Bloomberg Transcript

Company Name: Green Plains Inc Company Ticker: GPRE US

Date: 2016-11-01

Event Description: Q3 2016 Earnings Call

Market Cap: 982.88 Current PX: 25.70 YTD Change(\$): +2.80 YTD Change(%): +12.227 Bloomberg Estimates - EPS
Current Quarter: 0.359
Current Year: 0.209
Bloomberg Estimates - Sales
Current Quarter: 960.833
Current Year: 3413.429

Q3 2016 Earnings Call

Company Participants

- · Jim Stark
- · Todd A. Becker
- Jerry L. Peters
- · Jeffrey S. Briggs
- · Carl Steve Bleyl

Other Participants

- · Sandy H. Klugman
- · Adam Samuelson
- Farha Aslam
- Brett W. S. Wong
- · Craig Edward Irwin
- Daniel Rizzo
- · Ethan Heyward Bellamy
- · Selman Akyol
- Pavel S. Molchanov

MANAGEMENT DISCUSSION SECTION

Operator

Good day, everyone and welcome to Green Plains Incorporated and Green Plains Partners LP Third Quarter Results Conference Call. Today's call is being recorded.

At this time, I'd like to turn the call over to Jim Stark. Please go ahead.

Jim Stark

Thanks, Jessica. Welcome to the Green Plains Inc. and Green Plains Partners' third quarter 2016 earnings call. Participants on today's call are Todd Becker, President and Chief Executive Officer; Jerry Peters, our Chief Financial Officer; Jeff Briggs, our Chief Operating Officer; Steve Bleyl, Executive Vice President of Ethanol Marketing; and Ken Simril, President and CEO of Fleischmann's Vinegar Company.

There is a slide presentation for you to follow along. You can find this presentation on the investor page under the Events and Presentations link on both corporate websites.

During this call, we will be making forward-looking statements, which are predictions, projections and other statements about future events. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could materially differ because of factors discussed in yesterday's earnings press release and the comments made during this conference call and in the risk factors section of our Form 10-K, Form 10-Q and other reports and filings with the Securities and Exchange Commission.

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You may also refer to page two of the website presentations for information about factors that could cause different outcomes. We do not undertake any duty to update any forward-looking statement.

Now, I would like to turn the call over to Todd Becker.

Todd A. Becker

Thanks, Jim and thanks everybody for joining our call this morning. We reported net income of \$7.9 million or \$0.20 a share. EBITDA was \$49.1 million for the third quarter. We did come into the quarter a little over 50% hedged, [ph] which had limit (1:54) on our upside, but we still participated in the margin expansion somewhat. Even with that said, we are set up well for the fourth quarter margin environment, which I will discuss with you later in the call.

Each of our segments contributed to our operating results, ethanol production contributed \$15.3 million of total segment operating income. The partnership produced a record of \$15.1 million of operating income, and our agribusiness segment had a really nice quarter with \$6.3 million of operating income, driven by continued strength of our cattle business.

Our marketing and distribution segment operating income was a bit lower than expected, but the fourth quarter looks strong. So we should see a good finish for the year based on current conditions. The consolidated ethanol crush margin, which again is operating income before depreciation and amortization from the ethanol production segment including corn oil, plus intercompany fees such as Green Plains Partners storage and transportation fees was \$52.6 million or \$0.18 a gallon for the quarter.

During the quarter, we produced 292 million gallons of ethanol, 790,000 tons of distillers grains and 72.2 million pounds of corn oil, while processing nearly 3 million tons of corn. Our yield was 2.87 gallons of ethanol per bushel of corn for the quarter, excluding the three plants added at the last week of September. Export sales accounted for 12% of the company's ethanol production for the third quarter. We also exported 18% of our distillers grains and 68% of the corn oil we sold.

The ethanol margin environment was steady for the third quarter. Gasoline and ethanol demand continue to remain 3% higher year-over-year in the U.S. In addition, the ethanol blend and the fuel supply is moving past the 10% mark. And based on the data for the first eight months of the year, ethanol exports are on track to reach approximately 900 million gallons in 2016. Q4 exports look very strong at this point.

Ethanol inventories is averaging about 19.9 million barrels over the last five weeks or approximately 19.2 days of demand. It actually feels [ph] tied to (4:00) some markets as we have seen index values firm during the last several weeks. Our production rates have dropped, as plant maintenance shutdowns continue, but we do expect that industry production run rates will move back into the million barrel per day range, which we have previously expected these run rates to be in this range that – which we discussed in the past. It shouldn't be a surprise for anyone anymore. As we have said before we still believe that strong exports and the higher demand levels we are experiencing require higher inventory levels, which is why margins have firmed and expanded this quarter.

Green Plains Partners continues to perform well. We have increased our utilization rates, increased our quarterly cash distribution once again for the fourth consecutive quarter to \$0.42 per share with a very strong coverage ratio of 1.19 times. And we remain on track to meet our growth and distribution objectives. Since the IPO 16 months ago at \$15 a share, our capacity has increased nearly 50% matching growth with Green Plains Inc. We continue to remain committed to the long-term strategy of this entity. [ph] And then as (5:03) for Green Plains Inc., in an advantaged position when looking at growth opportunities and we continue to seize the opportunity that the MLP structure has given us.

I'll come back on the call later, discuss in more detail the segments and what lies ahead for the rest of the year. In addition, I'll give you some updates on recent acquisitions we have announced as well.

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Now I'll turn the call over to Jerry to review both Green Plains Inc. and Green Plains Partners' financial performance, and then I'll come back further in the call to discuss our outlook.

Jerry L. Peters

Thanks, Todd. Good morning everyone. For Green Plains Inc., consolidated revenues were \$842 million in the third quarter, which was up \$99 million or 13% from a year ago, driven by higher volumes on products sold. Volumes of ethanol sold for the quarter were up nearly 14% to 336 million gallons, while the average realized price per gallon was 2.2% higher than last year's third quarter.

Our utilization rate for our ethanol production assets was approximately 92.5% for the third quarter of 2016, which was 8 percentage points better than the third quarter of a year ago.

Consolidated operating income for the quarter was \$30.6 million versus \$19.8 million a year ago. This \$11 million improvement is primarily because of better performance in our ethanol production, agribusiness and our partnership segments. As Todd mentioned, agribusiness results benefited from stronger cattle margins realized from sales during the third quarter of 2016.

Earnings before interest, income taxes, depreciation and amortization or EBITDA was up 35% over last year's third quarter at \$49.1 million for the third quarter of 2016, compared to \$36.3 million for last year. We ended the third quarter with total cash of \$442 million, but it's worth noting that shortly after quarter end on October 3, we spent approximately \$120 million of that cash to close the Fleischmann's Vinegar acquisition, leaving about \$320 million of cash going forward.

Total capital expenditures in the third quarter were about \$7 million, and our estimate for full year growth capital expenditures – our forecast is – currently stands at about \$50 million to \$55 million.

Total debt stands at \$923.5 million at the end of the third quarter. This balance includes \$229.1 million on our commodity revolvers, which are secured by significant working capital positions.

To fund the Abengoa ethanol plant acquisition and the Fleischmann's Vinegar acquisition, we issued \$170 million in convertible notes during August, which added about \$130 million of debt on our balance sheet. In addition, the partnership utilized its revolver to fund the \$90 million acquisition of Abengoa ethanol storage assets. That revolver now sits at \$132 million drawn.

With acquisition activity and the variability in the ethanol crush, we've modified our leverage ratio included in the slide deck to pro forma the impacts of our acquisitions to a full year period and utilize the mid-cycle consolidated crush margin based on our actual experience over the last five years, which is about \$0.20 per gallon. This is in line with the metrics we use to manage the balance sheet and shows our conservative approach to managing our leverage even as we have made nearly \$500 million in acquisitions recently.

Our leverage ratio on that [ph] net (8:42) basis is 2.6 times on our quarter-end term debt balance before considering cash. Adding the Fleischmann's acquisition and financing, we're currently at 2.8 times on our term debt balance of \$826 million as we sit today.

For Green Plains Partners, we reported adjusted EBITDA of \$16.8 million, which was an increase of 28% from the third quarter of 2015, which was at \$13.1 million, the primary driver being; 36% higher throughput volumes on our ethanol storage assets. Green Plains Partners had 292 million gallons of throughput volume at our ethanol storage assets, which was approximately 77 million gallons more than the third quarter of last year.

Distributable cash flow was \$16.2 million or \$3.4 million higher than the \$12.8 million reported a year ago. Maintenance CapEx was about \$77,000 in the third quarter of 2016, which is consistent with our expectations going forward. You'll note we ramped up our distribution by a \$0.01 from our previous rhythm of [ph] one half cent (9:54) this quarter. This was a result of our strong coverage ratio and expectations of additional DCF from the recent acquisitions. The partnership's distribution of \$0.42 per unit results in a coverage ratio of 1.19 for the third quarter and

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1.11 on a combined basis for the fourth quarter since the IPO.

Now, I'd like to turn the call back over to Todd.

Todd A. Becker

Thanks, Jerry. So six weeks ago, we announced the completion of the acquisition of the three Abengoa ethanol plants which I'm happy to report were successfully integrated into our platform already. I think it's important to point out the savings we generate when we acquire assets at Green Plains. At these three locations, on day one, we were able to reduce annual expenses by \$6 million on chemicals, insurance, railcar leases and other items that our purchasing power brings to the table.

Now that we've had the opportunity for our team to be at these plants, we are finding more opportunities to reduce cost and improve operational efficiencies. The experience we have gained with our existing platform helps to realize further savings, while driving operational improvements at these locations. We expect these plants to contribute nicely to the fourth quarter results.

The current ethanol margin environment [ph] has us locking away (11:09) very little on the forward curve as [ph] the spot margin (11:13) remains the best margin across our platform. We came into the quarter with approximately 18% hedged for the fourth quarter production gallons and now have about 34% of the quarter hedged as of today, mainly because we're done with the first month. We have not done any work beyond the current quarter.

The consolidated crush margins have averaged in the high teens to low-20s for the first part of the fourth quarter. [ph] Yet, (11:37) the market remains highly inverted. So if the rest of the quarter rolls up through the end of year, the ethanol business will see the best quarter overall for 2015 and 2016. I will talk about the company overall expectations across the board in a few minutes.

Our thesis for 2017 remains intact. We expect gasoline demand in the range of 145 billion to 146 billion gallons next year, leading to about 14.6 billion gallons of ethanol demand at the 10% level. Exports next year should be approximately 1 billion gallons and we continue to believe that E15 adds 200 million gallons plus or minus of incremental ethanol demand in the U.S. That totals 15.8 billion gallons of total demand for 2017, and year-to-date 2016 the annualized production run rate for the industry was just under 15.1 billion gallons.

If the industry average is 1 million barrels per day next year, that's really only 15.3 billion gallons of production, our belief with the dynamics of the world's sugar market that Brazil will produce [ph] less (12:44) ethanol for export next year than they did in 2016. So with that math, you can see the world market could be structurally short of product at the different times of the year.

Distillers grains had its challenges over the last recent weeks and require watching for the rest of the year. Even with the weakness we have [ph] seen are (13:01) relative value, the ethanol crush had compensated for this in some respect. We believe world demand for this quality livestock feed product will remain high. As with the Chinese duty imposed a couple of months ago, [ph] the storages (13:13) will continue to find a home in the global feed supply. Even with that said, China still continues to execute on sales and we've seen small parcels trade recently into the market.

And then finally with regard to corn supply, the harvest continues to prove large and plentiful. The Western corn basis is very weak and the Eastern basis is unusually strong. In fact, we're starting to break trains over the gateways to address this issue. Yields remain solid, and whether one bushel either way is the final number, we have a very high excess stocks of corn that will need to find a home.

As we look out into 2017, there is [ph] no one insight (13:47) for supplies, with Argentina and Brazil expected to increase production by at least 25 million tons of corn. So even with reduced next year U.S. planting acreage expectations and a possible drop in yield, our ending stocks for corn will actually grow as there'll be plenty of export corn competition with the U.S. So why am I talking about this, because in an extended low corn price environment and a very stable and potentially stronger oil price environment, our molecule we produce will remain a very competitive

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blend stock globally.

I wanted to repeat a few comments for those who cannot join us a month ago or so on the Fleischmann's Vinegar call. As you know, we acquired the company for \$250 million and remain extremely excited about the acquisition. The company is a nationwide supplier of concentrated and specialty vinegars, with a network that spans across the United States as well as globally for some of their products. We believe this acquisition takes advantage of our platform and our expertise that we have been building over the last eight years.

[ph] The main link (14:47) comes from one interesting fact that primary raw material in the distilled white vinegar production process is food-grade ethanol. As we have spoken with you before, moving into adjacencies that leverage our core capabilities between distribution, transportation, logistics production and risk management are part of our strategic roadmap. It also broadens our reach into food ingredients markets, building our higher margin production capabilities, adding value to our end products which we have been working on over the last several years. This addition brings opportunities for ongoing consolidation in a relatively fragmenting global vinegar market and we also believe this supports our expansions into other developing markets off this platform, more specifically in food pharma, food preservation and agriculture.

The value proposition for Green Plains has always been the same: reduce the volatility over the long-term and give our investors a stable and predictable earnings stream. The vinegar business is a non-cyclical end market which has allowed Fleischmann's to maintain stable margins in volatile commodity markets. We believe Fleischmann's has above-average growth capabilities mainly because of some of the on-trend products and other innovations that current leadership has developed over the recent years.

The final and very exciting aspect of this is we have accelerated our plans to engineer and upgrade one of our plants to produce beverage-grade alcohol hopefully within the next year or so. Now that we have York, Nebraska, we are selling B-grade industrial alcohols as well.

Let's talk a little bit about the fourth quarter [ph] which (16:15), so for the fourth quarter, we will have the first full quarter of Fleischmann's earnings that will contribute to our profitability overall. Based on current markets and curves versus the third quarter, we expect top line growth, better earnings per share and overall EBITDA which is tracking over 30% better in the fourth quarter than over the third for the total company.

Keep in mind, we have 66% open for the quarter at this point of the crush, so there can be plenty of volatility, but the fundamentals remain strong. The numbers are bigger than ever as our production levels will be a record for the company with the new plants added to these numbers. We will assess the situation very closely, yet even with the potential U.S. demand starting to decrease with winter coming, we have seen a spike in export interest which has kept our markets firm.

We believe the industry has an interesting situation in brewing as some of the plants across the U.S. will have to slow towards the end of the quarter because they've reached their maximum RIN-generating capacity. We have seen some evidence of that and it could be a factor that keeps things interesting.

While deploying nearly \$0.5 billion, as Jerry indicated earlier, of capital in acquisitions, for a small company like Green Plains, it is very meaningful. We can still look for additional opportunities to expand our company as our liquidity remains strong and our earnings power has yet to harness itself fully. The five points of capital allocation remain the same, but growth is key for us and we want to take advantage of opportunities to add quality assets to our platform when those opportunities are available. As our history shows, those opportunities can be lumpy.

In closing, I wanted to leave a few metrics in everybody's mind. We ended the year with close to 1.5 billion gallons of ethanol production, 4 million tons of distillers grain production, we used 50 Bcf of natural gas in our process and we processed 15 million tons of corn across all of our plants, with that equal to about a third of all of the corn being exported out of the United States. We produced 363 million pounds of corn oil - we will produce 363 million pounds of corn oil in 2017 and we expect to have somewhere in the range of 65 million to 70 million bushels of grain storage by the end of 2017.

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We have [ph] 72,000 head of cattle (18:34) on feed and we expect to expand that to 80,000 head over the next six months. We're now the largest producer of industrial vinegar in the world. We have an MLP worth \$670 million market cap this morning. We ended the quarter with \$440 million total cash, with now around \$320 million cash after the acquisition. So we're in a great liquidity position as well.

So to close, I appreciate the hard work and dedication of our employees who continue to meet the challenges of a growing business, while maintaining a safe workplace for all of us. I appreciate the confidence of our shareholders who're trusting us to be stewards of the capital invested in Green Plains as well.

I'd like to thank everybody for joining the call today and I'll ask Jessica to start the question-and-answer session.

Q&A

Operator

Thank you. [Operator Instructions] We'll take our first question from Sandy Klugman with Vertical Research Partners.

- <**Q Sandy H. Klugman>**: Good morning. Of the 1 billion gallons in ethanol exports that you're anticipating for 2017, could you discuss what's your expectations for China are?
- <A Todd A. Becker>: Yeah, I mean, China is in the number, but I think it's driven by really [ph] a weighted (19:53) between countries like China and Brazil and Southeast Asia and Canada. And so we haven't really put those numbers out in total, but we are starting to see a strong export pattern in Brazil all the way through March or April next year. It is over \$1 almost \$1 advantage to on the arbitrage open to about \$1. So we expect Brazil to continue to take our volumes, which they have started to take this quarter. And then we'll expect some return from China as well next year as we saw a strong first half from them, a little bit less in the last half, but they still have continued demand that they're going to need to buy. So overall they will contribute, we don't have an expectation, final expectation for next year, but we'd expect it to be a couple of hundred million gallons.
- <Q Sandy H. Klugman>: Okay, great. Thank you. And then in the past, you've mentioned that the scale in ethanol is important as it provides the ability to run the plants to maximize margins. With the new capacity that you've either brought online or acquired over the past year, do you believe you're at a point now where you can achieve this goal? And if not, how much additional capacity would you anticipate needing to get there?
- <A Todd A. Becker>: I think we're approaching scale. I think what we have now is even when we had plants as I just illustrated to you that savings that we realized across our platform, and so I think we're approaching scale. I think we have still more to go. I think scale in this industry should is in excess of 2 billion plus gallons and obviously that's been a goal of ours as a minimum over the next couple of years. So we continue to search for opportunities, and with scale comes opportunities around corn buying, producer programs, the way we sell our ethanol and distribute our ethanol both domestically and globally, building the Jefferson Export Terminal and using that to leverage off of our production base and so on.

So we think – we believe that things like our corn oil production and distributing that globally can only happen the way we do it because of the size and scale of our platform being able to serve every market, in every corner of every market because of where we sit. So I would say we're starting to approach scale and it's also defensive. I mean, in a market where margins contract and the market knows that we're willing to slow down our production, when you can slow down a bigger production total capability which would have a bigger impact overall, we think that that's also part of the scale equation as well.

<Q - Sandy H. Klugman>: Thank you very much.

<A - Todd A. Becker>: Thank you.

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Operator

We will now take a question from Adam Samuelson with Goldman Sachs.

<Q - Adam Samuelson>: Yes, thanks. Good morning, everyone.

<A - Todd A. Becker>: Good morning.

<A - Jerry L. Peters>: Good morning.

- <Q Adam Samuelson>: Maybe first, Todd, on the forward sales in that export, just want to be clear you said you didn't have much sold for November and December, and so should we interpret that while you're confident on the export opportunities for the industry, you actually don't have a lot of tons, a lot of gallons committed to the export market for late this year?
- <A Todd A. Becker>: Oh, what I was saying is that we don't have a lot crushed for November and December, but we do have a significant portion of our production sold physically for November and December, in fact our ability to sell much more in the export markets, I would say, is somewhat limited. It will probably be a strong quarter for our export sales total overall as we're starting to see more and more interest and we're starting to convert sales that we had domestically into the export markets on all grades which we can produce. And so I would to clarify, we don't have a lot of crush on for the rest of the year, but we do have a lot of physical sales on and a lot of that is targeted at the export markets.
- <Q Adam Samuelson>: Great, that's helpful. And then so then just thinking on 2017 and you illustrated some of this in your closing remarks, but can you talk about the projects that you have underway today that, Port Jefferson Terminal, the food-grade ethanol, some of the organic debottlenecks at your existing plants, things that you have underway today that are not yet contributing to the base and just remind us of the timing and how much of that CapEx spend rolls over into 2017?
- <A Todd A. Becker>: Yeah, so [ph] when we (24:15) start with the Jefferson Terminal, we expect first production to be online there mid-2017, July, August, somewhere in that range. We have finalized tank designs, we have started to let out certain contracts, we have started to move dirt and we expect that project to contribute to the last half of 2017. Food-grade ethanol would be as earliest in the last quarter of 2017, probably it takes us a year to retrofit and/or build out new capacity, depending on which we what our final decision is, although we are going through engineering of both situations right now. If people remember in the industry, York used to make beverage-grade. We don't know if that's where we'll put it or we'll put it at one of our other plants depending on not just the needs of placements, but also logistical needs of other customers globally that have come to us for more B-grade and more beverage-grade alcohols.

Some of the organic projects that we're working on, a lot of that has come online already this year and is in our production capacity. We still have some final projects yet to finish out. But in general, most of what you're seeing in our 1.5 billion gallons would be a lot of the organic projects that came online already. So you'll see that contribution in an expanded margin environment in – potential expanded margin environment through 2017. So a lot of what we completed you're starting to see the benefit of those, whether it's in yield with corn oil, whether it's in corn oil as well and the things that we're doing there. So our CapEx spend right now, Jerry, you want to comment on that in terms of where we are at?

- <a Jerry L. Peters>: Yeah, I would say, for 2017, we really haven't rolled up the numbers and done our final budget estimate. But I think it should be somewhere about in the same category, same order of magnitude as this year, probably around \$30 million or so on our base business, plus about \$25 million to \$30 million for the Jefferson Terminal. So I would say our total reasonable number right now for expansion CapEx is about \$50 million for the company.
- <Q Adam Samuelson>: Okay, that's helpful. And then just one final one for me, on the slides on the liquidity and capital structure side, this pro forma EBITDA that you've introduced with \$0.20 a gallon in crush margin, just wanted to be clear, that's your ethanol crush EBITDA or that's a consolidated EBITDA or includes agribusiness, marketing and

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distribution, just wanted to make sure what's in and what's not in that number?

- < A Jerry L. Peters>: Yeah, that's the consolidated crush EBITDA.
- < Q Adam Samuelson>: Exclusive of the other segments?
- < A Jerry L. Peters>: Well, then what we do is we add in the other segments on a trailing 12 basis.
- <Q Adam Samuelson>: Got it. Okay, that's very helpful. I appreciate it.
- <A Todd A. Becker>: Thank you.

Operator

We'll take our next question from Farha Aslam with Stephens, Inc.

- <Q Farha Aslam>: Hey, good morning.
- <A Todd A. Becker>: Good morning.
- < A Jerry L. Peters>: Good morning.
- <Q Farha Aslam>: Just a clarification. You mentioned the low teens, high 20s crush margin, was that what you've achieved? What you're achieving in the fourth quarter? Could you just give us more detail on crush margins that you're seeing in the fourth quarter?
- <A Todd A. Becker>: Yeah, so quarter-to-date, we have seen high teens, low 20s across our platform for the month of October. The month of November is rolling out to similar levels, but is highly inverted. So if you go to December, it's about a \$0.10 inverse from there, if not more based on the current market. So and that's how we started out. When we did October at \$0.20 a gallon, roughly, let's just say in between high teens and low 20s, I just used an average, November was a \$0.10 inverse and December was a \$0.10 inverse, so it's \$0.10 [ph] and then (28:06) negative when we're locking away October. Now that we're in November, the forward the crush has rolled up to similar levels.

But we'll have to wait and see how full November rolls out. There's a lot of volatility, but looks like it's trending our way to at least maintain those same levels. And then December still remains at least \$0.10 discount to the spot market, if not more in some days. So hopefully that will clarify for you.

- <Q Farha Aslam>: That's helpful. And so the December inverse, is that to do with DDGs, and the fact that we're going to have more restricted DDG markets because Vietnam might be out of the market through U.S. DDGs?
- <A Todd A. Becker>: No [ph] all I have (28:48) no, DDGs are already all fully priced into the curve between November and December already and the market is pretty well flat for that. It's all driven by the ethanol by the ethanol inverse. And the difference there is, when you look at the market, you've got a no-Dec futures inverse, right now it's showing \$0.07 and a no-Jan futures inverse is showing \$0.125. So it's really driven by the fact that corn is flat [indiscernible] (29:17) as it always typically has been and ethanol is flat to an inverse as it always typically has been. So the market doesn't reward you beyond 30 days to 60 days right now, but even though it's continuing to roll up for several years except for a few quarters, we see some oversupply. So it's really driven by the ethanol curve in total.
- <Q Farha Aslam>: That's helpful. And what do you think your production in the fourth quarter for ethanol will be and out into next year, what should we model production for GPRE?
- <A Todd A. Becker>: I think production will be over, should be over 330 million gallons or so for the third quarter for the fourth quarter and we would use somewhere between, depending on utilization rates, somewhere between 1.42 billion to 1.475 billion, probably just based on utilization, but depending on what we do on organic, it could go higher than that. So in general pushing towards 1.5 billion gallons, but if you want to be a little conservative, you can use, depending on shutdowns and maintenance issues, you could use 92% to 94% of that. And in export, you have to remember that we can push hard if we don't export, we would run [ph] full out hard (30:31), but when we export, we



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have to slow down our plants. So when we make certain specs, the reason we don't – in an – big export year, and if we're a big participant in that, we won't run our platform at 1.5 billion gallons because we have to slow down and make all the different specs. We get paid for that in the margin, but we won't push as hard on the asset.

- **Q Farha Aslam>**: That's helpful. My final question, Jerry, interest expense, [ph] what's the convert (30:58) for the fourth quarter and into next year?
- < A Jerry L. Peters>: Interest expense for the fourth quarter should be somewhere around \$15 million and that'd be a reasonable run rate going forward.
- <Q Farha Aslam>: Okay. Great. Thank you very much.
- <A Todd A. Becker>: Thank you, Farha.

Operator

Our next question will come from Brett Wong with Piper Jaffray.

- <**Q Brett W. S. Wong>**: Hey, guys. Thanks for taking my question. First, I just wanted to dig in to the comment you had, Todd, and based on your initial outlook into next year, you talked about the potential would be short of product, is that exacerbated by the facility RIN generation capability limitations?
- <A Todd A. Becker>: No, I don't think so. I think we're just we just plug in a million barrels a day. I think that's got basically the RIN that will be the RIN generating capability of the industry next year plus or minus a couple of hundred million gallons maybe, but that can go for export. It's really what if you're if you're pushing hard and you can't make exports back and you reached your RIN limit and there are plants that cannot make exports today out there, then probably you have to slow down. So but in general, we just took all of that into consideration and plug in a million barrels a day for 2017, which is 15.3 billion gallons, that's the starting point and then from there you can take all the other demand numbers and see that the math doesn't work very well.
- <**Q Brett W. S. Wong>**: And so then following up on that, do you think that there's going to be some appetite for building out as margins improve in that kind of a structure?
- < A Todd A. Becker>: No, building out more capacity?
- <Q Brett W. S. Wong>: Yeah, yeah.
- <A Todd A. Becker>: You know there is that one plant, there is maybe one plant or so that's on the board that is being built right now across the board, but I don't think in general people have big plans to add lots of capacity from building new plants. I mean, there's rumors of stuff going on, but in general I'm not sure there is the appetite at the banks to finance those type of projects as well on one-offs. And so our view is that we should be pretty steady at a million barrels a day without a significant plus or minus based on any new capacity.
- < Q Brett W. S. Wong>: Okay. And would you guys be considering building new capacity or you're going to stick at looking at brownfield and M&A opportunities?
- < A Todd A. Becker>: Yeah, zero consideration of building new capacity, greenfield capacity at all in the United States.
- <Q Brett W. S. Wong>: Okay. And then just one last one on the mandate, I know, ethanol demand is driven by octane, so really the mandate doesn't matter. But obviously there's a lot of perception to it. Just wondering your thoughts as we should be [ph] getting (33:52) some determination or maybe not given the election around the 2017 [ph] ordeal final (33:56), any thoughts there and impact if we potentially see a decline to what that expectation would be?
- < A Todd A. Becker>: Yeah, I mean, I think we have a commitment from both candidates that our view is there's little volatility around that the mandate will continue to move forward. Obviously, what that number is, is still driven



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by – what we're seeing is around gas demand, plus some E15 demand, so our view is that it will remain steady. And so from a RIN standpoint, there is no shortage of brewing. There's always RIN noise that's out there is really driven by the haves and the have-nots, who has RINs and who doesn't have RINs and they're all in the same industry. So there's inconsistency within our industry about whether you want to change the program or not, where half of the refining industry says don't change it because I've got downstream capabilities generator RIN and half the refining industry says change it. They don't have it and it's truly a zero-sum game and it's very interesting to watch this play out as they in fight with each other and don't fight with us at this point.

So I think that's a fascinating thing to watch in our industry play out. So our view is that we will have a number that makes sense for next year based on what the calculations have been around true demand for the product, whether that pushes 15 billion gallons or not, we have no say in that, but we're not unhappy with the last result and I don't believe we'll be unhappy with the next result.

<Q - Brett W. S. Wong>: Very good. Thanks so much.

<A - Todd A. Becker>: Thanks.

Operator

We'll take our next question from Craig Irwin with ROTH Capital Partners.

<Q - Craig Edward Irwin>: Good morning and thank you for taking my question. So Todd, over the last couple of years, you've evolved the platform at Green Plains really significantly, right MLP formation, the increased scale, some of the other new initiatives that you stepped into. I wanted to enquire a little bit more about how this has evolved through M&A strategy and your thinking on M&A looking forward.

So in your comments earlier on the call, you mentioned 2 billion gallons as a scale you want to reach over the next couple of years. But maybe can you talk a little bit about whether or not you see a ceiling on potential ethanol market participation for Green Plains in the U.S.? And then can you maybe help us understand your thinking about the balance between pursuing stable profitable businesses like Fleischmann, things that don't have the traditional volatility in the – like the ethanol business and the focus on extracting the synergies of the partnership to help grow your footprint in the ethanol markets?

< A - Todd A. Becker>: Yeah, so that's – it's been our strategy really if you go back of generating non-ethanol operating income to smooth out the results of the volatility of the ethanol platform, which really has all of the earnings, real earnings upside power. So if we can get through the volatile downsize of this market we've positioned ourselves very well for events that happen and we've seen them happen several times over the last eight or so years.

And so if we address first the capacity that we have in the ethanol segment of 1.5 billion gallons with aspirations to get bigger in the business, we believe long-term this business is very solid and it's well beyond now just producing ethanol. I mean, the amount of corn oil that we produce and distribute globally has significant impacts as on-trend veg oil or veg-diet happening in animal sectors moving away from beating animals to animals, we think that we're a direct beneficiary of that in the world today by the vegetable oils we produce as an industry in total, it's not just at Green Plains and that's been a – when you have a base \$0.05 a gallon of corn oil in your crush, that is a pretty good starting point that we didn't have eight years ago.

So when we talk about extracting all of the synergies, I don't think – I don't believe we're done in doing that. I think there's still upside opportunities and moving up the value chain just in the things that we produce. But in general, when you look at the earnings power of our platform right now, if the crush moves every \$0.01 now over a 12-month period, it means \$15 million of earnings capacity. Obviously if it goes down, it's the opposite. But it has significant scale. I mean it's the law of large numbers, which we've been basically saying since about 700 million gallons to watch the law of large numbers and now we're at 1.5 billion gallons and it becomes very meaningful very quickly on very small moves that can generate lots of free cash for our shareholders.

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So we like the business. We believe in the long-term viability of the business. It's been around for eight years in the modern form or 10 years now. It's not going away. The industry is extremely healthy, debt free, in a very good competitive situation against the other molecules that are out there. And we solve the world's ability to be or we solve the world's shortage of any agricultural products through technology of the corn plant. So we're going to be flushed with our raw material for years to come and there's only one place in the world to get rid of it, and that's in the ethanol industry and potentially through expanded blend.

So we believe that this is a great business to be in. It starts out with 15 million tons of processing capacity, equivalent to [ph] the third (39:46) of all the U.S. exports out of the United States to the world of corn and that's just our company alone. And so just think about that across our industry. So we believe in a long – so we believe that we want to continue to acquire assets there. But on the other side, [ph] there's always there a (40:03) ceiling. I won't say there is a ceiling to what we want to do, but obviously it still come, it's always hard to buy healthy industry assets and good ones, that -and they don't come up for sale very often. So you got to be somewhat, have the ability then to buy things that maybe some others don't want, but you can fix them and we've been able to do that. So we've developed a nice portfolio of assets across multiple sizes and multiple technologies that just seem to work for us overall [ph] of (40:33) the portfolio.

So then you go on to the non-ethanol operating income, which we've been focusing on. Our first goal was \$100 million. I would say that our goal is significantly higher than that at this point. So we've reached the \$100 million, and obviously – we've [ph] changed our (40:48) segments a little bit, but we reached the \$100 million two years ago, and now with Fleischmann's, I think we'll surpass that and move into possibly higher goals and aspirations to non-ethanol. And so, all of that, again, plays out very well when you start out with a \$0.05 gallon corn oil, before you even add any value to that and you add in another \$100 million to potentially \$200 million, which is a possibility of non-ethanol, that's a great base place to start before you even get an ethanol margin over and above that.

So, we have aspirations to grow both sides. Our aspirations are – have typically been bigger than our balance sheet in the past, but we continue to find ways to bootstrap our way into acquisitions, continue to focus on debt repayment, continue to focus on allocation of capital and that model has worked very well and the markets have given us opportunities to do that. So it's all the same as it was five years ago. It's just in bigger numbers now. A long answer to a short question I think so.

<Q - Craig Edward Irwin>: But a good answer. Thank you. So my second question is about the hedging strategy. So 1.5 billion gallons is very different than 1 billion gallons, when you start thinking about potential margin call implications on your under hedge positions and some of the balance sheet management issues that you have to handle to facilitate your hedging program. With the increased scale that you've seen in the last year, do you foresee potentially changing your strategy around hedging volatility out of the P&L, do you see this maybe impacting your value at risk. Can you maybe discuss this a little bit more broadly?

<A - Todd A. Becker>: Well, I can go back all the way when we had 330 million gallons and we were worried about margin calls. So – but we also had a lot less cash on the balance sheet. So when we look at it today, yes, I mean there's no doubt, we have to be a little bit more nimble in how we think about hedging out gallons and be very thoughtful about that approach. And so we probably can't hedge today a half a year of production and be responsible if the market would blow out \$0.25 a gallon from our hedges and have to make margin calls and put the company at risk, we will never do that. So while it adds more complexity, I would tell you it also adds more opportunity. So we'll be hedgers. We'll have to select our points now, where we see the best opportunity to hedge, but we'll also not be able to as a percentage walk into a year at this point and hedge as big of a percentage as we might have been able to do in the past, just because the need to manage the balance sheet in a expanding margin environment.

So yes, you are correct. But I think it also brings opportunities as well that have great earnings power capabilities and we can manage the downside. So, if we can get to that [ph] 100 million to 200 million gallons (43:54) – \$200 million consistently on non-ethanol, and we could add \$0.05 a gallon, which if we do that, that becomes a \$75 million a year on corn oil roughly and the capability there. You add that all together and you start that as your basing point with another \$300 million to \$400 million of cash on the balance sheet. I think we have ability to hedge. We may not get to those large percentages as we have in the past, but we'll be selective on where we really feel like we get the bank – best bang



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for our buck. But our value of risk certainly is increasing overall as a portfolio. We call that's a natural position value at risk only because of the size and scope of our company at this point, not because we're putting more risk on.

<Q - Craig Edward Irwin>: Great. Thank you for that. My last question is around exports. So also on this call you've said that export gallons tend to be a little bit more profitable than domestic gallons. Can you maybe give us a little bit of color there?

And second part of the question is 12% this quarter; you've had healthy numbers over the last several quarters. Do you see – well, maybe can you share with us an approximate range where Green Plains could achieve as far as percentage of gallons of export volumes in any individual quarter given the potential for much greater demand overseas?

- < A Todd A. Becker>: Jeff, you can comment first on how many of our plants of the 2017 can make export spec, and then I'll comment on what our capability is.
- <A Jeffrey S. Briggs>: Yes, most of the Delta-T plants, actually all the Delta-T plants can make a variety of export specs; Canadian, European, [ph] A&P (45:32), Philippines spec. And so roughly just under half of our existing fleet can do that. And even some of our existing ICM fleet can make some of the specs, but not all. And so, one of the things that we have been doing is trying to make our fleet more robust to give us more optionality around the export spec opportunities that are out there, and when we look at quoting opportunities, [ph] if we just (45:57) call in terms of destination, origination, as well as the local basis numbers that we have to have to make that switch for the reduced run rate that Todd talked about earlier.
- <A Todd A. Becker>: Yes. So how we look at it is that, our production breakout, last quarter, we produced of the 292 million gallons that we reported, we were able to produce roughly 45 million gallons or so of export spec in all different shapes and sizes. So, when we produce right now about 10% of the nation's ethanol in our platform and we have exported more than that, which would tell you that, we have the capability to do more. If you take half of our fleet, which is Delta-T, roughly Delta-Ts or [ph] bush as well, they have (46:56) capabilities to produce a lot of exports. So we could produce a significant portion of what's needed out of the United States, but obviously we have competition to do that. So when we want when somebody wants our product so for example this quarter, when we only exported 12% of our production, with margins expanding, we weren't willing to sell the spread because we felt that margins would expand through the need to slowdown and we wouldn't get and we wouldn't earn enough return on that investment to make the slowdown.

Given looking forward in this quarter that we're in today, people call it or buyers are calling us today and [ph] that bidding enough for us (47:42) to slowdown. Now whether they can go get it somewhere else, that's up to them or they have to call it back and pay us more, and we'll slowdown. So whether it's a \$0.03 premium, a \$0.05 premium, or a \$0.10 premium, which is all in the range of what you get for all these different specs, you want to be able to get paid for slowing down. Otherwise, losing the efficiency of running at full rate and at full quantities is not worth \$0.005 or \$0.01 here and there.

So you have to be really committed to making sure that you get paid enough to not risk the efficiency of slowing down the whole machine. Because when the machine slows down, you lose other efficiencies as well. And so we watch that very closely. But we're still focused on disappearing volumes out of the United States. So we're always an aggressive seller. But I would say we're very sensitive to the value that we get and so it's hard to quantify in any given quarter what the market's going to do.

Q - Craig Edward Irwin>: Great. Thank you very much for taking my questions.

<A - Todd A. Becker>: Thank you.

Operator

Our next question will come from Laurence Alexander with Jefferies.

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<Q - Daniel Rizzo>: Good morning, this is Dan Rizzo on for Laurence. Just in terms of ethanol production as you look into the fourth quarter next year, do you expect any downtime in your facilities or in the industry?

< A - Todd A. Becker>: In the fourth quarter of this year?

<Q - Daniel Rizzo>: Yes, and into 2017.

<A - Todd A. Becker>: Yes. So we're just finishing up our production downtimes for maintenance turnaround and the industry is still in the middle of some of that going on, we'll still be turning around plants all the way through December as we push the maintenance off from the third quarter into the fourth quarter a bit, mainly driven by the inverted margin structure that we saw. So we're – but we're still going to produce in that 330 million gallon plus range for the quarter with a big maintenance turnaround quarter.

I think the industry on its own is in the middle of maintenance turnarounds, which is why we're not producing 1 million a day, but we'll probably pop back up to 1 million barrels a day quite quickly. The industry is typically, historically has run in that 92% to 93% run rate across the whole industry. So what's that driven by – it's driven by downtimes, unpredicted downtimes, as well as maintenance turnarounds, as well as some slowdowns due to market conditions at any given time during the year. So I think that will stay consistent throughout the year.

<Q - Daniel Rizzo>: Okay. Thank you very much.

<A - Todd A. Becker>: Thank you.

Operator

Our next question will come from Ethan Bellamy with Baird.

- <**Q Ethan Heyward Bellamy>**: Hey guys, few questions. On the Jefferson Terminal, what is the latest thought on the timing of dropping that down to the MLP?
- <A Todd A. Becker>: So we're in a marketing right now of Jefferson Terminal at between ourselves and our partner. Once it's determined that we have good long-term contracts in place, at that point I would anticipate we would offer that to the MLP for drop down to somewhere in between now and completion. I think we'll have the opportunity at the MLP to look at that asset and make a determination, as well as at Green Plains to offer that asset to the MLP, Jerry anything else on that.
- <A Jerry L. Peters>: No, that's exactly right. Yes.
- <Q Ethan Heyward Bellamy>: Okay. That's helpful. And then regarding the RIN compliance issue at the refineries, do I understand it correctly that you guys are completely indifferent to where the point of compliance is or you'd better off when the ethanol demand market better off if the status quo prevails?
- < A Todd A. Becker>: No, we're not indifferent, I can tell you that. And I have everybody at everybody at the table around me making sure that I say that, Steve you want to comment on where we're headed with that?
- < A Carl Steve Bleyl>: We just want to have Growth Energy to put out a letter on it to the EPA and they were stating that we're looking at the point is to remain where it is with the original RFS right now. That's our stance on it.
- <Q Ethan Heyward Bellamy>: And what would the downside be if it's shifted?
- <A Carl Steve Bleyl>: The opening of the RFS.
- <Q Ethan Heyward Bellamy>: No...
- <A Todd A. Becker>: [ph] Opening up of (51:53) the whole regulation. And so at this point we feel like it's worked so far, the zero-sum game that we're talking about as we said the haves and the have-nots, the have-nots are complaining about it and the haves are not. And the haves are very big oil refining and distribution companies. So let's



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not – it's all – those are all business decisions, the last time [indiscernible] (52:16) happened as well. We pointed out those were business decisions made to get out of the – to get out of the distribution and/or retail business. And if you made a decision they weren't expecting that this would be the market that they would make the decision in. So the companies that made the decision to expand in those are the beneficiaries of that and the two of them are trading with each other, and there's a winner and there's a loser. But I don't think that we have to be the – we're not to be the gatekeeper on that.

- <Q Ethan Heyward Bellamy>: Okay. And then lastly, perhaps somewhat related, are there any specific risks or opportunities around the election for you?
- <A Todd A. Becker>: I don't think so. I mean obviously both candidates have made a commitment that they support the renewable fuel standard, and we're going to take them for their word. I think that depending on how Congress goes, obviously there's always things that we watch there closely. At times this is a Republican program and at times this is a Democrat program, it all depends, which way the winds are blowing. But in general, I think still think we have enough support to continue on with the program. So while we certainly are going to watch Ted Cruz's antics when he returns back into real life, I think that other than that there will be the people that try to fight this renewable fuel standard, but I do believe we still have enough support for our program going forward. [ph] And Steve is going to comment one other thing (53:54).
- <**A Carl Steve Bleyl>**: One other thing on the point of obligation we talked about, I think worth considering and mentioning is, remember there has been investments by a lot of retailers now to where the point of obligation is for E15. So they've gone forward with the incremental blending. So to change the point of obligation, it kind of [ph] cuts the legs up under (54:12) those guys at this point too.
- <Q Ethan Heyward Bellamy>: Understood. Thank you.
- <A Todd A. Becker>: Thanks.

Operator

And our next question will come from Selman Akyol with Stifel.

- <Q Selman Akyol>: Thank you. Good morning, Todd. Just most have been asked and answered, but just going back to the Jefferson Terminal, would you say your outlook now is better than it was when you first started to make the JV or is it just about the same?
- <A Todd A. Becker>: It's about the same, I mean all of the assumptions we made are still intact. Obviously, world demand continues to increase for our product and we think it will be a highly efficient be most efficient and best utilized terminal in the Gulf for our product, both inbound and outbound because of the multiple modes of transportation that can hit that terminal. We've a lot of interest during the open market season for it. And with that said, I think we're on track with all of the assumptions that we made. So I wouldn't say better or worse, I'd just say on track.
- <Q Selman Akyol>: Okay. Fair enough. And then just going back to the acquisition. Do you see any additional plants coming for sales you look out into 2017? Could there be another meaningful acquisition for you out there in terms of being able to pick up several plants at a time?
- <A Todd A. Becker>: I still think there are plants that will trade. We don't know, which ones are going to be or who's going to decide it, it's the right time to go market a plant. We continue to talk to lots of potential acquisition targets and anybody knows us, knows that we're focused on growing the business. So but it's lumpy, we can go a year [ph] and not getting and all of a sudden (55:52) get buy and that's what happened just here recently. But we are focused on acquisitions and continually looking for opportunities and we are starting to see few here and there start to at least test the waters again, and walk away and see what happens.
- <Q Selman Akyol>: All right. Thanks very much.

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<A - Todd A. Becker>: Thanks.

Operator

Our final question will come from Pavel Molchanov with Raymond James.

- **Q Pavel S. Molchanov**>: Hey guys, just one from me kind of a regulatory issue. You have 1.5 billion gallons of capacity you talked about targeting 2 billion gallons, at some point is there a risk that you might get into an antitrust issue with having a larger than [ph] being (56:42) usual chunk of the industry's capacity?
- <A Todd A. Becker>: Not at 2 billion gallons. In fact, a report just came out that our industry became less competitive than more competitive as of late because of the size of the growth of it getting to 15 billion gallon. So we have a long way to go before anybody I think reaches a point that anybody gets too worried about too much of too much production in one company's hands. With all of us sitting around 1.5 billion to 1.7 billion, that's the largest, there isn't much worry from our standpoint of any issues there at all.
- <Q Pavel S. Molchanov>: All right. Appreciate it.
- <A Todd A. Becker>: Thank you.

Operator

And it appears there are no further questions at this time. Mr. Todd Becker, I'd like to turn the conference back to you for any additional or closing remarks.

Todd A. Becker

Okay, thank you. And thank you everybody for coming on the call today. Obviously lots going on at the company. We have some really exciting things happening. Looking forward to talking more at the end of Q4 and I will catch up with you then. Thanks for calling in today and have a good week.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.

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