this is for John. But John, when you look at your SG&A expense per quarter throughout the year, in absolute dollars it continues to march up at a pretty healthy rate, including in the fourth quarter, and I'm assuming that part of that SG&A issue is that you are consolidating assets to probably have a higher percent of SG&A expense to total revenue, but I'm not sure I know the exact answer on that. How should we view your SG&A expenses, and maybe a quarterly run rate would be of some value, if you could give us some ranges on what that might be?

John Granato - *The Andersons, Inc. - CFO*

Okay, Eric. A couple of things. One, I think you're right. Probably about half of that increase in 2014 relative to 2013 was labor and benefits. Some of that is related to our SAP project, and some of the costs we just start need to getting after more. And some of it is acquisition related. So if you look at Auburn and some of the other things we did throughout the year, there ar some costs related to those as well.

In terms of a run rate, Eric, I think we're not going to be trying to hold the line as best we can this year. Obviously as we -- you're going to have some wage inflation and you're going to have hopefully some additional acquisitions that will be in there. But our goal would obviously not to be having double-digit increases in the SG&A line, and you're spot on that it's right on front and center of an attention point for us.

Eric Larson - *Janney Capital Markets - Analyst*

Okay. Then just a quick follow-on to that. It, again, relates to your S&P initiatives -- your SAP initiatives. Did you have some expense in the fourth quarter on that?

And then remind me I believe you communicated that SAP was going to cost I'm guessing it was either $0.25 or $0.35 per year for the next several years. Could you just review that with us again, please?

John Granato - *The Andersons, Inc. - CFO*

Sure. So we did have some SAP expense in the fourth quarter, and what we said last quarter was that we expect relative to 2014 that the Company would have $0.25 to $0.35 of headwind related to SAP in 2015.

Eric Larson - *Janney Capital Markets - Analyst*

Okay. Is that just specifically for one year, or will that start working its way down in 2016?

John Granato - *The Andersons, Inc. - CFO*

You know, at this point, we still have after our Grain Group several businesses that we need to put on the platform, Eric. And so I think for now I would say that that's a good number for 2015 and unwilling to speculate at this point onto 2016. As we start putting new businesses in, some of that costs gets capitalized and then amortized. So you're right. Over time if you didn't have a continuing program, the costs would go down. But since we have more businesses after grain to put on, I think for now I think we're just comfortable with giving guidance for 2015 around that.

Eric Larson - *Janney Capital Markets - Analyst*

All right. Thank you. I'll pass it on.

Operator

Kenneth Zaslow, BMO Capital Markets.

Kenneth Zaslow - *BMO Capital Markets - Analyst*

Good morning, everyone. So, Mike, given the last couple of comments, we definitely get the idea that when you write something or say something, there is something to actually be looked into. So I'm going to ask you, when you talk about your outlook piece, you do actually say that in part due to -- so is that implying that EPS will actually be below the adjusted rate of $3.46?

Mike Anderson - *The Andersons, Inc. - Chairman and CEO*

Yes.

Kenneth Zaslow - *BMO Capital Markets - Analyst*

Just making sure because again everything you say actually has a meaning, and we've learned that now.

Mike Anderson - *The Andersons, Inc. - Chairman and CEO*

Yes. And I recognize that the last time there was a little confusion around what do we mean around that point with the Lansing gain and the SAP. So we want to be very clear, so your interpretation is correct. We would expect to be less than the adjusted EPS.

I'll just give a little bit of summary on that is we expect ethanol down a lot, and that's just so good, and we got lower margins. We expect to grain up. We expect P&G up. We expect rail up. And frankly, at TSC we're integrating the businesses. Not sure when we're going to go to a combined look or not, but as a separate look, we'd expect that up also.

But the combination is just with ethanol having been so great this year, that downness offsets, and we're not expecting at this time any one-time gain type stuff from sales. And if we did, we'd exclude it from the analysis.

Kenneth Zaslow - *BMO Capital Markets - Analyst*

Okay. Then when I think about that less than $3.46 number framing it, you would not have thought that last conference call the only thing that's changing more dramatically is the ethanol piece. Is that a fair comment? So if that were to recover or get worse, that would be a variable that has made you more cautious relative to the last call, or were you the same cautious level as you were last call?

Mike Anderson - *The Andersons, Inc. - Chairman and CEO*

Well, the last call when I got very directive or very whatever I did is, I had a high confidence that ethanol margins would be substantially lower.

Now didn't see the DDG bouncing back. Didn't see the oil as much, but definitely saw the buildup of stocks and lower margin. So, at the same time, I saw the same positives for all the other. But it was just feeling that the models did not take into account on the size of the ethanol drop, and that's no change from the last time.

Kenneth Zaslow - *BMO Capital Markets - Analyst*

Okay. So you don't think -- so from last call to this call, there's nothing that changed in your mind on the ethanol market?

Mike Anderson - *The Andersons, Inc. - Chairman and CEO*

No, it's components. We did not see maybe the oil impact as much and then you get in the DDG bouncing back. So the components of margin and DDG thankfully has bounced back strongly. We will -- we're still at run rate production of ethanol that's what, Hal --

Hal Reed - *The Andersons, Inc. - COO*

14.5 billion.

Mike Anderson - *The Andersons, Inc. - Chairman and CEO*

14.5 billion gallons. We need a substantial amount of exports. We will export it. We only have so much storage for the production we have. We can peg domestic production pretty well at [mid-13s billion] with the E85 and whatnot. So you need the exports. And the question is, relative to impact the margin is, what does it take to clear that into the world market?

We will export it, and I just think when you have these situations sometimes where you get things going really well in an industry or really bad, they don't tend to last.

So I'm not sure where we'll shake out on impact to margin. It's possible we've got to rationalize a little production. Not everybody's cost structure is exactly the same, and we'll see how that plays out.

Right now the forward -- the near buy is around breakeven in margin structure. The forward curve has got some positives in it. We'll have increased consumption domestically in the summer, which will be positive.

So it's just I think we had to get to this -- that we've now settled down into this. Not sure where margin ends up. But into the readjustment of the unbelievable wonderful situation we had for a year to where we are now, which is still not in my opinion negative for ethanol, which is a great fuel. Much lower margin.

Kenneth Zaslow - *BMO Capital Markets - Analyst*

I understand the margin neutral but I don't have a problem with the actual margin today. And I asked another Company the same question I'm going to ask you is, how do you get to a positive margin of $0.15 to $0.20, say, in an oil environment where we are? Because my understanding is in order for margins to go higher, you are going to need lower corn prices or ethanol to trade at a significant premium to gasoline, which then would probably cut off the voluntary export program or some of that.

So my question is, what is the path to getting back to $0.15 to $0.20 margins in an oil environment like this? And just tell me out with that.

Hal Reed - *The Andersons, Inc. - COO*

This is Hal. I will do that for you. I think as Mike described, we have a pretty good sense of what the production rate is today and what the blending rate is with US motor fuel today. We do expect to see better demand with these lower gasoline prices. So that component could increase, and that would be an aspect of moving the margins up.

In addition to that, we've got to clear the rest of that production as exports.

So gasoline prices worldwide is a big factor, and I guess maybe the last piece is the discussion about the DDG market. We have seen quite strong DDG markets here bouncing back from the decline in the fourth quarter, and that's also a piece of it. But we do, at some point in time, have to clear the excess production because we can't store much more than what we have in place today. So to get to better margins, we need better demand for gasoline and motor fuels here and worldwide.

Mike Anderson - *The Andersons, Inc. - Chairman and CEO*

I'd add just one more thing, and it's the unknown. Every individual plant has got its own cost structure, even within a Company like ours. We've got different cost structures or margin structures, and I suspect that in a situation like we have now, that a lot of us are regularly looking at things like is this a time to potentially slow down production or not, and we'll make those judgments. Last year, of course, we didn't have to worry about it. It was full speed ahead. And if you have a little rationalization, that can have an impact, too.

Kenneth Zaslow - *BMO Capital Markets - Analyst*

So the implication is that you believe that ethanol has to trade at a premium to gas?

Mike Anderson - *The Andersons, Inc. - Chairman and CEO*

In the domestic market, it's not doing that --

Kenneth Zaslow - *BMO Capital Markets - Analyst*

I know but your margins are flat. So in order to get the 15 to 20, ethanol prices have to go up --

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John Granato - *The Andersons, Inc. - CFO*

No, actually we need -- I can't say that that relationship is what really matters. Because it's not the relationship of the ethanol price to the gasoline price, it's the absolute value of the ethanol versus the cost of the inputs and our capability to produce it at our individual plant. So it isn't just a comparison to the price of oil or gasoline.

Kenneth Zaslow - *BMO Capital Markets - Analyst*

Okay. Much appreciated. Thank you.

Operator

Christine Healy, Scotiabank.

Christine Healy - *Scotiabank - Analyst*

Thanks. Good morning, guys. First question is for Hal. Hal, you talked about poor railcar service in Q4 and the impact it had on the Grain Group. Just curious, did this impact Ethanol Group as well? I noticed that you guys didn't disclose in the presentation this time the shipped volumes for ethanol and coal products, so it's hard for us to see that.

Hal Reed - *The Andersons, Inc. - COO*

Yes, let me -- I'll clarify very quick. The extremely poor rail service was at really one location, and it was the prior year. My comment about this year was that we still had poor service at our Anselmo facility, and that was an issue for us. For most of the rest of the businesses, there were no significant problems. Certainly not perfect, but this fall was pretty good from a rail service perspective.

Christine Healy - *Scotiabank - Analyst*

And then going into Q1, has that changed at all or still pretty good?

Hal Reed - *The Andersons, Inc. - COO*

No, right now rail service has been pretty good.

Christine Healy - *Scotiabank - Analyst*

Okay. Then moving to the Rail Group, are you guys seeing good utilization across all the sectors? I know your fleet is pretty diversified, or has there been any impact seen so far from the oil and gas sector?

John Granato - *The Andersons, Inc. - CFO*

Christine, this is John. We're seeing pretty good utilization of it across all sectors, and obviously we have a portfolio. But to get a little deeper on your oil ethanol service, we have about 1700 cars we expect to be in service, and roughly speaking only 10% of those are coming off lease next year. So we're feeling pretty good about it.

Christine Healy - *Scotiabank - Analyst*

Okay, good. Then John, just a final question for you. Just want to clarify on the SAP implementation, the cost. Should we expect all the costs to go through the other segment, or if it's related to the Grain Group specifically, will it go into the segment earnings?

John Granato - *The Andersons, Inc. - CFO*

It will go -- some will remain in other, and some will go to the segment earnings. Let me try and help you a little bit with other going forward that I think if you were to use the total for other this year as a proxy for next year, you'll be pretty close.

Christine Healy - *Scotiabank - Analyst*

Okay. Great. That's helpful. Thank you.

Operator

Brent Rystrom, Feltl and Company.

Shannon Richter - *Feltl and Company - Analyst*

Yes, this is Shannon Richter on for Brent. Just a couple of questions here for him. First, we would have expected a bit stronger growth in volumes of bushels sold in the Grain Group. Does the shift to farmers storing more corn in bags have an impact on this? And also does this shift potentially lead to a long-term diminishment to the storage side of this business?

Hal Reed - *The Andersons, Inc. - COO*

Thanks for the question. I will tell you that as we depict from time to time, we do track very closely on farm and off farm storage producer and commercial, and it has increased.

In addition to that, the last two years the pipeline has decreased, so we've had more space available for farmers to put in. I wouldn't single out the bags and any significant segment of that, by the way. It's just a small piece of the total, so. And, as we've discussed in various places and times before, that storage piece is very important to us, and we have had a very empty pipeline.

The other thing that happened this year as we mentioned is that the harvest in a number of places was protracted due to weather, so we'd get harvest going, we'd get a week of rain and slow down times. So we had lots of time for the market to take away that grain as opposed to it coming in in a shorter timeframe as has been the norm.

So there's all those different dynamics that have probably at this point in time impacted the ability to earn space income, moreso in some locations and others. And the volume as well. Obviously if the harvest is protracted, there's lots more destinations and users of the grain. So there's a variety of impacts to the volume as well.

Shannon Richter - *Feltl and Company - Analyst*

And then just one final question. Are you seeing a higher use of corn given poor test weights in both internal operations like ethanol and external customers like CBOT?

Hal Reed - *The Andersons, Inc. - COO*

Good question. There are lower test weight corn areas clearly across the country, and a variety of end-users will have some slight impact by that. But in general, those are pockets of lower quality and lower test weight corn. And so the blending process takes place, and it isn't that significant an impact. In certain regions, you will see more of an impact in that and more variability, but I wouldn't suggest that that's a very overarching or deeply impacting factor as we go forward into this crop year.

Shannon Richter - *Feltl and Company - Analyst*

Perfect. Thank you so much for taking my questions.

Operator

Eric Larson, Janney Capital Markets.

Eric Larson - *Janney Capital Markets - Analyst*

Yes, thanks for taking my follow-up. A question probably for Hal or Mike or whoever wants to take a stab at this. But we're back probably going to plant a good crop again this year, and if you just assume normal conditions, we'll have a good crop. That's the only thing anybody can assume at this point. But it seems to me that the news in the grain markets will begin drying up as we go forward, and we've had four or five years of what I would call pretty extreme crop price volatility. And I think that we're going to be going into a period of time a lot lower volatility. Is that a good thing or a bad thing for The Andersons? Does that create more opportunities for profitability or less?

Mike Anderson - *The Andersons, Inc. - Chairman and CEO*

Good question. You know, in general I think our lean would be that helping our customers manage their risk and volatility allows us to do well, but it isn't as though we are large speculators or traders. So it is simply in our service fee segment and our communications. So we're, as you know, mostly concerned about volumes and space carry in the marketplace. So good crops, close to 2 billion bushel carryout, those kind of things are what really matters to us. There could be opportunities, but with those opportunities also comes some risks. So I don't think that the lower volatility across the markets, which we agree with today barring any unusual circumstances, we agree with that lower volatility. I don't think that that's a dramatic impact to us as a Company.

Eric Larson - *Janney Capital Markets - Analyst*

All right. Thank you.

Operator

Brett Hundley, BB&T Capital Markets.

Brett Hundley - *BB&T Capital Markets - Analyst*

Hey. Good morning, guys. I wanted to ask you, Hal, about your grain outlook for 2015 and maybe just talk to the low and the high ends of the new range that you gave, that $0.15 to $0.35, and maybe you can just lead us through the scenario that put you more towards the bottom end and a scenario that puts you more towards the top? And then maybe if you have an idea on when this range can normalize back to those expectations that you had before, the $0.25 to $0.50, could that be a 2016/2017 event? Do you have visibility into that?

Hal Reed - *The Andersons, Inc. - COO*

First, a couple of thoughts. First, our range that we talked about in the past was a $0.20 to $0.40 range. The graph might have shown bigger than that, but the band that we discussed of normal was more $0.20 to $0.40. So now it's dropped about $0.05 in our conversations.

To get us to the top half of that range, I will tell you two things have to happen. The first is obviously the planting of a good crop and the harvest of a good crop. That could help fourth quarter.

The second thing that will impact that number is the wheat crop. Right now the wheat is dormant. We have less acres. We're aware that. We have some up and down in world demand in wheat.

So the wheat market carry that does or doesn't materialize as the wheat crop grows and comes off this summer has an impact because we are big in the wheat market here, soft red wheat market in the eastern United States.

So those are the two things that could take us higher in the range or to the higher end of the range.

So let me go back to the first comment about the corn crop planted and harvested. Now there's two things that happen there in the fall harvest. First of all is, again, the size and the timing of the crop. The second thing is the size and the timing of the basis appreciation and spreads that occur. Lots of times we'll get to the fourth quarter, and that income can easily spill to the first quarter of the following year. There's a timing issue relative to spreads and the basis that we buy that corn at in fall harvest.

So, as we talked about this year, the protracted harvest didn't allow basis to get as cheap, and so we ended up paying a little bit more. There was a little bit less carry. So those are the two things that take you to the top half of the range from the bottom half: the wheat and the timing and exact levels of basis for the fall harvest.

Brett Hundley - *BB&T Capital Markets - Analyst*

Okay, okay.

Hal Reed - *The Andersons, Inc. - COO*

And by the way, let me make clear that we do expect the West, as we said, to be an issue for us this year with an operating loss still, and that's included in that range overall. So I just want to make sure that you are clear on that.

Brett Hundley - *BB&T Capital Markets - Analyst*

Correct. And then maybe more of your eastern assets are back in that normalized $0.20 to $0.40 range, you're saying?

Hal Reed - *The Andersons, Inc. - COO*

Yes, that's true. Because I think the new range is a combined. So, yes, correct.

Brett Hundley - *BB&T Capital Markets - Analyst*

Okay. To your point, Michigan and Ohio really lagged harvest wise, and a lot of that fell through to your fertilizer business with volumes being down. So I was just curious if there was a way for us to quantify what that impact might have been in Q4 for Plant Nutrient? The past couple of years -- well, 2013, 2012 -- you guys have done $5 million to $6 million of earnings on the Plant Nutrient line in that quarter. And I'm just curious if you have an idea, did this late harvest take $5 million off? Do you have an idea of what that hit was?

Hal Reed - *The Andersons, Inc. - COO*

I think comparing it to the prior year, realizing the volume was down about 19% and looking at the prior year as a good year, we've called that out as a good year, I think that's a good comparison to use.

Brett Hundley - *BB&T Capital Markets - Analyst*

Okay. And then just my last question is just on rail. With potentially some things loosening up across the US rail network, I would think that helps you as it relates to your grain business, ethanol, even plant nutrient, but I would also think that when rail conditions are pretty tight, that may have actually helped your rail business specifically as it related to more cars in used and potentially better lease rates that got signed. Can you give me a sense of just if things loosen up across the rail industry this year, is that a net positive for The Andersons? Thank you.

Hal Reed - *The Andersons, Inc. - COO*

You're exactly right in your commentary. What service issues may have hurt our production and transportation issues and our business units probably did help in some respects on the lease rates and utilization on the rail side.

However, in total having good rail service outweighs for the Company the benefit that could come to the inefficient rail service that benefit that could come to the rail business. And literally I think by this fall, we have gotten back to much more of a normal pattern of rail service. There's probably some places where you can see some increased efficiencies, but it's not going to be dramatic changes in efficiency nor will it be dramatic changes in the demand for railcars.

So we've already started to stabilize there. I don't see very much of a positive impact on the businesses or a negative impact on the rail utilization. That's partially why we like to have that length of time on our average lease rate and cars across different business units. That diversification helps push those things to the side. So we're looking for that to be pretty balanced this year without much positive or negative change across your question.

Brett Hundley - *BB&T Capital Markets - Analyst*

Okay. Thank you.

Operator

Thank you. I would now like to turn the call over to Mike Anderson for closing remarks. Thank you.

Mike Anderson - *The Andersons, Inc. - Chairman and CEO*

Thanks, Sally. I want to thank you all for joining us this morning. I also want to mention for those that are interested, there are appendix slides to the presentation available on the andersoninc.com website at the Investors tab under the fourth-quarter and year-end earnings call replay. Our next conference call is scheduled for Wednesday, May 6 at 11 AM Eastern time to review our first-quarter 2015 results.

We hope you're able to join us again at that time. Until then, have a great day.

Operator

Thank you. Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.
