DEC. 3, 2018

CHS reports fiscal 2018 net income of $776 million

CHS Inc., the nation's leading farmer-owned cooperative and a global energy, grains and foods company, today reported net income of $775.9 million for the fiscal year that ended Aug. 31, 2018.

"Our fiscal 2018 results show the progress we are making on the priorities we set for CHS," said Jay Debertin, CHS president and chief executive officer. "Our year-over-year financial performance shows good improvement, our balance sheet is solid, and our relationships with cooperative owners are strong. The diverse CHS business platform allowed us to deliver improved earnings and enables us to return $150 million in cash patronage and equity redemptions to owners even as we navigated challenging market conditions."

Key financial highlights for the fiscal year that ended Aug. 31, 2018, include:

- Net income of $775.9 million, an increase of $704 million from the previous fiscal year.
- Consolidated revenues of $32.7 billion, a $646 million increase from the previous fiscal year.
- Pretax income of $671.2 million, an increase of $781 million from fiscal 2017.
- Energy gains driven by higher refinery margins and favorable crude oil discounts.
- Disposal of assets resulted in cash proceeds of approximately $234.9 million and a pretax gain of approximately $131.8 million. The cash proceeds were used to optimize debt levels.
- A tax benefit through revaluation of the company's U.S. net deferred tax liability as a result of the Tax Cuts and Jobs Act in 2017.

"As we move into fiscal 2019, we continue to build on the momentum and strong performance we started in fiscal 2018. This includes evolving and growing our core businesses in a changing marketplace and capitalizing on the value of this diverse organization to make CHS our owners' and customers' first choice," said Debertin. "We are focused on serving those who grow food to feed the world."

In October, CHS filed an 8-K with the Securities and Exchange Commission (SEC) announcing that it would restate its audited consolidated financial results for fiscal years 2015, 2016, 2017 and its unaudited consolidated financial results for the first three quarters of 2017 and 2018. The restatement was necessary to correct material misstatements related to valuation and accounting for certain rail freight contracts. The misstatements were discovered as a result of an investigation the company conducted through external counsel and under the oversight of the Audit Committee of its Board of Directors. Appropriate personnel actions were taken, based on the investigation's findings. All overstated non-cash values have been written off and appropriately reflected in the company's restated financial results. Additional information can be found in the form 10-K filed with the SEC.

Fiscal 2018 Segment Results

The following segments results have been reported for fiscal 2018:

ENERGY
The $391.0 million increase in Energy pretax earnings over fiscal 2017 reflects:

- Improved market conditions in the refined fuels business due to higher refinery margins and favorable crude oil discounts, which drove higher pretax earnings. These benefits were partially offset by planned maintenance activities at the company's Laurel, Montana, refinery.
- Gains of $65.9 million associated with the sale of the Council Bluffs pipeline and terminal and 34 Zip Trip stores located in the Pacific Northwest.
- An impairment charge of $32.7 million recorded during fiscal 2017 related to the cancellation of a capital project, which did not recur in fiscal 2018.

AG

The $344.4 million increase in Ag pretax earnings over fiscal 2017 reflects:

- Lower demand and uncertainties primarily associated with international trade, which resulted in decreased margins across multiple businesses in the Ag segment. These were partially offset by increased margins within the company's processing and food ingredients business.
- Significant reserve and impairment charges recorded in fiscal 2017 that did not recur in fiscal 2018, the most significant of which related to the bankruptcy-like proceedings of a Brazilian trading partner.
- Impairments of $26.3 million related to international investments that CHS has exited or is in the process of exiting.

NITROGEN PRODUCTION

The $9.0 million increase in Nitrogen Production pretax earnings versus fiscal 2017 reflects:

- Higher pretax income attributed to increased sale prices of urea and UAN, which are produced and sold by CF Nitrogen.
- A gain of $30.5 million in fiscal 2017 associated with an embedded derivative asset inherent in the agreement relating to CHS investment in CF Nitrogen. The gain was solely responsible for the income in Nitrogen Production in fiscal 2017, and there was no comparable gain in fiscal 2018.

The $36.9 million increase in Corporate and Other pretax earnings reflects:

- A gain of $58.2 million related to the sale of CHS Insurance, which was partially offset by lower earnings from the company's investments in Ventura Foods, LLC and Ardent Mills, LLC and CHS Capital and CHS Insurance (as a result of its sale).

Read the full press release here.