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Bloomberg Transcript

Company Name: Green Plains Inc
Company Ticker: GPRE US
Date: 2016-02-11
Event Description: Q4 2015 Earnings Call

Market Cap: 491.05
Current PX: 12.96
YTD Change($): -9.94
YTD Change(%): -43.406

Bloomberg Estimates - EPS
Current Quarter: 0.034
Current Year: 0.924
Bloomberg Estimates - Sales
Current Quarter: 827.800
Current Year: 3267.750

Q4 2015 Earnings Call

Company Participants

- Jim Stark
- Todd A. Becker
- Jerry L. Peters
- Carl Steve Bleyl

Other Participants

- Adam L. Samuelson
- Sandy H. Klugman
- Farha Aslam
- Heather Lynn Jones
- Craig Edward Irwin
- Edward George Westlake
- Brett W. S. Wong
- Selman Akyol
- Fischer Van Handel
- Pavel S. Molchanov

MANAGEMENT DISCUSSION SECTION

Operator

Good day, everyone and welcome to the Green Plains Inc., and Green Plains Partners LP Fourth Quarter 2015 Results Conference Call. Today's call is being recorded.

At this time, I would like to turn the conference over to Jim Stark. Please go ahead, sir.

Jim Stark

Thanks, April. Welcome to the Green Plains Inc., and Green Plains Partners fourth quarter and full year 2015 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 and Steve Bleyl who is Executive Vice President of Ethanol Marketing.

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 releases 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.

You may also refer to page two of the website presentations for information about factors that could cause different outcomes. Any reported returns of Green Plains Asset Management are not intended as an offering of solicitation. We do not undertake any duty to update any forward-looking statements.

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

Todd A. Becker

Thanks, Jim and thanks for joining our conference call this morning for Green Plains Inc., and Green Plains Partners. For the fourth quarter, Green Plains Inc., reported a net loss of $3.6 million or $0.09 a share and we generated $32.5 million of EBITDA for the quarter. As we had indicated on the last call, the tax expense for the quarter would be higher than normal to adjust for full year 2015 tax expense.

If you look at that number, it drove a negative earnings per share which otherwise would have been positive for the quarter. If you take that effect out of our results, the company performed well in a tough market environment and Jerry will explain more in detail later in the call.

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 $29.8 million or $0.11 a gallon. We indicated last quarter that we would report this number to give you insight to the total crush margin metric, which is common across the industry.

Our portfolio of assets remain one of the lowest cost of production assets acquired or built and operates favorably along the cost curve as compared to the industry, which again I will illustrate later in the call. At Green Plains Partners, we generated $14.3 million of EBITDA, with distributable cash flow of $14.1 million, driven by approximately 249 million gallons of ethanol storage and throughput volume for the fourth quarter. Our coverage ratio was a solid 1.08 times and we increased the quarterly cash distribution $0.4025 cents per share.

Remember, we did not complete the dropdown of the stores and transportation assets for the two ethanol plants acquired by Green Plains Inc., and Green Plains Partners until January of this year. This is the reason the production gallons for Green Plains Inc., are higher for the quarter than the storage and throughput gallons for Green Plains Partners.

The plant in Hopewell, Virginia, did startup ethanol production this quarter as our operations team – or this week, as our operations team worked hard to make this happen. The improvement in the quality of distillers' production has been completed and the ethanol basis realized is in line with our expectation that we will achieve better than historical sales prices at that plant.

For the fourth quarter of 2015, we produced a record 261 million gallons, with the addition of the Hereford plant contributing 11.9 million gallons for the six weeks that we owned the plant in the quarter. We also generated a record 68.1 million pounds of corn oil, [ph] processed as (4:24) 90.7 million bushels of corn and produced over 700,000 tons distillers for the quarter. We did pick up the pace of production as indicated on the Q3 earnings call and ran at just under 94% of our operating capacity for Q4.

Our yield for ethanol production was 2.88 gallons per ethanol bushel of corn, and corn oil yield was 0.75 pounds per of oil per bushel, which are both records. Our ongoing investments in technology and process improvements continue to show positive results as you can see, but at the end of the day, it still comes down to the ethanol crush, but all these other things certainly help. Our Phase 1 ethanol production capacity expansion program added 35 million gallons of capacity through December 31 of 2015, with most of that coming in the third quarter of last year.

As for the remaining 50 million gallons of production capacity, we have slowed these projects down somewhat due to current margin environment. We'll continue to evaluate this initiative, but as mentioned, this was a long-term strategy of maximizing our operating leverage and this initiative was really put in place for 2017, when we expect demand to outpace supply globally. In the meantime, we can price these gallons up and down depending on marketing conditions

as the overall cost remains very low on a cents per gallon basis.

For example, the Ord, Nebraska expansion as a reminder is adding 10 million gallons for $2.5 million. Our overall CapEx program will also be tempered over the next 12 months until the market clearly sends a signal to start investing again. With that said, if the right opportunity presents itself to grow the company vertically or horizontally, we want to have dry powder to move quickly and we believe we're in a position to capitalize on opportunities at both Green Plains Inc., and Green Plains Partners.

We continue to believe that the long-term fundamentals for the ethanol industry will remain in place, yet, the industry is producing too much at this point versus current demand. With that said, we saw a 3.7% year-over-year demand increase in this week's EIA data, yet we still grew to record stocks. What's most interesting to us was the days of demand, days of demand versus ethanol stocks actually went down. So while you see optically that we have plenty of current inventories, you need to look deeper in the numbers and at some of the physical markets, which still remain tight. A small decrease in production could lead to a much better margin environment if the industry can show some discipline.

With current fundamentals, we continue to have positive contribution margins that illustrate that point. The margin structure is not anywhere near 2012 lows as global demand and robust corn supplies continue to be the equalizers that we did not have back then. Our team is working to expand export sales of ethanol around the world. We believe ethanol excess supplies will tighten up going into the middle of the year, as ethanol demand grows faster internationally than it does here in the U.S.

Our export sales accounted for 12% of the company's ethanol production in the fourth quarter and for the year of 2015, it was 18% of total production. When you look at total exports for the industry of 835 million gallons, Green Plains accounted for 20% of the export market in 2015. And as a reminder, our total production only accounts for 6.5% of U.S. ethanol production.

In the first quarter of 2016, our expected export sales or our current export sales deck are currently at 19% of Q1 production. For the first quarter of this year, we have sales destined to Oman, Europe, India, Philippines, Canada, Peru and China. We anticipate U.S. ethanol exports will still be in a range of 900 million to 1 billion gallons in 2016.

Now, I'll turn the call over to Jerry to review both Green Plains, Inc., and Green Plains Partners financial performance, and I'll come back to discuss further outlook for 2016.

Jerry L. Peters

Thanks, Todd. Good morning, everybody. For Green Plains, Inc., consolidated revenues were $740 million in the fourth quarter, which was down $90 million or about 11% from a year ago, driven mainly by lower commodity prices. Volumes of ethanol sold for the quarter were down 5.8% to 291 million gallons total, while the average realized price per gallon was 36% lower than last year's fourth quarter.

Our consolidated operating income for the quarter was $12.7 million versus $73.9 million a year ago, as a result of the weaker ethanol margin environment and lower prices for corn oil in the fourth quarter 2015 compared to a year ago. We incurred an income tax expense of $4.1 million for the three months ended December 31, 2015, compared to an expense of $22.4 million for the same period in 2014. Looking at the tax expense for the full year 2015, the effective tax rate was 29%, which reflects a benefit relating to the non-controlling interest as income allocated to our MLP unit holders is not subject to taxes at the corporate level.

To those of you modeling us, I would remind you to take our income before tax and net of income attributable to non-controlling interests and use a corporate tax rate of approximately 38% to 40%. Earnings before interest, income taxes, depreciation and amortization or EBITDA was $32.5 million for the fourth quarter of 2015, compared to $91.1 million last year. We closed 2015 with total cash of $412 million, but within the first week of January, we added almost $63 million of cash as a result of the dropdown transaction with Green Plains Partners.

Total capital expenditures in the fourth quarter were $19.4 million and for the year totaled $65.6 million. For 2016, our maintenance CapEx should be approximately $10 million to $12 million. Our growth capital budget stands at $60 million, including the partnership, but we will closely monitor and reevaluate these projects prior to initiation of construction. So I would anticipate we could be well under budget on our growth capital spending in 2016.

Our total debt stands today at $675 million at the end of 2015, including $227 million on our commodity revolvers, which are secured by significant working capital positions, particularly at this time of the year. For example, our grain inventories are essentially at peak levels currently in order to earn carries available in the market. These are relatively low-risk financings, since we hold physical grain on-site, fully hedged the underlying price risk and lock in reasonable returns on our storage space.

At this time of the year, these revolver positions account for over one-third of our total debt. That leaves our term debt, which at year-end was $448 million, including $105 million of convertible debt. That was down from $463 million a year ago. Our term debt, net of cash, was $36 million at the end of the fourth quarter, which is higher than a year ago and the third quarter of 2015, mainly because we spent about $112 million of cash to acquire Hereford and Hopewell, the ethanol plants in the fourth quarter.

It's important to also remember that our term debt structure has been positioned for the environment we are in currently. Our total annual debt service, principal and interest, is $30 million, including the convertible debt. That's less than 2.5 cents per gallon of ethanol production. In summary, we believe our balance sheet is well-positioned for the year ahead.

Now for a run through of Green Plains Partners' performance. Since we have no comparable periods in 2014, I will do a sequential comparison, fourth quarter to the third quarter of 2015. As a reminder, the periods prior to the IPO for the partnership show all of the expenses of the contributed operations with none of the related revenues. So these prior periods are not particularly useful for comparisons.

Adjusted EBITDA for the partnership was $14.3 million, an increase of 9.2% from the third quarter of 2015, which was $13.1 million. Green Plains Partners had 248.8 million gallons of product volume, which was 33 million gallons higher than the previous quarter of 2015. Distributable cash flow or DCF was $14.1 million, a $1.2 million improvement over $12.9 million that we reported in the third quarter.

With the addition of the Hereford and Hopewell storage and transportation assets on January 1, the minimum volume commitment for the storage and throughput agreement is now 246.5 million gallons per quarter each quarter going forward. As Todd mentioned, on January 21, the partnership declared the distribution for the fourth quarter at $0.4025 per unit, which of course is a [ph] $0.25 (13:45) increase over the initial distribution that was announced in October of last year.

The distribution coverage ratio is currently 1.08 times for the fourth quarter. And if you put it on a combined basis for the first two quarters since the IPO, it's 1.04 times coverage for that period. In this market environment, we're focused on maintaining our balance sheet and continuing to increase coverage ratios, while we grow our underlying distributable cash flow and ultimately our distribution. For both companies, the balance sheets remain strong and we continue to keep significant liquidity available and at the ready for growth opportunities.

With that, I'll turn the call back over to Todd.

Todd A. Becker

Thanks, Jerry. And so similar to last quarter's call, we have hedged very little on the forward ethanol curve, as margins and visibility is very limited and we will continue to lock in margins nearby opportunistically to minimize the impact of the current low margin environment in the spot market. Spot ethanol margins before corn oil contributions are currently around a breakeven EBITDA level per gallon, but we see a lot of volatility on a daily basis.

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Today, even though ethanol has traded – is trading at a premium to wholesale gas, it's still the cheapest octane and oxygenate in the world for blending into sub-grade fuel produced by refiners. Also the renewable volume obligation of 14.5 billion gallons in 2016 will continue to help the fundamentals for the year.

We feel that we've done good work around diversification of revenue and income streams, but as we continue to assess our strategic direction, our focus has crystallized around improving our cash flows to be more consistent and predictable. We are a firmly entrenched ethanol producer and plan to remain in the ethanol industry as our growth plans to be a 2 billion gallon plus producer in the next three years to five years have not changed.

We'll also continue to opportunistically grow our grain storage capacity as we have achieved over 85% of storage utilization across the platform, proving we can compete with traditional grain storage companies for the first handle margins at a much lower cost of handle. In fact our new storage facility in Obion, Tennessee really changed the traditional way grain flows in that area of the country and the long term strategy is to do more of that.

When and if the opportunity comes, we will add to our cattle feedlot business as the fundamentals are significantly improved versus a year ago for the industry. Again, this is the right price, right location decision, much like buying an ethanol plant. Our team is working diligently on developing and building out the unit train terminal in Little Rock for the Green Plains Partners platform. We are highly focused on opportunities to expand Green Plains Partners. And we're very excited to utilize the competitive advantage this business brings to us. We believe this will be one of the greatest creators of value over the long-term for the company and we plan to use this platform to grow outside of our own storage capacity and distribution assets.

Finally, our merchant trading and fund management business performed well this year. Our energy trading business and natural gas crude and gasoline continues to grow volumes and trading revenues. Our export corn oil and export distillers business trading businesses contributed nicely and we achieved number one share in many international geographic markets. Our rack marketing business in ethanol and other products had a solid year as well. And finally, Green Plains Asset Management reported a third straight year of positive returns with 2015 at 4.19%.

Growth is the key objective for Green Plains and for those who have known us, a compressed industry margin environment provides us with the opportunity to add more processing assets when others might turn away. We believe our geographic platforms provide for expansion within our footprints and we constantly evaluate what other type of assets we can co-locate on these sites to take advantage of the infrastructure in place as evidenced by our grain expansions.

Our capital allocation strategy has not changed. We're still looking for acquisitive growth, organic growth, debt pay down, dividend growth and share buybacks. While we may adjust the pace of some projects, we do not plan to alter the course at this point.

With the amount of real liquidity we have on the balance sheet as Jerry outlined we have positioned the company very well to withstand cyclical downturns, to take advantage of some of the opportunities we believe will surface.

I also like to provide a quick update on BioProcess Algae which I haven't done for a while. We have narrowed down our focus and we believe the best opportunity for this business as we have mentioned in the past is still human nutrition both focused on protein value and EPA omega-3. We recently acquired a second production location in Texas to help with the focus on this market and we believe over the course of next year, the milestones we have put in place will determine the path forward. Albeit small, if we can achieve these goals, we believe it can be a profitable business. We've never lacked the ability to grow and harvest algae. The challenge remains to make a profit doing it. It will not be a game changer for us, but if you look around the industry, there are several companies that produce and sell algae profitability and we believe we can do the same.

The measuring stick we use to judge our performance is EBITDA generated by our company over the long-term. Since the beginning of 2009, Green Plains had generated over $1.1 billion of EBITDA within our platform. The main driver was our ability to grow our ethanol production which had over that seven year period totaled [ph] 5 billion (18:59) gallons produced and sold.

When we explain our business and talk about the future is with the perspective of what we've been able to achieve in the past with our seven year average of $0.22 of EBITDA per gallon, all-in net of corporate expenses for the company. We achieved a lot in 2015 with the IPO of Green Plains Partners, our expansion in grain storage, solid results in our merchant platforms, finalizing our debt structure changes with the term loan B, operating safely with no major accidents or environmental issues and growing our operating capacity which culminated in our first dropdown early in 2016 to Green Plains Partners proving the capability to reduce our cost of capital for acquisitions.

While the market was a bit challenging, the company is set up very well. And when the market turns, we will continue to generate significant free cash flows for our shareholders in the future.

I want to thank everybody for joining in the call today and I'll ask April to start the question-and-answer session.

Q&A

Operator

Thank you. [Operator Instructions] We'll first hear from Adam Samuelson of Goldman Sachs.

<Q - Adam L. Samuelson>: Yes, thanks. Good morning, everyone. Maybe, Todd, just to dig a bit deeper into the current market environment, in your prepared remarks, you talked about current industry inventories being not as burdensome relative to demand as some might think. But I was wondering if you could talk about your view on production and industry capacity because given the margin structure that you've seen in the last, call it, 60 days, it would seem that the – you've seen less production discipline at similar margin structures than you have in the past. And I was wondering – would just love to hear your thoughts about the amount of industry capacity that you really think is out there today because some of the people are actually [ph] reining (21:01) in their production at all given margins that are at or below breakeven.

<A - Todd A. Becker>: Yeah, so we came out of the third and fourth quarter as you just saw and the results really from an industry perspective our view is it was not a great quarter, but it wasn't a terrible quarter. I mean, our negative EPS was driven a lot by the tax rate, yet we still had $0.11 a gallon EBITDA margins all in. So when you look at that and when you look at the overall others results that have been reported, it really wasn't any big reason to slow down in the fourth quarter. Since the beginning of the year, I think the industry is looking at it a little bit differently as we are.

Industry margins have not gotten better since the first of the year. And so I think the capability of the industry on a consistent basis is to be able to produce 980,000 barrels a day consistently and possibly a little bit more. So if you look at it, it looks like there is a bit of slow down. We've slowed down our plans a little over 10% overall at this point as a platform. And we continue to evaluate that. We just haven't seen the industry react yet in the weekly numbers, but they seem to be vacillating a bit. So hopefully as we kind of look for forward we'll wait and see what other players in the industry do.

Typically it's a lagging indicator, because often times it takes a month or two for some players to realize the soft margin environment and wait to see what some of the results [ph] start to come in (22:37) and we saw margins improve from the lows of January into these levels today in February, but they still have plenty to go. So I think it's going to a little bit longer. It typically does, it doesn't happen right away.

And if margins continue where they're at, I think the industry will continue to take out incremental supply until we get to point where we start to draw. And we're really coming, we need to get out of March, because – we need to get into a better demand area when we really start to see that pick up and we start to see inventories potentially draw starting kind of March, April historically.

<Q - Adam L. Samuelson>: Yes, that's some helpful color. And along kind of a similar line, are you – how has the discussion been in the industry in terms of potential M&A activity? I would imagine especially co-op sector with farm income being down heavily, grain storage income under some pressure that the co-op sector would be feeling a bit of stress these days. Are you seeing any new opportunities in that part of the market emerge or just the broader M&A

landscape generally?

<A - Todd A. Becker>: Yeah, I think this'll be an interesting year for the U.S. producer when he has lower grain income, lower ethanol plant income from his investments and potentially lower income on the grain handling side. So they haven't seen a year like this for a while, so I don't think that we are clear on their intent and what they want to do with their investment, but at this point, they delevered quite a bit at the farmer-owned plants if they have any debt left at all. So I think they have the ability to withstand, but when you get into running or your variable cost and you [ph] get (24:28) positive contribution margins you are still at those co-op levels still burning cash. So I think that'll be a new reality for them at some plants. Some are still located – we have some plants that are more profitable than others on our platform, so really a lot of its depending on geographics as well.

So I think from that perspective, the co-ops and the farmer-owned plants are probably not stressed enough to start to think about M&A at this point. On the other side, obviously you've seen a lot of stuff going on across many names in the industry. I'm not sure what's actionable yet today, but I think there will be M&A activity in 2016. I think plants will trade among bigger commercial types and we'll have to wait and see what and if and when that happens. Obviously in a soft margin environment, you won't get the premiums you thought you would get that have traded a few years ago. But I do believe that 2016 in the end will result into some consolidation, yet to be determined who goes where and what consolidates where, but I do believe in 2016 you will see consolidation in the industry.

<Q - Adam L. Samuelson>: All right, that's helpful. I'll pass it along. Thanks.

<A - Todd A. Becker>: Thanks.

Operator

And next we'll hear from Sandy Klugman of Vertical Research Partners.

<Q - Sandy H. Klugman>: Thank you. Good morning. So a question on how has tight [ph] grower (25:51) retention of corn impacted your production costs across your network? Do you have any thoughts on whether farmers will become more willing to sellers of grain at current prices going forward?

<A - Todd A. Becker>: We have not had any trouble at all securing grain in our supply chain. Number one, the 50 million bushels plus of storage, that we had 85% capacity utilization on filled nicely to earn the carry. And we always have that at the [ph] back stop (26:15) as we're grinding somewhere around 35 million bushels per month. So from our standpoint we haven't had any problem. We haven't filling our space and/or procuring our corn both commercially or from producers. We've seen as of late, really not in the last week or two, but before that on this uptick from [ph] $3.50 to $3.70 (26:39), the farmer did let go of some corn and kind of let us have another tranche.

The most interesting thing is, I'm not sure the ethanol industry needed very much because I think they had plenty in the supply chain. So that has not been a factor for us that has given us much worry of securing adequate supplies at more historical basis levels that we're looking across our platform. I mean, we're not – [ph] besides (27:03) the eastern plants, we're buying at single to double digit under it's in a lot of our western plants today. So that – even at lower prices in corn, the farmer or the hedger still has plenty of stocks available.

<Q - Sandy H. Klugman>: Okay. That's helpful. Thank you. And then how do you think about the long-term outlook for the export market if crude oil prices stay at current levels? I know ethanol continues to trade at a discount to competing octane enhancers, but that spread is compressed somewhat. I'm just wondering how you see things evolving going forward.

<A - Todd A. Becker>: Yeah, if you look at in our 10-K – when you look at our 10-K, what we've said there's 30 mandates around the world and I think when you look at the EU and you break it out there's probably 60 mandates around the world. So we're not seeing any slowdown in inquiries at all for ethanol as a fuel extender or an octane enhancer or an oxygenate enhancer. So we continue to take calls every day. We continue to sell export every week. As we said, we have 18% of our production for the first quarter sold into the export markets. We can do more. We have –

most of our plants are now geared towards giving any spec depending on the country.

So we haven't really seen a $26 to $27 or $28 crude, any real slowdown in inquiries for the export markets and relatively speaking there's a report put out on I think [ph] it was University of Illinois put out a report on octane (28:25) last week and showed that while ethanol spread has narrowed between other octane replacers, ethanol still remains the cheapest octane in the United States. So when we look at it and we also have new incremental foreign demand showing up as well, so I mean we're seeing demand from countries this year that we didn't see over the last two years and so Steve you want to command that a little bit.

<A - Carl Steve Bleyl>: And you're just seeing some expansion in certain markets. I mean everybody's noticed the China piece that came into Q4, but you're seeing other countries expand their usage. But you're seeing it's not just new barrels people are fighting over, it is new incremental demand.

<Q - Sandy H. Klugman>: Great. That's very helpful. Thank you very much.

Operator

And we'll move next to Farha Aslam with Stephens, Inc.

<Q - Farha Aslam>: Hi, good morning.

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

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

<Q - Farha Aslam>: Your appetite for additional ethanol assets in this market and has the price of ethanol assets dropped given the current profit environment?

<A - Todd A. Becker>: So, I don't know where the price of ethanol assets are, because there's really not that much out there today that – there's a lot of talk of a lot out there. But relatively speaking, there's not a lot to buy in the market today. I mean, I think kind of – that's a hard question to answer, because there are really not active processes that I would say are taking place right now other than a few here and there that we're not that interested in. So, we have an appetite still, if there's – if the market continues to have the margin structure that it is, I'm not sure whether people will have the appetite to sell down to more historical [ph] distress (30:13) levels or not. But at this point we're not seeing a big inflow of assets for sale that are actionable today. So we'll just have to wait and see what transpires throughout the year.

<Q - Farha Aslam>: That's helpful. And just two more follow-ups. Your Hopewell plant that you just started up, what type of run rates do you anticipate that plant to achieve and kind of the cost structure of that Hopewell plant versus your other GPRE plants?

<A - Todd A. Becker>: Yeah so we're just grinding corn there today. We're obligated to start that plant up for several reasons. So we got the plant started up but as all of our plants are, they're all always all under review at what run rates that we're going to operator at. We announced – I just said in the call today that we're operating more like 90% of capacity today maybe a little bit higher than that. Hopewell will always be looked at from that perspective. But we don't we want to get that plant started up so we have a good understanding of their margin structure and kind of the new reality of what that plant is number one, making a distillers grain that's worth a lot more than it used to be worth before we improved the quality there.

We have corn oil production that should start up in the second quarter as well or maybe third quarter at latest. We are buying our corn basis cheaper and we're selling our ethanol higher. So it's still yet to be – but we just – since we just started we don't have a very good view just yet on our operational expenses per gallon until we get that thing running. And at that point we can make some determinations. But overall everything in our platform is being looked at. We have – we do have positive contribution margins across basically the whole platform today which often would tell you that you make more running than you do not running.

But, you also have to look at the fundamentals of the size and scope of what we do and much like we looked at in the April, May and June quarter of last year where we slowed down significantly in a very high stocks low margin environment and we believe that was impactful. So when it's glaringly obvious and it stares you in the eyes you have to make the right decision and we will do so. But we're not going to give guidance specifically on an individual plant run rate at this point. It's too early for Hopewell as well.

<Q - Farha Aslam>: Okay. And then my final question relates to EBITDA. Kind of what are you seeing in terms of profit per gallon right now compared to the fourth quarter, and kind of how do you think that progressed – that will progress throughout the year?

<A - Todd A. Becker>: So right now, I mean obviously margins are under pressure as we indicated they're close to a breakeven EBITDA before corn oil. And so when you look at that – if you can kind of get $0.00 to $0.05 EBITDA with corn oil all in that's what we're seeing right now. But they're moving around $0.02 to $0.03 a day depending on whether its stocks or whether it's corn or whether it's something else. So, again we are across the whole platform is what we're seeing but I mean we have plans right now that somewhere in the West that is as high as $0.07 or $0.08 a gallon in places like Southwest Iowa and we have plans in the East that don't have anything near that.

So it just really depends on location more so than anything. And so we'll just make again we make our decisions accordingly but when you're looking at margins like that, you have positive contribution margins and you just continue to run. I think the industry overall though will need to figure out where's the bottom quartile running at, where's the mid half running at and then where's the top quartile going to run at. And we'll have to wait and see how that transpires through numbers, I mean I don't think anybody likes to just run for positive contribution margins but that's seems to be the right thing to do right at this point. So, I don't think it's not like 2012, in 2012, we were staring at each other at minus $0.25 a gallon EBITDA margins wondering if we should close everything down. So, this is not a 2012 repeat at this point and I think that has to be highlighted.

<Q - Farha Aslam>: That's very helpful. Thank you so much.

Operator

Next we'll hear from Heather Jones of BB&T Capital Markets.

<Q - Heather Lynn Jones>: Good morning.

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

<Q - Heather Lynn Jones>: I have a few questions. So going to the whole why is the industry not slowing down production and you mentioning that it's not as bad as 2012, I'm wondering if another factor is that more production is consolidated in the hands of a fewer larger companies that could arguably have deeper pockets. I mean do you think that's a factor as well, or is it a situation of where we actually need to get uglier before we'll get a meaningful response.

<A - Todd A. Becker>: Actually I think it's the opposite of that. I think the well-heeled companies with strong balance sheets and ability to stay the course make the decision quicker to lower production than the other parts of the industry that aren't consolidated into these players though it's run longer waiting to see if and hoping that the results will improve. And if you look at history, they are the last ones to slow down versus the big guys. So, the disciplined producer as we say we've already slowed down a little bit. I don't know what others have done, we obviously don't talk about that with them. But I think the disciplined producer is the one that makes those decisions.

So it takes a long lot longer for – so if 40% is owned by five of the top producers of the industry today, it takes a lot longer for the other 60% to make the decision to slow down. And they continue to run through. Now, the difference is, is this time around if you're – they distributed a lot of cash from 2014 and 2015 back out. And if you continue to run and burn cash, burn even small amounts at these farmer-owned plants, the question is how much cash do they have on the balance sheet and will they need to go back to the well and get money from the farmer. At that point that's when they start to make decisions to slow. So that that might happen quicker than we think in past years because I believe

that there's been a lot of money distributed out to their owners. So we'll have to wait and see on that. But I do believe we will see run rates at some point here have to make the decision unless we can get out of this – get out of this winter doldrums into a very high robust demand for ethanol starting in kind of March, April.

<Q - Heather Lynn Jones>: So do you think other large, well-heeled producers, maybe they're in a wait and see to see what April brings before they make any decisions to slow, or do you think we could see slowing before then?

<A - Todd A. Becker>: [indiscernible] (36:59) I can't speak for them. I mean I can only speak for ourselves that we've slowed down a little bit. We haven't slowed down as hard as we did in the second quarter – late second quarter of last year. But if we believe that it's impactful or it has an impactful relationship to what's going on in the market then we will – we can make those decisions accordingly but I don't – today I can't speak for them.

<Q - Heather Lynn Jones>: Okay. I have two more questions. First on DDGs, they're holding in relatively well relative to the value of corn given what we've – the slowing demand out of China, ample meal supplies. I guess I was just wondering if you could give us a sense of – I mean we're showing close to 100%, 105% of corn values in some of the key markets. I'm just wondering if you could give us a sense of what do you think is providing [ph] that (37:56) support, and if we continue to have sluggish demand out of China, where do you think that relative value could go later this year?

<A - Todd A. Becker>: Yes, so whenever China goes away, we always overshoot the downside because everybody thinks the world's going to end. But at the end of the day we produced 40 million tons of replacement protein as an industry roughly. And so what happens is, the market stabilizes and they figure out where do they – how can they put them and how does the feeder put it back into inclusion rates at better levels at lower prices. And there's always a realization that DDGs go a lot farther than price will often dictate. So what we've seen recently is with some of the small slowdowns we're seeing in the Nebraska, Iowa area, we've seen those values come back up towards the numbers that you've mentioned and continue to remain firm.

We are still doing export business and we continue with our [ph] container (38:48) program continues to go to all of the non-China countries. And we still compete very well with proteins. So overall I think we're stabilized here. I don't think it's going to be a big run up, and I don't think China's going to come back in any time soon. But where we've come off the lows at closer to 80% of the price of corn in Nebraska and Iowa to today we're what you mentioned 100% to 105%. Those are helping the margin structure. We just – I don't think there's a big up from here unless corn goes higher. But in general I think we're very stable at these prices. So the market always figures out what to do with a cheaper replacement protein. And it got cheap enough for it to in fact it overshot the downside from a value standpoint in the ration.

<Q - Heather Lynn Jones>: Okay. And my final question is on the RIN market. We've read studies that talks [ph] to just the D6 (39:33) RINs could – that market could become very tight by the end of this year. And we've also heard a number of companies in competing fuels and other competing biofuels talk about how the supply of those RINs could become potentially tight this year and you need D4s or D5s to actually fill it. And so I was just wondering if you could give us a sense of what you see the RIN market for D6 is doing towards the end of 2016?

<A - Todd A. Becker>: Yeah so D6 RINs have rallied off their recent lows around $0.60 back into [ph] the low $0.70s (40:10). So it just tells you that I think people are concerned of a production slowdown and they don't want to get behind that if that's the case. It still [ph] incents (40:20) a lot of blending that we see from the non-obligated parties. So that's very helpful as well. So that's a helpful factor to us and we continue to see the E15 initiative even with the gas price and against ethanol. And especially starting in April when that spread narrows up significantly that $0.70 really helps motivate expanded blends in the U.S. and continue [ph] along (40:46) with that initiative. So overall, our view is that our RINs will remain firm throughout the year. And it's mainly driven by the fact that people are worried about production slowdowns but I don't think there'll be any shortages that we'll have to worry about in 2016 where you'll have to replace it with other RINs or trade to spread. Steve, any other comments on that?

<A - Carl Steve Bleyl>: I mean, if you saw a big slowdown then you might see some tightening but right now we don't see that happen.

<Q - Heather Lynn Jones>: Okay. Thank you.

Operator

Next we'll hear from Craig Irwin of ROTH Capital Partners.

<Q - Craig Edward Irwin>: Good morning and thank you for taking my questions. So Todd, I guess it'd be really helpful if maybe you could talk a little bit more about the corn crop and what you see as different factors affecting the outlook. And then a second part of that question – historically, a lot of people think there's about a third of costs of corn in energy. I know this is a really unusual environment, but do you see that that – would you imagine that that would continue to hold and that we would see the continuing sort of lagging reset on corn prices potentially provide an uplift in the back half of the year?

<A - Todd A. Becker>: Yeah, so when we think about the corn crop, obviously it was a big one this year. And we believe and all of our studies are telling us and all of our intelligence at the farm gate level is telling us we could be pushing towards a 91 million acre number again. So, it looks like the farmer is going to plant lots of corn this year again, feels that way if you start looking at – talking to guys that are getting ready to start planting within 30 days in the mid-South. They're planting corn again. We talked to our Tennessee asset, they're planting corn again.

And it kind of seems to be the same story. It is still going to be the vintage of choice if they continue to plant corn. And we believe that will lead into a potential expansion to or potential 91 million acre starting point and we'll see where we go from there. So, it does still feel like we will have another big corn crop. We've had three years of below trend, two years of trend and we haven't an above trend year yet. So we'll have to wait and see but the start out of subsoil moistures and conditions to get this crop planted are as good as we can expect or as good as we want actually. I mean it doesn't get much better than what we have right now in the ground. And I think that we have good opportunities to expand the corn acres next year from even these levels. So we'll have to wait and see on that.

Secondly, as corn compares to as an energy source and competes as an energy source, it's obviously not doing its job yet. We'll have to look at things like palm prices around the world and other factors but you've got three years of record crops to EU on wheat, you've got growing stocks around the world. Corn [ph] has poor export (43:47) numbers we've got a lot of work to around that. I don't know if we'll be able to hit the ethanol crush number or not but it doesn't look like we have a contracting carry out this year as we go forward to the end of the year. It's all going to come down to weather. And we're probably just trading in more of a weather premium in the nearby corn market than anything for next year just in case we come in to some weather starting in kind of April, May, June and July.

So, overall we are not particularly bullish corn from an energy perspective. We believe that corn is overpriced as a molecule but [ph] these are still (44:20) continues to be good support on the buy side on all of these breaks. And we haven't been able to get through [ph] 350 (44:25) corn. We'll have to wait and see on that but there's nothing from our standpoint especially since this last USDA report just confirmed the other day that our carry out grew a little bit. There's nothing from our standpoint that would point to a higher corn market at this point until we get into weather.

<Q - Craig Edward Irwin>: Thank you for that. Second thing I wanted to ask about is, okay now that we have ethanol pricing really more on the value of ethanol as an oxygenate, can you discuss the factors you think that will impact the pricing into the aromatics like – I think [ph] toluene (45:01) is the one you called out in your presentation, but benzene, xylene the other alternative oxygenates, and whether or not you think potentially if oil was to remain particularly weak, we could see pricing through the oxygenates given the fact that corn is environmentally superior. It's not a petroleum product, and along those lines, EPA's own benefits analysis for the Clean Air Act shows a 30x multiplier on corn or corn ethanol as a benefit for the environment. So how would you frame this out?

<A - Todd A. Becker>: Steve, do you want to start with that and I'll finish?

<A - Carl Steve Bleyl>: The one thing is there's just not a lot behind the other [ph] oxygenates (45:47) opportunities. If you really put a lot of demand behind it, you put the 14 billion gallons or even a portion of that behind it, the value shoots up higher than it is now. So it's not a realistic replacement for it right out of the chute. There is the Clean Air

benefit to it, which obviously [indiscernible] (46:05) that come out last week talked about that.

<A - Todd A. Becker>: But the system's set up right now to blend ethanol. I mean and I think that with the RIN values where they're at, even if we're – we're going to get out of this March [ph] ethanol or about spread (46:19) and get into April where we'll get into a much narrower spread today. And at that point, it's within the margin of error and then you get – if you're not an obligated party, you get the RIN $0.70 blending credit. So there's a lot of – there's still a lot of incentive that continue to blend ethanol even at these spreads. And even at lower oxygenate replacements as well. So when you kind of add all of that in together, it just doesn't look like you will get kicked out of the [ph] fuel (46:46) supply anytime soon, both domestically and globally.

<Q - Craig Edward Irwin>: Thanks again for taking my questions.

<A - Todd A. Becker>: Thanks, Craig.

Operator

Next, we'll hear from Ed Westlake of Credit Suisse.

<Q - Edward George Westlake>: Two questions. Good morning and the first question is just to follow-on to that. I mean how much room do you think there is, say, in the summer for ethanol to maintain a premium to gasoline if demand for gasoline is robust?

<A - Todd A. Becker>: Yeah, I think ethanol will trade – it all depends a little bit on corn right now and oil, but ethanol trading at a $0.15, $0.17 premium for the summer right now is kind of what it looks like on the board. That's narrower actually than what we've seen as of late in the winter months. So I think you could still maintain a small premium and it really just depends if corn catches a break here, ethanol goes down with it and just narrows the spread. So it's going to be a little function of that. We see any oil increase at all, I believe that's good for our value in terms of a replacer. So overall, I think we'll stay at these levels, but we do have work to do on the margins. So it either has to come from corn or it has to come from ethanol. So if we can get any kind of uplift in prices for other energy alternatives like gasoline and oil, I think that's – that will give us an opportunity then to narrow that spread or expand our margin structure as well. So I don't believe we'll trade – unless corn breaks real hard here, I don't believe we'll trade at a discount for the current curve.

<Q - Edward George Westlake>: Don't want to get too gloomy here at the end of the call, but recession risks are clearly front and center of market participants. You're in a good position because of the cash you have on the balance sheet. But maybe just talk a little bit about the game plan in terms of maybe cash burn on the capital side, SG&A, stuff that's obviously below the gross margin line.

<A - Todd A. Becker>: Cash burn on the cattle side did you say, or capital side?

<Q - Edward George Westlake>: Well, both CapEx – ability to flex CapEx down, any aims to obviously lower SG&A, those types of things that you could offset the margins if we did go into a severe economic shock?

<A - Todd A. Becker>: Yeah so I mean our capital spend program as outlined, is – for growth capital this year was somewhere between kind of $50 million and $70 million of which all could be – a lot of it could be flexed down very quickly. The only thing that we have going right now is some of the project at the ethanol plants where we're kind of half way through it already. So we're going to – we'll continue on through that.

Anything beyond that, we have the ability to drop $30 million or $40 million out of that program very easily. Our ethanol maintenance CapEx at $0.01 a gallon which is about $12 million, we believe we can – we don't have to spend all of that if we needed to get into that mode, if we ever needed to get into that mode. We've got plenty of areas that if we needed to contract, we can certainly do that, utilize our cash better. When we're sitting close to $500 million of – $450 million plus of cash in this current margin environment, we would end 2016 still in a very strong position, both at corporate and the subsidiaries even meeting all of our covenants under the current situation by dropping some cash in the subsidiaries under the Term Loan B and there's levers to pull as well.

So we're not – this is not a huge cash burn [ph] basis (50:25) the current curve for us. And we can make it even less very quickly by looking at some of the projects that we have out there and pulling those back much like you've seen in other areas of the energy market. So we have looked at all of that and we continue to look at all of that, but we came into the year with a very strong balance sheet. We can always look at continued debt pay downs as well to take some of that pressure off of us. But at this point, I think we're in a very good position to – if we needed to pull levers, we certainly can. But it doesn't look like we're going to end the year in 2016 all being equal to today, still in a strong position to continue to run and look at growth opportunities.

<Q - Edward George Westlake>: Thanks so much.

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

Operator

Next, we we'll hear from Brett Wong of Piper Jaffray.

<Q - Brett W. S. Wong>: Thanks for taking my questions, guys. I was just wondering if, Todd, you can talk about the Brazil, U.S. [indiscernible] (51:26) window right now.

<A - Todd A. Becker>: Yeah I mean, it looks like it's – to the north, it looks like we are open, but they're not buying very much right now. We are starting to get people to sniff around. Some of it's going to be a function of what the real demand down there and what the real need is and I still think we're going to – that's under development. It doesn't look like it's open coming in this direction at all, so it looks like [ph] it's still (51:52) advantage U.S. But we'll have to wait and see where kind of sugar prices go and ethanol prices go down there. But they are not [ph] long (51:58) ethanol in Brazil today. And in fact, our view is that they will need to import in April, May, the question is will they do it or not? So from our standpoint that window still favors the U.S.

<Q - Brett W. S. Wong>: Great. Thanks. And just wondering your thoughts on the RFS lifts, if that's kind of factoring into the [ph] irrational (52:22) behavior, if you will, in the industry?

<A - Todd A. Becker>: The RFS, what was the word after that, lift?

<Q - Brett W. S. Wong>: Yes.

<A - Todd A. Becker>: [ph] Or no? Brett? Lift? (52:33)

<Q - Brett W. S. Wong>: Yeah. Yeah.

<A - Todd A. Becker>: I'm sorry. Okay, got it. So through [ph] 14.5 (52:43) listen I think there's some interesting points there, right, because last week's blending was like [ph] 13.8, 13.9 (52:51) just because of the winter. But we have blended as high as [ph] 14.5 to 15 (52:55) over the summer of last year. So it's going to take time for that to develop and see where the overall year ends up, which is why I don't think RINs will be significantly short at the end of the year. Because I think you'll still blend, because you get paid to blend, relative for – either from octane or from a RIN standpoint. So I think it's a good base program that we have for 2016 and we'll have to see what transpires for the rest of the year.

<Q - Brett W. S. Wong>: Great. Thanks for the color, Todd.

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

Operator

Selman Akyol of Stifel.

<Q - Selman Akyol>: Thank you. Two quick ones for me. When you said 90% of utilization, was that a quarter to date or year to date sort of utilization rate, or is that just where you're at currently right now?

<A - Todd A. Becker>: No, we reduced in early February, late January, so it's not a quarter to date, it's not a year to date, it's none of the above. It's just where we're running today and we make decisions accordingly. So it's really not a – it doesn't pinpoint where we're going to be [ph] per year or for (54:02) quarter at this point.

<Q - Selman Akyol>: All right. And then just as it relates to the LP, I heard your comments [ph] you're now (54:11) focusing on balance sheet improvement coverage ratio. Can you just talk about your outlook for distributions to 2016?

<A - Todd A. Becker>: Well, first of all, remember the Hopewell and Hereford assets, the transportation assets have now come in. And so we'll start to see that incremental cash flow come online in the first quarter of this year. I don't want to get ahead of my board as far as distribution strategy, but again, our plan is to continue to increase coverage. As we were doing the IPO, we talked a 1.1 times coverage and I'd like to get us very comfortably into that range, particularly given the low level of debt leverage that we have inside the partnership, gives us a lot of flexibility and really positions us well for the future. So I think a 1.1 times coverage is a number to be thinking about. And I think in this environment, a pretty conservative approach to increasing distributions is appropriate as well, just because basically MLPs aren't getting paid for increasing distributions. It's really all about maintaining balance sheet, maintaining coverage and being very conservative and sustainable.

<Q - Selman Akyol>: All right. Thanks very much.

Operator

Next, we'll hear from Fischer Van Handel of Robert W. Baird.

<Q - Fischer Van Handel>: Hi, guys, most of my questions were answered. But just quickly reflect on the split between maintenance capital at the Inc. level and at the Partners level, any clarity there for 2016, that'd be helpful.

<A - Todd A. Becker>: Yeah, for 2016, I think as I said, the $10 million to $12 million of maintenance CapEx, that is really at the Inc. level that's on our – primarily on our plants as well as our agri business assets. At the Partners level, I think we're still in a mode of about $500,000 per year as a reasonable maintenance CapEx level for Partners. If you look in the numbers in the release, we're well below that, but I think we'll probably end up somewhere in the $500,000 level for Partners maintenance CapEx going forward.

<Q - Fischer Van Handel>: Sound good. Thank you.

Operator

And our final question for today will come from Pavel Molchanov of Raymond James.

<Q - Pavel S. Molchanov>: Hey guys. Thanks for taking the question. First, one kind of a follow-up on the RFS. We are still in the midst of a hotly contested political season, and the RFS maybe has gotten in more than its fair share of headlines. Just kind of your latest thoughts are on how you perceive support for maintaining the policy as a matter of congressional action.

<A - Todd A. Becker>: Yeah, I think – look, I think the House is certainly an interesting place that would – is an unknown of what would happen there. I think the Senate would still hold the RFS. But at the end of the day, it's got to go through the President anyways and the President today, the current President is a supporter. And I think if you look at on the Democratic side, we don't know about Bernie Sanders, but I think Clinton is a supporter and then on the Republican side Trump has been a supporter, a vocal supporter of the RFS. So we know what Cruz's opinion is. So other than that I think we have wait and see. And we will kind of have to watch the season as it progresses, but I don't think there's any dramatic changes or shifts that are coming anytime soon.

<Q - Pavel S. Molchanov>: Okay. And then back to the earlier question about distribution growth, at the time of the Partnership's IPO last summer, the target was to grow kind of 8% to 10% a year. This first distribution increase obviously running well below that trend. Are you comfortable reaffirming the 8% to 10% growth target?

<A - Todd A. Becker>: Well, I guess, I'd think of it in terms of growth in underlying distributable cash flow. I'd gladly reaffirm 8% to 10% growth in distributable cash flow, that's our target. That's what we're trying to achieve. But my point is simply that in this market environment, we're not going to be rewarded for increasing the distributions aggressively. And so we want to make sure that we have very strong coverage ratios – coverage and leverage ratios. And so I wouldn't reaffirm the idea that 8% to 10% distribution growth. It's more about distributable cash flow growth at this point.

<Q - Pavel S. Molchanov>: [ph] That's useful clarification (59:12). Thanks, guys.

<A - Todd A. Becker>: Okay, thanks.

Operator

And that does conclude the question-and-answer session for today. Todd, I will turn the conference back over to you for any additional or closing comments.

Todd A. Becker

Yeah, thanks everybody and thanks for coming on the call today. Obviously we wish for better markets, but we've been here before. We've seen cyclical lows in this industry many times over the last several years. It provides us opportunities, especially with our strategy that we've maintained really since day one of maintaining strong cash balances and strong balance sheet that was able to withstand cyclical downturns. And we think we set ourselves up very well to flex that opportunity and to some growth opportunities potentially in 2016. And certainly we believe that we certainly have the ability to withstand this current downturn with some positive fundamentals out on the curve that could rear its head as well. So looking forward to next quarter and hopefully we have some good things to report and we'll talk to you then. Thanks.

Operator

And that does conclude today's conference, thank you all for your participation.

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